



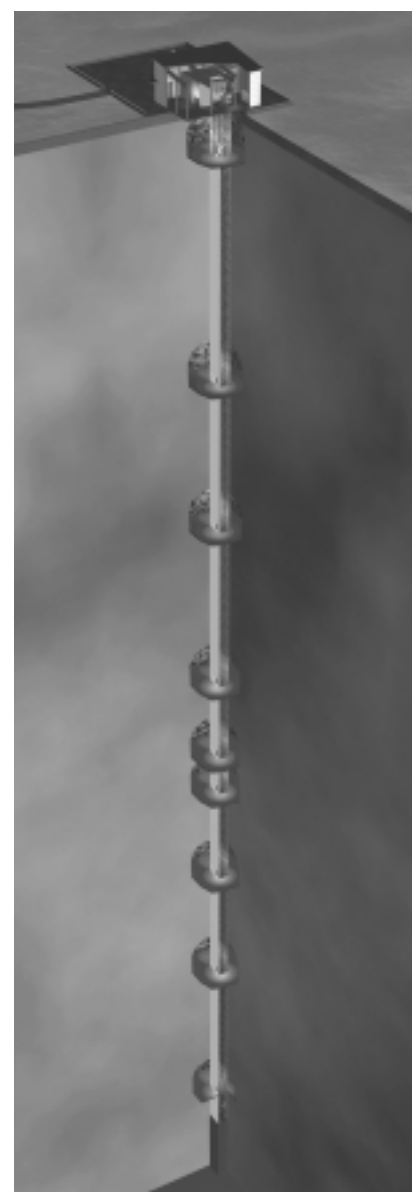
Annual Report 1998

# List of Contents

1	Highlights
2	Company Profile
3	Board of Directors and Auditors
4	Corporate Senior Management
5	Message from the President
6	Review by Market Area
13	Report on Operations
21	Sales and Personnel by Country
22	Accounting Principles
23	Consolidated Statement of Income
24	Consolidated Balance Sheet
26	Consolidated Statement of Cash Flows
27	Notes on the Consolidated Financial Statement
30	Five-year Summary in Figures 1994-1998
31	Parent Company: Statement of Income
32	Parent Company: Balance Sheet
34	Parent Company: Statement of Cash Flows
35	Notes on the Parent Company Financial Statement
39	Calculation of Key Figures
40	Board of Directors' Proposal to the Annual General Meeting
40	Auditors' Report
41	Consolidated Income Statement and Balance Sheet in Euros
42	Parent Company Shares and Shareholders
44	Remote Monitoring Eliminates Guesswork in Maintenance
46	Addresses
49	To Parent Company Shareholders

*During the spring, KONE built the world's longest elevator test shaft and a high-rise elevator laboratory in the former service shaft of a limestone mine in Lohja, Finland. The shaft extends 333 meters into the ground, making it possible to test elevators for 250-500 meter tall buildings under conditions that correspond closely to those in actual installations.*

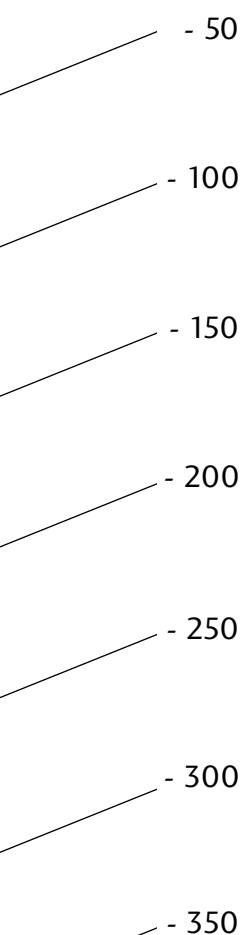
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# Highlights

- Income before taxes more than doubles
- Record-breaking improvement in earnings per share
- Alliance with Toshiba
- Success of environmentally friendly EcoDisc™ elevator range
- Production gets underway in China
- Implementation of SAP R/3 progresses
- World's longest test shaft is opened
- Escalator production is streamlined
- Rising trend in financial result to continue in 1999



		1998	1997
Sales	mFIM*	12,381	12,379
Orders received	"	8,818	8,614
Order book as of 31 December	"	7,880	7,970
Operating income after depreciation	"	496	251
Income after financing items	"	431	202
Net income	"	217	46
Total assets	"	8,641	8,893
Earnings/share	FIM	32.28	6.88
Equity/share	"	454	447
Return on equity	%	6.0	1.3
Return on capital employed	"	11.5	7.0
Total equity/total assets	"	35.7	34.6
Gearing	"	25	29
Number of employees as of 31 December		22,692	22,499

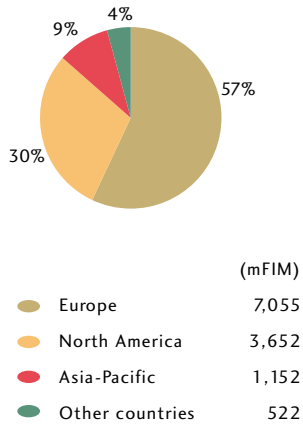
\*mFIM = Millions of Finnish markkas; FIM 100 = EUR 16.80 (and US \$19.60 as of 31 December, 1998).

Changes required by Finland's new accounting legislation have been taken into account in the key figures for both the year under review and the previous year to which it is compared as well as in the statements of income, balance sheets and notes on the financial statements.

The principles of calculating key figures can be found on page 39.

# Company Profile

*Sales by Market*



KONE is one of the leading companies in the global elevator and escalator business. It consists of the Finnish parent company, KONE Corporation, and more than 150 subsidiaries worldwide in which the parent company's direct or indirect interest exceeded 50% at the end of 1998.

KONE Corporation was established in 1910. Its shares have been quoted on the Helsinki Stock Exchange since 1967.

KONE offers comprehensive services for the manufacture, installation, modernization and maintenance of elevators and escalators. KONE products are manufactured by integrated production units in Europe, North and South America and Asia. All around the world, KONE provides its customers with extensive installation and aftersales services.

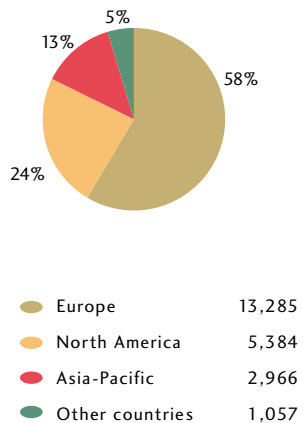
KONE's innovative products and comprehensive services are designed to increase the value and effectiveness of our customers' buildings. Customers include planners, developers, builders and owners of public and private facilities.

KONE's strength lies in powerful concentration on its core competence in elevators and escalators, the wide geographic coverage of its operations and strong presence wherever there is demand for the company's products and services. KONE's global organization combines worldwide product ranges and processes with uniform business practices that respect local conditions and requirements.

KONE's principal business values are reliability in products and services and quality in all operations. In order to increase its ability to serve customers anywhere in the world, KONE is increasingly involved in global alliances both with other companies in the same industry as well as with suppliers and business partners from other fields.

Through research and development projects currently underway, KONE is at the leading edge of development in the elevator and escalator industry. KONE has been a pioneer in introducing eco-efficient products that save energy directly or indirectly, which has gained the company worldwide recognition as an innovator and technological leader.

*Employees by Market*



# Board of Directors and Auditors



*Pekka Herlin*



*Ilkka Herlin*



*Iiro Viinanen*



*Antti Herlin*



*Gerhard Wendt*

Dr. Gerhard Cromme resigned from the Board of Directors as of 3 June, 1998.

## **Pekka Herlin, 66**

D.Sc. (Econ.) H.C.  
Chairman, July 1996-  
Chairman & CEO, 1987-June 1996  
President & CEO, 1964-1986  
Member of the Board, 1954-

## **Antti Herlin, 42**

Deputy Chairman & CEO, July 1996-  
Member of the Board, 1991 -

## **Permanent Committees**

The Board of Directors has created two permanent committees. Deputy Board chairman Antti Herlin serves as chairman of both committees, and Board secretary Tapio Hakakari serves as secretary. During the year under review the committees met several times.

*The Audit Committee* directs and supervises KONE's internal auditing. In addition to the chairman and secretary, KONE Corporation's auditor, Liisa Mononen sits on the Audit Committee. Director of Internal audit Urpo Paasovaara reports on audit results to the committee.

*The Executive Resources Committee* includes the chairman, secretary, consultant Urpo Kauranne and quality director Helena Terho. Board chairman Pekka Herlin also participates in the committee's work. The committee's responsibilities include making decisions about senior management appointments and compensation.

## **Ilkka Herlin, 40**

Ph.D.  
Member of the Board, 1990-

## **Gerhard Wendt, 64**

Ph.D.  
President 1989-1994  
Member of the Board, 1979-

## **Iiro Viinanen, 55**

President, Chairman of the Boards,  
Pohjola Insurance Company  
Member of the Board, 1997-

## **Anssi Soila, 49**

President, 1995-2 Feb. 1999  
Deputy Member of the Board, 1995-

## **Auditors**

Liisa Mononen,  
Authorized Public Accountant  
SVH PriceWaterhouseCoopers Oy,  
Authorized Public Accountants

## **Deputies**

Antti Helenius,  
Authorized Public Accountant  
Tauno Haataja,  
Authorized Public Accountant

# Corporate Senior Management



*(l-r): Kemppainen, Rajahalme, Björklund, Nink, Cawén, Joutsen, Padden, Mäkinen, Körnich, Terho, Chartron, Chauvarie ja Itävuori*

**Jean-Pierre Chauvarie**  
President

**Lauri Björklund**  
Sourcing & Manufacturing

**Pekka Kemppainen**  
Technology

**Klaus Cawén**  
General Counsel &  
Acquisitions

**Heiko Körnich**  
Escalator Business

**J-P. Chauvarie**  
Europe

**Michel Chartron**  
Service Business

**Trevor Nink**  
Business Development & IT

**Heimo Mäkinen**  
Americas

**Jussi Itävuori**  
Human Resources &  
Communication

**Aimo Rajahalme**  
Finance

**Neil Padden**  
Asia-Pacific

**Raine-Peter Joutsen**  
New Elevator Business

**Helena Terho**  
Quality

# Message from the President

Companies throughout the world are experiencing a period of tremendous change. The pace of globalization of the world's economies is accelerating, with the result that competitive conditions are becoming increasingly open. This development is affecting not only us but our customer base. Through continuous renewal, we must find to respond innovatively to our customers' changing requirements.

In the spring of 1996 we were the first company to introduce revolutionary machine-room-less MonoSpace® elevators. Now the machine-room-less elevator is rapidly becoming a new standard for the elevator industry. During 1998 we extended the application of our space-and energy-saving EcoDisc™ hoisting machine solution to larger and faster elevators for the worldwide market.

During 1998 we continued the process of integrating the best features of the products and processes of our two escalator manufacturing companies, Germany's O&K Rolltreppen and Montgomery KONE of the United States. Our first completely global product's introduction to the market is linked to this development project.

We continued to streamline our delivery processes and develop our maintenance concepts. Tailored, performance-based maintenance contracts represent a significant step forward. Remote monitoring linked to state-of-the-art data transmission makes it possible to monitor individual elevator performance in real time and respond with appropriately focused maintenance measures.

Our most significant development project in progress is the harmonization of central business processes. We are implementing the standardization of systems, processes, tools and business practices throughout our organization.

In addition to harmonizing and streamlining our own operations and tightening our global organization, we continued during 1998 to expand the collaboration we had begun with Japan's Toshiba. The agreement concerning our MonoSpace® elevators has led to this innovation's rapid breakthrough in the Japanese market. Development projects currently underway will deepen and expand the alliance between KONE and Toshiba.

After producing a financial result in 1997 that was slightly better than that for 1996, we more than doubled our result in 1998. We opened a new factory in Kunshan, China and built the world's longest high-speed elevator test shaft and laboratory. We are better prepared than ever to confront our competitors on the global market. Now we are also prepared to create a strong international image for the KONE brand.

I would like to take this opportunity to thank KONE's employees all over the world for work well done which enabled us to reach the targets we set for ourselves in 1998. We did so despite instability in several important markets and under conditions in which major changes in our processes and procedures placed great demands on our personnel and financial resources. By the time the new millennium is upon us, most of these changes will have been completed, and our company will be stronger than ever.



*Jean-Pierre Chauvarie  
President*

Jean-Pierre Chauvarie  
President

# Review by Market Area



*J-P. Chauvarie  
Area Director,  
Europe*

## Europe

During 1998 the European Union was an island of economic stability in a turbulent world buffeted by the Asian crisis, the collapse of the Russian economy, and difficulties in Latin America.

In Euroland, currency exchange rates remained exceptionally stable. Interest rates continued to fall, reaching a historically low level at the end of the year. This trend reflected the prevailing confidence in the European economy and its new common currency, the euro.

New elevator and escalator demand remained at approximately the previous year's satisfactory level. In some countries, such as the United Kingdom, Spain, the Netherlands, and Finland, demand increased in 1998. Deliveries of elevators and escalators were slightly above the 1997 levels.

KONE's machine-room-less MonoSpace® elevator, introduced to European markets during 1996, continued to conquer new markets. The sales figures for the new EcoDisc™ elevators - now available in all European countries - surpassed the 5000 mark in 1998. In just two years the MonoSpace® concept has already become the standard against which the latest generation of elevators is measured.

During the year under review, the range of applications for EcoDisc™ hoisting-machine technology was expanded to include larger elevators and applications for taller buildings. Although the EcoDisc™ hoisting machines required for such



*In Peek & Cloppenburg's new four-story Berlin department store, eight O&K/KONE escalators efficiently handle the floor-to-floor flow of shoppers.*



*CitiBank's 27-story European headquarters in London is being built by Canary Wharf Developments. KONE is supplying 12 KONE 9000 scenic elevators to the building. The main contractor for the project is Bovis/LEHR McGovern.*





Roland Kest  
Marketing Manager  
KONE Starlift, the  
Netherlands

*"The EcoDisc™ hoisting machine consumes surprisingly little energy. It is oil-free and weighs about half of what a comparable traction sheave machine weighs. That is why EcoDisc™ is the world's most efficient, green and environmentally friendly elevator hoisting machine."*

installations are too large to fit into the shaft, the machine rooms required to house them are significantly smaller than those needed for traditional hoisting solutions.

