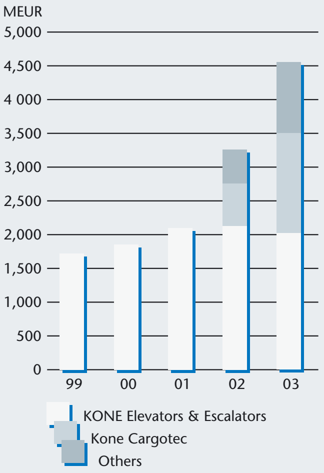
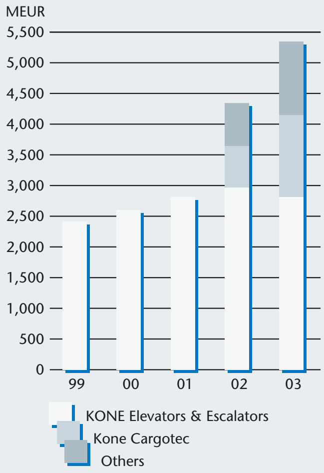
Kone Corporation

Annual Report 2003

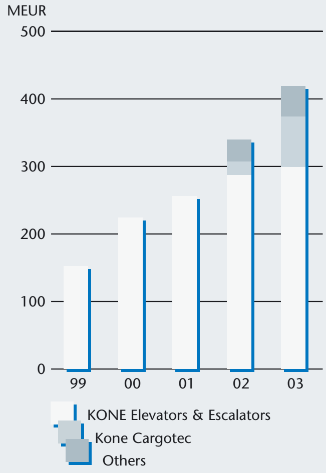
Orders received



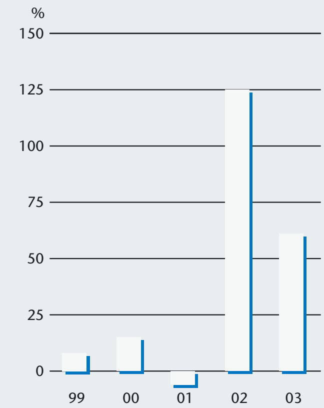
Sales



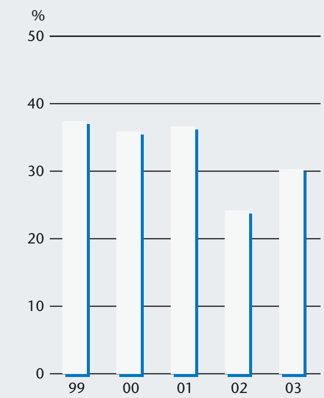
Operating income before goodwill amortization (EBITA)



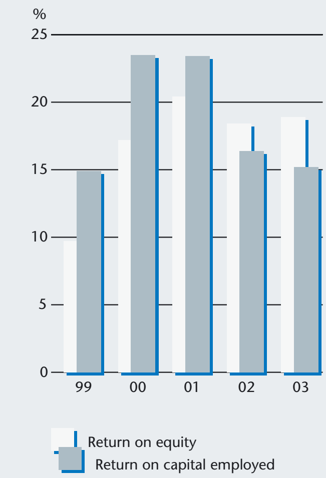
Gearing



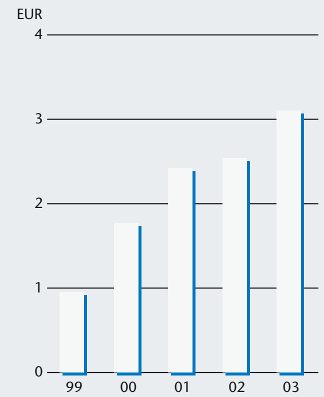
Equity ratio



Return on equity and capital employed



Earnings/share



KONE class B share price development 1999–2003

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KONE in Brief

- **KONE Elevators & Escalators achieved profitability, sales and order intake targets despite a challenging market environment.**
- **Restructuring of KONE Materials Handling was completed through the sale of Forest Machines, the divesture of non-core businesses and the sale of Tractors, which was completed in January, 2004. The new Kone Cargotec consists of Kalmar (container handling) and Hiab (load handling).**
- **Kone Cargotec benefited from improved market conditions and substantially increased order intake and profitability.**

Highlights		2003	2002	Change %
Sales	MEUR	5,344	4,342	23
Orders received	"	4,558	3,261	40
Order book as of 31 December	"	2,254	2,240	1
Operating income before goodwill amortization (EBITA)	"	419	340	23
Operating income (EBIT)	"	329	275	20
Income after financing items	"	307	256	20
Income before taxes	"	329	256	28
Net income	"	217	157	38
Total assets	"	3,617	4,160	
Earnings/share *	EUR	3.10	2.54	22
Dividends per class B share	EUR	2.00 **	1.50	33
Equity/share *	EUR	17	16	
Return on equity *	%	18.9	18.4	
Return on capital employed *	%	15.2	16.4	
Total equity/total assets *	%	30.3	24.2	
Gearing *	%	61	125	
Number of employees as of 31 December		33,305	35,864	

* The principles of calculating key figures can be found on page 43. Capital loans are included in debt.
** Board's proposal

KONE Elevators & Escalators

KONE sells, manufactures, installs, maintains and modernizes elevators and escalators and services automatic building doors. It is a service company known worldwide as a technology leader with the most innovative products and services in the elevator and escalator industry. KONE operates some 800 service centers in more than 40 countries.

Market Position

- The global elevator and escalator market, which is worth nearly EUR 30 billion a year, consists of the sale and installation of new equipment and the maintenance, repair and modernization of existing systems. The market for the maintenance of automatic building doors is valued at EUR five billion.
- With a 10 percent market share, KONE is the world's fourth largest elevator company.
- The automatic building door service business is KONE's latest growth area.

Customers

- Builders, developers, building owners, designers, and architects

Key figures 2003

- Sales MEUR 2,814 (2,970)
- Orders MEUR 2,021 (2,129)
- Order book as of 31 December MEUR 1,746 (1,792)
- Operating income before goodwill amortization MEUR 298.6 (287.0)
- Cash flow from operating activities before financial items and taxes MEUR 324.5 (460.7)
- Number of employees as of 31 December 23,751 (23,317)

Kone Cargotec

Kone Cargotec supplies products and services to facilitate moving and loading cargo. It comprises two business areas; Kalmar (container handling) and Hiab (load handling). Kone Cargotec has its own sales and service companies in 25 countries. Through the dealer network, products and services are available in more than 100 countries.

Market Position

- The global container-handling market is valued at over EUR four billion a year. Kalmar is the leading provider of heavy-duty material handling equipment and services.
- The global load-handling market is worth approximately EUR three billion a year. Hiab is the leading provider of on-road load-handling solutions.

Customers

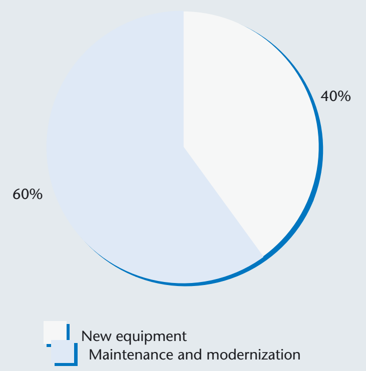
- Kalmar: ports, terminal operators and industrial customers
- Hiab: truck owners, fleet operators, truck manufacturers, rental companies, and recycling & waste disposal companies

Key figures 2003*

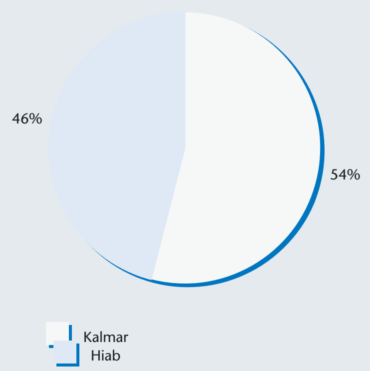
- Sales MEUR 1,335 (1,341)
- Orders MEUR 1,482 (1,336)
- Order book as of 31 December MEUR 424.7 (301.8)
- Operating income before goodwill amortization MEUR 74.9 (45.0)
- Cash flow from operating activities before financial items and taxes MEUR 114.3 (88.3)
- Number of employees as of 31 December 6,377 (7,105)

* The 2002 figures comprise the figures for the period 1 January–31 December, 2002 and include Kone Cargotec's share of corporate expenses.

Division of sales, KONE Elevators & Escalators



Divisions of sales, Kone Cargotec



Message to Shareholders

Among the main achievements of 2003, we can count the success of KONE Elevators & Escalators in a very challenging market environment and the improved profitability and successful restructuring of the Partek businesses acquired in 2002.

Antti Herlin
CEO, Board Chairman

As I have often remarked, the Partek acquisition would not have been possible without KONE Elevators & Escalators' good results and steady cash flow. During 2003 KONE Elevators & Escalators progressed according to plan despite somewhat difficult market conditions. We maintained our strong market position and achieved our order intake and sales targets. We continued to pursue an active acquisition policy. We can be proud of the growth and result we obtained under the circumstances. We now have more than 520,000 elevators and escalators and more than 210,000 automatic building doors under maintenance contract.

When we became better acquainted with the position of Partek's four business areas, we recognized that, with tractor markets rapidly consolidating, a decision had to be made whether KONE was the best owner for Valtra. Fortunately, we were – through open bidding – able to find for both the tractors and forest machines business areas excellent industrial owners, whose ongoing business activities bring added value to these operations. Their commitment to the development of these businesses could be seen in their willingness to pay KONE top prices to acquire them.

During the year under review, we completed the divestiture of Partek's non-core businesses as planned. Now that about a year and a half has passed since the acquisition, we have reached a constructive conclusion to its reconfiguration. A new Kone Cargotec has been born. It consists of two strong business areas: Kalmar (container handling) and Hiab (load handling). Both are global leaders in their businesses. They are linked by a business logic based on the growth in transportation of goods and materials. Both offer solutions for crucial interfaces in materials handling, where cargo is transferred from one kind of transportation system to another. Their strong positions create good starting points for further business development and additional profitable growth.

Thanks to both the increased cash flow from materials handling operations and the revenue from the sale of the divested businesses, we have rapidly managed to reduce our gearing, and KONE will once again be debt-free during the spring of 2004. Kone Cargotec has produced approximately EUR 1.3 billion annual revenue, and approximately EUR 75 million EBITA for our shareholders in 2003.

The success of both our operations and our handling of the Partek acquisition have been recognized by the financial market. KONE's share price rose by 58 percent, and the share liquidity was good. During 2004 we will continue with activities that support our long-range goal: the improvement of our company's competitiveness.

Finally, I want to express my thanks to all our people for the good performance of 2003. I would especially like to thank the employees of the units that were being divested for their excellent work and constructive spirit during the negotiations, which made it possible for us to carry out the successful restructuring of the former Partek Group.

January, 2004

Antti Herlin

KONE Elevators & Escalators Business Review

Manfred Eiden
President
KONE Corporation

The year under review was the seventh straight year of strong profitability for KONE Elevators & Escalators. A double-digit EBITA margin was achieved for the first time in company history despite tough challenges in new equipment markets, especially in the U.S.A. and Central Europe. The weakened U.S. dollar had a significant dampening impact on growth and profits: we reached ambitious targets for sales and orders received in many markets but lost some of the profit and cash-flow benefits when payments fixed in dollars were translated into euros. China, where we succeeded in taking an increasing share of a rapidly expanding market, continued to be an engine for growth. In general, we were able to maintain our premium pricing policy while improving the efficiency of our operations.

Determined efforts to streamline production and increase harmonization of our products, services and business processes have resulted in higher installation and service efficiency, greater product reliability, and improved safety and business performance. Thanks to these advances, we were able to focus increasingly on our customers and ways to use our organization's strengths to support their business requirements in 2003. In the beginning of 2004 KONE will launch a Global Marketing Unit, which will coordinate marketing activities and brand management around the world.

Our success has been based in part on our technological leadership and innovative approach to the maintenance of more than 520,000 elevators and escalators entrusted to our care. An increasing number of customers want a single partner to take responsibility for the safe, reliable and comfortable flow of people and goods in their buildings wherever they operate. We have expanded our Premier Partnership program to meet this growing demand and signed far-reaching agreements in 2003 with major players in the retail, hotel and public transportation sectors.

The world's installed base of elevators and escalators is ageing, making modernization the fastest growing sector in our industry. The replacement of old elevators with new models that meet today's rigorous standards, and the introduction of elevators to existing buildings that lack them, represent rapidly growing business opportunities in Europe as well as on many developing markets.

KONE's building door service business grew in 2003 and gained a foothold in important new markets. We already have more than 210,000 door units of different kinds under maintenance contract and expect door service to be one of the cornerstones for future growth.

In recent years, KONE has acquired elevator, escalator and door service businesses at a rate of approximately two acquisitions per month. The difficult economic climate will continue to create acquisition opportunities because the elevator and escalator business cycle tends to lag behind that of the construction industry by about a year.

We enter 2004 in a good position to have another strong year and lay the foundation for ongoing success in the years to follow. I would like to take this opportunity to recognize the strong performance of our people, who have once again displayed their ability to outperform the economy. Their dedication and innovativeness will be needed even more in the coming years as we seek new and better ways to help our customers delight their customers.

January, 2004

Manfred Eiden

Kone Cargotec Business Review

Carl-Gustaf Bergström
President
Kone Cargotec

The rapid rate of change continued in 2003. KONE Materials Handling's strategy was re-evaluated. We decided to focus on our two globally leading businesses, container and load handling, and divest the tractor and forest machine businesses. Ownership changes and the divestiture of businesses are always associated with uncertainty, but the process was handled admirably. Now the sales have been successfully finalized, and the personnel can look confidently toward the future. Both tractors and forest machines got strong industrial owners who are committed to developing their operations.

At the same time as these divestments were taking place, we continued to devote our full strength to the development and improvement of our core businesses, container and load handling. We have concentrated manufacturing in a reduced number of plants while outsourcing production of components that do not involve core know-how, such as hydraulic cylinders and welded structures.

Demand for our products and services was satisfactory in 2003, considering the general economic uncertainty. The strong order increase in the container-handling business was particularly positive. The trend of container traffic increasing faster than world trade seems set to continue, establishing a strong base for organic growth in demand for container-handling equipment and services.

Kone Cargotec's profitability improved clearly with EBITA totaling EUR 74.9 million, or 5.6 percent of sales. It is gratifying to see that the measures taken to raise profitability have significantly contributed to the improvement. The clearly weaker U.S. dollar, on the other hand, had an adverse effect on profits.

We can look forward to new and exciting challenges in 2004. In 2003, time and effort were put into the divestment processes; now we can fully focus on developing the new Kone Cargotec. We aim to further strengthen our number one position in materials handling in ports, land terminals and local distribution. The demand drivers in these sectors are world trade and consumer spending, which are both expected to continue growing.

The new name, Kone Cargotec reflects our concentration in cargo-handling technology, a business in which our aim is to strengthen our leading position. We are simultaneously raising to the leading-edge of development our two best recognized brands, Kalmar and Hiab, by renaming the container-handling and load-handling business areas after them.

2003 was a year of change. I warmly thank our personnel, customers and partners for the support and understanding they have given us during this process. We can now look forward to new inspiring challenges.

January, 2004

Carl-Gustaf Bergström

KONE Elevators & Escalators Operations

Rapidly developing markets such as China are growth areas for KONE Elevators & Escalators. The elevator and escalator markets in many traditional industrialized countries, on the other hand, are mature. Growth potential there is represented by the aging of both the population and the installed elevator and escalator base, new safety norms, enlarging the base of equipment under maintenance contract, and long-term contractual relationships.

Steady Construction and Modernization Activity in Europe

Approximately half of the quarter million elevators installed annually are sold in Europe. Of these installations, about a half is for residential buildings and a fifth for office buildings. Most escalators are installed in shopping centers or department stores and public transportation facilities. Growth in the sale of new equipment in Europe has been moderate in recent years, and maintenance business when measured by sales volume is larger than new equipment business. In the service business today, a company's ability to ensure the availability and safety of elevators and escalators as well as its service organization's rapid reaction when intervention is required are prerequisites for success. An increasingly important differentiator, on the other hand, is the ability to monitor round-the-clock performance of the equipment through electronic proximity and communicate effectively about all interventions required.

During 2003 demand for elevators and escalators weakened in Europe's largest markets because construction activity declined. Office construction, in particular, was tight. Residential construction remained steady on the whole but declined in countries where the weakening of the world economy

Tor-Erik Sandelin
North Europe

Heiko Körnich
Central Europe

had the greatest impact. The trend in the residential sector was towards economical housing and away from exclusive residences.

Competition increased in maintenance markets with companies focusing increasingly on the service sector as sales of new equipment slowed. The bulking of orders continued with both the public sector and private sector customers combining requests for service for multiple sites into a single contract in order to obtain the greatest possible leverage.

Conditions in European modernization markets varied from country to country. In France and Belgium the increase in modernization orders was especially noteworthy as customers began to prepare for the 2004 implementation of laws and regulations that will require upgrading the safety level of substandard elevators. Similarly, pressure for compliance with the European Safety Norms for Existing Lifts in other European Union countries will increase demand for modernization in the future.

North American Economy Picking Up

In North America, the largest elevator and escalator market segments are office buildings, sports and leisure facilities, and residential buildings, each with approximately the same slice of the total market. As in Europe, the percentage of elderly people in the population is increasing, which is why elevator and escalator sales to health care and senior citizen facilities are growing.

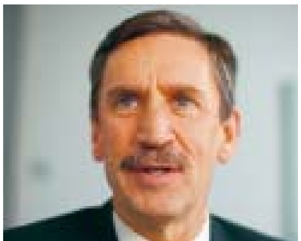
Signs of economic recovery in the United States increased during the final six months of the year under review. The upturn did not, however, happen early enough to influence the new equipment market as a whole, which declined for the third year in a row. Airport expansion and renovation work and improvement in public transportation systems were bright spots in the market. Residential construction continued in the southern regions, reflecting the ongoing migration to these parts of the country. The recovery has been slower in Canada and Mexico because of a decline in tourism in Canada and delays in legislative reform in Mexico.

Developments in the economy and new elevator market influenced maintenance and modernization business. Although the economy improved somewhat toward the end of the year, price competition in the maintenance sector continued to be tough. The contraction of new equipment markets restricted growth in maintenance volume.

