Kone Corporation

Report for Accounting Period 1 Jan, 2004–31 Mar, 2005

Information for Shareholders

Annual General Meeting
KONE Corporation's Annual General Meeting will be held at the Helsinki Fair Center in the Congress Wing: Messuaukio 1, 00520 Helsinki, on Wednesday, 18 May, 2005 at 10:00 a.m. Shareholders wishing to attend the meeting must be registered on the KONE shareholder list at the Finnish Central Securities Depository no later than Friday, 6 May, 2005, and must register for attending the meeting 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/Ulla Silvonen) or over the Internet (www.konecorp.com/agm) no later than 4:00 p.m. on Friday, 13 May, 2005. Any proxies must be submitted at the same time.

Payment of Dividends
The Board of Directors' proposal for the distribution of profits is set out in the financial statements, on page 55. Only those registered as shareholders at the Finnish Central Securities Depository by Monday, 23 May, 2005, the record date for dividend distribution, are entitled to dividends. The date proposed by the Board of Directors for the payment of dividends is Monday, 30 May, 2005.

Demerger and Financial Reporting
KONE Corporation will demerge into the new KONE Corporation and Cargotec Corporation on 31 May, 2005. Further information on the demerger is available from KONE's website at www.konecorp.com and in the new companies' prospectuses published on 25 May, 2005.

The new companies will publish the following financial statements:

KONE Corporation
– Report (pro forma), covering the period January-June 2005, on Thursday, 21 July, 2005
– Report (pro forma), covering the period January-September 2005, on Friday, 21 October, 2005

KONE Corporation publishes interim reports and stock exchange releases in Finnish and English. All material is available on the Internet at www.kone.com, where you can also request that the material be sent to your e-mail address. The company sends interim reports in paper format only upon request.

In addition, financial reports can be ordered by mail from KONE Corporation, Corporate Communications, P.O. Box 7, FIN-02151 Espoo, Finland; by e-mail from corporate.communications@kone.com; by phone from +358 (0)204 751; or by fax from +358 (0)204 75 4515.

Cargotec Corporation
– Report (pro forma), covering the period January-June 2005, on Tuesday, 19 July, 2005
– Report (pro forma), covering the period January-September 2005, on Monday, 24 October, 2005

Cargotec Corporation publishes interim reports and stock exchange releases in Finnish and English. As of 1 June, 2005 all material is available on the Internet at www.cargotec.com, where you can also request that the material be sent to your e-mail address. The company sends interim reports in paper format only upon request.

In addition, financial reports can be ordered by mail from Cargotec Corporation, Investor Relations and Corporate Communications, P.O. Box 61, FIN-00501 Helsinki, Finland; by e-mail from communications@cargotec.com; by phone from +358 (0)204 5511; or by fax from +358 (0)204 55 4275.

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KONE in Brief

KONE's Demerger

In December 2004, an extraordinary meeting of KONE's shareholders approved the Board's proposal for the company's division into two companies: KONE Corporation and Cargotec Corporation. Quotation of the companies' shares will commence on the Helsinki Stock Exchange on 1 June, 2005.

"As separate companies, KONE and Cargotec will be able to develop and expand their operations in the best possible way. Their strong balance sheets and separate share capital will improve their opportunities for mergers and acquisitions. Shareholders will benefit from the increased transparency of their holdings and the possibility to choose in which sector they wish to invest," stated Antti Herlin, CEO and Chairman of KONE's Board of Directors, explaining the grounds for the demerger.

KONE Elevators & Escalators

KONE is a global leader in providing complete and innovative solutions for the installation, modernization and maintenance of elevators and escalators and the maintenance of automatic building doors. KONE provides safe and easy access for hundreds of millions of people daily in all parts of the world. KONE operates some 800 service centers in more than 40 countries.

Market Position

- The global elevator and escalator market, worth approximately 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 5 billion a year.
- With a 9 percent market share, KONE is the world's fourth largest elevator company.

Customers

- Building owners, designers, builders and architects

Key Figures 1 January, 2004–31 March, 2005

- Sales: MEUR 3,516
- Orders: MEUR 2,706
- Order book at end of period: MEUR 2,023
- Number of employees at end of period: 25,593

Key Events

- KONE strengthened its position on growth markets through major acquisitions such as the elevator business of Bharat Bijlee Limited in India, by establishing joint ventures with the Soolim Elevator Company in Korea and Zhejiang Giant Elevator in China, and by acquiring Thai Lift in Thailand.
- KONE maintained its position as a technological leader by introducing a new technology

platform, KONE MaxiSpace™, that eliminates the need for counterweights. It also developed KONE Proximity, a real-time customer service concept that encompasses remote equipment monitoring, field terminals for service personnel, extranet-based maintenance services and customer care centers.
- Matti Alahuhta began serving as President of KONE Corporation on 1 January, 2005.
- In March 2005, KONE announced a development and restructuring program aimed at ensuring the long-term competitiveness and profitability of the elevator and escalator business, particularly new equipment. The aim of the related measures is to achieve an EBITA margin of over 10 percent by 2007.