The most noteworthy single European order of the year, from Wates City Properties of the U.K., was for 36 elevators with EcoDisc™ hoisting machines. The delivery will include MonoSpace® units at 1.0 m/s, MiniSpace™ units at 2.0 m/s, and high-rise elevators that will be among Europe's fastest at 8.0 m/s.

The newly streamlined supply line and logistics process for KONE's EcoDisc™ elevators were launched during 1998. In addition, the production of components not seen as a part of KONE's core competence was outsourced in an effort to improve cost-effectiveness. Production at the Liège Factory in Belgium was terminated. The manufacture of printed circuit boards in Finland and hydraulic components and gears in Italy was outsourced to companies specializing in those businesses.

The volume of modernization orders continued to grow at the same rate as in recent years. Pre-engineered and prepackaged solutions, which simplify the field work required and improve the profitability of modernization activity, accounted for an increased share of KONE's total modernization business.

Service business grew somewhat in 1998 from the previous year. Price levels continued to suffer from the pressure of increasing competition, but balance was maintained by improving productivity.



*Heimo Mäkinen  
Area Director,  
Americas*

The market outlook for new elevators and escalators in the European Union indicates that demand should be comparable to 1998 even when the anticipated slowdown in growth throughout Europe is taken into account.

#### **North and South America**

Strong economic growth continued in North America during 1998. In the United States, the gross national product increased by 3.7% which, coupled with low interest rates, fueled a 4% increase in construction spending over the 1997 figure. Growth in GDP is expected to slow in 1999 with construction spending remaining at about the previous year's level.

Vacancy rates for commercial properties remain low, which will continue to have a positive impact on new construction projects in 1999. In some sectors, such as hotel and entertainment facility construction, slight overbuilding will lead to slower growth. As in previous years, elevator demand will remain strongest in growing suburban areas. Montgomery KONE strengthened its position in this market segment by introducing both its new EcoSystem™ product range (MonoSpace®/EcoSpace™) and a cost-improved hydraulic elevator product line in 1998. During 1999 the company will enhance its ability to compete in the mid-rise market with the introduction of EcoMid™ (MiniSpace™) elevators to North America.

Orders received for both new equipment and the modernization of existing equipment reached record levels in 1998. The consolidation of manufacturing, initiated during 1997, continued during the year under review. The manufacture of hydraulic components and electrical equipment, as well as the logistics centers for new



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*Montgomery KONE has installed 13 elevators in Seattle's King County Regional Justice Center in the state of Washington, USA. The building's contractor was Hensel Phelps.*



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*One of Montgomery KONE's biggest modernization projects of all time is the 30-story E.M. Dirksen U.S. Courthouse in Chicago. Work was begun at the beginning of 1998 and is to be completed within 1000 days.*

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*The Elihu M. Harris State Office Building in Oakland, California is served by 17 elevators and two escalators from Montgomery KONE. The general contractor for the building was Dinwiddie Construction Co.*





Todd Zimmerman  
Sales Manager  
Montgomery KONE,  
Naples, Florida

*"EcoSystem™ is the first elevator design breakthrough in decades. Its environmental benefits are reflective of our leadership role in the green building trend."*

elevators and modernizations have been concentrated in McKinney, Texas while car and door production has been consolidated in Arkansas City, Kansas. All escalator and autowalk manufacture for North America is now located in the Moline, Illinois escalator factory, which is expanding by 60%.

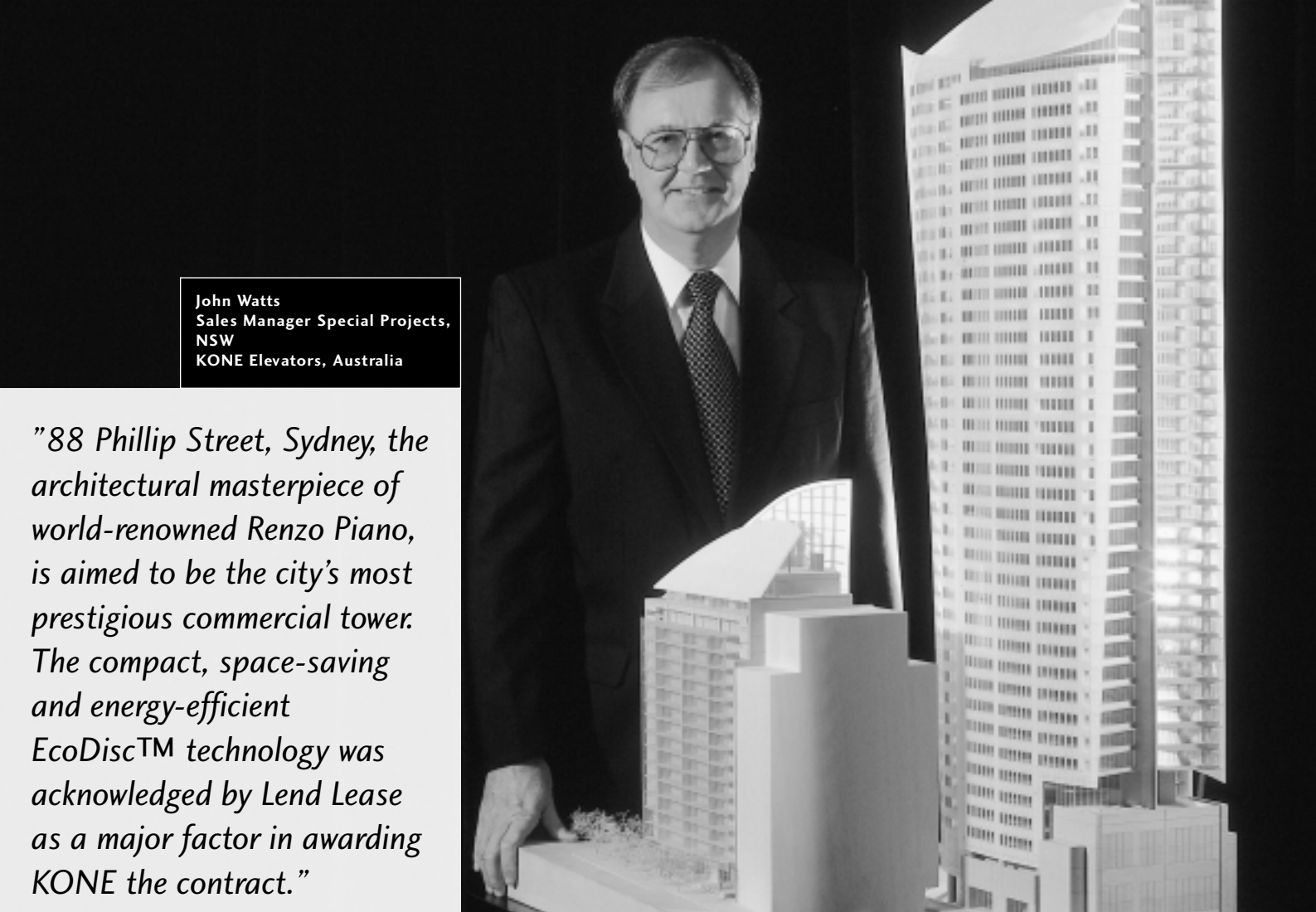
Montgomery KONE Inc.'s service business growth remained steady during the year under review. The most noteworthy service contract was a national agreement to service all of the JC Penney chain's elevators and escalators, which results in the addition of 800 units by 2001 to the 1400 already under KONE care.

Canada's economy experienced an upturn during 1998, leading to an increase in orders. Particularly encouraging was the success of the EcoSystem™ product line in Canada.

Latin American markets were highly turbulent during the year under review. KONE nevertheless maintained its market position in these countries, largely thanks to the positive reception given to MonoSpace® and improvements in maintenance operations.

#### **Asia-Pacific**

The Asian economic crisis hit particularly hard in property business and construction. Although some positive signs of recovery are emerging for Asian economies later in 1999, a couple of years will be needed for the recovery of elevator and escalator markets.



John Watts  
Sales Manager Special Projects,  
NSW  
KONE Elevators, Australia

*“88 Phillip Street, Sydney, the architectural masterpiece of world-renowned Renzo Piano, is aimed to be the city’s most prestigious commercial tower. The compact, space-saving and energy-efficient EcoDisc™ technology was acknowledged by Lend Lease as a major factor in awarding KONE the contract.”*

In October, Finland’s Prime Minister presided over the opening of a new KONE EcoDisc™ elevator and TransVario™ escalator factory in Kunshan, China. Despite a general slowdown in economic activity and increase in competition in China’s markets, sale of the factory’s products got off to a good start in 1998, and production targets for 1999 are expected to be achieved. The first elevators and escalators from the factory were delivered during the autumn of 1998.

Increased import-license controls for elevators and escalators made it harder to bring new equipment into China from abroad, and order bookings were disappointing. Privately financed construction in Hong Kong declined, but the government sector remained strong.

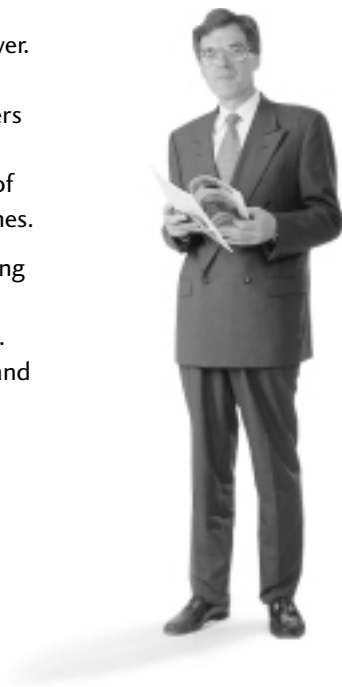
Japan’s Toshiba and KONE reached an important agreement during the spring to form a global alliance. Toshiba gained exclusive rights to use EcoDisc™ technology and market MonoSpace® elevators in Japan. In addition, Toshiba can market these products alongside KONE in China, Hong Kong, Taiwan, Indonesia, Malaysia and Singapore.

Elsewhere in East Asia, all new equipment markets except Taiwan were substantially weaker than in 1997. Demand in Indonesia dried up almost completely. In Singapore, the first MiniSpace™ orders were booked, and large escalator orders were received in Taiwan. The volume of new equipment deliveries in East Asia decreased from the 1997 level. Maintenance business growth, on the other hand, was satisfactory. The existing order book and number of jobs close to completion will allow an increase in deliveries during 1999.

The Australian elevator and escalator market remained buoyant during the year under review, especially in the Sydney area. In New Zealand the economy was slower. Although the Australian market is expected to experience a slowdown in 1999, KONE Elevators Pty has a full delivery schedule, thanks to a record volume of orders in hand. The most significant new orders included 56 elevators and 12 escalators worth a total of approximately US \$20 million for two Sydney skyscrapers. Many of the high-rise elevators for one of the buildings will use EcoDisc™ hoisting machines.

Although the slowdown in the Indian economy was especially evident in the building sector, the total value of orders received by KONE Elevator India increased during 1999. Deliveries grew by nearly 20%, and service business expanded by one third. Included in the company's orders in hand are elevators for India's tallest building and first MonoSpace® installations.

The EcoDisc™ product line was introduced in the Middle East during the year under review, and orders for these elevators were booked in Saudi Arabia, United Arab Emirates, Kuwait and Syria.



*Neil Padden  
Area Director,  
Asia-Pacific*



*KONE is installing 20 TransVario™ escalators in Singapore's new Esplanade Mall shopping center.*

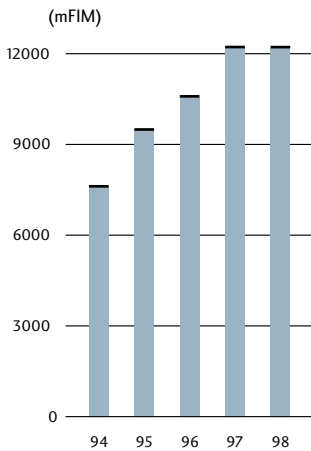
*A new KONE elevator and escalator factory was opened in Kunshan, China in October. The factory will produce technologically advanced EcoDisc™ elevators and TransVario™ escalators for the Chinese market.*



*The Sydney Olympic Stadium, which will be the central showcase for the 2000 Olympics in Australia, is served by 20 TransVario™ escalators. The Multiuse Arena next door has seven KONE elevators and two escalators. (Photography courtesy of the Olympic Coordination Authority).*

# Report on Operations

## Sales

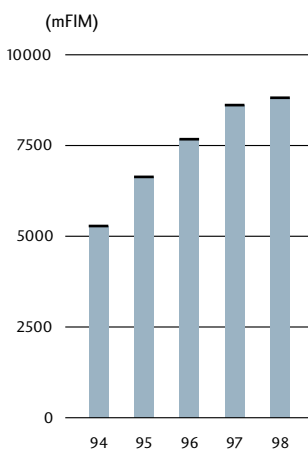


In many ways 1998 was filled with positive developments for KONE: revenues, orders received and the financial result all reached targeted levels; new and more competitive products were launched; and the efficiency of both field operations and supply lines was improved through process streamlining.

The value of net sales during the period under review totaled FIM 12,381 million compared to FIM 12,379 million a year earlier. When adjusted for changes in currency exchange rates, the increase from 1997 was 5%. New equipment accounted for 39% of sales (1997: 41%) and maintenance and modernization business for 61% (1997: 59%).