Powerful Growth in Asia

Well over one third of all new elevators and and half of all new escalators are sold in the

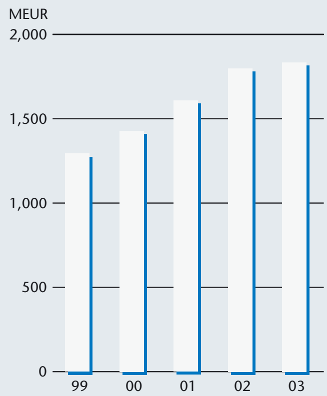
Eric Maziol
South Europe



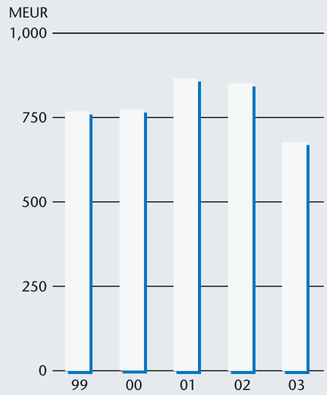
Trevor Nink
North America

Heimo Mäkinen
Asia-Pacific

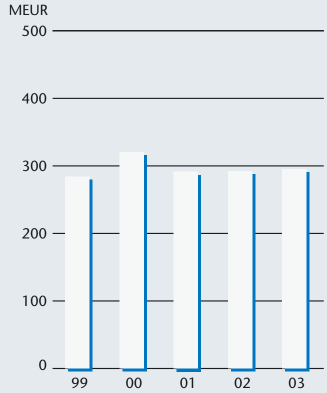
Sales, Europe



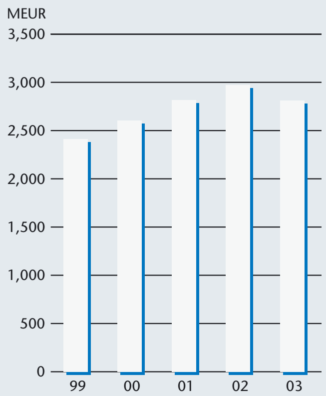
Sales, North America



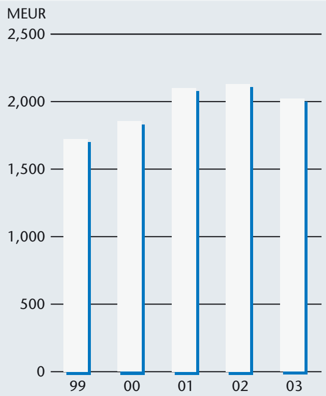
Sales, Asia-Pacific



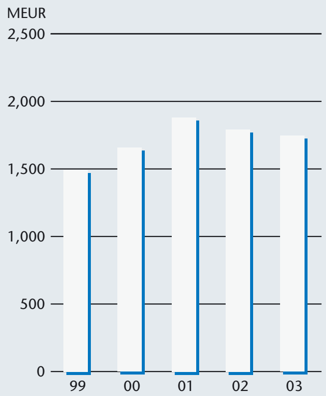
Sales



Orders received



Order book



Asia-Pacific Area. Market growth is the strongest in China, where residential construction is an engine for growth. Construction has also remained brisk in Australia for a long time. The Indian market is expected to expand in the near future while Korea, Taiwan, Singapore and Malaysia will suffer from the strong emphasis on investment in China. Whereas 60% of revenue comes from the service business in other markets, the service sector is relatively young in the Asia-Pacific Area but constantly growing.

During 2003, market enthusiasm for KONE EcoDisc® technology continued to contribute to strong growth in orders for new equipment in China and Australia. Residential construction remained strong in China, but office construction also increased with the approach of the Olympic Games. In Australia, construction was stimulated by low interest rates and high occupancy rates. In smaller Asian market areas, growth was slowed by the weak economy throughout the year as well as by SARS in Hong Kong and Taiwan in the second quarter. Service and modernization demand increased in the wake of new equipment sales growth.

KONE Achieved Its Targets

KONE achieved its orders and sales targets for 2003. Orders for new equipment remained at the same level as 2002, and sales almost reached the 2002 level when adjusted for differences in currency exchanges rates. Maintenance sales reached the 5 percent target growth. Turnover from automatic building door service is included in the maintenance turnover.

KONE maintained its market share in Europe. Although the market for new equipment contracted, KONE's order intake increased in comparison with the previous year, thanks to the steady development of housing construction in many markets and an increase in modernization activity. Market enthusiasm for elevators based on KONE EcoDisc® technology remained strong. Over 90 percent of KONE elevator orders already consist of units based on this new technology. KONE maintained its premium pricing policy despite increasing price competition. Maintenance operations expanded with the obtaining of additional contracts as a consequence of new equipment sales and the acquisition of service companies. The automatic building door service business also grew both organically and by acquisition.

In North America, KONE maintained its share of the new equipment market, thanks to the growing popularity of machine-room-less products and an increase in escalator orders. Products based on EcoDisc® technology accounted for 47 percent of orders received. The number of units under maintenance contract increased, both through acquisitions and as a result of maintenance contracts obtained in conjunction with the sale of new equipment. In the modernization sector, KONE increased its market share.

In the Asia-Pacific Area, KONE continued to register strong growth in China and Australia. In China both new equipment and maintenance sales increased significantly. In Australia, KONE's growth was supported by the booking of a number of large projects.

Harmonization of Operations

During the year under review, KONE continued to harmonize its global operations. Over the years, KONE has grown dramatically by acquisition, and the acquired companies had their own ways of working and systems to support them. The recent development of a global product range and global installation and maintenance methods have had a harmonizing influence on the operations of units in different countries. The creation of a strong single KONE brand has also helped speed the harmonization process.

Another strong harmonizing force is KONE Model II, the business-process model whose implementation has continued to spread wider and deeper throughout the organization during 2003. The entire supply chain from order-handling to the maintenance of installations is managed with the help of a single system, which improves operational efficiency and reliability.

During the year under review, a global installation method was defined for elevators for high-rise buildings. As a consequence, all elevators powered by KONE EcoDisc® are now installed by globally harmonized methods that improve the safety, quality and efficiency of the installation. KONE monitors installation efficiency with the help of a specially formulated installation efficiency standard.

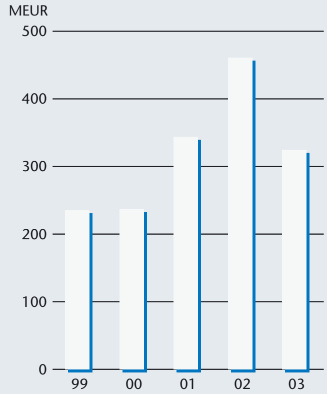
Innovative Product Development

One of KONE's strengths is its open-minded and innovative approach to research and development activity. Work is carried out in cooperation with various customer groups, suppliers, strategic partners, research centers and KONE front-line companies. Research and development centers located in India, Italy, Germany, Finland and the United States are responsible for the development of solutions for both new elevators and escalators and the service and modernization business.

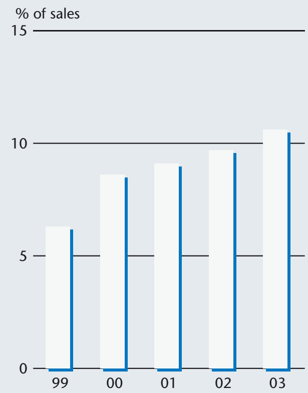
During the year under review, KONE continued development work on solutions based on the KONE EcoDisc® hoisting machine and introduced to the market new versions of both the KONE MonoSpace® machine-room-less elevator and the KONE MiniSpace™ elevator designed primarily for offices and hotels. In addition, an elevator solution was introduced that is designed especially for existing buildings that lack elevators. With the aging of the population and improvement in living standards, the introduction of elevators to previously elevatorless buildings will continue to increase.

On the escalator side, KONE introduced the EcoMod™ modernization solution that makes it possible to upgrade an existing escalator rather than having to replace it entirely. Previously, it was necessary to bring an entire new escalator assembly into a building, which was extremely difficult in settings such as department stores, where business carries on while the existing escalator is being replaced. In KONE's new modern-

Cash flow from operating activities before financial items and taxes



Operating income before goodwill amortization (EBITA)



Toshiba Alliance

KONE entered into a strategic alliance with Toshiba Elevators and Building Systems Corporation of Japan in 1998. The relationship was expanded through cross-ownership in 2002. Through the alliance Toshiba has the right to manufacture and market elevators based on KONE's machine-room-less technology in Japan.

Toshiba began to supply automatic elevator doors to KONE in China during 2003. In addition, KONE and Toshiba cooperate, among other activities, in product development and purchasing. The alliance partners believe that possibilities for significant synergy in other areas exist as well.

As Japan's third largest elevator company, Toshiba Elevators and Building Systems Corporation has a four percent share of the world's elevator and escalator market as well as a significant share of Japan's machine-room-less elevator market. If the market shares of both alliance partners were combined, the alliance would compete for the number two position in the global elevator and escalator industry.

ization solution, components designed for KONE's latest escalator models are installed in the existing escalator's truss, eliminating the need for disruptive construction work.

In service operations, KONE began to explore the use of field terminals to improve service operations. Field terminals enable service personnel to send and receive information about their assignments, installations and customer requirements directly to and from the work site. Nearly 60 percent of KONE Elevators & Escalators' employees work in maintenance or modernization.

Investment for Growth and Quality

KONE continued to pursue an aggressive acquisition policy in 2003. During the year, 27 companies were purchased, including 17 in Europe. Most of the acquisitions were companies specializing in elevator, escalator and building door service.

KONE also made decisions concerning two new production facilities. The KONE factory in China will be enlarged during the coming year by the addition of an escalator production line. In addition KONE decided to establish a component manufacturing facility which will begin production at the end of 2004 in the Czech Republic.

KONE will continue to invest in process improvement in 2004. The year will see the most extensive roll-out of the KONE Model information system in the company's history, after which the business activities of almost all of the largest KONE front-line and supply-line units will be integrated around a single, harmonized business process platform.

Product development is aimed at improving KONE's ability to ensure the safe, comfortable and reliable flow of people and goods over the entire life cycle of its customers' elevators, escalators and automatic building doors. The spread of remote monitoring capability and improved field mobility will result in higher quality of service as well as greater safety for both workers and end-users. New products and services to be launched will focus on meeting the specific requirements of customer segments.

Kone Cargotec Operations

After the acquisition of Partek Corporation in 2002, the KONE Materials Handling division was formed from the former Partek businesses. During 2003 the decision was made to divest the forest machines and tractors businesses. Agreements for the sales were signed in the autumn, and the transactions were finalized in December, 2003 and January, 2004, respectively. The focus is now on developing the container handling business, Kalmar, and the load handling business, Hiab, which form the new Kone Cargotec division.

Improved Market for Kalmar, Hiab's Remained Unchanged

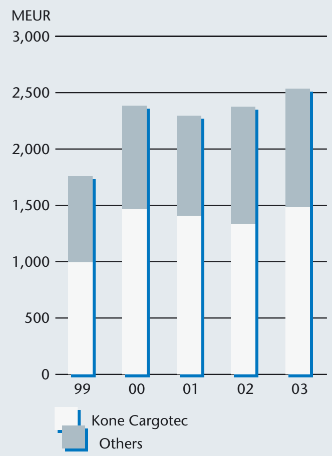
Customers who operate in the expanding business of loading and moving cargo form the foundation for growth for Kone Cargotec's products and services. As globalization continues, production is being relocated, which creates the need for additional long and short-haul transportation. Kone Cargotec provides efficient and comprehensive solutions for all interfaces of material flow by sea, road and rail. Container traffic is growing faster than world trade, which again is growing faster than global GDP. In local distribution, as well, there are increasing requirements to handle the loading, unloading and movement of goods more efficiently and ergonomically.

Kone Cargotec also seeks growth by moving closer to the customer in the value chain and by extending operations to new markets. Moving the focus in the value chain means that the services sector's share of net sales increases. Similar technologies and common components increase purchasing power, facilitate product development and raise cost efficiency.

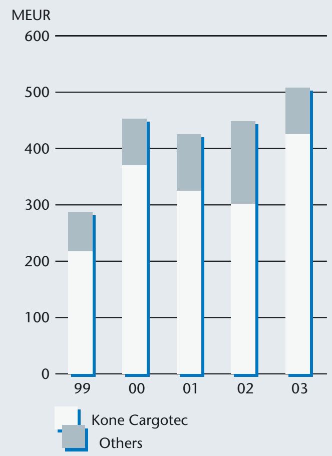
In 2003 the market for container-handling equipment and services benefited from the continued increase in container traffic. According to industry estimates, world container throughput increased by some 11 percent, compared with 10 percent in 2002 and 4 percent in 2001. As general economic weakness in 2002 and 2003 had a less severe impact on container throughput than feared, latent demand was released and replacement investments in ports rose clearly. Investment in new port projects and the expansition of existing ports fed higher demand as the SARS outbreak and unstable political environment had only a limited impact on world trade. Orders for terminal tractors rose as the U.S. economy showed signs of recovery. The market for heavy forklifts used in different industrial applications remained at the previous year's level as industrial investments were restrained by the weak economic outlook in Europe.

Demand for on-road load-handling equipment remained at approximately the

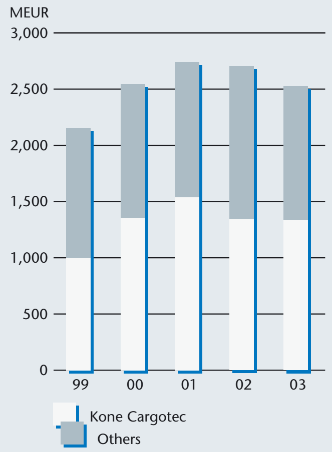
Orders received



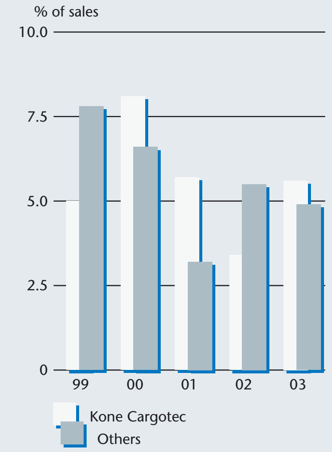
Order book



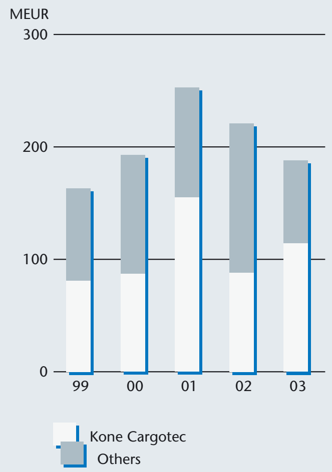
Sales



Operating income before goodwill amortization (EBITA)



Cash flow from operating activities before financial items and taxes



same level as in 2002 as economic weakness in Europe, the main market, was offset by improved demand in North America and Asia Pacific. Sales of heavy trucks, a key driver for on-road load-handling demand, were down for the fourth consecutive year, with decreases of approximately two percent in both Europe and the USA. Construction and infrastructure activity is a demand indicator for load-handling equipment. This activity also continued to decline, and the construction machinery market fell six percent in Europe. The U.S. market for tail lifts and truck-mounted forklifts improved from the low level of 2002. Due to overall decrease in demand for on-road load-handling equipment there is over-capacity in the sector, which led to slight price deterioration.

Strong Organic Growth and Improved Profitability

The main priority in 2003 was to raise profitability in Kone Cargotec. This target was achieved by initiating and completing several restructuring programs. Despite the uncertain market situation, Kone Cargotec was able to increase order intake and sales substantially at comparable exchange rates. The weakening U.S. dollar and currencies linked to it, however, had an adverse effect on growth. Product launches and investments in the sales and distribution network were key contributors to growth, which was exclusively organic.

Kalmar booked record high order intake and profits in 2003. Record sales in reachstackers were achieved with the new Cont-Champ and ContMaster models introduced late in 2002. These improved products brought in new customers, but Kalmar also recorded a large number of orders from existing customers. The performance reliability of the reachstackers, as evidenced by significantly reduced warranty and maintenance costs, has been excellent and will bring clear benefits to customers.

Replacement sales of straddle carriers also rose significantly as accelerating container traffic growth absorbed the excess capacity created in 2001–2002. Over 1,800 Kalmar CSC straddle carriers have been sold over the years, which makes it the best-selling model ever. In 2003 Kalmar introduced the ESC straddle carrier, which combines an electrical drive system with the well-proven robust construction and reliability of the CSC model.

Sales of terminal tractors also improved, and Kalmar kept its clear market leadership in this product segment as well as in reachstackers and straddle carriers.

As the outlook for container traffic growth improved and major port investment decisions were made, Kalmar was able to win the largest ever order for ship-to-shore cranes in Europe, comprising ten super post-Panamax cranes.

Kalmar's latest medium range forklift trucks with capacities of 9–18 tons secured a strong market position in 2003. Kalmar's long-term commitment to product development is also paying off in the paper industry. The new machines prove that Kalmar can meet customers' most demanding requirements with several orders to different paper manufacturers.

The service business is a key growth area for Kalmar. Kalmar Solutions, comprising Kalmar's service operations, recorded increased order intake and sales, boosted by new maintenance and fleet management contracts.

At comparable exchange rates, Hiab's order intake grew in all product groups. New models supported sales and order intake.

Sales of truck-mounted forklifts improved with stronger U.S. demand. Hiab also secured an order for 80 Moffett forklifts, the biggest order ever for truck-mounted forklifts in Europe. Otherwise demand on the main European markets was weak.

Sales of loader cranes were approximately at the previous year's level, with stronger U.S. sales balancing out weaker sales on key markets in Europe, particularly in Germany and the Netherlands. The proportion of large Hiab loader cranes continued to rise.

Hiab's continuous cooperation with defense forces bore fruit during 2003, and several military orders for loader cranes and demountables were won. Sales of demountable systems were approximately at the 2002 level.

Tail lift sales improved with increased demand, especially in the U.S., but sales were still clearly below highs achieved in previous years. At comparable exchange rates, sales of forestry cranes, which were transferred from the Forest Machines business area in 2003, rose slightly.

Streamlined Production and Process Improvement

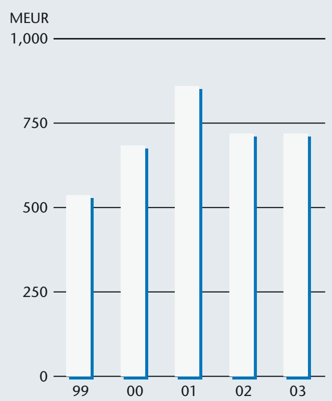
The reorganization of Kone Cargotec's operations has progressed swiftly. The goal is to improve profitability by outsourcing lower value-adding operations, decreasing the number of production facilities, and concentrating production mainly in one location per product. These measures had a positive effect on profitability, in particular within Kalmar, where most projects have been concluded.

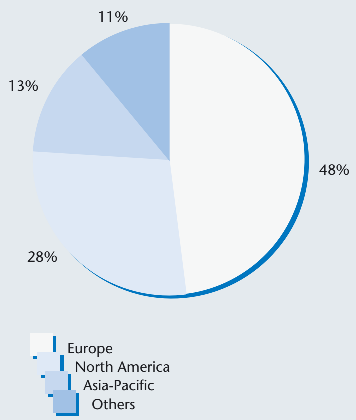
Over the past three years Kalmar has restructured its production set-up and increased outsourcing of non-core activities. An example in 2003 was the outsourcing of production and assembly of steel structures for ship-to-shore cranes in Rotterdam. These actions have increased flexibility while raising capacity, enabling Kalmar to secure the order for 10 ship-to-shore cranes in Antwerp, and ensuring that capacity remains for taking on other projects.

Kalmar has developed a global platform for terminal tractors with the first terminal tractors rolling out of its new Shanghai assembly plant in September. With plants already operating in Europe and North America, Kalmar now has production in all key market time zones. The Shanghai facility, which is expected to complete up to 100 terminal tractors in 2004, strengthens Kalmar's position as the world leader in short-haul trailer and container-handling.

The expansion of the Bromma spreader plant in Malaysia is another concrete step in Kalmar's globalization strategy.

One of the key actions in streamlining Hiab's operations was the implementation of





Kalmar

Kalmar's mission is to provide solutions that make container and materials handling faster and more efficient. This commitment has driven Kalmar to become the leading global supplier of heavy-duty material handling equipment and services in the container, trailer and heavy industrial sectors. To meet new and challenging market requirements, Kalmar is decisively expanding its range of value-added services to enhance its position as more than just a supplier of machines. In 2003, service revenue amounted to 24 percent of sales.

Every fourth container or trailer transfer in ports and terminals around the world is handled by a Kalmar machine. Manufacturing plants are situated in Sweden, Finland, the Netherlands, Estonia, Malaysia, China and the U.S.A. Kalmar has activities in 100 countries through 12 sales companies and an expanding dealer network.

Kalmar in 2003:
Sales EUR 718.9 (719.3) million
Orders EUR 834.9 (708.5) million
Order book EUR 310.9 (210.6) million
Employees 3,180 (3,536)

a new production structure for loader cranes and demountables aimed at improving competitiveness and cost efficiency. Two plants have been closed and production of welded components concentrated to the Hudiksvall plant in Sweden.

Hydraulic cylinder production was outsourced in 2003, and the goal is to continue to cut back on non-core manufacturing. Truck-mounted forklift production was also streamlined during the year. Further decisions have been taken, including transferring forest crane production and closing one tail lift plant.

The integration of the sales and service network proceeded as planned during 2003. Moffett-Kooi truck-mounted forklifts were integrated into Hiab's European sales network, and this integration process will continue. The multi-product approach has strengthened the market position of Hiab, which already has Europe's most extensive service network for load-handling equipment.

Product Launches Strengthen Market Position

Kalmar's strong ongoing efforts in product development have resulted in new products in almost all product lines in the past two years. Kalmar Smartrail®; the automatic steering and container position verification system introduced in 1997, was granted an international patent in 2003. This innovative concept is enjoying increasing success with Smartrail® fitted to both the majority of Kalmar's RTGs sold in the past two years and an increasing number of RTGs manufactured by other companies.

The ESC straddle carrier proved a great success due to environmental considerations such as low noise levels, low fuel consumption, low maintenance and repair costs, and the use of less hydraulic oil. It offers greater stability and boasts more engine power, 20 percent higher lifting speed, faster driving speed and better acceleration than competing models, resulting in a 10 percent higher overall performance rate. Kalmar won several large orders for the new straddle carrier equipped with Bromma's newly developed extendable full twinlift spreader, designed especially for straddle carriers and equipped with a 50-ton capacity.

Based on the excellent results achieved at the unmanned Patrick Stevedores container port in Brisbane, Australia, which commenced commercial operations in mid-2002, Patrick placed an additional order for 14 Kalmar ESC straddle carriers. This demonstrates Kalmar's efforts to develop products that enable customers to increase the efficiency of their operations.

By changing the valve and remote control for standard loader-crane applications, Hiab was able to increase the power by up to 10 percent in remote-controlled models. The Hiab XS loader crane family was broadened with a new generation of smaller cranes to meet worldwide demand. The HIAB XS 288 and HIAB XS 422 models launched in 2003 strengthen Hiab's position in the popular 20–40 ton range.

Multilift broadened its portfolio of demountable systems with a range of small hooklifts. Both Loglift and Jonsered introduced new forest crane models as well as improved grapples for timber trucks, and recycling and waste handling. Zepro introduced the generation 3 range of tail lifts, standard lifts and slider lifts. New Waltco tail lifts were also introduced.

Hiab

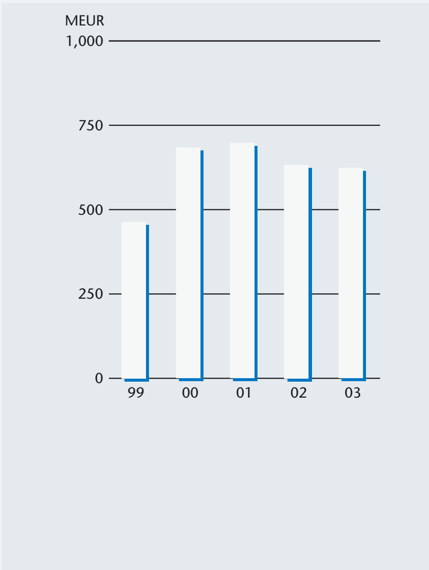
Hiab is the global market leader in on-road load handling solutions. It offers solutions that meet virtually all customer needs for loading and delivering goods. Coupled with a profound knowledge of our customers' businesses and a widespread service network, Hiab can provide customers with optimal solutions and support them over the entire life cycle of the equipment.

Hiab's well-known brands include: Hiab, Multilift, Moffett, Moffett-Kooi, Princeton, Zepro, Waltco, Focolift, Loglift, Jonsered and Zetterbergs. In 2003, service revenue amounted to 14 percent of sales.

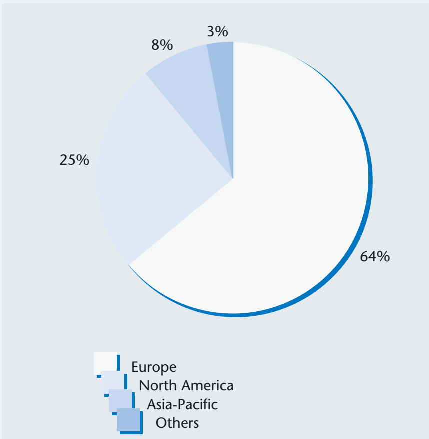
Hiab has the most comprehensive distribution and service network in the business, with its own sales companies in 19 countries and over 100 independent distribution partners with 1,500 service outlets. Production is situated in Sweden, Finland, the U.S.A., the Netherlands, Ireland, Spain, Poland and South Korea.

Hiab in 2003:
Sales EUR 623.1 (632.8) million
Orders EUR 653.2 (639.2) million
Order book EUR 114.1 (93.0) million
Employees 3,168 (3,513)

Sales

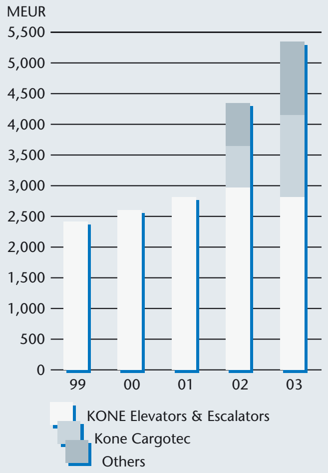


Sales by market

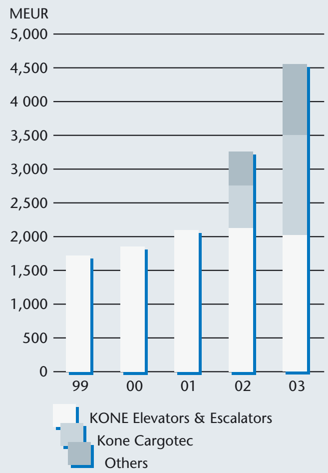


Board of Directors' Report 2003

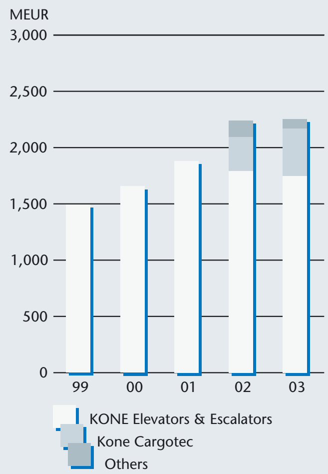
Sales



Orders received



Order book



2003 was another year of significant structural changes for KONE. After acquiring the Finnish-based engineering group Partek in 2002, consolidating its operations as of 1 July, 2002, and renaming the operations KONE Materials Handling, KONE concluded the sale of businesses not related to materials handling – Nordkalk and Paroc – in 2003 in accordance with agreements signed in late 2002.

After realigning corporate strategy in June, agreements were also reached for the sale of the Tractors and Forest Machines businesses during the autumn. The sale of Forest Machines was closed on 31 December, 2003, and the sale of Tractors was finalized after the period under review on 5 January, 2004. After these divestments, KONE Materials Handling is focused exclusively on cargo-handling technology. The division has been renamed Kone Cargotec to reflect this change. It consists of Kalmar (container handling) and Hiab (load handling).

KONE's elevator, escalator and automatic door service operations continued to develop successfully despite challenging market conditions characterized by weak construction activity in both Europe and North America. KONE Elevators & Escalators' financial result improved yet again. The rapid growth of operations in China prompted the decision to expand the escalator plant in Kunshan, China. The door service business was another growth sector, boosted both by internal growth and acquisitions. Our cooperation with Toshiba Elevator and Building Systems Corporation also continued successfully.

Kone Cargotec's sales and order intake rose significantly as the market for container-handling equipment and services improved in 2003 and a stronger market position was achieved. Numerous restructuring measures were initiated, and projects already underway were concluded. These measures included managerial changes, restructuring of production and further development of the sales and distribution network. These actions contributed to Kone Cargotec's improved result. Raising this division's profitability was one of the key priorities for 2003.

On 4 April, 2003 the long-standing chairman of the Board of Directors of KONE Corporation, Pekka Herlin, passed away. Pekka Herlin became a member of KONE's Board of Directors in 1954. He was vice president of the company from 1962 to 1964, president from 1964 to 1986, and chairman of the Board from 1987 until his death. KONE's Board of Directors wishes to express its thanks and gratitude to Pekka Herlin for his significant contribution in developing KONE into a successful, large-scale, global company whose products and services are industry leaders.

Consolidated Sales, Orders and Order Book

Consolidated net sales rose to EUR 5,344 (2002: 4,342) million.

The value of orders received amounted to EUR 4,558 (3,261) million.

The value of orders in hand at the end of 2003 totaled EUR 2,254 (2,240) million, including a EUR 83.3 (121.5) million order book for Tractors. The elevator and escalator order book, including new equipment and modernization orders, represents over one year of deliveries. The order-to-delivery time in Kone Cargotec is typically 6–8 weeks; deliveries of larger Kalmar equipment can take from three to 12 months.

Financial Result, Balance Sheet and Cash Flow

Consolidated operating income before goodwill amortization (EBITA) totaled EUR 418.5 (340.2) million, or 7.8 (7.8) percent of net sales.

The EBITA margin targets of 10 percent in the elevator and escalator business and five percent in Kone Cargotec were both achieved. Consolidated EBITA includes provisions for the employee option program and unallocated headquarters costs.

Consolidated net income, including EUR 21.6 million capital gain from the sale of Forest Machines, improved to EUR 216.9 (157.1) million. Earnings per share rose 22 percent to EUR 3.10 (2.54). The sale of Forest Machines is reported in extraordinary items.

Consolidated cash flow from operating activities before financial items and taxes totaled EUR 498.7 (615.6) million. Consolidated cash flow from operating activities was

EUR 399.6 (496.9) million. The value of acquisitions and divestments amounted to EUR 211.8 (-1,494.4) million.

Year-end interest-bearing net debt was EUR 661.9 (1,251.5) million. Total equity as a share of total assets was 30.3 (24.2) percent. Gearing was 61 (125) percent. Total assets amounted to EUR 3,617 (4,160) million. Assets employed totaled EUR 1,750 (2,252) million, of which goodwill accounted for EUR 912.0 (1,063.1) million.

The sale of the Tractors business, which was closed after the end of the period under review, will reduce net debt to approximately zero.

Return on equity was 18.9 (18.4) percent.

Personnel

KONE employed 33,305 (35,864) people at the end of 2003. The decrease is mainly due to the divestment of Nordkalk and Forest Machines and reductions in personnel at Kone Cargotec. The divestment of the Tractors business reduced the number of employees at the beginning of 2004 by approximately 2,600 people.

DIVISIONAL REVIEW AND OUTLOOK

KONE Elevators & Escalators

Sales

Net sales decreased by 5.3 percent to EUR 2,814 (2,970) million. At comparable exchange rates, sales rose approximately two percent.

The value of new elevators and escalators delivered during 2003 was EUR 1,121 (1,277) million, or 40 (43) percent of KONE Elevators & Escalators' total revenue. At comparable exchange rates, new equipment sales almost achieved the 2002 level. Maintenance and modernization sales amounted to EUR 1,693 (1,693) million, or 60 (57) percent of total sales. At comparable exchange rates service revenue growth achieved the five percent target. The automatic building door business grew to EUR 128.8 (116.7) million. This revenue is included in the total service revenue figure.

In Europe, sales increased as low construction activity in Central Europe was counterbalanced by solid demand in modernizations and in the residential sector in Southern Europe.

In North America sales decreased clearly as a result of lower demand for new equipment in the office building sector and the weaker U.S. dollar.

Asia Pacific's share of total revenue rose above 10 percent on continued booming demand for machine-room-less elevators in China although currency exchange rates also had an adverse impact on sales in the region. The high proportion of new equipment sales and orders will rapidly increase the importance of the Asia-Pacific Area's underdeveloped service sector as these new installations are taken into KONE's service portfolio.

KONE continued its active search for acquisition targets and purchased nearly 30 elevator and automatic building door service companies.

Orders Received and Order Book

Despite the weak construction market in Europe and North America, KONE succeeded in reaching its 2003 target of matching the previous year's order intake level. Orders, excluding maintenance contracts, totaled EUR 2,021 (2,129) million. At comparable exchange rates, orders rose two percent.

In Europe, order intake for elevators rose despite weak construction activity. Escalator orders also increased despite lower overall demand. The modernization market was strong in European countries that are preparing for new safety standards. Demand in other markets remained unchanged.

In North America elevator and escalator orders rose from the low 2002 level, but pick-up in construction activity occurred too late to have more than a limited impact on demand. The number of escalators ordered rose, but the weaker U.S. dollar had an adverse effect on order intake value in euros. The share of elevators powered by EcoDisc® continued to increase.

China continued to boost Asia-Pacific elevator order intake, while demand on smaller markets decreased. Total order intake in the Asia-Pacific Area decreased as a consequence of currency effects and the lack of extensive infrastructure projects.

Service Base Development

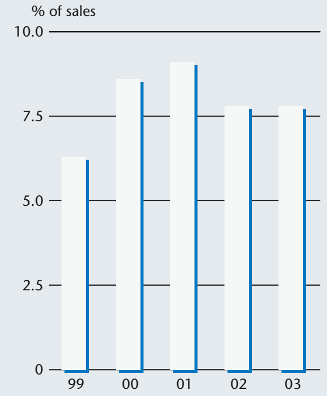
The number of elevators and escalators under maintenance contract rose solidly above the 500,000 milestone during 2003 to 520,000 units. At the end of the year KONE's service base in Europe was approximately 400,000 units, in North America over 90,000 units and in Asia-Pacific Area more than 25,000 units.

Competition remained tight in the service business, and price increases were modest. The trend among larger international customers, such as hotel chains, continues to be toward contracts that cover all or many of their elevators and escalators. By increasing the share of performance-based maintenance contracts and the harmonization of processes through IT support systems, service business

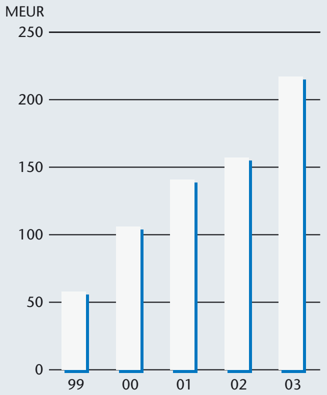
KONE Elevators & Escalators, sales by market area

	2003		2002	
	MEUR	%	MEUR	%
Europe	1,833.5	65	1,798.1	60
North America	677.1	24	851.1	29
Asia Pacific	294.6	11	292.2	10
Other	8.9	0	28.7	1
Total	2,814.1	100	2,970.1	100

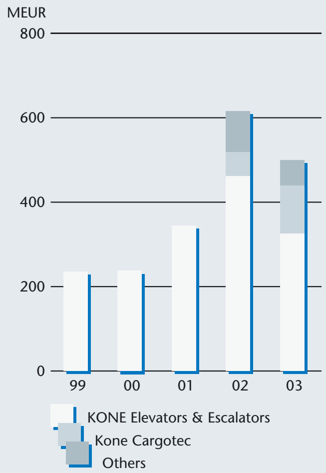
Operating income before goodwill amortization (EBITA), consolidated



Net income, consolidated



Cash flow from operating activities before financial items and taxes



margins were maintained.

Financial Result and Cash Flow

KONE Elevators & Escalators' operating income before goodwill amortization (EBITA) improved four percent to EUR 298.6 (287.0) million or 10.6 (9.7) percent of net sales. Profitability continued to improve through savings in component costs, increased installation efficiency and the solid development of the service business.

KONE Elevators & Escalators targets a negative level of net working capital. At the end of 2003 working capital was EUR -79.7 (-84.5) million. Tangible fixed assets amounted to EUR 177.2 (186.6) million.

Cash flow from operating activities before financial items and taxes totaled EUR 324.5 (460.7) million.

Capital Expenditure, Product Development and Development Programs

Capital expenditure in production facilities, field operations and information systems totaled EUR 36.2 (51.1) million. In recent years, information systems have been the major investment target as production has been streamlined and harmonized, based on the KONE EcoDisc® platform.