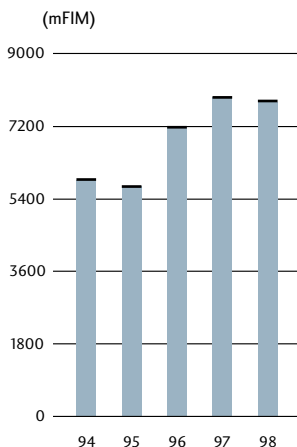
The value of orders received, exclusive of maintenance business, totaled FIM 8,818 million compared to FIM 8,614 million for the previous year. This represents a growth of 6% when adjusted for changes in currency rates. The value of orders in hand, exclusive of maintenance business, was FIM 7,880 million at the end of 1998, having stood at FIM 7,970 a year earlier.

## Orders received



There were no major changes in corporate structure during the year under review. Acquisition activity focused on strengthening market share in Germany, where the end of the year saw KONE acquire Gustav Ad Koch Maschinenfabrik KG, with annual sales exceeding FIM 100 million, and 75% of Hages-Aufzüge GmbH, whose turnover is more than FIM 50 million.

## Order book



*The new Ravens Stadium, one of Baltimore's largest construction projects ever, was completed in 1998. Montgomery KONE delivered 12 elevators and two escalators to the Maryland, USA sports facility.*



*On the banks of the Danube River, opposite the old center of Vienna, a new high-rise section of town is being built. KONE installed the elevators for the exclusive high-rise 'Obelix Tower' residential building, which was completed during 1998.*



Yasuko Oda and Katsunori Sato  
Subway Line 12 project, Tokyo  
KONE Japan

*"The Tokyo Metro, where Toshiba installers are handling the installation of KONE MonoSpace® elevators for stations on a new circular subway line, is the first concrete example of cooperation between KONE and Toshiba. Both companies are striving to enlarge and deepen the recently-begun cooperation between them."*

Production of elevators and escalators in China was launched in September at the new Kunshan Factory. Hydraulic component and gear manufacturing in Italy and printed circuit board production in Finland were outsourced to specialist companies in those businesses. The elevator factory in Liège, Belgium and the escalator factory in Newport News, Virginia, U.S.A. were closed.

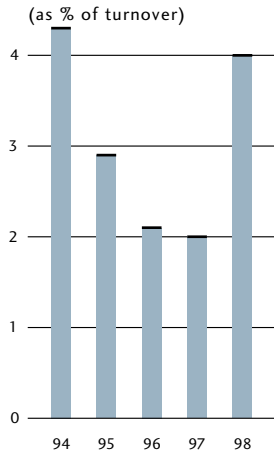
During the year under review KONE entered into a strategic alliance with Toshiba of Japan. Toshiba began to market elevators based on KONE's EcoDisc™ technology in Japan and several other Asian nations. Other steps were also taken to broaden and deepen cooperation between the two companies.

The development of the year-end financial result was especially positive. Operating income for the whole of 1998 totaled FIM 496 million (1997: 251 million). Income after financing items more than doubled the previous year's figure, reaching FIM 431 million (1997: FIM 202 million). Net income for the period under review was FIM 217 million (1997: FIM 46 million). Earnings per share stood at FIM 32.28 (1997: FIM 6.88).

KONE's Board of Directors proposes to the Annual General Meeting that a dividend of FIM 10 per class A share (1997: FIM 9) and FIM 11 per class B share (1997: FIM 10) be declared for 1998. A total of FIM 72.7 million (1997: FIM 66.0 million) is proposed to be made available for dividend distribution.

Dr. Gerhard Cromme resigned from KONE Corporation's Board of Directors as of June 3, 1998. After the closing of the 1998 books president Anssi Soila resigned on February 2, 1999, and the same day the Board named European area director Jean-Pierre Chauvarie as his successor.

*Operating income  
after depreciation*



## Products and Markets

On the whole, demand for new elevators and escalators developed favorably while regional and national markets exhibited plenty of variation. In the United States, construction activity continued to be strong and a record volume of orders for new equipment was booked. In Europe, growth was vigorous in, among other places, the U.K., Spain and Finland. Major high-rise elevator orders were obtained in Australia, but demand was weak in East Asia (with the exception of China).

A new product family based on KONE's EcoDisc™ hoisting machine technology and covering most residential and office-building elevator needs was introduced early in 1998. The range of applications for KONE's MonoSpace® machine-room-less elevators was extended up to 16 floors and for larger MiniSpace™ units up to more than twice that height.

The marketing of these latest-generation elevators spread throughout the countries where KONE has operations. Space- and energy-saving elevators have been enthusiastically received by architects and builders. Over 5,000 elevators relying on EcoDisc™ technology were sold in Europe during 1998, representing more than half of KONE's total number of units sold on that continent. During the second half of the year, sales also got off to a promising start in the United States, China and Japan.

During the year under review, several noteworthy skyscraper projects were launched. In Australia and the U.K. KONE booked its first orders for high-rise elevators based on EcoDisc™ technology. Deliveries will begin before the end of 1999.

Demand for escalators and autowalks grew somewhat in Europe and North America. In the United States, airport and stadium construction remained strong. In Europe,



*During the year under review, 23 elevators, 22 autowalks and 16 escalators were installed by KONE as part of the Copenhagen International Airport expansion project. In the foreground can be seen the new Terminal 3.*

*Demand for ship-board elevators remained strong in 1998. More than 200 high-class elevators were ordered and over 160 delivered for cruise ships built by Finnish, German, French and Italian shipyards.*





**Henning Braender**  
 Modernization Installer  
 KONE Elevator, Denmark

*"Before we used to engineer each elevator modernization job on a case-by-case basis. Now, in most instances, our pre-engineered modular solutions can be applied 'as-is'. This new way of working results in carefully studied and tested modernization solutions with short delivery times."*

investment in local transportation compensated for the decline in investment in the office-building and department-store sectors. Demand in most Asian countries, on the other hand, was weak.

Demand for modernization developed well in Europe and especially in the United States, where the growth was more than one fifth above the previous year's level. Measures to improve the safety of existing elevators in Europe and the strong U.S. economy spurred the increase in modernization business. The role of KONE's industrialized packaged solutions designed to satisfy the most common modernization requirements is increasing, which has a positive impact on the productivity of modernization operations.

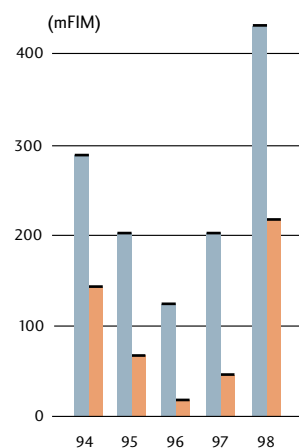
More detailed information and observations about different markets can be found in the section of this Annual Report on pages 6-11 entitled, "Review by Market Area".

**Sales**

The geographical distribution of KONE's net sales for 1998, totaling FIM 12,381 million, is presented in the chart on page 16. Compared to the previous year, Europe and North America garnered greater shares while Asia's percentage decreased.

The value of deliveries of new elevators and escalators in 1998 totaled FIM 4,889 million (1997: FIM 5,023 million), representing 39% of total sales. Deliveries of new equipment increased somewhat in Europe and North America compared with volumes for the previous year. In Southeast Asia deliveries decreased, but growth continued in Australia.

*Financial result*



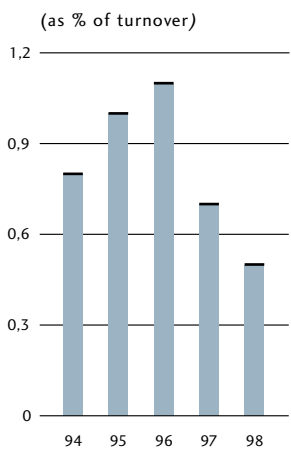
Income after financing items  
 Net income



**Sam Uskali**  
Installation Manager  
KONE Corp., Finland

*"Because KONE MonoSpace® elevators don't require a machine room, they create significant space savings and make it easier to design buildings. These and other features combine to make MonoSpace® an unbeatable solution for environmentally aware markets."*

*Net interest paid*



Sales from the maintenance and modernization side of the business totaled FIM 7,492 million (1997: FIM 7,356 million). Modernization activity continued to expand in Europe and North America. The growth in maintenance operations, which accounted for more than 40% of total sales worldwide, remained stable. At the end of 1998, the total number of elevators and escalators under maintenance contract was nearly 450,000.

Sales and personnel by country are presented on page 21 of this Annual Report.

**Sales by Market**

	1998 mFIM	1998 %	1997 mFIM	1997 %
Europe	7,055	57	6,909	55
North America	3,652	30	3,526	29
Asia Pacific	1,152	9	1,354	11
Other	522	4	590	5
<b>Total</b>	<b>12,381</b>	<b>100</b>	<b>12,379</b>	<b>100</b>

The Parent Company, KONE Corporation, recorded sales totaling FIM 1,651 million (1997: FIM 1,403 million). The value of exports from Finland was FIM 1,019 million (1997: FIM 1,013 million).

## Finance, Financial Result and Consolidated Balance Sheet

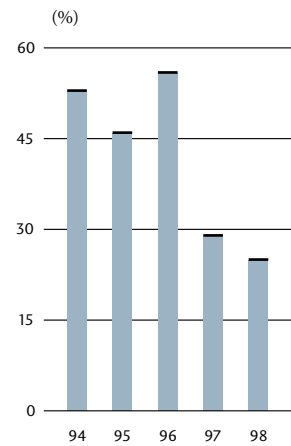
KONE's 1998 income before taxes more than doubled the comparable 1997 figure. Instrumental in the improvement of profitability were new and more competitive products, reorganized production and supply lines, and the discontinuation of unprofitable activities. On the other hand, major projects related to the development of KONE's global data management and production systems have created heavy costs in their current phases of implementation and weighed heavily on the financial result. In addition to internal actions taken by KONE, favorable market conditions in certain European countries, North America and Australia have had a positive impact on the result.

KONE's operating income totaled FIM 496 million (1997: FIM 251 million) and income after financing items was FIM 431 million (1997: 202 million). Net income was FIM 217 million (1997: FIM 46 million). Earnings per share nearly quintupled to FIM 32.28 (1997: FIM 6.88).

KONE's net debt at the end of 1998 totaled FIM 768 million, having stood at FIM 904 a year earlier. Total equity as a share of total assets increased to 36% and gearing to 25%. There were no significant changes in financing arrangements during the year under review. After the closing of the 1998 books, however, the Board of Directors began preparing a subordinated bond issue in order to strengthen KONE's capital structure.

KONE's foreign-exchange order book and projected six-month currency needs are covered in accordance with company policy. Loans by subsidiaries are in each subsidiary's own country's currency. Risk related to the translation of foreign subsidiaries' assets and debts has been reported in such a way that changes in currency

### Gearing

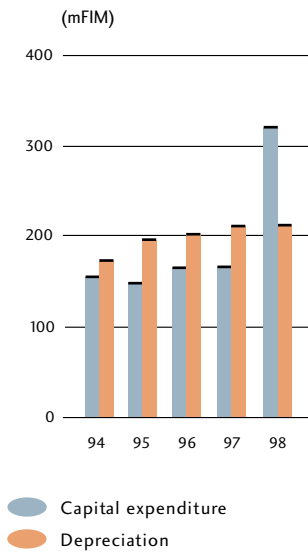


*KONE is supplying 29 elevators at speeds up to 6.0 m/s for the 24-story headquarters of the ABN AMRO Bank in Amsterdam, the Netherlands.*

*At the end of 1998 the installation of 116 escalators, 31 elevators and two autowalks in 11 stations of the London Underground's Jubilee Line extension was close to completion. Work on this project, the largest escalator delivery of all time, was begun in 1994. Pictured here are escalators being installed in the London Bridge Underground Station.*



*Capital expenditure in tangible assets and depreciation*



values do not affect KONE's equity structure.

KONE's distributable equity is FIM 2,195.6 million. The parent company's distributable equity from the previous year stands at FIM 3,196 million and net income from 1998 at FIM 126 million. The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 10 be paid on each of the 1,161,647 outstanding class A shares and FIM 11 on each of the 5,556,533 class B shares. The date of record for dividend distribution is 3 March, 1999. It is proposed that dividends be payable from 8 March, 1999. If the Annual General Meeting of 26 February, 1999 approves the proposal, dividends will total FIM 72.7 million (1997: FIM 66.0 million).

Key figures as well as shareholder information pertaining to the Report on Operations can be found on pages 30 and 42.

**Personnel**

The total number of KONE employees at the end of 1998 was 22,692. A year earlier the comparable figure was 22,499. The increase was greatest in China, where a new factory was opened in September.

The distribution of employees by job category indicates that 57% worked in maintenance and modernization, 23% in new equipment sales and installation, 14% in manufacturing and 7% in R&D or administration. The largest geographical concentration was in the United States, with 4,952 employees. The average number of employees during 1998 was 22,596 (1997: 22,153).



**Didier Bourges**  
Service Supervisor  
KONÉ Ascenseurs, France

*"The KoneXion™ Data Link remote monitoring system effectively prevents small defects from developing into breakdown-creating malfunctions. Our service center monitors our customers' elevator performance 365 days a year."*



### Capital Expenditure and Product Development

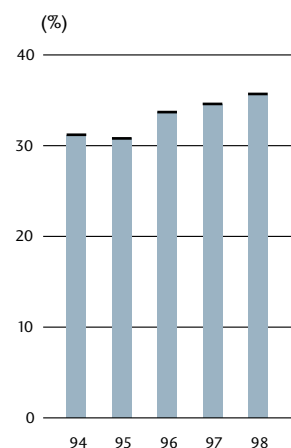
Capital expenditure in production facilities, field operations, computerization and information technology totaled FIM 320 million (1997: FIM 166 million). The distribution of capital expenditures was as follows: buildings, FIM 116 million; machinery and equipment, FIM 103 million; data processing and telecommunication, FIM 101 million.

During 1998 the most noteworthy investment in production was the construction of an elevator and escalator factory in Kunshan, China. The factory began producing KONE MiniSpace™ elevators and TransVario™ escalators in September. Other investments in production facilities included the expansion of the escalator factory in Moline, Illinois, U.S.A. and the beginning of construction of a factory for standard escalators in Hattingen, Germany. When the Hattingen Factory is finished in 1999, KONE will introduce a light new escalator for the global market.