In order to meet rapidly growing demand in China, KONE decided to expand its escalator plant in Kunshan. The intention is also to increase exports to other Asian countries as well as to Europe. A new elevator component supply unit will be built in the Czech Republic in order to ensure production capacity for new elevators in Central Europe. The total value of the investments will be below EUR 20 million, and production is planned to start by 2005 at both locations.

The KONE Model for defining common business practices within the elevators & escalators and automatic door service operations was rolled out to front-line units in the UK, Canada and Belgium and some supply units during the year under review. The integrated system will create opportunities for shared services and a more efficient IT structure.

Product development expenditure totaled EUR 40.5 (40.2) million or 1.4 (1.4) percent of net sales. As all elevator production is based on the KONE EcoDisc® platform, and most escalator production on ECO3000™ technology, KONE has been able to concentrate and clarify its R&D efforts. Product development expenditure is increasingly focused on improving service business offerings.

KONE Elevators & Escalators Outlook for 2004

The market for new elevators and escalators in most large European countries is anticipated to remain tight during 2004 as construction activity, which leads elevator demand by approximately a year, has shown only minor signs of improvement. KONE is, however, well represented in the fastest-growing sectors, namely the market for machine-room-less elevators and residential buildings. The recovery of the construction business in the U.S. is expected to result in the stabilization of elevator and escalator demand in North America. It is anticipated that demand in China will continue to improve while demand in other countries in the Asia-Pacific Area will stabilize.

At comparable exchange rates, new equipment order intake and sales in 2004 are anticipated to remain at approximately the same level as in the previous two years. Maintenance and modernization revenue is expected to continue to grow at a rate of approximately five percent per year while the growth target for automatic building door service is 20 percent.

In the competitive market situation anticipated for 2004, KONE Elevators & Escalators targets an EBITA margin at the level achieved in 2003. The focus for 2004 is to increase our knowledge of our customers and their businesses and better match our strengths with their needs. Improved IT tools and increased R&D efforts are aimed at improving KONE's competitive position in order to benefit fully from the expected improvement in market conditions in coming years.

Through efficiency improvements in supply and front-line units, and a stronger market position, KONE Elevators & Escalators aims to continue to improve profitability towards its 12 percent EBITA margin target in the years to come.

Kone Cargotec and Other Materials Handling Operations

Partek's businesses were consolidated in KONE's annual accounts for the second half of 2002. Kone Cargotec comprises Kalmar and Hiab, while Tractors, Forest Machines and Nordkalk and other minor operations are included in Other Materials Handling Operations. For comparability reasons, the text refers to the development compared with 2002, even though the businesses have not been consolidated for all of 2002.

Sales

In 2003 the market for container-handling equipment and services benefited from the continued increase in container traffic. As latent demand was released, replacement investments, as well as port expansions and new port projects, increased. Demand for on-road load-handling equipment remained at approximately the same level as in 2002 as economic weakness in Europe, the main market, was offset by improved demand in North America and the Asia Pacific area.

Net sales amounted to EUR 2,530 (2002: 2,705, H2/02: 1,372) million. Kone Cargotec accounted for EUR 1,335 (1,341, H2/02: 676.3) million thereby achieving the target of exceeding the 2002 level at comparable exchange rates with sales in Kalmar and Hiab rising 6 and almost 5 percent respectively. Revenue from services and spare parts in Kone Cargotec amounted to EUR 258.3 (257.6, H2/02: 128.7) million, or 19.4 (19.2, H2/02: 19.0) percent of sales.

Orders Received and Order Book

Orders received rose seven percent to EUR 2,537 (2,374, H2/02: 1,132) million, of which Kone Cargotec accounted for EUR 1,482 (1,336, H2/02: 623.1) million. At comparable exchange rates, orders in Kalmar and Hiab rose 26 and 8 percent respectively. The year-end order book totaled EUR 507.7 (447.7) million, of which Kone Cargotec accounted for EUR 424.7 (301.8) million.

Kalmar won the largest European order ever for ship-to-shore cranes, consisting of 10 super post-Panamax cranes, with deliveries scheduled for late-2004 and 2005 to the port of Antwerp. This exceptional order boosted the order book to a record level, 60 percent higher than at the end of 2002 at comparable exchange rates. Hiab's orders also rose, especially for truck-mounted forklifts and large loader cranes.

Kone Cargotec and other materials handling businesses, net sales

MEUR	1-12/2003	7-12/2002	1-12/2002
Kalmar	718.9	373.4	719.3
Hiab	623.1	308.3	632.8
Eliminations	(7.2)	(5.4)	(11.2)
Kone Cargotec	1,334.8	676.3	1,340.9
Other	1,195.5	695.4	1,363.6
Total	2,530.3	1,371.7	2,704.5

Financial Result and Cash Flow

Operating income before goodwill depreciation (EBITA) was EUR 133.4 (120.4, H2/02: 64.2) million, which is 5.3 (4.5, H2/02: 4.7) percent of net sales. Kone Cargotec accounted for EUR 74.9 (45.0, H2/02: 20.2) million, which represents 5.6 (3.4, H2/02: 3.0) percent of net sales. This significant profitability improvement was made possible by the favorable reception of recently introduced Kalmar equipment, enabling Kalmar to benefit fully from the improved market situation and volume growth. Restructuring measures in Kalmar and Hiab also contributed to improved profitability.

Net working capital at the end of 2003 was EUR 298.4 (371.9) million, of which Kone Cargotec accounted for EUR 240.4 (262.2) million. Kone Cargotec released EUR 21.8 million of working capital in 2003. Tangible fixed assets amounted to EUR 202.2 (461.9) million, of which Kone Cargotec accounted for EUR 130.5 (148.4) million.

Cash flow from operating activities before financial items and taxes was EUR 187.7 (221.0, H2/02: 154.9) million, of which Kone Cargotec accounted for EUR 114.3 (88.3, H2/02: 56.8) million.

Capital Expenditure and Development Programs

Capital expenditure in production facilities, field operations and information systems totaled EUR 46.0 (60.9, H2/02: 41.7) million, of which Kone Cargotec accounted for EUR 21.9 (22.5, H2/02: 12.7) million.

Kalmar continued focusing its operations and outsourcing non-core activities such as welding operations and steel construction in Finland and the Netherlands.

Loader crane production was streamlined, and the number of production plants was decreased. The production of hydraulic cylinders was outsourced, and the production of demountables concentrated at one site.

New Products

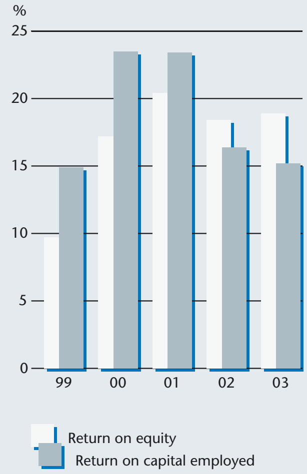
Research and development expenditure was EUR 47.9 (48.7, H2/02: 23.1) million, which is 1.9 (1.8, H2/02: 1.7) percent of net sales. In Kone Cargotec, R&D expenditure totaled EUR 25.1 (27.8, H2/02: 13.3) million.

Kalmar introduced a new straddle carrier model. Its success was due to environmental considerations and higher overall performance. Bromma developed a new extendable full 50-ton capacity twin-lift spreader, designed especially for straddle carriers.

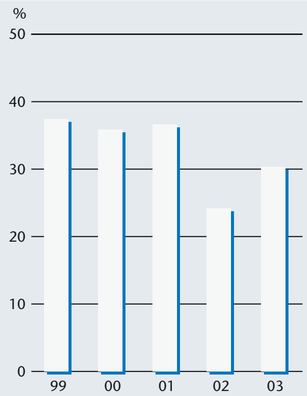
In Brisbane, Australia the world's first terminal operating Kalmar's unmanned straddle carrier was expanded.

Hiab expanded its Hiab XS loader crane family with the introduction of a new generation of smaller cranes aimed at

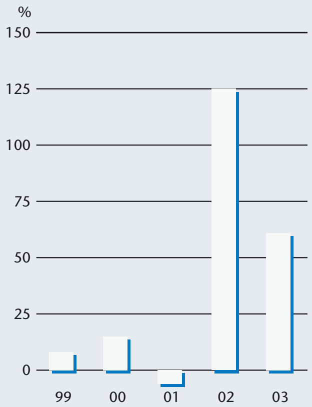
Return on equity and capital employed, consolidated



Equity ratio, consolidated



Gearing, consolidated



better meeting worldwide demand. Two new models were also introduced in the popular 20–40 ton range. In addition to these, Hiab launched several other products.

Kone Cargotec Outlook for 2004

Container traffic is expected to grow faster than world trade, giving impetus to further increases in the market for container-handling equipment. It is estimated that the market for on-road load-handling equipment will remain at approximately the 2003 level.

At comparable exchange rates, Kone Cargotec's sales are expected to increase in 2004 while order intake is anticipated to achieve the 2003 level. The EBITA margin is anticipated to reach at least the 2003 level.

The completed and continuing restructuring measures and renewed product portfolios are expected to support profitability development in 2004 and reduce the strong negative impact of the weaker dollar.

By growing the service business, further streamlining processes and strengthening its market position, Kone Cargotec aims to improve its EBITA margin to eight percent in the longer term.

KONE Corporation

Redemption of Partek Shares

A court of arbitration confirmed on 2 April, 2003 that KONE Finance Oy has, in accordance with the Finnish Companies Act, Chapter 14, Paragraph 19, an undisputed right to redeem minority shareholders' shares in Partek Corporation at market price.

The redemption price of 15.30 euros per share, and an interest of five percent per annum on the redemption price from 18 December, 2002, up to the day of payment, was paid during the period under review.

Divestments

The divestment of Nordkalk Corporation was closed in February. The transaction price, after reduction of minority interests, was EUR 270 million. After deducting Nordkalk's listed bond and the company's interest-bearing net debt, the final price for the shares was approximately EUR 140 million.

The divestment of KONE's 38 percent holding in Paroc Group Oy Ab was finalized in February. The debt-free price was approximately EUR 75 million, including the price for the shares and the repayment of loans.

KONE also sold all of its holdings in Polar Kiinteistöt Oyj and the real estate company Cellit Oy Ab.

In September, KONE entered into a conditional agreement for the sale of its tractor operations, Valtra, to AGCO Corporation for EUR 600 million.

In November an agreement was signed for the sale of the Forest Machines operations, Partek Forest, to Komatsu Ltd. of Japan. The enterprise value of the transaction, which was closed on 31 December, 2003, was EUR 120 million.

Events After the Review Period

The agreement for the sale of the Tractors business was closed after the review period, on 5 January, 2004, after competition authority approval was received and other terms were fulfilled.

Shares and Shareholder Meetings

In February, the Annual General Meeting (AGM) of KONE Corporation confirmed the number of members of the Board of Directors at seven. Pekka Herlin was re-elected as chairman of the Board. Re-elected as full members of the Board were KONE CEO Antti Herlin, Gerhard Wendt, Iiro Viinanen, Jean-Pierre Chauvarie, and President and CEO of Toshiba Elevator and Building Systems Corporation, Hiroshi Nishioka. The President of Nokia Mobile Phones, Matti Alahuhta, was elected as a new member of the Board.

On 18 June , following the passing away of Board chairman Pekka Herlin, an Extraordinary Meeting of Shareholders elected CEO and deputy chairman of the Board of Directors Antti Herlin chairman of the Board. The number of Board members was ratified at six, and no new Board members were elected.

The Board of Directors' proposal that the AGM authorize the Board of Directors to repurchase KONE Corporation's own shares with assets distributable as profit was approved. The number of shares to be repurchased shall not exceed 3,173,180 shares (476,304 class A shares and

2,696,876 class B shares).

In addition, the Board of Directors' proposal that the Annual General Meeting authorize the Board of Directors to decide on the distribution of any shares repurchased by the company was approved. The authorizations are in effect for a period of one year from the date of decision of the AGM.

As the result of share transactions during the period, the share of votes in KONE Corporation controlled by Antti Herlin has decreased to below two thirds.

Repurchase of KONE Corporation's Shares

During the year under review, KONE Corporation did not repurchase any of its own shares.

On the basis of the AGM's authorization, KONE Corporation's Board of Directors decided on 23 April to commence repurchasing shares at the earliest on 30 April, 2003. The repurchased shares are to be used as compensation in possible acquisitions and in other arrangements as well as to develop the company's capital structure. As of 29 January, 2004 no shares had been repurchased.

At the end of the reporting period, the Board of Directors had no current authorization to raise the share capital or to issue convertible or warrant loans.

Annual General Meeting and Distribution of Profits

KONE Corporation's distributable equity stands at EUR 783.6 million. The parent company's non-restricted equity from previous years totaled EUR 868.6 million, and net income from the year under review was EUR 107.8 million. The Board of Directors proposes to the Annual General Meeting (AGM) that a dividend of EUR 1.98 (1.48) be paid for each class A share and EUR 2.00 (1.50) for each class B share from retained earnings. The date of record for dividend distribution is 3 March, 2004, and it is proposed that dividends be paid on 10 March, 2004. If the AGM of 27 February, 2004 approves the Board of Directors' proposal on profit distribution, the dividends will total EUR 125.1 (2002: 93.7) million.

The Board of Directors also proposes that the AGM extend the Board of Directors' authority to use funds available for profit distribution to repurchase KONE Corporation's shares with the provision that repurchased shares shall not exceed five percent of the corporation's total number of shares and votes. According to the proposal, the acquired shares are to be used as compensation in possible company acquisitions and/or other arrangements as well as to improve the capital structure. This authorization is valid for one year, including the day of the AGM's decision.

Employee Option Program

The Board of Directors proposes that the option incentive program introduced to approximately 250 key employees in year 2000, and which is tied to KONE's cumulative net income (after taxes) in 2001–2003, be confirmed by the AGM.

According to the terms of the program, the maximum number of option rights, 350,000, will be issued, entitling the holders to subscription of 1,050,000 class B shares, and a cash bonus of EUR 7.2 million, as the minimum net income requirement of EUR 470 million for the maximum number of option rights to be issued was exceeded. The meeting of the net income targets and the right to the option rights become evident subsequent to the AGM's approval of the 2003 financial statements, and the option rights will come into effect on 1 April, 2004.

The option rights comprise 180,000 A option rights, entitling the holders to subscription to 540,000 class B shares starting 1 April, 2004 and a cash bonus of EUR 40 per option right to be paid in April 2004, and 170,000 B option rights, entitling to subscription to 510,000 class B shares starting 1 April, 2005. The subscription price is EUR 24.67. The option rights will be given free of charge and shall be issued in the book-entry system. The increase in shares represents 1.65 percent of the shares and 0.70 percent of the voting rights.

Group Outlook for 2004

As presented in the outlooks for the divisions, challenging market conditions are anticipated to continue.

KONE Elevators & Escalators will focus on developing operations while maintaining approximately the same profitability level achieved in 2003. This will result in opportunities to strive for the 12 percent EBITA margin target by utilizing a stronger market position and more efficient operations in coming years.

Kone Cargotec's aim is to continue improving its profitability in 2004. By developing its service business in the long term and reducing the level of working capital, Kone Cargotec will endeavor to raise profitability and progress toward its long-term EBITA margin target of eight percent.

KONE's capital expenditure will, apart from the investment in one new elevator supply facility and the expansion of the escalator supply line in China, remain at the level set in recent years.

The sale of Tractors will reduce net debt and gearing to nearly zero. The balance sheet will strengthen, and the equity-to-total-assets ratio will improve significantly by the end of 2004.

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 percent 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 percent of the voting power and has a participating interest of at least 20 percent.

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.

KONE's share of the profit or loss of an associated company is shown in the Consolidated Statement of Income as a separate item. KONE'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 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 income statements of foreign subsidiaries are translated at the average exchange rate for the accounting period and the balance sheets at the closing rate on the balance sheet date.

Foreign Currency Items

Foreign exchange items and derivatives made to cover foreign exchange and interest rate risks have been valued at the 31 December 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.

Revenue Recognition Principle

The sale of products is recognized at the time 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 deficits are charged to the Statement of Income taking into consideration local legislation in different countries and prudent accounting.

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.