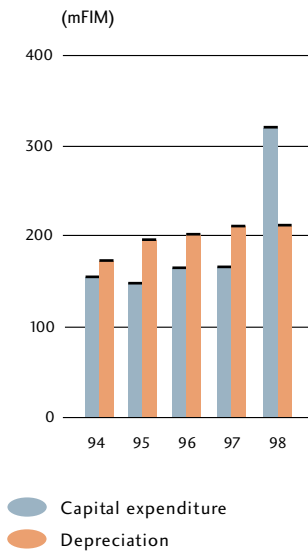
Product-development costs for the year rose to FIM 181 million (1997: FIM 174 million). The most significant project was the extension of coverage of KONE EcoDisc™ technology from low-rise to mid-range elevators. This new product family, which is unbeatable in its eco-efficiency, consists of MonoSpace® and MiniSpace™ models that cover more than 90% of the total passenger elevator market's requirements.

During the spring of 1998 KONE opened the world's longest elevator test shaft in a Lohja, Finland limestone mine's former service shaft and built a high-rise elevator research laboratory at the mine's mouth. The test shaft, which descends 333 meters from the surface of the Earth, provides exceptional conditions in which to develop a new generation of high-rise elevators.

Total equity/total assets



*Capital expenditure in tangible assets and depreciation*



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## Sales and Personnel by Country in 1998

	Sales mFIM	%	Number of employees	%
USA	3,458	24.2	4,952	21.8
Germany	1,600	11.2	1,670	7.4
Finland	1,592	11.1	1,706	7.5
France	1,395	9.8	2,389	10.5
Italy	1,304	9.1	2,257	9.9
United Kingdom	848	5.9	1,164	5.1
Netherlands	537	3.8	717	3.2
Sweden	512	3.6	834	3.7
Australia	441	3.1	751	3.3
Austria	419	2.9	524	2.3
China	400	2.8	959	4.2
Belgium	334	2.3	568	2.5
Brazil	208	1.5	472	2.1
Canada	208	1.5	432	1.9
Denmark	197	1.4	319	1.4
Norway	131	0.9	191	0.8
Spain	126	0.9	290	1.3
Singapore	110	0.8	105	0.5
Malaysia	61	0.4	143	0.6
Mexico	53	0.4	236	1.0
Taiwan	50	0.3	96	0.4
Turkey	45	0.3	91	0.4
Czech Republic	42	0.3	163	0.7
Switzerland	40	0.3	31	0.1
India	36	0.3	805	3.5
South Africa	31	0.2	137	0.6
Venezuela	29	0.2	157	0.7
Philippines	21	0.1	98	0.4
Russia	19	0.1	284	1.3
Poland	17	0.1	25	0.1
Argentina	11	0.1	40	0.2
Slovak Republic	9	0.1	52	0.2
Japan	6	0.0	9	0.0
Hungary	4	0.0	10	0.0
Others	1	0.0	15	0.1
Total	14,295	100.0	22,692	100.0
Intracorporate sales	(1,914)			
Corporate net sales	12,381			

# Principles of consolidation

The consolidated accounts include the parent company and those companies in which the parent company held directly or indirectly more than 50 % of the voting power at the end of the year. Subsidiaries acquired during the financial year have been included in the consolidated financial statements from the date of acquisition. Holdings in housing and real estate companies whose consolidation is not relevant to providing a true and fair view of KONE's net income and financial position have not been included in the consolidated financial statements.

Investments in associated companies have been accounted for in the consolidated financial statements under the equity method. An associated company is a company in which the group holds 20-50 % of the voting power and has a participating interest of at least 20%.

Investments in other companies are stated at cost. The book value of investments has been reduced, where necessary, to estimated net realizable value.

Intracorporate transactions have been eliminated in the consolidated financial statements.

Intracorporate shareholdings have been eliminated by deducting the amount of each subsidiary's equity at the time of acquisition from the acquisition cost of its shares. The difference between a subsidiary's acquisition cost and its equity at the time of acquisition has been entered as goodwill. The value of elevator and escalator maintenance contracts acquired is also included as goodwill.

The KONE group's share of the profit or loss of an associated company is shown in the Consolidated Statement of Income as a separate item. The dividends received from the associated companies are not included in the consolidated statement of income. The KONE group's share of the associated companies' shareholders' equity at the date of acquisition, adjusted by changes in the associated companies' equity after the date of acquisition, is shown in the Balance Sheet under "shares and participating interests".

In certain countries, tax legislation allows allocations to be made to untaxed reserves. These allocations are not subject to taxation on condition that the corresponding deductions have also been made in the accounts.

In the consolidated financial statements, the yearly allocations - reserves as well as the difference between the depreciation according to plan and depreciation accepted by tax laws - have been added to net income, excluding the change in the calculative deferred tax liability. The deferred tax liability is determined from the accumulation of untaxed reserves. The accumulation of untaxed reserves, excluding the calculative deferred tax liability, is included in the shareholders' equity in the Consolidated Balance Sheet.

Minority shares are shown as a separate item in the Consolidated Statement of Income and Balance Sheet. The minority share in the Statement of Income is calculated from the income before allocation to untaxed reserves but after taxes adjusted by the change in the calculative deferred tax liability. The minority share in the Balance Sheet is calculated from the sum of shareholders' equity and accumulation of untaxed reserves, of which the calculative deferred tax liability has been deducted.

The financial statements of foreign subsidiaries have been converted into Finnish markkas at the rates current on the last day of the year. Translation differences resulting from translation of assets and liabilities in the financial statements of foreign subsidiaries have been included as a separate item under shareholders' equity.

## Foreign currency items

Foreign exchange items and derivatives made to cover foreign exchange and interest rate risks have been valued at the December 31st rates. The changes in value of foreign currency items have been included in the Statement of Income as interest or exchange rate differences according to the periodizing of the hedged item. Exchange rate differences resulting from derivatives and loans intended as hedges on assets and liabilities in foreign subsidiaries have been entered as translation differences under shareholders' equity.

## Debiting principle

The sale of products is debited at the time when they have been handed over to the customer and the sale of services when they have been carried out.

## Research and development costs

Research and development costs are charged to income during the year in which they are incurred.

## Pension settlements and costs

Pensions are generally handled for KONE companies by outside pension insurance companies. Pension costs and changes in pension obligations are charged to the Statement of Income.

## Leasing

Leasing charges are entered as rental costs in the Statement of Income. Remaining leasing contract charges are entered in section 18 of Notes on the Consolidated Financial Statements under "Contingent liabilities and pledged assets". Leasing contract conditions do not differ from normal conditions.

## Extraordinary items

One-time items of significance that arise from other than ordinary activities are shown under "Extraordinary items".

## Taxes

The provision for income taxes includes current income taxes payable according to local tax regulations as well as changes in deferred taxes using current tax rates in accordance with the new accounting legislation. All potential deferred tax liabilities are reported, but as a prudent measure only those deferred tax assets which seem certain to be realized are stated. Taxes also include dividend-related taxes and taxes from previous years.

## Valuation and depreciation of fixed assets

Fixed assets are stated at cost. In addition, certain land and buildings can be stated at revalued amounts. These values are regularly reviewed. A predetermined plan is used in carrying out depreciation of fixed assets. Depreciation is based on the estimated useful economic life of various assets as follows:

- Buildings	5-40 years
- Machinery and equipment	4-10 years
- Goodwill	5-20 years
- Other long-term expenses	4- 5 years

Depreciation of goodwill is generally carried out over five years. When considerable goodwill is created by the acquisition of a subsidiary or creation of an associated company which results in KONE's acquiring significant market share, the depreciation period can be greater than five but no more than twenty years.

## Inventories

Inventories are valued at no more than the likely sales price according to FIFO principles. Raw materials and supplies, however, are valued at standard costs. Semi-manufactures have been valued at variable production costs. Work in progress includes direct labor and material costs as of 31st December, as well as a proportion of indirect costs related to production and installation of orders included in work in progress.

## Provision for liabilities and charges

Future expenses to which companies have committed themselves and which will produce no future income are charged against income as a provision for liabilities and charges. The same concerns those future losses which seem certain to be realized.



# Consolidated Statement of Income

FIM '000		1998	%	1997	%
<b>Sales</b>		12,381,050		12,379,481	
Costs and expenses	Note 1	(11,419,285)		(11,661,767)	
Depreciation	Note 2	(465,419)		(466,762)	
<b>Operating Income</b>		496,346	4.0	250,952	2.0
Share of associated companies' net income		4,609		4,324	
Financing income and expenses	Note 3	( 69,916)		(53,170)	
<b>Income after Financing Items</b>		431,039	3.5	202,106	1.6
Extraordinary items		0		0	
<b>Income before Taxes</b>		431,039	3.5	202,106	1.6
Taxes	Note 4	(245,499)		(163,850)	
Minority share		31,320		7,934	
<b>Net Income</b>		216,860	1.8	46,190	0.4

Changes required by Finland's new accounting legislation have been taken into account in the key figures for both the year under review and the previous year to which it is compared as well as in the statement of income, balance sheet on notes on the financial statement.

# Consolidated Balance Sheet

Assets FIM '000		31/12/1998	31/12/1997
<b>Fixed Assets and Other Long-term Investments</b>			
Intangible assets			
Goodwill	Note 5	2,031,806	2,336,173
Other long-term expenditures	Note 6	98,897	107,415
		2,130,703	2,443,588
Tangible assets			
Land	Note 7	150,257	158,081
Buildings	Note 8	698,628	669,522
Machinery and equipment	Note 9	474,522	485,718
Advance payments		17,680	24,104
		1,341,087	1,337,425
Investments			
Shares and participating interests	Notes 10, 22	72,409	65,777
<b>Total Fixed Assets and Other Long-term Investments</b>		<b>3,544,199</b>	<b>3,846,790</b>
<b>Current Assets</b>			
Inventories			
Raw materials, supplies and semi-manufactured goods		432,254	500,361
Work in progress		2,429,092	2,151,429
Advance payments		32,426	34,117
Advance payments received		(1,967,235)	(1,854,491)
		926,537	831,416
Receivables			
Accounts receivable		2,620,124	2,701,666
Loans receivable		30,421	27,732
Other receivables		49,052	73,139
Deferred assets		867,616	629,393
	Note 11	3,567,213	3,431,930
Short-term investments	Note 12	459,678	481,311
Cash and bank		142,903	301,843
<b>Total Current Assets</b>		<b>5,096,331</b>	<b>5,046,500</b>
<b>Total Assets</b>		<b>8,640,530</b>	<b>8,893,290</b>

<b>Shareholders' Equity and Liabilities</b> FIM '000		31/12/1998	31/12/1997
<b>Shareholders' Equity</b>			
Share capital		335,909	335,909
Share premium account		594,180	594,180
Legal reserves		26,510	26,510
Translation differences		(238,224)	(134,557)
Retained earnings		2,114,130	2,133,960
Net income		216,860	46,190
	Note 13	3,049,365	3,002,192
<b>Minority Shares</b>			
		36,574	71,322
<b>Provision for Liabilities and Charges</b>			
	Note 14	1,019,013	1,040,001
<b>Debt</b>			
Deferred Tax Liability	Note 15	113,866	87,603
Long-term debt			
Loans from financial institutions	Note 16	465,884	672,042
<b>Current liabilities</b>			
Loans from financial institutions		156,191	181,046
Accounts payable		769,829	777,347
Accruals		2,250,604	2,199,411
Other current liabilities		779,204	862,326
		3,955,828	4,020,130
<b>Total Debt</b>			
		4,535,578	4,779,775
<b>Total Shareholders' Equity and Liabilities</b>		8,640,530	8,893,290

# Consolidated Statement of Cash Flows

FIM million	1998	1997
Cash receipt from customers	12,580	12,498
Cash paid to suppliers and employees	(11,738)	(11,169)
Cash flow from financial items	(62)	(48)
Cash flow from taxes and other items	(288)	(224)
<b>Cash Flow from Operating Activities</b>	492	1,057
Capital expenditure	(380)	(211)
Proceeds from sale of fixed assets	32	28
Fixed assets of new subsidiaries	(2)	( 13)
<b>Cash Flow from Investing Activities</b>	(350)	( 196)
<b>Cash Flow after Investing Activities</b>	142	861
Change in current creditors, net	( 85)	(159)
Change in long-term debt, net	(182)	(476)
Minority share	0	68
Dividends paid	(66)	(63)
Other financing activities	41	(150)
<b>Cash Flow from Financing Activities</b>	(292)	(780)
<b>Change in Net Cash</b>	(150)	81
Cash and bank as of 31 December	143	302
Exchange difference	(9)	13
Cash and bank as of 1 January	302	208
<b>Change in Net Cash</b>	(150)	81
<b>Reconciliation of Net Income to Cash Flow from Operating Activities</b>		
<b>Net Income</b>	217	46
Depreciation	465	467
Minority interest	(31)	(8)
<b>Income before Change in Working Capital</b>	651	505
Change in receivables	(242)	114
Change in payables	363	576
Change in inventories	(280)	(138)
<b>Cash Flow from Operating Activities</b>	492	1,057

In drawing up the Cash-flow Statement, the impact of variations in exchange rates has been eliminated by adjusting the beginning balance to reflect the exchange rates prevailing at the time of the closing of the books for the period under review.