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-finished goods have been valued at variable production costs. Work in progress includes direct labor and material costs as of 31 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

MEUR		2003	%	2002	%
Sales	Note 1	**5,344.4**		4,341.8	
Costs and expenses	Note 2	(4,845.0)		(3,926.0)	
Depreciation without goodwill amortization	Note 3	(80.9)		(75.6)	
Operating Income before Goodwill Amortization	Note 1	**418.5**	**7.8**	340.2	7.8
Goodwill amortization		(89.1)		(65,0)	
Operating Income		**329.4**	**6.2**	275.2	6.3
Share of associated companies' net income		4.9		5.9	
Financing income and expenses	Note 4	(27.3)		(24.9)	
Income after Financing Items		**307.0**	**5.7**	256.2	5.9
Extraordinary items	Note 5	21.6		0.0	
Income before Taxes		**328.6**	**6.1**	256.2	5.9
Taxes	Note 6	(109.2)		(95.5)	
Minority share		(2.5)		(3.6)	
Net Income		**216.9**	**4.1**	157.1	3.6

Consolidated Balance Sheet

Assets MEUR		**31/12/2003**	31/12/2002
Fixed Assets and Other Long-term Investments			
Intangible assets			
Goodwill	Note 7	912.0	1,063.1
Other long-term expenditures	Note 8	35.0	57.1
		947.0	1,120.2
Tangible assets			
Land	Note 9	28.1	101.4
Buildings	Note 10	170.6	240.7
Machinery and equipment	Note 11	166.0	284.5
Advance payments		36.7	22.1
		401.4	648.7
Investments			
Shares and participating interests	Note 12	182.7	207.7
Own shares		26.3	26.3
		209.0	234.0
Total Fixed Assets and Other Long-term Investments		**1,557.4**	2,002.9
Current Assets			
Inventories			
Raw materials, supplies and finished goods		405.6	476.9
Work in progress		465.3	454.3
Advance payments		3.2	5.3
Advance payments received		(416.1)	(406.1)
		458.0	530.4
Receivables			
Accounts receivable		764.6	842.9
Loans receivable		65.7	60.8
Other receivables		13.5	7.6
Deferred assets		340.6	295.9
	Note 13	1,184.4	1,207.2
Current investments		313.6	293.8
Cash and bank		103.5	125.9
		417.1	419.7
Total Current Assets		**2,059.5**	2,157.3
Total Assets		**3,616.9**	4,160.2

Shareholders' Equity and Liabilities MEUR		**31/12/2003**	31/12/2002
Shareholders' Equity			
Share capital		63.5	63.5
Share premium account		219.6	219.6
Reserve for own shares		26.3	26.3
Translation differences		(19.2)	20.9
Retained earnings		583.1	519.8
Net income		216.9	157.1
Capital loans		0.0	102.1
Total Shareholders' Equity	Notes 14,15	**1,090.2**	1,109.3
Minority Shares		**24.1**	20.1
Provision for Liabilities and Charges	Note 16	**195.5**	247.0
Debt			
Deferred tax liability	Note 17	24.5	49.6
Long-term debt			
Loans	Note 18	683.9	975.8
Current liabilities			
Loans		353.5	596.2
Accounts payable		380.0	385.7
Accruals		757.9	718.6
Other current liabilities		107.3	57.9
	Note 19	1,598.7	1,758.4
Total Debt		**2,307.1**	2,783.8
Total Shareholders' Equity and Liabilities		**3,616.9**	4,160.2

Consolidated Statement of Cash Flow

MEUR	2003	2002
Cash receipt from customers	5,364.8	4,363.0
Cash paid to suppliers and employees	(4,866.1)	(3,747.4)
Cash flow from financial items	(17.5)	(21.5)
Cash flow from taxes and other items	(81.6)	(97.2)
Cash Flow from Operating Activities	**399.6**	496.9
Capital expenditure	(82.2)	(225.3)
Proceeds from sales of fixed assets	18.2	10.5
Fixed assets of new subsidiaries	(89.0)	(1,279.6)
Fixed assets of sold subsidiaries	364.8	0.0
Cash Flow from Investing Activities	**211.8**	(1,494.4)
Cash Flow after Investing Activities	**611.4**	(997.5)
Change in current creditors, net	(164.6)	1,793.3
Change in long-term debt, net	(392.9)	757.7
Purchase of own shares	0.0	(26.3)
Sales of own shares	0.0	77.9
Share issue	0.0	106.0
Dividends paid	(93.7)	(42.3)
Other financing activities	27.4	(1,637.3)
Cash Flow from Financing Activities	**(623.8)**	1,029.0
Change in Net Cash	**(12.4)**	31.5
Cash and banks as of 31 December	103.5	125.9
Exchange difference	10.0	7.8
Cash and banks as of 1 January	125.9	102.2
Change in Net Cash	**(12.4)**	31.5
Reconciliation of Net Income to Cash Flow from Operating Activities		
Net income	216.9	157.1
Depreciation	170.0	140.6
Minority interest	2.5	3.6
Income before Change in Working Capital	**389.4**	301.3
Change in receivables	15.1	69.9
Change in payables	(57.4)	98.2
Change in inventories	52.5	27.5
Cash Flow from Operating Activities	**399.6**	496.9

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 rate prevailing at the time of the closing of the books for the period under review.

Notes on the Consolidated Financial Statement

Consolidated Statement of Income MEUR

1. Notes by Division

Sales	2003	2002
KONE Elevators & Escalators	2,814.1	2,970.1
Kalmar	718.9	373.4
Hiab	623.1	308.3
Eliminations	(7.2)	(5.4)
Kone Cargotec total	1,334.8	676.3
Others and eliminations	1,195.5	695.4
Total sales	5,344.4	4,341.8

Operating income before goodwill amortization	2003	%	2002	%
KONE Elevators & Escalators	298.6	10.6	287.0	9.7
Kone Cargotec	74.9	5.6	20.2	3.0
Others and eliminations	58.5	4.9	44.0	6.3
Kone Cargotec total	133.4	5.3	64.2	4.7
Unallocated corporate expenses	(13.5)		(11.0)	
Operating income before goodwill amortization	418.5	7.8	340.2	7.8

2. Cost and Expenses

	2003	2002
Change of work in progress	(54.4)	93.6
Materials and supplies	2,215.6	1,385.2
External services	158.0	134.7
Salaries of boards of directors and managing directors	24.2	18.5
Wages and other salaries	1,087.9	941.8
Pension costs	160.0	158.6
Other personnel expenses	323.1	319.3
Other expenses	979.8	909.0
Other business income	(49.2)	(34.7)
Total	4,845.0	3,926.0

3. Depreciation

	2003	2002
Other long-term expenditures	12.1	9.9
Buildings	13.8	13.1
Machinery and equipment	55.0	52.6
Total	80.9	75.6

4. Financing Income and Expenses

	2003	2002
Dividends received	1.7	0.4
Interest received	32.8	35.1
Other financing income	8.7	3.5
Interest paid	(63.0)	(60.2)
Other financing expenses	(7.5)	(3.7)
Total	(27.3)	(24.9)

5. Extraordinary items

	2003	2002
Sale of businesses	21.6	-

6. Taxes

	2003	2002
Revenue based taxes	118.3	99.8
Change in deferred tax liabilities and assets	(4.9)	0.8
Tax credit on dividends and previous year taxes	(4.2)	(5.1)
Total	109.2	95.5

Consolidated Balance Sheet MEUR

7. Goodwill

	2003	2002
Acquisition cost as of 1 January	1,466.0	758.5
Increase	59.7	734.9
Decrease	(94.3)	0.0
Accumulated depreciation	(519.4)	(430.3)
Total as of 31 December	912.0	1,063.1

8. Other Long-term Expenditures

	2003	2002
Acquisition cost as of 1 January	114.5	83.0
Increase	7.4	34.0
Decrease	(15.0)	(0.1)
Accumulated depreciation	(71.9)	(59.8)
Total as of 31 December	35.0	57.1

9. Land

	2003	2002
Acquisition cost as of 1 January	99.8	11.1
Accumulated revaluation	0.8	0.8
Increase	1.5	94.3
Decrease	(74.0)	(4.8)
Total as of 31 December	28.1	101.4

10. Buildings

	2003	2002
Acquisition cost as of 1 January	322.7	179.6
Accumulated revaluation	12.7	12.7
Increase	12.1	157.2
Decrease	(56.3)	(2.0)
Accumulated depreciation	(120.6)	(106.8)
Total as of 31 December	170.6	240.7

11. Machinery and Equipment

	2003	2002
Acquisition cost as of 1 January	678.3	428.3
Increase	61.2	266.7
Decrease	(111.7)	(3.7)
Accumulated depreciation	(461.8)	(406.8)
Total as of 31 December	166.0	284.5

12. Shares and Participating Interests

	2003	2002
Total as of 1 January	196.6	13.6
Change in the share in associated companies	(5.2)	5.1
Increase	0.1	196.6
Decrease	(8.8)	(7.6)
Total as of 31 December	182.7	207.7

13. Receivables

Receivables falling due after one year:	2003	2002
Accounts receivable	3.1	3.7
Loans receivable	60.9	27.4
Total	64.0	31.1

Receivables from associated companies:	2003	2002
Accounts receivable	6.9	4.6
Deferred assets	0.7	4.5
Loans receivable	11.2	43.3
Total	18.8	52.4

Deferred assets:	2003	2002
Income taxes and VAT	92.4	66.4
Deferred tax assets	98.2	108.5
Other	150.0	121.0
Total	340.6	295.9

15. Capital Loans

	2003	2002
Convertible subordinated bond Partek Corporation	0.0	1.6
Convertible capital loan Partek Corporation	0.0	0.5
Convertible capital loan Nordkalk Corporation	0.0	100.0
Total	0.0	102.1

16. Provision for Liabilities and Charges

	2003	2002
Provision for guarantees	21.4	23.5
Provision for general and product liability claims	27.3	39.3
Provision for business reorganizing	25.2	38.2
Provision for loss contracts	30.4	23.9
Other provisions	91.2	122.1
Total	195.5	247.0

17. Deferred Tax Assets and Liabilities

Deferred tax assets	2003	2002
Consolidation adjustments	9.7	15.4
Timing differences	88.5	93.1
Deferred tax assets, total	98.2	108.5

Deferred tax liabilities	2003	2002
Consolidation adjustments	0.3	4.0
Timing differences	24.2	45.6
Total deferred tax liabilities	24.5	49.6

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

14. Shareholders' Equity and Its Changes

	Share capital	Share premium account	Reserves for own shares	Translation differences	Retained earnings	Net income for the year	Capital loans	Total equity
As of 1 January	63.5	219.6	26.3	20.9	676.8		102.1	1,109.2
Issue of shares								0.0
Purchase of own shares								0.0
Sales of own shares								0.0
Translation differences				(40.1)				(40.1)
Dividend					(93.7)			(93.7)
Net income for the year						216.9		216.9
Capital loans							(102.1)	(102.1)
As of 31 December	63.5	219.6	26.3	(19.2)	583.1	216.9	0.0	1,090.2

The accumulation of untaxed reserves, excluding the calculative deferred tax liability, is included in retained earnings which totaled EUR 16.4 million (EUR 16.2 million). Accumulated untaxed reserves are not distributable equity.

18. Long-term Debt

Long-term debt falls due as follows:

	MEUR	%
2005	168.0	24.5
2006	212.1	31.0
2007	57.9	8.5
2008	70.2	10.3
Later	175.7	25.7
Total	683.9	100.0

19. Current Liabilities

Liabilities owed to associated companies	2003	2002
Accounts payable	2.4	1.0
Other current liabilities	1.1	1.3
Total	3.5	2.3

Accruals	2003	2002
Accrued income taxes and VAT	151.9	103.9
Accrued salaries, wages and employment costs	246.4	251.1
Other accruals	359.6	363.6
Total	757.9	718.6

20. Contingent Liabilities and Pledged Assets

	Group		Parent company	
	2003	2002	2003	2002
Assets pledged to secure loans				
Group and parent company	18.6	26.4	16.7	16.7
Pledged assets				
Group and parent company	14.7	22.7	0.0	0.0
Guarantees				
Subsidiaries	0.0	0.0	1,216.4	1,199.4
Associated companies	10.1	4.1	10.1	1.9
Others [1]	47.7	19.6	2.7	0.9
Leasing liabilities				
Falling due in the next year	45.7	50.4	3.0	2.9
Falling due after one year	105.2	127.8	2.8	2.7
Other contingent liabilities [1]	88.7	111.4	0.0	0.0
Total	330.7	362.4	1,251.7	1,224.5
Value of guaranteed debt	72.6	83.7	68.2	77.5
Book value of assets pledged	19.4	30.1	16.7	16.7

[1] Guarantees for others include EUR 11.0 (31/12/2002: 10.3) million customer finance arrangements where the sold machines form security and other contingent liabilities include repurchase commitments for sold products to a value of EUR 54.3 (31/12/2002: 71.7) million.

21. Derivatives

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

	Book value 2003	Market value 2003	Book value 2002	Market value 2002
Forward contracts	958.3	41.3	983.9	24.7
Currency options	94.1	0.5	83.2	0.4
Currency swaps	173.8	6.0	153.8	1.1
Interest rate swaps	140.0	(4.6)	276.6	(8.8)
Total	1,366.2	43.2	1,497.5	17.4

22. Financial Risk Management

KONE's business activities are exposed to financial risks such as currency risks, interest rate risks, refinancing and liquidity risks, and counterpart risks.

KONE's treasury function manages financial risks centrally according to limits set in the finance policy approved by the Treasury Committee, which are based on the main principles for risk management determined by the Board.

The value of open derivative contracts at year-end appears in note 21.

Currency Risks

KONE operates internationally and is, thus, exposed to currency risks arising from exchange rate fluctuations related to currency flows from sales and purchases (transaction risk) and net equity in foreign subsidiaries (translation risk).

As a rule, net currency flows are hedged so that exchange rate fluctuations affect the result with an average lag of roughly seven to nine months.

The policy regarding translation risk is to hedge the balance sheet structure in such a way that changes in exchange rates have a neutral impact on KONE's gearing. Exceptions to this rule occur where hedging costs are deemed to be too high because of non-functioning markets and/or a too great an interest-rate differential.

Interest-rate Risks

Changes in interest rates on interest-bearing receivables and debts in different currencies create interest-rate risks. These risks are managed by adjusting the duration of debt to the targeted level through different combinations of fixed and floating interest in the debt portfolio and various interest-rate derivatives.

Open interest-rate derivative contracts at the end of 2003 are shown in note 21.

Refinancing and Liquidity Risks

In order to minimize funding and liquidity risks and to cover estimated financing needs, KONE has committed bilateral and syndicated undrawn credit facilities totaling 475 million euro at the end of the year.

Interest-bearing net debt fell to EUR 662 million as a result of divestments and strong cash flow from operations. Interest-bearing debt amounted to EUR 1,145 million, of which short-term debt including debt repayments made during the year accounted for 40 percent. The long-term loan repayment schedule can be found in note 18.

Counterpart Risks

KONE only approves counterparts with high creditworthiness when investing liquid assets. Derivative contracts are made exclusively with leading banks and credit institutions.

23. The Application of International Financial Reporting Standards (IFRS/IAS) in KONE Corporation

KONE will begin using International Financial Reporting Standards (IFRS/IAS) in its reporting as of 2004. The main changes compared with the previous standards are:

- Revenue Recognition, percentage of completion method to be implemented in major long term projects
- Leases, financial leases to be included in the balance sheet
- Trade / Customer Financing Contracts, to be recognized in the balance sheet and periodized in the profit and loss statement accordingly
- Financial Derivatives and Instruments, to be valued at fair market price in the balance sheet
- Goodwill, impairment testing to replace amortization
- Employee benefits, valuation of defined benefit pension plans

KONE Corporation will publish its first IFRS/IAS interim report on Wednesday 21 April, 2004. IFRS comparison figures for January–March, 2003 will be released before the interim report date.

Parent Company: Statement of Income

MEUR		2003	%	2002	%
Sales	Note 1	374.8		414.5	
Change of work in progress		(8.2)		(14.4)	
Cost and expenses	Note 2	(320.8)		(338.2)	
Depreciation	Note 3	(3.0)		(3.7)	
Operating Income		42.8	11.4	58.2	14.0
Financing income and expenses	Note 4	190.4		43.5	
Income after Financing Items		233.2	62.2	101.7	24.5
Extraordinary items	Note 5	(87.0)		(54.5)	
Income before Taxes and Allocations		146.2	39.0	47.2	11.4
Depreciation difference	Note 6	0.2		0.9	
Taxes for the period		(42.5)		(12.5)	
Deferred taxes		3.9		-	
Net Income		107.8	28.8	35.6	8.6

Parent Company: Balance Sheet

Assets MEUR		31/12/2003	31/12/2002
Fixed Assets and Other Long-term Investments			
Intangible assets			
Other long-term expenditures	Note 7	0.8	0.8
Tangible assets			
Land	Note 8	1.3	1.4
Buildings	Note 9	17.9	18.2
Machinery and equipment	Note 10	6.6	6.7
		25.8	26.3
Investments			
Shares in subsidiaries	Note 11	416.1	417.9
Other stocks and shares	Note 12, 21	4.7	4.5
Own shares	Note 13	26.3	26.3
		447.1	448.7
Total Fixed Assets and Other Long-term Investments		473.1	475.8
Current Assets			
Inventories			
Raw materials and supplies		19.5	16.2
Work in progress		12.1	22.0
		31.6	38.2
Receivables	Note 14		
Accounts receivable		60.4	56.2
Loans receivable		2,162.7	1,965.0
Deferred assets		155.9	115.9
		2,379.0	2,137.1
Current Investments	Note 15	254.3	250.7
Cash and bank		8.1	2.6
		262.4	253.3
Total Current Assets		2,673.0	2,428.6
Total Assets		3,146.7	2,904.4

Shareholders' Equity and Liabilities MEUR		31/12/2003	31/12/2002
Shareholders' Equity			
Share capital		63.5	63.5
Share premium account		219.6	219.6
Reserve for own shares		26.3	26.3
Retained earnings		760.8	818.9
Net income		107.8	35.6
Total Shareholders' Equity	Note 16	1,178.0	1,163.9
Untaxed Reserves	Note 17	1.6	1.8
Provision for Liabilities and Charges	Note 18	9.9	11.3
Liabilities	Note 19		
Long-term debt	Note 20		
Loans from financial institutions		420.3	366.3
Current liabilities			
Loans from financial institutions		153.6	36.1
Advances received		19.9	27.0
Accounts payable		32.9	28.6
Other current liabilities		1,185.5	1,180.0
Accruals		145.0	89.4
		1,536.9	1,361.1
Total Debt		1,957.2	1,727.4
Total Shareholders' Equity and Liabilities		3,146.7	2,904.4

Parent Company: Statement of Cash Flow

MEUR	2003	2002
Cash receipt from customers	361.1	416.5
Cash paid to suppliers and employees	(323.2)	(332.2)
Cash flow from financial items	198.8	27.1
Cash flow from taxes and other items	(111.8)	(57.0)
Cash Flow from Operating Activities	124.9	54.4
Capital expenditure	(3.8)	(3.9)
Proceeds from sale of fixed assets	1.5	3.0
Purchase of shares in subsidiaries	(0.1)	(120.0)
Proceeds from sale of shares in subsidiaries	1.9	123.3
Cash Flow from Investing Activities	(0.5)	2.4
Cash Flow after Investing Activities	124.4	56.8
Purchase of own shares	-	(26.3)
Proceeds from sale of own shares	-	77.9
Share issue	-	106.0
Change in current creditors (net)	123.0	777.0
Change in long-term debt (net)	54.0	328.6
Dividends paid	(93.7)	(42.3)
Other financing activities	(202.2)	(1,281.6)
Cash Flow from Financing Activities	(118.9)	(60.7)
Change in Net Cash	5.5	(3.9)
Cash and bank as of 31 December	8.1	2.6
Cash and bank as of 1 January	2.6	6.5
Change in Net Cash	5.5	(3.9)
Reconciliation of Net Income to Cash Flow from Operating Activities		
Net Income	107.8	35.6
Depreciation	3.0	3.7
Other adjustments	(0.9)	(0.6)
Income before Change in Working Capital	109.9	38.7
Change in receivables	(43.3)	(55.0)
Change in payables	51.7	56.7
Change in inventories	6.6	14.0
Cash Flow from Operating Activities	124.9	54.4

Notes on the Parent Company Financial Statement

Statement of Income MEUR

1. Sales

Sales to subsidiaries totaled EUR 234.5 million (2002: EUR 247.2 million) corresponding to a share of about 63% (2002: 60%) of net sales.

2. Costs and Expenses

	2003	2002
Materials and supplies	129.6	139.3
External services	46.1	57.2
Salaries of boards of directors and managing director	0.6	0.5
Wages and other salaries	52.5	50.8
Pension expenses	10.2	11.5
Other personnel expenses including vacation pay	16.4	15.6
Other expenses	72.7	75.7
Other business income	(7.3)	(12.4)
Total	320.8	338.2

The average number of employees was 1,475 (2002: 1,508).

3. Depreciation

	2003	2002
Other long-term expenditures	0.4	0.6
Buildings	0.5	0.4
Machinery and equipment	2.1	2.7
Total	3.0	3.7

4. Financing Income and Expenses

	2003	2002
Dividends received from subsidiaries	147.1	3.2
Other dividends received	0.5	0.4
Interest paid to subsidiaries	76.5	44.5
Other interest received	17.9	23.6
Interest paid to subsidiaries	(19.4)	(16.4)
Other interest paid	(38.8)	(14.1)
Other financing income and expenses	6.6	2.3
Total	190.4	43.5

5. Extraordinary Items

	2003	2002
Group contributions received	23.4	0.4
Group contributions granted	(110.4)	(54.9)
Total	(87.0)	(54.5)

6. Depreciation Difference

	2003	2002
Other long-term expenditures	0.1	0.2
Buildings	0.3	0.1
Machinery and equipment	(0.2)	0.6
Total	0.2	0.9

Balance Sheet MEUR

7. Other Long-term Expenditures

	2003	2002
Acquisition cost as of 1 January	2.7	4.0
Increase	0.4	0.1
Decrease	0.0	(1.4)
Accumulated depreciation	(2.3)	(1.9)
Total as of 31 December	0.8	0.8

8. Land

	2003	2002
Acquisition cost as of 1 January	0.6	0.6
Decrease	(0.1)	-
Accumulated revaluation	0.8	0.8
Total as of 31 December	1.3	1.4

9. Buildings

	2003	2002
Acquisition cost as of 1 January	14.5	14.1
Accumulated revaluation	11.7	11.7
Increase	0.7	0.4
Decrease	(0.5)	-
Accumulated depreciation	(8.5)	(8.0)
Total as of 31 December	17.9	18.2

10. Machinery and Equipment

	2003	2002
Acquisition cost as of 1 January	35.2	43.1
Increase	2.0	2.5
Decrease	0.0	(2.6)
Accumulated depreciation	(30.6)	(36.3)
Total as of 31 December	6.6	6.7

11. Shares in Subsidiaries

	2003	2002
Total as of 1 January	417.9	421.2
Increase	0.1	14.0
Decrease	(1.9)	(17.3)
Total as of 31 December	416.1	417.9

12. Other Stocks and Shares

	2003	2002
Total as of 1 January	4.5	3.4
Increase	0.3	1.1
Decrease	(0.1)	-
Total as of 31 December	4.7	4.5

13. Own shares

Parent company owned 833,479 Class B shares as of 31 December, 2003 at acquisition price of EUR 26.3 million.

14. Receivables

Receivables falling due after one year:	2003	2002
Loans receivable	5.2	1.6

Receivables from group companies:	2003	2002
Accounts receivable	44.4	36.0
Loans receivable	2,156.6	1,963.3
Deferred assets	38.7	16.7
Total	2,239.7	2,016.0

Receivables from associated companies:	2003	2002
Accounts receivable	2.7	2.1
Loans receivable	1.5	1.5
Total	4.2	3.6

Deferred assets:	2003	2002
Interest receivable	15.7	25.6
Receivables from subsidiaries	38.7	16.7
Exchange rate gains	64.5	62.9
Income taxes	27.9	7.4
Deferred tax assets	3.9	-
Other deferred assets	5.2	3.3
Total	155.9	115.9

15. Current Investments

	2003	2002
Deposits	254.3	250.7

17. Untaxed Reserves

Cumulative depreciation differences:	2003	2002
Other long-term expenditures	0.2	0.3
Buildings	1.1	1.4
Machinery and equipment	0.3	0.1
Total	1.6	1.8

18. Provision for Liabilities and Charges

	2003	2002
Provision for guarantees	1.6	1.9
Other provisions	8.3	9.4
Total	9.9	11.3

19. Liabilities Owed to Group and Associated Companies

Liabilities owed to group companies:	2003	2002
Other long-term debt	977.0	892.1
Advances received	3.4	4.2
Accounts payable	13.5	9.7
Accruals	113.5	60.4
Total	1,107.4	966.4

Liabilities owed to associated companies:	2003	2002
Advances received	0.3	0.4
Accounts payable	1.1	0.8
Total	1.4	1.2

Accruals:	2003	2002
Accrued salaries, wages and employment costs	14.2	15.3
Accruals to subsidiaries	113.5	60.4
Other accruals	17.3	13.7
Total	145.0	89.4

20. Long-term Debt

Long-term debt falling due after five years:	2003	2002
Loans from financial institutions	61.4	63.5

16. Shareholders' Equity and Its Changes

	Share capital	Share premium account	Reserve for own shares	Retained earnings	Net income for the year	Total equity
As of 1 January	63.5	219.6	26.3	854.5		1,163.9
Dividend				(93.7)		(93.7)
Net income for the year					107.8	107.8
As of 31 December	63.5	219.6	26.3	760.8	107.8	1,178.0

21. Group Shares and Participations as of 31 December, 2003

Subsidiaries

KONE Elevators & Escalators		Shareholding (%)	
Company	Country	Parent company	Group
KONE Finance Oy	Finland	100	100
KONE Inc.	United States		100
Société Française des Ascenseurs KONÉ S.A.	France		99.96
KONE plc	United Kingdom		100
KONE S.p.A.	Italy		100
KONE GmbH	Germany		100
KONE B.V.	Netherlands		100
KONE Elevators Pty Ltd	Australia	30	100
KONE Elevators Co. Ltd	China		95
KONE Elevadores S.A.	Spain	0.02	100
KONE AB	Sweden		100
Other subsidiaries (177 companies)			

Kone Cargotec and other		Shareholding (%)	
Company	Country	Parent company	Group
Partek Oy Ab	Finland		100
Valtra Inc.	Finland		100
Valtra do Brasil S.A.	Brazil		100
Kalmar Industries Oy Ab	Finland		100
Oy Sisu Auto Ab	Finland		100
Kalmar Industries Sverige AB	Sweden		100
Kalmar Industries Corp.	United States		100
Valtra Tracteurs France S.A.S	France		100
Cargotec Inc	United States		100
Sisu Diesel Oy	Finland		100
Kalmar RT Center LLC	United States		100
Other subsidiaries (157 companies)			

Associated Companies

KONE Elevators & Escalators		Shareholding (%)	
Company	Country	Parent company	Group
Konette Design Center Oy	Finland	40	40
Ternitz Druckguss GmbH	Austria		20
Shan On Engineering Company Limited	China		30
Industrial Logistics Limited	Ireland		20
Marryat & Scott Egypt - S.A.E.	Egypt	49	49
Other associated companies (8 companies)			

Kone Cargotec and other		Shareholding (%)	
Company	Country	Parent company	Group
Consolis Oy Ab	Finland		26
Valtra Traktor AB	Sweden		40
Sisu Akselit Oy	Finland		30
Peinemann Kalmar Container Handling CV	Netherlands		30
Other associated companies (13 companies)			

Other Stocks and Shares

		Shareholding (%)	
Company	Country	Parent company	Group
Toshiba Elevator and Building Systems Corporation	Japan		19.9
Arabian Elevator & Escalator Co. Ltd	Saudi-Arabia	10	10
Thai Lift Industries Public Co. Limited	Thailand		8

A list of shares and participations can be found in the KONE Corporation closing documents.

Shares and Shareholders

Market Value

The price of the KONE Corporation class B share rose 58 percent during 2003 from EUR 28.85 to EUR 45.50. During the same period, the Helsinki Exchanges HEX General Index rose 4 percent, the HEX Portfolio Index rose 16 percent, and the Metal and Engineering Sector Index rose 31 percent. The highest KONE Corporation class B share price during the year was EUR 47.44 and the lowest EUR 26.70. The company's market capitalization, in which the unlisted class A shares are valued at the closing price of the class B shares on the last trading day of the year, was EUR 2,850 (end-2002: 1,792) million.

The 833,479 KONE shares which were purchased by the corporation in 2002 and were in its possession at the end of 2003 represent 1.3 percent of total shares. These shares have been entered as investments in the corporation's balance sheet and are not included in the market capitalization figure.

During the year under review 34,985,572 (2002: 33,784,550) KONE Corporation class B shares were traded on the Helsinki Exchanges. The value of shares traded was EUR 1,307 (1,034) million. The average daily turnover was 139,942 shares and the relative turnover 65 percent.

Trading codes:	
Helsinki Exchanges	KONBS
Reuters	KONBS.HE
Bloomberg	KONBS
ISIN code	FI0009000566

Trading lot	20
Par value,	EUR 1.00
Taxation value (in Finland)	EUR 31.71

Shares and Share Capital

KONE Corporation's Articles of Association state that the minimum share capital is EUR 54 million and the maximum share capital EUR 216 million. At the end of 2003, the share capital was EUR 63.5 million. The share capital can be raised or reduced within these limits without an amendment to the Articles of Association.

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. At the end of 2003, the total number of votes was 14,919,039.

Dividends

In accordance with the Articles of Association, class B shares are preferred for a dividend, which is at least two percent and no more than five percent higher than the dividend paid to the holders of class A shares, calculated from the par value of the share. The Board of Directors proposes that dividends for 2003 be EUR 1.98 (1.48) for each class A share and EUR 2.00 (1.50) per class B share.

KONE Corporation's share capital consists of the following:

	Number of shares	Par Value (EUR)
Class A	9,526,089	9,526,089
Class B	53,937,531	53,937,531
Total	63,463,620	63,463,620

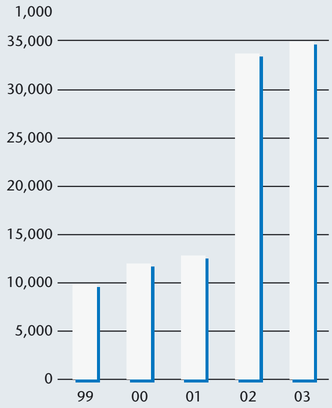
Authority to Raise Share Capital

At the end of the financial year, the Board of Directors of KONE Corporation had no valid authority to increase the share capital or to issue convertible or warrant loans, nor were any convertible or warrant loans issued during 2003.

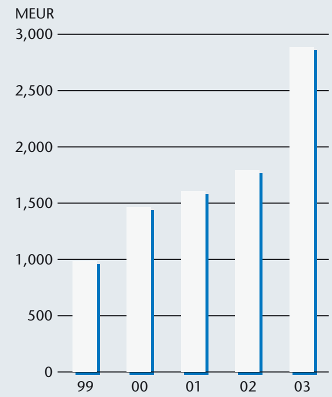
Authority to Purchase and Surrender Own Shares

On 21 February, 2003 the Annual General Meeting authorized the Board of Directors to purchase the company's own shares, using funds available for profit distribution. The shares were to be acquired for use as compensation in possible company acquisitions or other arrangements as well as for the development of the company's capital structure. In addition, the Annual General Meeting authorized the Board

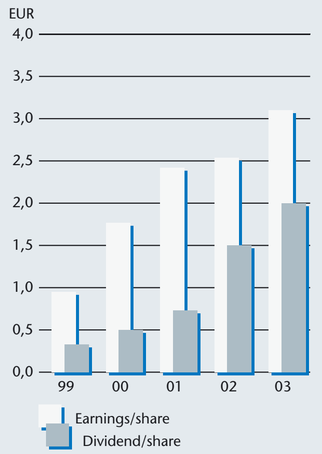
Number of class B shares traded



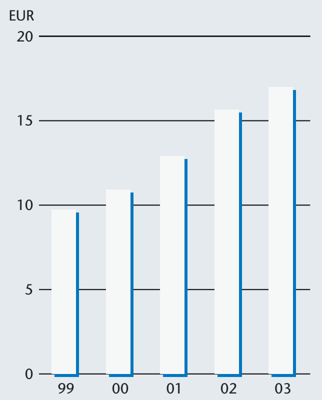
Market capitalization



Earnings and dividend/share



Equity/share



of Directors to decide to whom and in what order the shares were to be surrendered.

The total amount of the KONE Corporation shares to be acquired was to be at most five percent of the company's total number of shares and votes, namely 476,304 class A shares and 2,696,876 class B shares. The authorization was not used during 2003. The shares in the company's possession represent 1.3 percent of the total number of shares and 0.6 percent of the total number of votes. The Board of Directors has proposed to the 2004 Annual General Meeting that the authorization be extended.

Option Program

The Board of Directors proposes that the option incentive program introduced to approximately 250 key employees in year 2000, and which is tied to KONE's cumulative net income (after taxes) in 2001–2003, be confirmed by the AGM.

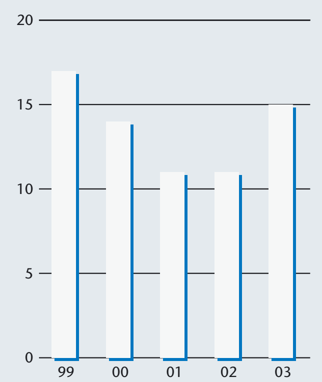
This option plan is part of a long-range incentive system, which motivates key employees to commit themselves to attaining KONE Corporation's consolidated global growth and profitability goals. According to the terms of the program, the maximum number of option rights, 350,000, will be issued, entitling the holders to subscription of 1,050,000 class B shares and a cash bonus of EUR 7.2 million, as the minimum cumulative net income requirement of EUR 470 million after taxes for the maximum number of option rights to be issued was exceeded. The meeting of the net income targets and the right to the option rights become evident subsequent to the AGM's approval of the 2003 financial statements.

The option rights comprise 180,000 A option rights, entitling their holders to subscription to 540,000 class B shares starting 1 March, 2004 and a cash bonus of EUR 40 per option right to be paid in April 2004, and 170,000 B option rights, entitling their holders to subscription to 510,000 class B shares starting 1 April, 2005. The subscription price is EUR 24.67. The option rights will be given free of charge, and they shall be issued in the book-entry system. The maximum increase in shares represents 1.65 percent of the shares and 0.70 percent of the voting rights. The annual subscription period will fall between 2 January and 30 November, on dates to be determined by the company.

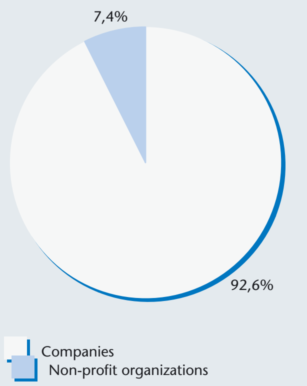
Shareholders

At the end of 2003, KONE

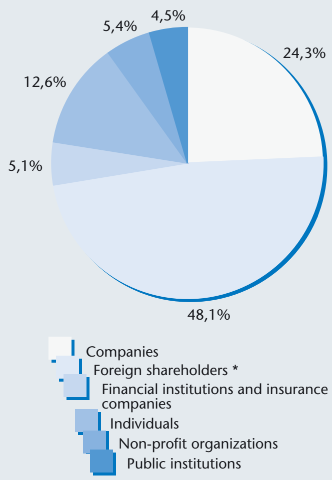
Price/earnings



Class A shares



Class B shares



*) Includes foreign-owned shares registered by Finnish nominees

had 10,249 (7,969) shareholders. A breakdown of shareholders is given in the enclosed table.

At the end of 2003, the ownership of approximately 41 percent of KONE shares was in non-Finnish hands, corresponding to around 17.4 percent of the votes in the company. Foreign-owned shares can be registered in the name of Finnish nominees. Only shares registered in shareholders' own names entitle the holder to a vote in shareholders' meetings.

There were 22,717,729 (18,196,236) foreign-owned shares – representing 35.8 percent of the shares – registered in the name of Finnish nominees at the end of 2003.

Shareholdings of the President and Members of the Board of Directors

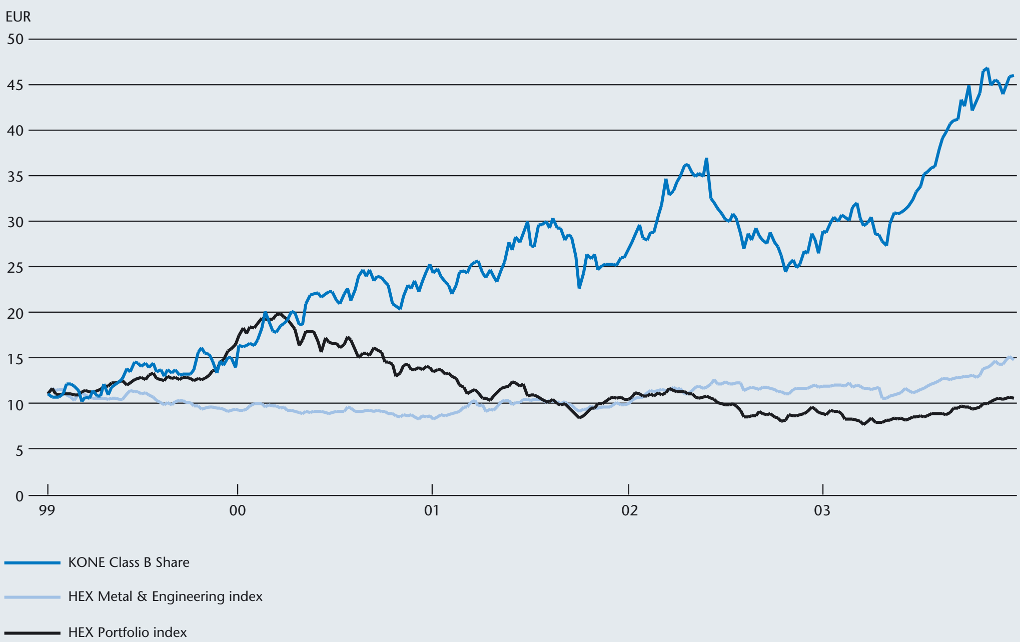
KONE Corporation's president and members of the Board of Directors directly owned 135,134 class B shares, and indirectly 10,965,709 class B shares and 8,820,201 class A shares on 31 December, 2003, representing 31.4 percent of shares and 66.6 percent of votes.