# Consolidated Statement of Income

## CONSOLIDATED STATEMENT OF INCOME (FIM million)

### 1. Cost and expenses

	1998	1997
Change of work in progress	(342.1)	(137.4)
Materials and supplies	3,495.9	3,413.2
External services	542.4	516.8
Salaries of boards of directors and managing directors	55.9	55.5
Wages and other salaries	3,557.3	3,613.0
Pension costs	590.0	619.2
Other personnel expenses	1,204.6	1,199.8
Other expenses	2,342.5	2,447.3
Other business income	(27.2)	(65.6)
<b>Total</b>	<b>11,419.3</b>	<b>11,661.8</b>

### 2. Depreciation

	1998	1997
Goodwill	222.4	221.3
Other long-term expenditures	31.5	34.4
Buildings	35.3	36.2
Machinery and equipment	176.2	174.9
<b>Total</b>	<b>465.4</b>	<b>466.8</b>

### 3. Financing income and expenses

	1998	1997
Dividends received	2.8	2.1
Interest received	41.8	43.6
Other financing income	0.2	43.6
Interest paid	(103.7)	(135.2)
Other financing expenses	(11.0)	(7.3)
<b>Total</b>	<b>(69.9)</b>	<b>(53.2)</b>

### 4. Taxes

	1998	1997
Revenue-based taxes	327.6	300.5
Change in deferred tax liabilities and assets	(82.0)	(134.7)
Tax credit on dividends	(0.1)	(1.9)
<b>Total</b>	<b>245.5</b>	<b>163.9</b>

## CONSOLIDATED BALANCE SHEET (FIM million)

### 5. Goodwill

	1998	1997
Acquisition cost as of 1 January	3,480.3	3,540.1
Increase	65.0	42.2
Decrease	-	-
Accumulated depreciation	(1,513.5)	(1,246.1)
<b>Total as of 31 December</b>	<b>2,031.8</b>	<b>2,336.2</b>

### 6. Other long-term expenditures

	1998	1997
Acquisition cost as of 1 January	285.2	277.7
Increase	24.9	31.1
Decrease	(0.2)	(22.1)
Accumulated depreciation	(211.0)	(179.3)
<b>Total as of 31 December</b>	<b>98.8</b>	<b>107.4</b>

### 7. Land

	1998	1997
Acquisition cost as of 1 January	153.3	150.7
Accumulated revaluation	4.9	4.9
Increase	-	23.7
Decrease	(7.9)	(21.2)
<b>Total as of 31 December</b>	<b>150.3</b>	<b>158.1</b>

### 8. Buildings

	1998	1997
Acquisition cost as of 1 January	963.0	953.2
Accumulated revaluation	75.4	75.4
Increase	115.5	45.0
Decrease	(28.2)	(12.3)
Accumulated depreciation	(427.1)	(391.8)
<b>Total as of 31 December</b>	<b>698.6</b>	<b>669.5</b>

### 9. Machinery and equipment

	1998	1997
Acquisition cost as of 1 January	1,781.7	1,697.5
Increase	205.1	131.1
Decrease	(9.4)	(16.2)
Accumulated depreciation	(1,502.9)	(1,326.7)
<b>Total as of 31 December</b>	<b>474.5</b>	<b>485.7</b>

## 10. Shares and participating interests

	1998	1997
Total as of 1 January	62.5	74.1
Change in the share in associated companies	4.6	(4.8)
Increase	8.7	0.8
Decrease	(3.4)	(4.3)
Total as of 31 December	72.4	65.8

The asset value of the shares in associated companies consists of the Group's proportion of the associated companies' shareholders' equity at the acquisition date, adjusted by any variation in the associated companies' shareholders' equity after the acquisition. Residual value of goodwill arising from associated companies totals FIM 0.0 million (1997: 1.8 million).

## 11. Receivables

Receivables falling due after one year:

	1998	1997
Accounts receivable	7.2	26.7
Loans receivable	19.4	15.9
Other receivables	-	0.2
Total	26.6	42.8

Receivables from associated companies:

	1998	1997
Accounts receivable	19.0	15.6
Loans receivable	9.9	5.4
Deferred assets	-	0.1
Total	28.9	21.1

Deferred assets:

	1998	1997
Income taxes and VAT	207.0	185.7
Deferred tax assets	380.8	272.5
Other	279.8	171.2
Total	867.6	629.4

## 13. Shareholders' equity and its changes

	Share capital	Share premium account	Legal reserves	Transl. diff.	Retained earnings	Net income for the year	Total equity
As of 1 January	335.9	594.2	26.5	(134.6)	2,180.2		3,002.2
Translation differences				(103.6)			(103.6)
Dividend					(66.1)		(66.1)
Net income for the year						216.9	216.9
As of 31 December	335.9	594.2	26.5	(238.2)	2,114.1	216.9	3,049.4

The accumulation of untaxed reserves, excluding the calculative deferred tax liability, is included in retained earnings and totaled FIM 135.5 million (1997: 167.0). Accumulated untaxed reserves are not distributable equity.

## 12. Short-term investments

	1998	1997
Short-term deposits	318.1	308.4
Bonds	129.1	154.4
Other	12.6	18.5
Total	459.7	481.3

## 14. Provision for liabilities and charges

	1998	1997
Provision for guarantees	70.8	98.2
Provision for general and product liability claims	435.3	464.2
Provision for business reorganizing	87.4	132.1
Provision for loss contracts	121.2	101.7
Other provisions	304.3	243.8
Total	1,019.0	1,040.0

## 15. Deferred tax assets and liabilities

	1998	1997
Deferred tax assets		
Consolidation adjustments	69.6	66.7
Timing differences	311.2	205.8
Deferred tax assets, total	380.8	272.5

Deferred tax liabilities

Consolidation adjustments	113.9	84.3
Timing differences	-	3.3
Total deferred tax liabilities	113.9	87.6

In the Consolidated Balance Sheet deferred tax liabilities have been presented as a separate category and deferred tax assets included in deferred assets.

## 16. Long-term debt

Long-term debt falls due as follows:

	FIM million	%
2000	8.1	1.7
2001	2.9	0.6
2002	300.3	64.5
2003	128.3	27.5
Later	26.2	5.6

## 17. Current liabilities

Liabilities owed to associated

companies	1998	1997
Accounts payable	2.2	6.4
Other current liabilities	6.3	6.2
Total	8.5	12.6

Deferred liabilities	1998	1997
Accrued income taxes and VAT	450.0	367.4
Accrued salaries, wages and employment costs	752.2	697.5
Other deferred liabilities	1,048.4	1,134.5
Total	2,250.6	2,199.4

## 19. Derivatives

The value of contingent liability derivatives made to cover currency and interest risks was as follows:

	1998	1997
Forward contracts	1,391	1,800
Interest rate agreements	-	234
Currency options	559	1,189
Interest options	-	-
Currency swaps	293	393
Interest rate swaps	-	61
Total	2,243	3,677

## 18. Contingent liabilities and pledged assets

	Group		Parent company	
	1998	1997	1998	1997
Assets pledged to secure loans				
Group and parent company	30.8	37.9	11.9	15.4
Others	-	-	-	-
Pledged assets				
Group and parent company	217.9	199.6	-	-
Subsidiaries	-	-	181.3	180.9
Guarantees				
Subsidiaries	-	-	3,778.8	3,697.2
Associated companies	20.5	26.2	20.5	26.2
Others	40.0	61.2	12.1	31.8
Leasing liabilities				
Falling due in the next year	148.0	132.6	10.3	6.5
Falling due after one year	324.2	311.8	13.1	9.3
Total	781.4	769.3	4,028.0	3,967.3
Value of guaranteed debt	1,293.6	1,550.4	3.8	7.9
Book value of assets pledged	251.9	239.1	193.7	180.9

# Five-year Summary in Figures 1994-1998

Consolidated Statement of Income	1998	1997	1996	1995	1994
Revenues, mFIM (= FIM million)	12,381	12,379	10,811	9,644	7,720
Sales outside Finland, mFIM	12,003	12,016	10,419	9,275	7,305
Depreciation, mFIM	465	467	426	419	345
Operating income after depreciation, mFIM	496	251	228	274	326
as percentage of sales, %	4.0	2.0	2.1	2.9	4.3
Income after financing items, mFIM	431	202	124	202	288
as percentage of sales, %	3.5	1.6	1.2	2.1	3.8
Income before taxes, mFIM	431	202	124	186	288
as percentage of sales, %	3.5	1.6	1.2	2.0	3.8
Net income, mFIM	216.9	46.2	17.8	66.9	143.0
Consolidated Balance Sheet	1998	1997	1996	1995	1994
Fixed assets, mFIM	3,544	3,847	3,931	3,214	3,556
Inventories, mFIM	927	831	920	755	720
Receivables, cash and cash equivalents, mFIM	4,170	4,215	3,862	3,573	3,568
Shareholders' equity + minority shares, mFIM	3,086	3,074	2,934	2,323	2,446
Long-term debt, mFIM	466	672	1,041	1,031	1,295
Provisions and tax liability, mFIM	1,133	1,127	874	890	864
Current liabilities, mFIM	3,956	4,020	3,863	3,298	3,239
Total assets, mFIM	8,641	8,893	8,713	7,542	7,844
Other Data	1998	1997	1996	1995	1994
Orders received, mFIM	8,818	8,614	7,674	6,635	5,281
Order book, mFIM	7,880	7,970	7,224	5,742	5,874
Capital expenditure, mFIM	320	166	165	148	155
as percentage of sales, %	2.6	1.4	1.5	1.5	2.0
Expenditure for research and development, mFIM	181	174	146	141	137
as percentage of sales, %	1.5	1.4	1.4	1.5	1.8
Average number of employees	22,596	22,153	21,338	21,211	21,132
Number of employees as of 31 December	22,692	22,499	21,806	20,869	21,553
Key Ratios	1998	1997	1996	1995	1994
Return on equity, %	6.0	1.3	0.7	3.5	5.8
Return on capital employed, %	11.5	7.0	7.1	8.3	10.5
Total equity/total assets, %	35.7	34.6	33.7	30.8	31.2
Gearing, %	25	29	56	46	53
Key Figures per Share	1998	1997	1996	1995	1994
Earnings per share, FIM	32.28	6.88	2.79	13.67	23.65
Equity per share, FIM	454	447	436	383	403
Dividend per class B share, FIM	11*	10	10	10	10
Dividend per class A share, FIM	10*	9	9	9	9
Dividend per earnings, class B share, %	34.1*	145.4	358.8	73.2	42.3
Dividend per earnings, class A share, %	31.0*	130.9	322.9	65.9	38.1
Effective dividend yield, class B share, %	1.9*	1.5	2.0	2.8	1.9
Price per earnings, class B share	18	96	182	27	23
Market value of class B share, average, FIM	718	603	448	480	593
high, FIM	870	705	600	560	705
low, FIM	475	500	320	295	502
as of 31/12, FIM	590	660	508	363	540
Market capitalization as of 31/12, mFIM	3,964	4,434	3,413	2,195	3,265
Number of class B shares traded	1,112,443	1,094,855	1,666,715	1,509,093	1,339,592
Class B share traded, %	20.0	19.7	31.6	30.2	26.8
Average number of class A shares, '000	1,161	1,161	1,103	1,045	1,045
Number of class A shares as of 31/12, '000	1,161	1,161	1,161	1,045	1,045
Average number of class B shares, '000	5,557	5,557	5,279	5,001	5,001
Number of class B shares as of 31/12, '000	5,557	5,557	5,557	5,001	5,001

\* Board's proposal

The principles of calculating key figures can be found on page 39.



# Parent Company: Statement of Income

FIM '000		1998	%	1997	%
<b>Sales</b>	Note 1	1,651,161		1,403,490	
Change of work in progress		2,372		40,718	
Cost and expenses	Note 2	(1,541,291)		(1,359,616)	
Depreciation	Note 3	(46,499)		(48,444)	
<b>Operating income/loss</b>		65,743	4.0	36,148	2.6
Financing income and expenses	Note 4	136,595		490,944	
<b>Income after financing items</b>		202,338	12.3	527,092	37.6
Extraordinary items	Note 5	13,065		(68,624)	
<b>Income before taxes and allocations</b>		215,403	13.0	458,468	32.7
Depreciation difference	Note 6	(21,235)		1,444	
Allocation to untaxed reserves	Note 7	-		107,500	
Taxes		(68,104)		(44,654)	
<b>Net income</b>		126,064	7.6	522,758	37.2

Changes required by Finland's new accounting legislation have been taken into account in the statement of income, balance sheet and notes on the financial statement for both the year under review and the previous year to which it is compared.

# Parent Company: Balance Sheet

<b>Assets</b> FIM '000		31/12/1998	31/12/1997
<b>Fixed assets and other long-term investments</b>			
Intangible assets			
Intangibles	Note 8	117,283	133,945
Other long-term expenditures	Note 9	5,861	3,943
		123,144	137,888
Tangible assets			
Land	Note 10	9,085	9,085
Buildings	Note 11	112,197	79,606
Machinery and equipment	Note 12	63,713	73,034
		184,995	161,725
Investments			
Shares in subsidiaries	Note 13	3,114,655	2,100,835
Other stocks and shares	Notes 14, 22	31,482	27,780
		3,146,137	2,128,615
<b>Total fixed assets and other long-term investments</b>		3,454,276	2,428,228
<b>Current assets</b>			
Inventories			
Raw materials and supplies		30,378	30,148
Work in progress		214,492	212,119
Advance payments		8,108	61,412
		252,978	303,679
Receivables	Note 15		
Accounts receivable		397,367	375,447
Loans receivable		1,892,256	1,675,363
Deferred assets		49,256	144,639
		2,338,879	2,195,449
Short-term investments	Note 16	201,572	341,110
Cash and bank		8,786	10,155
		210,358	351,265
<b>Total current assets</b>		2,802,215	2,850,393
<b>Total assets</b>		6,256,491	5,278,621

<b>Shareholders' equity and liabilities</b> FIM '000		31/12/1998	31/12/1997
<b>Shareholders' equity</b>			
Share capital		335,909	335,909
Share premium account		594,180	594,180
Retained earnings		3,195,897	2,739,158
Net income		126,064	522,758
	Note 17	4,252,050	4,192,005
<b>Untaxed reserves</b>	Note 18	39,351	17,918
<b>Provision for liabilities and charges</b>	Note 19	31,643	33,807
<b>Liabilities</b>			
Long-term debt	Note 20 Note 21		
Loans from financial institutions		5,200	117,349
Current liabilities			
Loans from financial institutions		12,123	4,223
Advances received		119,791	180,908
Accounts payable		174,657	138,664
Other current liabilities		277,889	428,853
Accruals		1,343,787	164,894
		1,928,247	917,542
<b>Total debt</b>		1,933,447	1,034,891
<b>Total shareholders' equity and liabilities</b>			
		6,256,491	5,278,621

# Parent Company: Statement of Cash Flows

FIM million	1998	1997
Cash receipt from customers	1563	1502
Cash paid to suppliers and employees	(1472)	(1389)
Cash flow from financial items	128	702
Cash flow from taxes and other items	44	18
<b>Cash flow from operating activities</b>	<b>263</b>	<b>833</b>
Capital expenditure	(48)	(48)
Proceeds from sale of fixed assets	174	1
<b>Cash flow from investing activities</b>	<b>126</b>	<b>(47)</b>
<b>Cash flow after investing activities</b>	<b>389</b>	<b>786</b>
Change in current creditors (net)	5	(280)
Change in long-term debt (net)	(260)	(557)
Dividends paid	(66)	(63)
Other financing activities	(69)	109
<b>Cash flow from financing activities</b>	<b>(390)</b>	<b>(791)</b>
<b>Change in net cash</b>	<b>(1)</b>	<b>(5)</b>
Cash and bank as of 31 December	9	10
Cash and bank as of 1 January	10	15
<b>Change in net cash</b>	<b>(1)</b>	<b>(5)</b>
<b>Reconciliation of net income to cash flow from operating activities</b>		
<b>Net income</b>	<b>126</b>	<b>523</b>
Depreciation	46	48
Other adjustments	(17)	(19)
<b>Income before change in working capital</b>	<b>155</b>	<b>552</b>
Change in receivables	105	195
Change in payables	6	130
Change in inventories	(3)	(44)
<b>Cash flow from operating activities</b>	<b>263</b>	<b>833</b>

# Notes on the Parent Company

## Financial Statement

### STATEMENT OF INCOME (FIM million)

#### 1. Sales

Sales to subsidiaries totaled FIM 879.5 million (1997: 832.5) corresponding to a share of 53.3% (1997: 58.6%) of net sales.

#### 2. Cost and Expenses

Cost and expenses were spread as follows:

	1998	1997
Materials and supplies	575.2	603.0
Change of inventories	(0.2)	(3.1)
External services	191.4	108.9
Salaries of board of directors and managing director	4.0	4.1
Wages and other salaries	249.3	218.4
Pension expenses	41.5	51.1
Other personnel expenses including vacation pay	90.2	84.0
Other expenses	427.3	334.7
Other business income	(37.4)	(41.5)
<b>Total</b>	<b>1,541.3</b>	<b>1,359.6</b>

The average number of employees was 1664 (1997: 1547).

#### 3. Depreciation

	1998	1997
Intangible assets	16.7	16.7
Other long-term expenditures	1.8	1.8
Buildings	3.4	3.4
Machinery and equipment	24.6	26.5
<b>Total</b>	<b>46.5</b>	<b>48.4</b>

#### 4. Financing Income and Expenses

	1998	1997
Dividends received from subsidiaries	80.5	436.9
Other dividends received	1.6	0.8
Interest received from subsidiaries	77.9	73.1
Other interest received	13.8	22.0
Interest paid to subsidiaries	(14.7)	(24.5)
Other interest paid	(26.6)	(44.2)
Other financing income and expenses	4.1	26.8
<b>Total</b>	<b>136.6</b>	<b>490.9</b>

#### 5. Extraordinary Items

	1998	1997
Gains/losses from sale of shares in subsidiaries	3.5	(56.0)
Depreciation of shares and participating interests	-	(31.5)
Group contributions received	9.6	28.4
Group contributions granted	-	(9.5)
<b>Total</b>	<b>13.1</b>	<b>(68.6)</b>

#### 6. Depreciation Difference

	1998	1997
Other long-term expenditures	(0.1)	(0.5)
Buildings	(34.7)	-
Machinery and equipment	13.6	1.9
<b>Total</b>	<b>(21.2)</b>	<b>1.4</b>

#### 7. Allocations to Untaxed Reserves

	1998	1997
Allocation to reserve for transition period	-	107.5

### BALANCE SHEET (FIM million)

#### 8. Intangible Assets

	1998	1997
Acquisition cost as of 1 January	166.6	166.6
Accumulated depreciation	(49.3)	(32.7)
<b>Total as of 31 December</b>	<b>117.3</b>	<b>133.9</b>

#### 9. Other Long-term Expenditures

	1998	1997
Acquisition cost as of 1 January	11.4	12.7
Increase	3.7	0.8
Accumulated depreciation	(9.2)	(9.6)
<b>Total as of 31 December</b>	<b>5.9</b>	<b>3.9</b>

**10. Land**

	1998	1997
Acquisition cost as of 1 January	4.2	4.2
Accumulated revaluation	4.9	4.9
Total as of 31 December	9.1	9.1

**11. Buildings**

	1998	1997
Acquisition cost as of 1 January	92.5	91.6
Accumulated revaluation	69.6	69.6
Increase	0.2	0.9
Accumulated depreciation	(50.1)	(82.5)
Total as of 31 December	112.2	79.6

**12. Machinery and Equipment**

	1998	1997
Acquisition cost as of 1 January	327.6	312.0
Increase	18.5	15.4
Decrease	(3.7)	(3.2)
Accumulated depreciation	(278.7)	(251.2)
Total as of 31 December	63.7	73.0

**13. Shares in Subsidiaries**

	1998	1997
Total as of 1 January	2,100.8	2,174.9
Increase	1,163.3	30.2
Decrease	(149.5)	(73.3)
Depreciation	-	(31.0)
Total as of 31 December	3,114.6	2,100.8

**14. Other Stocks and Shares**

	1998	1997T
Total as of 1 January	27.8	28.1
Increase	7.1	0.2
Decrease	(3.4)	-
Depreciation	-	(0.5)
Total as of 31 December	31.5	27.8

**15. Receivables**

Receivables falling due after one year:	1998	1997
Loans receivable	11.3	13.5
Deferred assets	-	0.3
Total	11.3	13.8

Receivables from group companies:	1998	1997
Accounts receivable	281.0	257.7
Loans receivable	1,873.4	1,654.3
Advance payments	0.3	60.1
Deferred assets	22.6	51.9
Total	2,177.3	2,024.0

Receivables from associated companies:	1998	1997
Accounts receivable	16.1	9.5
Loans receivable	6.6	1.9
Total	22.7	11.4

Deferred assets:	1998	1997
Corporate income taxes	6.5	6.6
Interest receivable	0.3	0.7
Unrealized exchange rate differences	-	43.7
Receivables from subsidiaries	22.6	51.9
Other deferred assets	19.9	41.7
Total	49.3	144.6

**16. Short-term Investments**

	1998	1997
Short-term deposits	201.6	278.2
Other investments	-	62.9
Total	201.6	341.1

## 17. Shareholders' Equity and Its Changes

	Share capital	Share premium account	Retained earnings	Net income for the year	Total equity
As of 1 January	335.9	594.2	3,261.9		4,192.0
Dividend			(66.0)		(66.0)
Net income for the year				126.1	126.1
As of 31 December	335.9	594.2	3,195.9	126.1	4,252.1

## 18. Untaxed Reserves

	1998	1997
Cumulative depreciation differences		
Intangible assets	(16.0)	(16.0)
Other long-term expenditures	1.5	1.3
Buildings	12.0	(22.8)
Machinery and equipment	41.9	55.4
Total	39.4	17.9

## 19. Provision for Liabilities and Charges

	1998	1997
Provision for guarantees	6.0	6.5
Other provisions	25.6	27.3
Total	31.6	33.8

## 20. Liabilities Owed to Group and Associated Companies

	1998	1997
Liabilities owed to group companies:		
Other long-term debt	263.1	399.9
Advances received	0.9	6.9
Accounts payable	85.0	74.0
Accruals	1,143.0	14.1
Total	1,492.0	494.9

## Liabilities owed to

	1998	1997
associated companies:		
Advances received	2.7	2.1
Accounts payable	0.5	0.3
Total	3.2	2.4

## Accruals:

	1998	1997
Accrued income taxes	46.3	26.0
Accrued salaries, wages and employment costs	68.6	85.2
Accruals to subsidiaries	1,143.0	14.1
Other accruals	85.9	39.6
Total	1,343.8	164.9

## 21. Long-term debt

Long-term debt falling due after five years:

	1998	1997
Loans from financial institutions	-	0.8

## 22. Group Shares and Participation as of 31 December, 1998

	Book value (FIM '000)	Shareholding (%)	
		Parent company	Group
<b>SUBSIDIARIES</b>			
FR KONE France S.A.	1,755,363	100.0	100.0
IT KONE Italia S.p.A.	1,372,569		100.0
FR Société Française des Ascenseurs KONE S.A.	1,139,406		99.9
NL KONE B.V.	931,627	53.2	100.0
DE O & K Rolltreppen GmbH & Co. KG	718,969		100.0
US Montgomery KONE Inc.	624,056		100.0
US KONE Holdings, Inc.	537,373		100.0
NL KoMont Investment B.V.	403,144		100.0
AU KONE Elevators Pty Ltd.	345,295	30.0	100.0
NL KONE Starlift B.V.	313,327		100.0
FI Kone Finance Oy	305,993	100.0	100.0
ES KONE Elevadores, S.A.	221,322		100.0
NL Kone Liften B.V.	166,394		100.0
GB O & K Escalators Ltd	161,531		100.0
GB KONE (UK) Ltd.	140,114	100.0	100.0
NL KONE Nederland N.V.	132,801		60.0
DE KONE GmbH	124,046		100.0
DK KONE Elevator A/S	116,178		100.0
CA Montgomery KONE Elevator Co. Ltd.	113,296		100.0
SE KONE AB	108,614	100.0	100.0
AU KONE Holdings (Australia) Limited	81,495		100.0
US FHE Services, Inc.	77,403		100.0
GB Bennie Lifts Ltd.	64,036		100.0
CA KONE Holdings (Canada) Inc.	59,918	99.9	100.0
TW KONE Elevators Taiwan Co., Ltd	56,581		100.0
CN KONE Elevators Co. Ltd.	56,103		54.0
DE Gustav Ad. Koch Maschinenfabrik GmbH	55,875		100.0
BE KONE International S.A.	55,272		100.0
SE Mäsbo AB	52,792	100.0	100.0
DE KONE Aufzug GmbH & Co KG	52,531		100.0
CH KONE Elevator (HK) Limited	48,052		100.0
FR O & K Escalators S.A.	47,269		100.0
SE KONE Hissar AB	45,794		100.0
GB Leonard Lifts Ltd.	44,230		100.0
BE KONE Belgium S.A.	43,025	99.9	99.9
IT Sabiem S.p.A.	36,892		100.0
GB Kone Lifts Ltd	35,398		100.0
IT Kone Ascensori S.p.A.	31,693		100.0
DE KONE Holding Deutschland GmbH	30,552		100.0
CH KONE (Schweitz) AG	28,789		100.0
BR KONE Participacoes e Importacoes Ltda	26,460		100.0
IN KONE Elevator India Ltd.	26,385	100.0	100.0
SG KONE Elevator Pte. Ltd.	22,753		100.0
DE Glarie Aufzüge Glazel & Rieser GmbH	20,830		100.0
CH KONE Elevators International (China) Limited	17,327		60.0
BM Finsurance Ltd	17,099		100.0
MX Elevadores KONE-Sabiem S.A. de C.V.	16,477		100.0
FI KOy Sturenkatu 21	16,228	100.0	100.0
ZA KONE Elevators South Africa (Pty) Ltd.	15,894		100.0
CZ KONE Lifts a.s.	13,355		93.5
FI K. Antinkoski Oy	11,176	100.0	100.0
GB Ellis & McDougall Lifts Ltd.	10,822		100.0
DE Hages-Aufzüge GmbH & Co. KG. Düren	9,464		75.0
FI KOy Natus	9,021	100.0	100.0
NO KONE Aksjeselskap	8,000	100.0	100.0
FR Hydromatic S.A.	7,749		99.9
TR KONE Asansör Sanayi ve Ticaret A.S.	7,007		100.0
FR S.A. Sotoma	6,798		99.9
Other Subsidiaries (91)	127,118		



## 22. Group Shares and Participation as of 31 December, 1998

	Book value (FIM '000)	Shareholding (%)	
		Parent company	Group
<b>ASSOCIATED COMPANIES</b>			
ID PT. KONE Indo Elevator	18,644		46.0
AT Ternitz Druckguss Ges.mbH	10,258		20.0
CL Fabrimetal S.A.	3,621	40.0	40.0
EG Marryat & Scott Egypt-SAE	3,478	49.0	49.0
HK Shan on Engineering Company Ltd	2,102		30.0
DE Kone Garant Aufzug GmbH	2,012		49.0
Other associated companies (10)	11,007		
<b>OTHER STOCKS AND SHARES</b>			
TH Thai Lift Industries Public Co. Limited	10,463		8.0
Housing and real estate companies held by the parent company, 23 companies	5,632		
Others	26,519		

A complete list of shares and participation as of 31 December, 1998, can be found in the KONE Corporation balance sheet book.