Shareholdings in KONE Corporation on 31 December, 2003

By number of shares

Shares			Number of owners	Percentage of owners	Number of shares	Percentage of shares
1	-	10	153	1.49	1,194	0.00
11	-	100	3,607	35.19	227,297	0.36
101	-	1,000	5,177	50.51	1,902,253	3.00
1,001	-	10,000	1,136	11.09	3,139,500	4.95
10,001	-	100,000	143	1.40	4,107,708	6.47
100,001	-		33	0.32	54,079,683	85.21
Total			10,249	100.00	63,457,635	99.99
Shares which have not been transferred to the paperless book entry system					5,985	0.01
Total					63,463,620	100.00

KONE Class B Share Price Development 1999–2003



Largest Shareholders on 31 December, 2003

		Number of Class A shares	Number of Class B shares	Total number of shares	% of shares	% of votes
1	Ownership of Antti Herlin					
	Security Trading *	2,034,627	10,819,819	12,854,446	20.25	20.89
	Holding Manutas **	6,785,574	145,890	6,931,464	10.92	45.58
	Antti Herlin		100,434	100,434	0.16	0.07
	Total	8,820,201	11,066,143	19,886,344	31.34	66.54
3	Toshiba Elevator and Building Systems Corporation		3,023,340	3,023,340	4.76	2.03
2	The KONE Foundation	705,888	1,232,454	1,938,342	3.05	5.56
4	The Estate of Pekka Herlin		1,170,111	1,170,111	1.84	0.78
5	KONE Corporation ***		833,479	833,479	1.31	0.56
6	Finnish State Pension Fund		500,000	500,000	0.79	0.34
7	Federation of Finnish Engineering and Electrotechnical Industries		243,080	243,080	0.38	0.16
	Centenary Foundation of Federation of Finnish Metal Engineering and Electrotechnical Industries		156,080	156,080	0.25	0.11
	Total		399,160	399,160	0.63	0.27
8	Ilmarinen Mutual Pension Insurance Company		377,627	377,627	0.60	0.25
9	Suomi Mutual Life Assurance Company		350,000	350,000	0.55	0.23
10	Etera Mutual Pension Insurance Company		241,890	241,890	0.38	0.16
	10 major shareholders total	9,526,089	19,194,204	28,720,293	45.25	76.72
	Nominee registered ****		22,717,729	22,717,729	35.80	15.22
	Other shareholders		12,025,598	12,025,598	18.95	8.06
Total		9,526,089	53,937,531	63,463,620	100.00	100.00

*Antti Herlin's ownership in Security Trading Oy represents 20.23 percent of the shares and 50.1 percent of the voting rights and with the ownership of Holding Manutas Oy, a company in which he exercises controling power, his ownership represents 24.63 percent of the shares and 71.52 percent of the voting rights.
**Antti Herlin's ownership in Holding Manutas represents 0.75 percent of the shares and 3.03 percent of the voting rights and together with the ownership of Security Trading, a company in which he exercises controlling power, his ownership represents 45.75 percent of the shares and 50.58 percent of the voting rights.
***According to the Companies Act of Finland, shares owned by KONE Corporation do not carry voting rights.
****The American investment fund company Tweedy Browne Company LLC notified KONE Corporation on 1 April, 1999 that its shareholding in KONE Corporation was exceeded 5 percent of the total number of KONE shares.

Calculation of Key Figures

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

*) Equity without capital loans and repurchased own shares
**) Capital loans included

Five-year Summary in Figures 1999–2003

Consolidated Statement of Income	2003	2002	2001	2000	1999
Sales, MEUR	5,344	4,342	2,816	2,602	2,412
- sales outside Finland, MEUR	4,823	3,959	2,725	2,509	2,324
Depreciation, MEUR	170	141	82	81	78
Operating income before goodwill amortization, MEUR	419	340	256	224	152
- as percentage of sales, %	7.8	7.8	9.1	8.6	6.3
Operating income, MEUR	329	275	218	186	118
- as percentage of sales, %	6.2	6.3	7.7	7.2	4.9
Income after financing items, MEUR	307	256	219	183	111
- as percentage of sales, %	5.7	5.9	7.8	7.0	4.6
Income before taxes, MEUR	329	256	219	183	111
- as percentage of sales, %	6.1	5.9	7.8	7.0	4.6
Net income, MEUR	217	157	141	106	58

Consolidated Balance Sheet	2003	2002	2001	2000	1999
Fixed assets, MEUR	1,557	2,003	721	699	600
Inventories, MEUR	458	530	112	154	160
Receivables, cash and cash equivalents, MEUR	1,602	1,627	1,274	976	820
Shareholders' equity + minority shares, MEUR	1,114	1,129	807	677	591
Long-term debt, MEUR	684	976	350	70	102
Provisions and tax liability, MEUR	220	297	246	212	218
Current liabilities, MEUR	1,599	1,758	703	870	669
Total assets, MEUR	3,617	4,160	2,107	1,829	1,580
Assets employed, MEUR	1,750	2,252	703	746	679

Other data	2003	2002	2001	2000	1999
Orders received, MEUR	4,558	3,261	2,100	1,854	1,723
Order book, MEUR	2,254	2,240	1,881	1,656	1,492
Capital expenditure, MEUR	82	93	46	46	55
- as percentage of sales, %	1.5	2.1	1.6	1.8	2.3
Expenditure for research and development, MEUR	88	63	41	37	36
- as percentage of sales, %	1.7	1.5	1.4	1.4	1.5
Average number of employees	34,489	29,407	22,964	22,804	22,661
Number of employees as of 31 December	33,305	35,864	22,949	22,978	22,630

Key Ratios	2003	2002	2001	2000	1999
Return on equity, %	18.9	18.4	20.4	17.2	9.7
Return on capital employed, %	15.2	16.4	23.4	23.5	14.9
Total equity/total assets, %	30.3	24.2	36.6	35.9	37.4
Gearing, %	61	125	neg.	15	8

Key figures per share	2003	2002	2001	2000	1999
Earnings per share, EUR	3.10	2.54	2.42	1.77	0.95
Equity per share, EUR	16.99	15.66	12.91	10.91	9.74
Dividend per class B share, EUR	2.00 *	1.50	0.73	0.50	0.33
Dividend per class A share, EUR	1.98 *	1.48	0.71	0.48	0.31
Dividend per earnings, class B share, %	64.5	59.0	30.4	28.2	35.0
Dividend per earnings, class A share, %	63.9	58.2	29.5	27.1	32.9
Effective dividend yield, class B share, %	4.4	5.2	2.7	2.0	2.0
Price per earnings, class B share	15	11	11	14	17
Market value of class B share, average, EUR	37	31	25	21	13
- high, EUR	47	37	31	26	16
- low, EUR	27	24	22	16	10
- as of 31 December, EUR	46	29	28	25	16
Market capitalization as of 31 December, MEUR	2,850	1,792	1,604	1,466	986
Number of class B shares traded, '000	34,986	33,785	12,840	11,991	9,873
Class B share traded, %	64.9	65.4	26.4	24.0	19.7
Weighted average number of class A shares, '000	9,526	10,442	10,455	10,455	10,455
Number of class A shares as of 31 December, '000	9,526	9,526	10,455	10,455	10,455
Weighted average number of class B shares, '000	53,938	51,665	50,009	50,009	50,009
Number of class B shares as of 31 December, '000	53,938	53,938	50,009	50,009	50,009
Weighted average number of shares **, '000	62,987	61,809	58,406	60,464	60,464

* Board's proposal
** Adjusted for share issue and option dilution, and reduced with the number of own shares held by the company.

Board of Directors' Proposal to the Annual General Meeting

KONE's distributable equity as of 31 December, 2003 is EUR 783.6 million. The parent company's distributable equity on 31 December, 2003, is EUR 868,632,221.61, of which net profit from the accounting period under review is EUR 107,794,392.51.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.98 be paid on the 9,526,089 class A shares and EUR 2.00 on the outstanding 53,104,052 class B shares, for a total of EUR 125,069,760.22. The Board of Directors further proposes that the rest, EUR 743,562,461.39, be retained and carried forward.

The Board proposes that the dividends be payable from 10 March, 2004.

Helsinki, 30 January, 2004

Antti Herlin

Gerhard Wendt

Iiro Viinanen

Jean-Pierre Chauvarie

Hiroshi Nishioka

Matti Alahuhta

Manfred Eiden
President

Auditors' Report

To the shareholders of KONE Corporation

We have audited the accounting, the financial statements and the corporate governance of KONE Corporation for the financial year 2003. 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 financial statements. 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 about 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 and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies' Act.

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. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted 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 by the Board of Directors regarding the distributable profits is in compliance with the Companies' Act.

Helsinki, 30 January, 2004

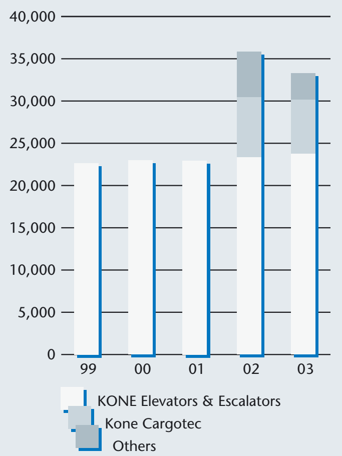
PricewaterhouseCoopers Oy
Authorized Public Accountants

Jouko Malinen
Authorized Public Accountant

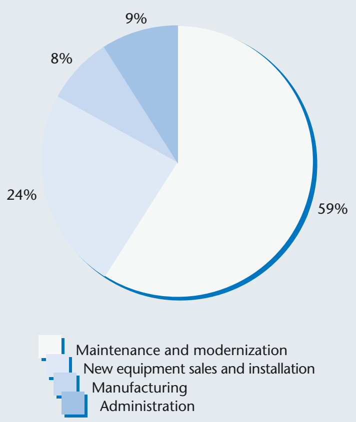
Jukka Ala-Mello
Authorized Public Accountant

Personnel

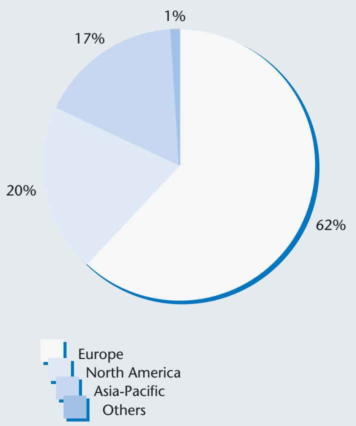
Employees as of 31 December



Employees by category, KONE Elevators & Escalators



Employees by market, KONE Elevators & Escalators



KONE is known as an innovator, and we strive continually to maintain our leading position. Our success is based on knowledgeable people whose enthusiasm and dedication enable us to achieve our targets.

Ethical Principles Guide Behavior

KONE's activities are guided by ethical principles that respect the United Nations' Universal Declaration of Human Rights. Written into these principles are a commitment to compliance with local laws, rules and customs and a prohibition against the use of child labor. The rights and responsibilities of personnel include, among other stipulations, freedom from discrimination, the right to a safe and healthy environment, and freedom from violations of personal integrity.

Personnel Strategy Supports Business Strategy

The goal of KONE's personnel strategy is to support the company's business strategy. KONE leadership initiatives are designed to ensure interest in KONE as an employer and the availability and retention of the right kinds of people in the company. Core competence areas are defined according to current and future business requirements. The know-how of KONE personnel is developed in accordance with business requirements, and performance is supported by motivational leadership and operating procedures.

Organization-wide Training

KONE encourages and offers its employees various opportunities for self-development in their daily work through training and job rotation. KONE's international operational environment offers a broad range of career opportunities. Each business unit's own Training and Personnel Development Department is responsible for its training activities. In addition KONE cooperates with leading technical and business schools and universities.

Technical training centers in various parts of the world are responsible for the technical formation of KONE employees involved in elevator and escalator customer service. Learning is supported by various web-based learning tools. Most of the training activities organized by KONE Elevators & Escalators are technical in nature, and an average of 1.6 percent of working time is devoted to training, which amounts annually to approximately 28–30 hours per employee. During 2003, management training focused particularly on leadership training and change management. More than 300 individuals participated in KONE's global management training program.

During 2003 Kone Cargotec's middle management participated in its Competence Program. In addition, business areas had their own training programs, such as the Kalmar Academy.

Talent and Performance Management

KONE has focused considerable effort in 2003 on developing its employer image. KONE is an active partner of educational institutions, participating, for example, in recruitment fairs and student publications. In addition, KONE's International Trainee Program offers business and technical students internships in units around the world.

Individual development discussions are important tools for competence development. During annual personal development discussions, awareness of and commitment to the company's goals are fortified, and individual goals and personnel development needs are agreed upon.

Both KONE divisions have their own incentive systems for different levels of organization. KONE Elevators & Escalators' management bonus system's goals have been renewed to deal with the area of leadership in addition to different business objectives.

In order to ensure resourcing for future leadership and key assignments, KONE carries out annual succession and development planning. In connection with this activity, potential candidates for management positions are identified.

Employee Collaboration and Communication

KONE complies with the European Union's directive on employee consultation and communication and organizes corresponding annual international employee meetings.

Safety First

Attention is paid to safety in all KONE processes. KONE strives to provide safe products and services to its customers and end-users as well as a safe working environment for its own people.

KONE's divisions have undertaken a harmonization initiative in 2003 with the intention of standardizing procedures related to safety management and processes. All units are required to comply with the company's safety policy, which defines, for example, the general principles of safety operations and includes safety training and methods as well as information about reporting. An internal review system has been established for monitoring accidents in the workplace by following trends in the development of IIFR* figures. Information about possible work-place accidents and necessary corrective actions are communicated to all units.

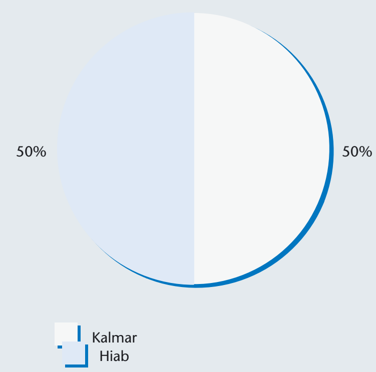
KONE Elevators & Escalators has had a work safety program since 1998 that aims to eliminate work-related accidents. According to IIFR statistics, the number of accidents has been halved during the past six years. KONE Elevators & Escalators' IIFR at the end of 2003 stood at 12.6. Kone Cargotec also has several safety programs which cover, for example, risk analysis in the workplace in order to strengthen preventive actions. The IIFR measurement was adopted as standard in company-wide workplace safety monitoring throughout Finland during the year under review.

Human Resource Management Challenges

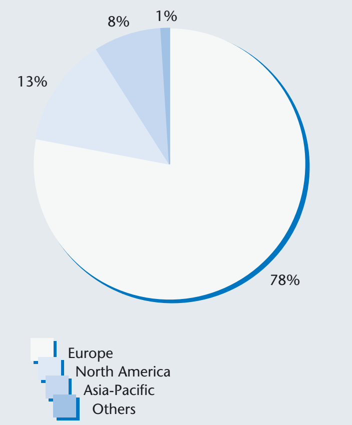
The most important HR challenge for 2004 will be to increase the depth of customer focus in the organization. Starting at the beginning of the year, a global employee survey will be conducted for the first time in KONE Elevators & Escalators, and detailed action plans based on the results will be drawn up. Management training and competence mapping upgraded during 2003 will continue, and global training program concepts will be upgraded.

* IIFR (Industrial Injury Frequency Rate): the number of injuries resulting in absence from work of one day or shift period or more per million hours worked.

Employees by business area, Kone Cargotec



Employees by market, Kone Cargotec



Environment

KONE's goal is to develop its products, manufacturing processes and operating procedures in ways that take into consideration the environmental impact of its products throughout their entire life cycle. The advantage of KONE products is that they are durable and give long-lasting service when provided with appropriate maintenance.

Electric-powered mobile gantry cranes developed by Kalmar were taken into use in Oslo's port. Because the port is located right next to a residential area, the cranes were required to be silent and non-polluting. For this reason the cranes do not have diesel motors, their electric motors are isolated, and silent Bromma spreaders are used.

Responsibility for handling environmental issues in KONE belongs to the business units. KONE Elevators & Escalators units determine the environmental impact of their operations and products through their environmental management systems. Kone Cargotec's environmental policy establishes guidelines and objectives for handling environmental matters in a consistent manner.

Life-cycle Product Responsibility

Environmental Impact Is Reduced during Product Development

According to life-cycle analyses, the most significant part of KONE products' life-cycle impact on the environment takes place when the products are used, not during their manufacture. KONE is best able to influence the environmental impact of the way its products are used by steps taken during the product development phase to lower energy and fuel consumption, cut back on oil requirements, reduce noise levels, etc.

Energy consumption accounts for more than 80 percent of the total environmental impact of elevators and escalators. Energy is consumed in transporting people and goods, by lighting, and by the equipments' drives and controls. More than 80 percent of this consumption is determined by decisions made during the design phase. KONE has significantly improved the energy-efficiency of its products through its machine-room-less elevator concept and KONE ECO3000™ escalator solutions.

In container and load-handling equipment product development, the most important environmental requirements are to minimize environmental impact during use as well as to improve safety and the recycling of parts. In the design of equipment attention is paid to the reduction of fuel consumption, the resistance of tires to wear, the lengthening of the interval between service visits, and the minimizing of oil and other fluid leakage.

Local Impact in Production

Although manufacturing accounts for only a tiny part of the total environmental impact, locally it can have a significant effect. The environmental issues related to KONE's manufacturing processes are typical of the environmental challenges faced by the industrial engineering field, such as how to deal with the exhaust from painting lines and the disposal of waste from metal machining.

Various steps are taken to reduce the environmental burden created by manufacturing. Many production facilities have earned ISO 9001 Quality Certification. The ISO 14001 Environmental Management System is in use in two of the eight elevator and escalator production facilities, two of the eight container-handling production facilities, and six of the 23 load-handling production facilities. The ISO 14001 system is also in the planning stage for another elevator and escalator plant, five container-handling plants and four load-handling plants.

Greatest Environmental Impact through Use

In addition to reducing the energy consumption of elevators and escalators, KONE attempts to lessen other usage-related environmental influences. KONE's machine-room-less elevators use no oil, and its escalator drive system significantly reduces the need for oil. These innovations make it possible to avoid the handling of waste oil, which constitutes an environmental risk.

The environmental impact of the use of container- and load-handling equipment is reduced by lowering the fuel consumption of the machines, increasing the use of oils that are less damaging to the environment, lengthening the interval between service visits, and lowering the noise level.

An advantage of elevators and escalators as well as container and load-handling equipment is that they are durable and give long-lasting service when provided with appropriate maintenance. The environmental impact of maintenance is related mainly to the disposal of components that have been replaced, the cleaning of equipment, and the exhaust from service vehicles.