## Calculation of Key Figures

Average Number of Employees	=	the average number of employees from the beginning to the end of the period under review	Effective Dividend Yield (%)	=	$100 \times \frac{\text{dividend/share}}{\text{price of class B shares as of 31/12}}$
Return on Equity (%)	=	$100 \times \frac{\text{income after financing items - taxes}}{\text{equity + minority shares(average of the figures for the financial year)}}$	Dividend/Earnings (%)	=	$100 \times \frac{\text{dividend/share}}{\text{earnings/share}}$
Return on Capital Employed (%)	=	$100 \times \frac{\text{income after financing items +interest + other financing costs}}{\text{total assets - non-interest-bearing-debt(average of the figures for the financial year)}}$	Price/Earnings	=	$\frac{\text{price of class B shares as of 31/12}}{\text{earnings/share}}$
Total Equity/Total Assets (%)	=	$100 \times \frac{\text{shareholders' equity + minority shares}}{\text{total assets}}$	Average Price	=	$\frac{\text{total FIM value of all class B shares traded}}{\text{average number of class B shares tradedduring the accounting period}}$
Gearing (%)	=	$100 \times \frac{\text{interest-bearing-debt - liquid assets- loans receivable}}{\text{shareholders' equity + minority shares}}$	Market Value of All Outstanding Shares	=	the number of shares at the end of the accounting period times the price of class B shares as of 31/12
Earnings/Share	=	$\frac{\text{income after financing items - taxes- minority share}}{\text{average number of shares (issue adjusted)}}$	Shares Traded (%)	=	$\frac{\text{number of class B shares traded}}{\text{average weighted number of class B shares}}$
Dividend/Share	=	$\frac{\text{payable dividend for the accounting period}}{\text{number of shares (issue adjusted)}}$	Shares Traded	=	number of class B shares traded during the accounting period

# Board of Directors' Proposal to the Annual General Meeting

KONE's distributable equity as of 31 December, 1998 is FIM 2,195.6 million. The parent company's distributable equity on 31 December, 1998 is FIM 3,321,961,127.76 of which net profit from the accounting period under review is FIM 126,064,410.06.

The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 10 be paid on the 1,161,647 class A shares and FIM 11 on the 5,556,533 class B shares, for a total of FIM 72,738,333.00. The Board of Directors further proposes that the rest (FIM 3,249,222,794.76) be retained and carried forward.

The Board proposes that the dividends be payable from 8 March, 1999. Those shareholders who have not transferred their stock certificates to the paperless book entry security system by 3 March, 1999 will only receive their dividends after the transfer has been completed.

Helsinki, 5 February, 1999

Pekka Herlin                      Antti Herlin  
Ilkka Herlin                      Gerhard Wendt  
Iiro Viinanen

Jean-Pierre Chauvarie  
President

## Auditors' Report

### To the shareholders of Kone Corporation

We have audited the accounts, the financial statements and the corporate governance of Kone Corporation for the financial year 1998. The financial statements prepared by the Board of Directors and the Managing Director include, both for the group and the parent company, a report on operations, an income statement, a balance sheet and notes to the accounts. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used as well as evaluating the overall financial statement presentation.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations relevant to the preparation of financial statements, and give a true and fair view of Kone Corporation's and the Group of Companies' results and financial position. The financial statements can be approved and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the financial year audited by us. The proposal of the Board of Directors concerning the disposal of the profit for the year is in compliance with the Companies' Act.

We have reviewed the interim reports published during the financial year. In our opinion they have been properly prepared.

Helsinki, 5th February 1999

Liisa Mononen  
Authorised Public Accountant

SVH Pricewaterhouse Coopers Oy  
Authorised Public Accountants  
Jukka Ala-Mello  
Authorised Public Accountant

# Consolidated Income Statement and Balance Sheet in Euros

<b>Income Statement, € million</b>	1998	1997
Sales	2,082.3	2,082.1
Costs and expenses	(1,998.8)	(2,039.9)
Operating income	83.5	42.2
Financing income and expenses	(11.0)	(8.2)
Income after financing items	72.5	34.0
Extraordinary items	0.0	0.0
Income before taxes	72.5	34.0
Taxes	(41.3)	(27.6)
Minority share	5.3	1.3
Net income	36.5	7.8

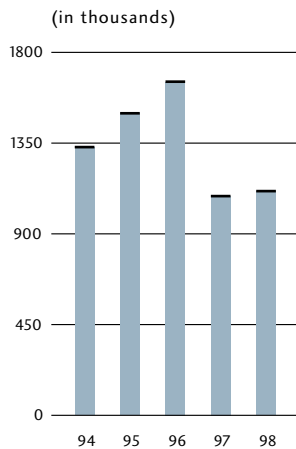
<b>Balance Sheet, € million</b>	31/12/1998	31/12/1997
Fixed assets	596.1	647.0
Inventories	155.8	139.8
Receivables, deposits and cash	701.3	708.9
Assets, total	1,453.2	1,495.7
Shareholders' equity	512.9	504.9
Minority shares	6.2	12.0
Provision for liability and charges	182.0	174.9
Deferred tax liability	19.2	14.7
Long-term debt	78.4	113.0
Current liabilities	654.7	676.1
Shareholders' equity and liabilities, total	1,453.2	1,495.7

<b>Other data</b>	1998	1997
Orders received, € million	1,483.1	1,448.8
Order book 31/12, € million	1,325.3	1,340.5
Net debt 31/12, € million	131.0	152.0
Earnings/share, €	5.4	1.2
Equity/share 31/12, €	76.3	75.2

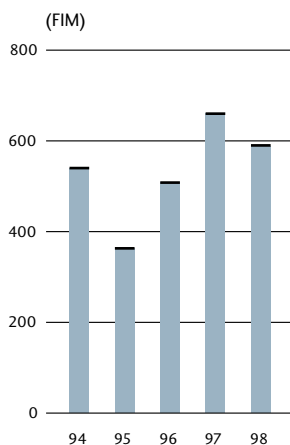
The figures in Finnish markkas have been translated into euros using the official exchange rate (1 EUR = FIM 5.94573).

# Parent Company Shares and Shareholders

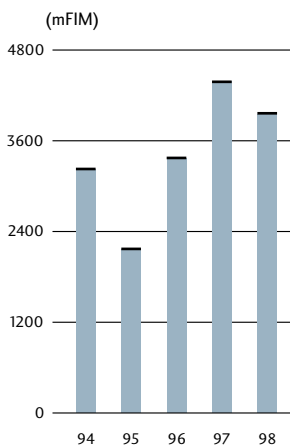
*Class B shares traded*



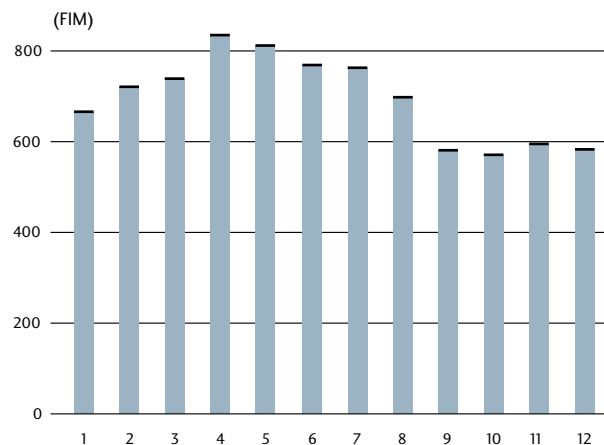
*Market value\* of class B share*



*Market value\* of all outstanding shares*



*Average monthly market value of class B share*



## Shares and Shareholders' Rights

KONE's share capital consists of 6,718,180 shares with a par value of FIM 50. Of those 1,161,647 are class A shares and 5,556,533 are class B.

Each class A share is assigned one vote as is each block of 10 class B shares, with the proviso that each shareholder is entitled to at least one vote. In accordance with the Articles of Association, the holders of class B shares are entitled to a dividend which is a minimum FIM 1.00 and a maximum FIM 2.50 higher than the dividend paid to the holders of class A shares.

KONE Corporation's shares are part of a paperless book entry securities system. Change in share ownership is registered as soon as the stock market transaction takes place. Foreign-owned shares can be registered under the name of a Finnish nominee, but only shares registered in the owner's name entitle the owner to vote in shareholders' meetings.

## Board Authority, Stock Options and Convertible Bonds

At the closing of the books for 1998, KONE's Board of Directors had no existing authority to raise share capital or to issue convertible bonds or stock options.

KONE Corporation had issued no stock options or convertible bonds before the closing of the 1998 books.

## Stock Exchange

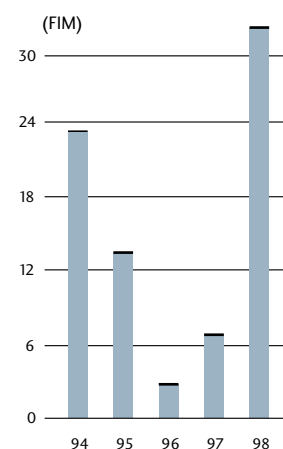
KONE Corporation B shares are quoted on the Helsinki Stock Exchange. During the year under review, 1,112,443 shares were traded, compared with 1,094,855 the previous year. Turnover from the trading totaled FIM 799 million in 1998 and FIM 660 million in 1997. The highest share price during the year was FIM 870, the lowest was FIM 475, and the price on the last trading day was FIM 590.

\*At the Helsinki Stock Exchange market rate on 31 December.

## Largest Shareholders as of 31 December, 1998

	Number of shares	% of shares	% of votes
Security Trading Oy	1,406,039	21.0	14.5
Holding Manutas Oy	766,496	11.4	43.8
Fried. Krupp AG			
Hoesch-Krupp	671,818	10.0	10.0
Pohjola Insurance Company	219,510	3.3	1.3
Pohjola Accident Insurance Company	219,510	3.3	1.3
Ilmarinen Pension Insurance	198,220	3.0	1.2
The KONE Foundation	185,598	2.8	5.2
Suomi Mutual Life Insurance Company	170,300	2.5	1.0
Pekka Herlin	119,579	1.8	5.7
Tapiola Mutual Insurance Company	72,382	1.1	0.4

### Earnings/share



## Foreign-owned Shares Held in the Name of Finnish Nominees

There were 1,507,953 foreign-owned shares (representing 22.5% of shares and 8.8% of votes) registered in the name of Finnish nominees.

## Shareholding by President and Members of the Board of Directors

KONE Corporation's president and members of the Board of Directors owned a total of 95,526 class A and 35,853 class B shares as of 31 December, 1998, representing 5.8% of votes.

## Shareholdings in KONE Corporation as of 31 December, 1998

### By number of shares

Shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1-10	804	19.1	5,397	0.1
11-100	2,393	56.9	108,524	1.6
101-1000	881	21.0	276,865	4.1
1001-10,000	94	2.3	288,544	4.3
10,001-100,000	20	0.5	573,827	8.5
100,001-	9	0.2	3,957,070	58.9
Total	4,201	100.0	5,210,227	77.5

Foreign-owned shares registered by Finnish nominees

Shares which have not been transferred to the paperless book entry system

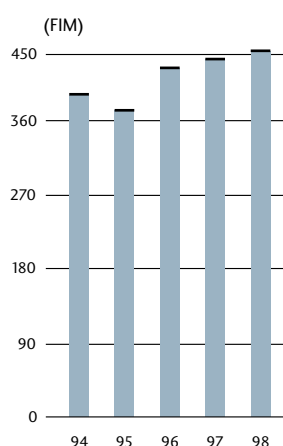
Total

### Shareholders by group

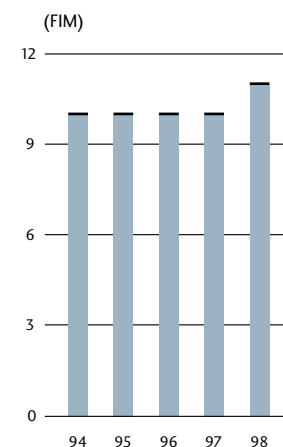
	Class A shares	Class B shares	Total
1. Companies	75.0	25.8	34.3
2. Foreign shareholders*	10.0	37.2	32.5
3. Financial institutions and insurance companies	0.0	16.7	13.9
4. Individuals	8.2	9.2	9.0
5. Public institutions	0.0	7.3	6.0
6. Non-profit organizations	6.8	3.8	4.3
	100.0	100.0	100.0

\*Includes foreign-owned shares registered by Finnish nominees.

### Equity/share



### Dividend/class B share



# Modern Service Eliminates Guesswork

Imagine three elevators in three adjacent buildings, all the same height. One building is crowded with businesses and restaurants so that its elevators keep running virtually non-stop all day and evening long. The second is in an office building occupied by companies that work from nine to five and don't receive many visitors. The third building is largely vacant while awaiting major refurbishment. It is clear that the elevator in the first building will handle much heavier traffic than the other two and that the third will not be used much at all. Yet until now, those elevators would have been likely to receive similar kinds and amounts of service because service visits were assigned - often by law - according to the calendar.

Now that situation is changing, to the benefit of everyone concerned. KONE is introducing performance-based maintenance to the market. Behind this concept is a basic change in business philosophy: customers should pay for the reliability and availability of their equipment, not for service visits. KONE's responsibility, which was once defined by the number of service visits and the time it took to respond to breakdowns, now becomes optimizing the performance of equipment, enabling us to accurately prioritize our time in order to achieve an even higher level of quality and value for our customers.

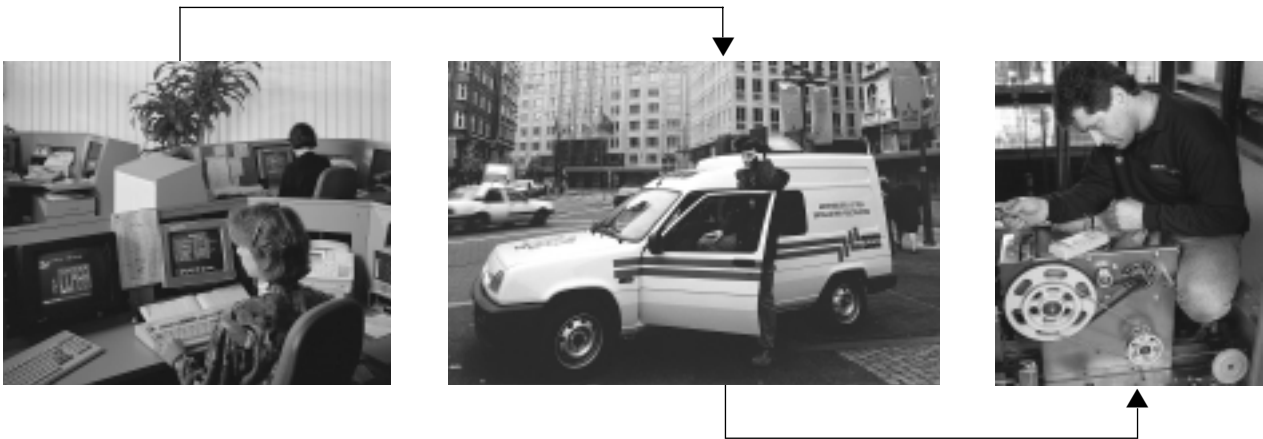
## **Remote Monitoring Makes the Difference**

It has never been very easy to know exactly how much service an elevator needs. Modern data monitoring and processing, however, are turning estimation into science. Just as automakers can predict what kind of service is required after so many miles or kilometers have been driven, an elevator company can tell what service is needed according to the usage the elevator has received and the current performance of its components. Until now, that information simply hasn't been available on an elevator-by-elevator basis.