Effective Recycling

Some 90–95 percent of elevator and escalator materials are easily recycled metals. As a result of the large share of steel in construction, most container- and load-handling equipment also has a high degree of recyclability. KONE units have developed methods for the extensive recycling of metals and other reusable materials.

Cooperation in Environmental and Safety Matters

KONE cooperates actively with national and international organizations in its industry to promote the safety of elevators and escalators. The company's representatives participate, for example, in the activities of the European Elevator Association and the U.S.-based National Elevator Industry, Inc., as well as in the preparation of standards for elevators and escalators in organizations such as CEN, ASME and ISO.

The safety of container and load-handling products is governed by various national and international regulations. Kone Cargotec also cooperates with many research organizations in an effort to improve the safety and environmental characteristics of its products.

Corporate Governance Principles

KONE's administrative bodies and officers with the greatest decision-making power are the Annual General Meeting, Board of Directors and chief executive officer (CEO). KONE's operations are divided into two divisions: KONE Elevators & Escalators and Kone Cargotec, which comprises the container- and load-handling businesses. They are responsible for their respective business operations and result. Each division has a president and an executive committee to help with operations. The president of KONE Corporation currently serves as president of KONE Elevators & Escalators.

The parent company of KONE is KONE Corporation, whose Annual General Meeting is the highest decision-making body of the organization. At the Annual General Meeting, the shareholders approve the consolidated statement of income and balance sheet, decide on the distribution of profits, and select the members of the Board of Directors and auditors and determine their compensation. KONE Corporation's Annual General Meeting is convened by the parent company's Board of Directors. According to the articles of association, the Annual General Meeting is to be held by the end of March on a day determined by the Board of Directors. KONE Corporation's Annual General Meeting was held in Helsinki on Friday, 21 February, 2003.

Board of Directors

Duties and Responsibilities

The Board of Directors' duties and responsibilities are defined primarily by the articles of association in accordance with Finland's corporate law. All matters of far-reaching importance in terms of KONE's operations are handled by the corporation's Board of Directors. Such matters include the approval and confirmation of strategic guidelines and principles of risk management, ratification of annual budgets and plans, decisions about corporate structure, and significant acquisitions and investments. The Board of Directors appoints the president of KONE Corporation as well as the presidents of the two divisions and determines the conditions of their employment. The Board of Directors has created rules of procedure stipulating the duties of the Board, its chairman and its committees.

The Board of Directors holds six regular meetings a year and additional meetings as needed. The Board met seven times during 2003 with attendance averaging 85 percent.

The Board of Directors reviews its own performance and ways of working once a year.

Selection of Board Members

The Annual General Meeting nominates the chairman, 3–6 full members and no more than three deputy members of the Board of Directors for one year at a time in accordance with KONE Corporation's articles of association. In making the selection, attention is paid to the candidates' broad and mutually complementary experience, know-how, and views of both KONE's and other businesses. During the 2003 fiscal year, on 4 April, KONE Corporation's long-time chairman of the Board of Directors, Pekka Herlin, passed away. CEO and deputy chairman Antti Herlin was chosen by an Extraordinary General Meeting on 18 June, 2003 as chairman of the Board of Directors of KONE Corporation.

At the conclusion of the period under review, KONE's Board of Directors consisted of the chairman and five full members: Matti Alahuhta (2003–), Jean-Pierre Chauvarie (2000–), Hiroshi Nishioka (2002–), Iiro Viinanen (1997–) and Gerhard Wendt (1979–). Tapio Hakakari served as secretary to the Board (1998–). Of the Board members, Matti Alahuhta, Gerhard Wendt and Iiro Viinanen are independent of the corporation.

Remuneration to Members of the Board

Membership remuneration is paid to those members of the Board of Directors who are not employed by KONE with the chairman receiving EUR 3,000 per month and other members EUR 1,500 per month.

Permanent Committees

The Board of Directors has created three permanent committees to assist it with its work: the Audit Committee, the Executive Resources Committee and the Nomination Committee. The Board has confirmed the working order of the Committees. The Audit Committee, established in 1996, directs and supervises KONE 's internal auditing by, among other activities, assessing the adequacy and appropriateness of the corporation's internal control and risk management efforts as well as handling internal audit plans and reports. Director of Internal Auditing Urpo Paasovaara reports on audit results to the committee. The members of the committee are committee chairman Antti Herlin, committee secretary Tapio Hakakari and independent member and auditor, Mauno Tervo.

The Executive Resources Committee, founded in 1994, makes decisions about senior management appointments and remuneration as well as preparing and planning these matters. The members of the committee are committee chairman Antti Herlin, committee secretary Tapio Hakakari and committee member Jean-Pierre Chauvarie.

The Nomination Committee's task is to prepare presentations to be made to the Annual General Meeting regarding the nomination of Board members and their remuneration. The committee's members are independent Board of Directors members Matti Alahuhta, Gerhard Wendt and Iiro Viinanen.

The Audit Committee met three times during 2003 and the Executive Resources Committee four times. The Nomination Committee was established in December, 2003 and was not convened during the period under review.

Chief Executive Officer and Presidents

KONE Corporation's Board of Directors appoints the chief executive officer (CEO) and presidents. The Board determines the CEO's conditions of employment, which are spelled out in a written contract. The CEO is responsible for seeing that the targets, plans, strategies and goals set by the Board of Directors are carried out within the KONE organization. The CEO prepares matters to be decided by the Board and sees to it that the Board's decisions are acted upon. Antti Herlin has served as KONE's CEO since 1996.

The employment conditions of KONE's president and Kone Cargotec's president are defined in written employment contracts. The division presidents are responsible for the operative leadership of their respective divisions within the scope of the strategic and operative plans, budgets, instructions and orders laid down by KONE Corporation's Board of Directors. Manfred Eiden has served as KONE's president and KONE Elevators & Escalators' president since 2001 and Carl-Gustaf Bergström as president of Kone Cargotec (previously KONE Materials Handling) since 2002.

Executive Committees

The task of the KONE Elevators & Escalators' and Kone Cargotec's executive committees is to support their respective presidents in their work. The executive committees follow business developments, carry out corporate strategy, initiate actions and strengthen operative principles and methods in accordance with guidelines handed down by the Board of Directors.

Control Procedures

KONE Corporation's Board of Directors has ratified the internal control procedure principles to be followed within the organization. The goal of the internal control system is to ensure that KONE's operations are efficient and profitable, its business risk management is adequate and appropriate, the information it produces is reliable, and that its instructions and operating principles are followed. The Board's Audit Committee monitors the functioning of the internal control process. The Internal Audit Department, under the direction of Urpo Paasovaara, is responsible for internal auditing activities and reports its findings to the Audit Committee.

The external auditing function required by law verifies that the closing of the books gives accurate and adequate information about KONE's result and financial position for the year under review. In addition, the auditors report to the Board of Directors on the ongoing auditing of the corporation's administration and operations.

The purpose of risk management is to recognize, analyze and control potential risks and threats to operations. With respect to certain risks, the principles and main content of risk management are defined by KONE's policies and guidelines. The monitoring, coordination and management of certain risks takes place at the group level, but each unit is responsible for carrying out risk management related to its own operations. As part of its indemnification management efforts, KONE has extensive insurance coverage.

Insider Rules

KONE Corporation has enforced the insider guidelines approved by the Helsinki Exchanges as of 1 January, 2000. The members of the Board of Directors, the president and the auditors are considered by KONE to be permanent insiders. In addition to these individuals, KONE 's extended list of permanent insiders includes the secretary to the Board of Directors, the members of the divisions' Executive Committees, the chief financial officer, the senior vice president for Communications & Investor Relations and the Investor Relations manager, and the president and vice president of Kone Cargotec. The shareholdings of the permanent insiders as of 31 December, 2003 are disclosed in the enclosed table. The company maintains its insider register in the Sire system of the Finnish Central Securities Depository.

Shareholdings of KONE Corporation's Permanent Insiders as of 31 December, 2003

Insider	Position in KONE Corporation	A shares	B shares
Herlin Antti*	Chairman of the Board		100,434
Chauvarie Jean-Pierre	Member of the Board		34,700
Hakakari Tapio	Secretary to the Board		66,000
Cawén Klaus	Member of the Executive Committee		2,000
Kemppainen Pekka	Member of the Executive Committee		1,170
Mäkinen Heimo	Member of the Executive Committee		10,080

* Indirect holdings of Antti Herlin can be found on page 42 in the Largest Shareholders table.
The other insiders do not own shares in KONE Corporation.

Board of Directors

Antti Herlin
b. 1956
D.Sc. (Econ.) H.C.
Chairman, June 2003–
CEO, July 1996–
Deputy Chairman,
July 1996–June 2003
Member of the Board, 1991–

Gerhard Wendt
b. 1934
Ph.D.
President of KONE,
1989–1994
Member of the Board, 1979–

Iiro Viinanen
b. 1944
M.Sc. (Tech.)
Member of the Board, 1997–

Jean-Pierre Chauvarie
b. 1935
President of KONE, 1999–2001
Member of the Board, 2000–
Deputy Member of the Board,
1999–2000

Hiroshi Nishioka
b. 1941
President & Chief Executive
Officer,
Toshiba Elevator and Building
Systems Corporation
Member of the Board 2002–

Matti Alahuhta
b. 1952
D. Sc. (Eng.)
Executive Vice President, Nokia
Corporation
Member of the Board
as of 21 February, 2003

Tapio Hakakari
b. 1953
LL.M.
Secretary to the Board of
Directors, 1998–
Employed by KONE
1983–1994 and 1998–

Auditors:

Jukka Ala-Mello, Authorized Public Accountant
PricewaterhouseCoopers Oy, Authorized Public Accountants

Deputies
Niina Raninen, Authorized Public Accountant
Barbro Löfqvist, Authorized Public Accountant

KONE Elevators & Escalators Executive Committee

Manfred Eiden
b. 1951
M.Sc. (Econ.)
President of KONE Corporation
Employed by KONE since 1976

Klaus Cawén
b. 1957
LL.M.
Executive Vice President, General Counsel, Acquisitions & Toshiba Alliance
Employed by KONE since 1983

Michel Chartron
b. 1949
M.Sc. (Eng.), MBA
Executive Vice President, Automatic Building Door Business
Employed by KONE since 1983

Pekka Kemppainen
b. 1954
Licentiate in Technology
Executive Vice President, New Elevator & Escalator Business
Employed by KONE since 1984

William Orchard
b. 1947
B.Sc. (Production Engineering)
Executive Vice President, Service Business
Employed by KONE since 1988

Heimo Mäkinen
b. 1944
M.Sc. (Eng.)
Executive Vice President, Technology & Purchasing
Employed by KONE since 1968

Kerttu Tuomas
b. 1957
B.Sc. (Econ.)
Executive Vice President, Human Resources
Employed by KONE since 2002

Aimo Rajahalme
b. 1949
M.Sc. (Econ.)
Executive Vice President, Finance and Information Services
Employed by KONE since 1973

Kone Cargotec Executive Committee

Carl-Gustaf Bergström
b. 1945
M.Sc. (Econ.)
President, Kone Cargotec
Employed by Kone Cargotec
since 1970

Kari Heinistö
b. 1958
M.Sc. (Econ.)
Senior Executive Vice
President, Kone Cargotec
Employed by Kone Cargotec
since 1983

Christer Granskog
b. 1947
M.Sc. (Eng.)
President, Kalmar
Employed by Kone Cargotec
since 1997

Pekka Vartiainen
b. 1956
M.Sc. (Eng.)
President, Hiab
Employed by Kone Cargotec
since 2003

Lauri Björklund
b. 1953
M.Sc. (Eng.)
Senior Vice President,
Production & Purchasing
Employed by KONE
since 1977

Pekka Sihvola
b. 1959
M.Sc. (Econ.), LL.M.
Chief Financial Officer
Employed by KONE
since 1993

Information to Shareholders

Annual General Meeting

The Annual General Meeting of KONE Corporation will be held at the Kalastajatorppa Hotel: Kalastajatorpantie 2-4, 00330 Helsinki, on Friday, 27 February, 2004, at 11:00 a.m. Shareholders wishing to attend the meeting must have their KONE shareholdings registered on the KONE shareholder list at the Finnish Central Securities Depository no later than Tuesday, 17 February, 2004, and must notify the company's head office by mail (KONE Corporation, P.O.Box 8, FIN-0033l Helsinki), by fax (+358 (0)204 75 4309), by telephone (+358 (0)204 75 4332) or by Internet (www.konecorp.com/agm) no later than Monday, 23 February, 2004. Possible proxies must be notified at the same time.

Payment of Dividends

The Board of Directors' proposal for distribution of profits can be found on page 45. Only those who have been registered as shareholders at the Finnish Central Securities Depository by Wednesday, 3 March, 2004, the date of record for dividend distribution, are entitled to dividends. The date proposed by the Board of Directors for payment of dividends is Wednesday, 10 March, 2004.

Financial Reporting

KONE Corporation will publish the following financial reports during 2004:

– Financial Statement 2003 on Friday, 30 January, 2004
– Annual Report 2003 in February, 2004
– Interim Report, covering the period January-March, 2004, on Wednesday, 21 April, 2004
– Interim Report, covering the period January-June, 2004, on Tuesday, 20 July, 2004
– Interim Report, covering the period January-September, 2004, on Tuesday, 19 October, 2004

KONE will begin using International Financial Reporting Standards (IAS) in its reporting as of 2004. More detailed information regarding the IFRS implementation is available on page 32.

KONE Corporation publishes financial reports and Stock Exchange releases in Finnish and English. All material is available on the Internet at www.konecorp.com from the date of publication.

Annual reports are mailed to all shareholders and those who are on the company's mailing list. The company only sends interim reports in paper form to those who have requested them.

Shareholders are requested to inform the bank that holds their book-entry account of any change of address. Changes of address relating to the company's mailing list should be sent to the company.

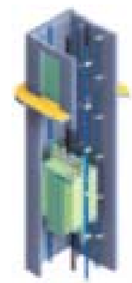
Financial reports may be ordered from
KONE Corporation, Corporate Communications, P.O.Box 7, FIN-02151 Espoo, Finland
Internet: www.konecorp.com
E-mail:
corporate.communications@konecorp.com
Fax: +358 (0)204 75 4515
Telephone: +358 (0)204 751

KONE Annual Report is printed on environ mentally friendly paper. Design and layout GREY PRO Oy, printing Frenckellin Kirjapaino Oy.

KONE Elevators & Escalators

New equipment

KONE EcoDisc® hoisting machine ensures a smooth ride, accurate stopping and reliable operation of the elevator. It is featured in both machine-room-less applications and elevators with machine rooms.

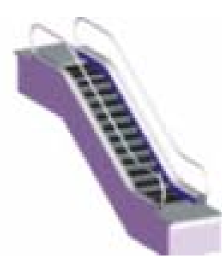


KONE Alta™ elevators have been developed for next-generation skyscrapers reaching up to 500 meters. Their maximum speed rises to 17 m/s.

The machine-room-less **KONE MonoSpace®** elevator requires less space and energy than other elevators. Its service life is long, and no oil is needed in maintenance. Since launching, the concept has won numerous innovation awards

KONE TranSys™ freight elevators use machine-room-less technology and are especially suited for low-rise buildings. The elevator stops accurately on landing (+/- 5mm), which facilitates the loading and unloading of heavy goods.

KONE MiniSpace™ elevators feature the space-saving KONE EcoDisc® hoisting machine above the shaft. These elevators are particularly suitable for medium to high-rise buildings.



KONE ECO3000™ technology is used in escalators and autowalks. The technology works without a drive chain, making installations compact and the most environmentally friendly in the business.

Maintenance

The **KONE Optimum™** maintenance contract provides proactive, performance-based service and continuous monitoring of the elevator. Repairs can be carried out before breakdowns occur. Advanced diagnostics contribute to the proper timing of maintenance.

In the **KONE eOptimum™** extranet, the customer can view the contracts, breakdown history, invoicing and repair requirements of his or her elevators.

Modernization

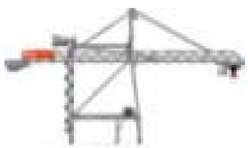
KONE ReNova™ provides solutions for modernizing the automatic doors of existing elevators. It can be used to replace almost any manufacturer's doors, improving the elevator's traffic-handling capacity. The upgrading of safety and convenience to meet modern-day requirements can successfully be carried out using KONE ReNova™ Slim doors to replace swing doors on landings and add automatic doors to elevator cars.

KONE ReSolve™ controls improve the riding comfort of existing elevators and ensure accurate leveling. The elimination of the threshold, which was an impediment to movement, makes the use of elevators safer.

KONE EcoMod™ makes it possible to upgrade the technology in existing escalators. Owners can modernize their old escalators to meet today's safety and performance requirements without having the existing installation removed and without repair work that is disruptive to business.

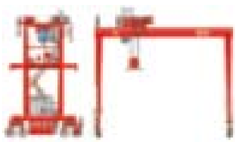
Kone Cargotec

Kalmar



Ship-to-shore cranes are designed for efficient loading and unloading of container ships. They are used in large ports and container terminals.

Shuttle carriers are used for the rapid and efficient transportation of containers from shipside to the stacking area.



Rubber tired gantry (RTG) cranes are used in large and very large terminals for stacking containers higher and wider than other systems allow. They also load and unload trucks and terminal tractors.

Terminal tractors transport trailers and containers on trailers in ports and terminals. RoRo tractors are used to move trailers in and out of ships.

Straddle carriers are used for all container-handling activities: stacking, loading, unloading and transportation. Straddle carriers are often used in medium-sized and large terminals.

Forklift trucks are used for material handling in heavy industry such as the concrete, wood/pulp/paper and steel industries as well as in stevedoring.

Reachstackers combine strength with versatility. They are often used in small and medium-sized terminals and in multi-purpose terminals.

Log stackers are purpose-built machines designed to handle round wood in the forest industry.

Hiab

Loader cranes are typically truck-mounted, have a hydraulic knuckle boom and are used for handling many types of cargo. **Demountable systems** are usually mounted on trucks. They are used for loading and unloading platform and may also be used in combination with a loader crane to form a multi-purpose vehicle.

The truck-mounted forklift is mounted on the rear of a truck. At the destination it can transport the load to places unreachable by truck. It takes less than a minute to mount, or to dismount, the forklift.

A tail lift makes the efficient use of a delivery truck possible where items are continuously loaded and unloaded. The driver does not have to lift objects because the elevator function of the tail lift makes the use of pallet cages and barrows possible.

Timber cranes include several models that are mounted on forest machines and timber trucks or are employed in industry or recycling. The product range also includes grapples.

Kone Corporation

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