*KONE's KoneXion™ Data Link*, introduced to the market last year, collects and transmits the data needed to provide the most efficient maintenance to the KONE 24-hour service center. In addition, it immediately warns the service center when something out of the ordinary occurs.

A malfunction may occur in a component that does not immediately prevent the elevator from functioning but could cause problems later on. Even passengers using the elevator would not be aware of such a situation, but *KONE's KoneXion™ Data Link* would pick it up, inform the service center, and set in motion a chain of corrective actions. In many cases, the potential problem will be solved before any outside KONE realizes it ever existed. Furthermore, the serviceperson responding to the call will have received valuable information about the situation before driving to the site and will be able to ensure that the appropriate tools and spare parts are taken along.

*KONE's KoneXion™ Data Link* also helps prevent unnecessary service visits caused by false alarms. If someone sends a false alarm by pushing the emergency button in the elevator, *KONE's KoneXion™ Data Link* will recognize that the elevator is still running and inform the service center.



### Full Responsibility

Knowing precisely how much an elevator has been used and what condition key components are in makes it possible for service resources to be allocated where and when they are most needed. Instead of providing too much attention to some elevators and too little to others, service personnel will be able to focus their efforts where they will do the customer the most good.

Building owners and managers will also benefit from *KONE's KoneXion™ Data Link* by being able to follow the performance history of their equipment. If their contract is based on the availability and performance of their equipment, they will be able to see that they are getting what they paid for. This transparency is necessary to justify transferring full responsibility for the equipment's performance to KONE and ensures that full and accurate information is available when decisions about upgrades and modernizations are made.

### Safety First

Safety continues to be our highest priority. In many countries, codes and governmental regulations have required two-way voice communication for many years. In addition, from the summer of 1999, all new elevators installed in EU countries will have to be equipped with a voice communication system. KONE has offered its *KoneXion™ Voice Link* to customers since the early 1990s as an add-on to new or existing installations. This voice-based communication system between the elevator and a 24-hour service center has proven easier to use and more reliable than a normal telephone connection.

*KoneXion™ Voice Link* can easily be expanded to include *KONE's KoneXion™ Data Link*. The former is reactive, proving useful when elevator operation is interrupted and a passenger requires assistance. *KONE's KoneXion™ Data Link* is proactive, monitoring operations and signalling the need for service attention even when no one is using the equipment. In addition to helping out when a problem occurs, it triggers actions that prevent potentially dangerous situations or costly disruptions from occurring in the first place.

*KONE's KoneXion™ Data Link* remote monitoring can be added to existing elevators regardless of which company was the original manufacturer of the equipment. The only requirement for installation of *KONE's KoneXion™ Data Link* is a service contract with KONE.

# Addresses

(The number following the country name is the country code for use in dialing international telephone calls.)

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*Laurent Gielis*

■ KONE International S.A.  
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*Pierre Laforte*

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*Tor-Erik Sandelin*

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*Helga Lavonen-Ronkainen*

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F-92661 Asnières Cedex  
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Tfx (0)1 47 93 51 81  
*Eric Maziol*

■ O&K Escalators S.A.  
Zone Industrielle  
de la Martinerie  
F-36130 Diors  
☎ (0)2 5422 1377  
Tfx (0)2 5422 2112  
*José Auclerc*

### GERMANY (49-):

■ KONE Aufzug GmbH  
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(PF 910564,  
D-30425 Hannover)  
☎ (0)511 21480  
Tfx (0)511 2148 250  
*Manfred Eiden*

■ O&K Rolltreppen  
GmbH & Co. KG  
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D-45525 Hattingen  
(Postfach 800647,  
D-45506 Hattingen)  
☎ (0)2324 205 00  
Tfx (0)2324 205 215  
*Horst Marks*

### HUNGARY (36-):

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H-1139 Budapest  
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*Ferenc Dobos*

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I-20016 Pero (Milano)  
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Tfx 02 339 0752  
*Roberto Pecchioli*

● KONE Ascensori S.p.A.  
BU1/Però Works  
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I-20016 Pero (Milano)  
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■ KONE Italia S.p.A.  
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I-40133 Bologna  
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*Roberto Pecchioli*

### LATVIA (371-):

■ SIA KONE Lifti Latvija  
Dzerbenes iela 27 a  
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*Vladimir Grigorenko*

### LUXEMBOURG (352-):

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*Fran(ois Vanherck*

### NETHERLANDS (31-):

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Tfx 22 58 7001  
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*Esko Kilpinen*

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Tfx 095 230 2422  
*Jukka Kylmälä*

■ ZAO KONE Lifts  
St. Petersburg  
Lisichanskaya ul. 19  
197342 St. Petersburg  
☎ 812 246 9075  
Tfx 812 327 8769  
*Alexei Samkovich*

## SLOVAK REPUBLIC (421-):

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Puchovská 16  
83505 Bratislava  
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Tfx (0)7 4488 4536  
*Tatjana Dzubinova*

## SLOVENIA (386-):

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SI-1231 Ljubljana -Črnuče  
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Tfx (0)61 161 4195

## SPAIN (34-):

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C/ Enrique Larreta, 5-1°  
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Tfx 91 314 99 25  
*Sergio Neira*

## SWEDEN (46-):

■ KONE Hissar AB  
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## SWITZERLAND (41-):

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## TURKEY (90-):

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ve Ticaret A.S.  
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Istanbul  
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Tfx (0)216 339 31 79  
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Tfx (0)44 228 2974  
*Erkki Mäkelä*

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Tfx (0)181 572 8389  
*William H. Orchard*

■ O&K Escalators Ltd.  
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Tfx (0)1535 680 498  
*Robert P. Chapman*

■ Ellis & McDougall  
Lifts Ltd.  
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Glasgow G40 2PX  
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Tfx (0)141 554 6762  
*Kenneth McDougall*

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## CANADA (1-):

■ Montgomery KONE  
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☎ 416 252 6151  
Tfx 416 252 3624  
*Thomas Rönnholm*

## U.S.A. (1-):

■ Montgomery KONE Inc.  
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Tfx 309 743 5623  
*Heimo Mäkinen*

■ FHE Services, Inc.  
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Long Island City,  
NY 11101-1800  
☎ 718 361 7200  
Tfx 718 361 0074  
*Neil Mullane*

## LATIN AMERICA

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Capital Federal  
Pcia Buenos Aires  
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Tfx (0)11 777 90 40  
*Hector Reboredo*

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Jardim Colônia Paraíso  
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dos Campos - SP  
☎ (0)12 331 29 66  
Tfx (0)12 331 48 59  
*Wagner Barbosa*

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Recoleta, Santiago  
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*Rodolfo Schaub*

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Col. Atlampa, Delegación  
Cuahtémoc  
06450 México, D.F.  
☎ (0)5 547 02 78  
Tfx (0)5 541 51 28  
*Roberto Demaria*

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(Apartado de  
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Tfx (0)2 243 1489  
Tx (31) 23373 seven vc  
*Orlando Alcantara*

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*Matti Hyttiäinen*

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Tfx 2 786 3125  
*Mats Norin*

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*A. Sankarakrishnan*

**INDONESIA (62-):**

▼ PT. KONE Indo Elevator  
Jl. Berbek Industri 1/23  
Waru, Sidoarjo 61256  
East Java  
☎ 31 849 1946  
Tfx 31 849 1950  
*Rahardjo Budialim*

**JAPAN (81-):**

■ KONE Japan Co., Ltd.  
Toyo Building 9F  
1-2-4 Koishikawa,  
Bunkyo-ku,  
Tokyo 112-0002  
☎ (0)3 3817 7811  
Tfx (0)3 3817 7877  
*Thomas Hietto*

**MALAYSIA (60-):**

■ KONE Elevator  
(M) Sdn. Bhd.  
122-124, 3/F,  
Taman Sri Setapak  
Jalan Gombak  
53000 Kuala Lumpur  
☎ (0)3 424 2855  
Tfx (0)3 424 8842  
*Andy K.H. Seo*

**PHILIPPINES (63-):**

■ KPI Elevators, Inc.  
Suite 903, King's Court  
1 Building  
2129 Pasong Tamo corner  
De La Rosa Streets  
1275 Makati City  
(P.O. Box 3558, Makati  
Central Post  
Office, Metro Manila)  
☎ (0)2 811 29 29  
Tfx (0)2 811 24 66

**SAUDI ARABIA (966-):**

▼ Arabian Elevator &  
Escalator Co. Ltd.  
(P.O. Box 14326,  
Jeddah 21424)  
Villa No. 36, Near  
Sands Hotel  
Al-Andalus District,  
Jeddah  
☎ (0)2 660 88 06  
Tfx (0)2 661 03 73  
*Fahad I. Mira*

**SINGAPORE (65-):**

■ KONE Elevator Pte. Ltd.  
19 Lorong 8 Toa Payoh  
#05-00 Vicplas Building  
319255 Singapore  
☎ 258 5622  
Tfx 258 8734  
*Johnson See*

**TAIWAN R.O.C. (886-):**

■ KONE Elevators  
Taiwan Co. Ltd.  
3/F No. 7 Sec. 2  
Nanking East Rd.  
Taipei  
☎ (0)2 2523 3882  
Tfx (0)2 2563 77 01  
*Randall Leu*

**THAILAND (66-):**

▼ Thai Lift Industries  
Public Co. Ltd.  
Thai Lift Building  
239 Rimklongprapa Road  
Bangsue, Bangkok 10800  
☎ (0)2 913 3370...86  
Tfx (0)2 913 3391...93  
*Yuth Tuangtong*

**UNITED ARAB EMIRATES (971-):**

● KONE Middle East  
GIBCA Ltd.,  
KONE Lift Division  
(P.O. Box 21474, Dubai)  
B.M.T.C. Bldg, 1st Floor  
Murraqabat Road,  
Port Said  
Dubai  
☎ (0)4 69 31 98  
Tfx (0)4 68 17 87  
*Paavo Pelkonen*

**AFRICA****EGYPT (20-):**

▼ Marrayat & Scott  
Egypt S.A.E.  
(P.O. Box 104 Dokki,  
Cairo 2)  
20 Abu Bakr El  
Sedik Street  
Mohandessien, Dokki, Giza  
☎ (0)2 337 3226  
Tfx (0)2 335 5634  
Tx (91) 92198 ramse un  
*Mostafa El Nahas*

**SOUTH AFRICA (27-):**

■ KONE Elevators  
South Africa (Pty) Ltd.  
Cor. Hilliard & Earp  
Streets, Ophirton  
Johannesburg 2091  
☎ (0)11 493 75 39  
Tfx (0)11 493 77 08  
*David Fryers*

**OCEANIA****AUSTRALIA (61-):**

■ KONE Elevators Pty Ltd  
(Locked Bag 9, Alexandria,  
NSW 1435)  
205 Euston Road,  
Alexandria, NSW 2015  
☎ (0)2 9577 7000  
Tfx (0)2 9577 7399  
*Peter O'Connor*

**NEW ZEALAND (64-):**

● KONE Elevators Pty Ltd,  
N.Z. Region  
81 Union Street  
Auckland  
☎ (0)9 303 9600  
Tfx (0)9 309 3882  
*Martin Shepherd*

# To Parent Company Shareholders

## **Annual General Meeting**

The Annual General Meeting of KONE Corporation will be held at the Hotel Kalastajatorppa, Helsinki, on Friday, February 26, 1999 at 11:00 a.m.

Shareholders wishing to participate in the business of the meeting are to have their KONE shareholdings registered on the KONE shareholder list at Suomen Arvopaperikeskus Oy no later than February 22, 1999 and notify the Head Office by telephone (+358 204 75 4215) or in writing (fax: +358 204 75 4309, address KONE Corporation, P.O. Box 8, FIN-00331 Helsinki) no later than February 22, 1999.

A shareholder may attend and vote at the meeting in person or by proxy. However, in accordance with Finnish practice, the company does not send forms of proxy to its shareholders. Shareholders wishing to vote by proxy should submit their own forms of proxy to the company.

## **Payment of Dividends**

The Board of Directors' proposal for distribution of profits can be found on page 40. Only those who have been registered as share owners at Suomen Arvopaperikeskus Oy by the March 3, 1999 date of record of dividend distribution are entitled to dividends. The date proposed by the Board of Directors for payment of dividends is March 8, 1999.

Those shareholders whose stock certificates have not yet been transferred to the paperless book entry securities system by March 3, 1999 will receive their dividends only after the transfer has been completed.

## **Announcements to Shareholders**

In accordance with the Articles of Association, announcements to shareholders are published in at least two daily Helsinki newspapers chosen by the Board of Directors.

## **Financial Reporting**

KONE Corporation will publish the following financial reports during 1999:

- Annual Report 1998 (in February-March 1999): in Finnish, Swedish, English, German, French, Russian and Chinese.
- Interim Report (June 4) covering January-April, 1999 operations: in Finnish, Swedish and English.
- Interim Report (October 1) covering January-August, 1999 operations: in Finnish, Swedish and English.

These reports are mailed directly to all registered shareholders of the parent company.

This Annual Report is available in English, French, German, Swedish, Finnish, Russian and Chinese from: KONE Corporation, Corporate Communications, P.O. Box 8, FIN-00331 Helsinki, Finland. Tel. +358 204 75 4348.  
Fax +358 204 75 4515.



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FIN-00331 Helsinki, Finland  
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