Kone Cargotec

Kone Cargotec is the world's leading provider of cargo-handling solutions for ships, ports, terminals and local distribution. Its three business areas, Kalmar, Hiab and MacGREGOR, operate in materials handling hubs in ships, ports, terminals and local distribution centers. Kalmar provides solutions for container, trailer and other heavy material handling while Hiab supplies on-road load handling solutions. MacGREGOR focuses on the design, delivery and servicing of marine cargo flow solutions.

Market Position
- The global container-handling market is valued at over EUR 4 billion a year. Kalmar is the market leader in its field.
- The global load-handling market is worth over EUR 3 billion a year. Hiab is the market leader in its field.
- The global marine cargo-handling market is worth over EUR 2 billion a year. MacGREGOR is the market leader in its field.

Customers
- Kalmar: ports, distribution terminals, industrial customers and defence
- Hiab: truck manufacturers, transportation companies, vehicle and equipment rental firms, recycling and waste-handling companies, public sector and defence
- MacGREGOR: shipyards, shipowners, ship operators, terminals and defence

Key Figures 1 January, 2004–31 March, 2005
- Sales: MEUR 2,046
- Orders: MEUR 2,423
- Order book at end of period: MEUR 1,312
- Number of employees at end of period: 7,335

MacGREGOR's balance sheet has been consolidated into KONE's balance sheet from the end of March 2005. As a consequence, MacGREGOR is included in the order book and personnel figures.

Key Events
- The strong demand for Kalmar and Hiab products supported the development of Cargotec, which was able to take full advantage of a positive market environment and completed restructuring.
- Cargotec further emphasized its focus on product development, marketing and equipment assembly as well as the supply of product-related services. Accordingly, it divested the mobile machine cabin manufacturer, Velsa; the welding and steel components company, Finmec; and agreed upon the sale of the tipper and dumper bodies business, Zetterbergs.
- Cargotec acquired the entire shareholding of the marine cargo-flow solution provider, MacGREGOR International AB. The acquisition was finalized in March 2005.

To Our Shareholders

The decision of KONE's Board of Directors to demerge the company into two separately listed corporations was a key initiative in the period under review from a shareholder perspective. During the past two years, KONE has created value for its shareholders and customers by developing both its divisions. From now on, it is to the advantage of the business organizations as well as the shareholders to develop both businesses as independent corporations.

KONE Corporation and Cargotec Corporation will be listed as separate companies on the Helsinki Exchanges from 1 June, 2005. The demerger will increase the transparency of both corporations and offer the shareholders stock in two companies. After the demerger both companies will develop their business operations according to their own strategies.

For Elevators & Escalators, 2004 was a very challenging year. In many market areas targets were achieved, but overall profitability and growth were disappointing. The Board initiated a development and restructuring program to improve the cost-effectiveness of our production and the competitiveness of our products. According to the plan published in March 2005, elevator and escalator production and certain competences will be concentrated in cost-efficient locations during 2005–2006.

Kone Cargotec benefited from strong demand for Kalmar and Hiab products and was able to take full advantage of the good market environment and restructuring actions undertaken. Kone Cargotec's container and load handling businesses were supplemented by acquiring the marine cargo flow solutions provider, MacGREGOR, which, like Kalmar and Hiab, is the market leader in its business.

During 2004, KONE distributed EUR 125 million in dividends, finalized the sale of non-core assets with the sale of the Tractor business, and repurchased KONE B shares, which were sold to finance the MacGREGOR acquisition. This has created value, which has not gone unnoticed. KONE's share has maintained its position as one of the most actively traded stocks on the Helsinki Exchanges.

The ownership of the companies with the largest shareholding in KONE Corporation will be reorganized during July. This separate and simpler ownership structure supports the objective of developing KONE and Cargotec as independent companies.

Matti Alahuhta became president of KONE in January at a challenging time, when competition has become truly global in the elevator and escalator industry. After the demerger has taken place, Matti Alahuhta will continue as president of KONE Corporation. Carl-Gustaf Bergström will continue as president of Cargotec Corporation.

I would like to thank the above-mentioned, as well as Manfred Eiden, who led the organization through the end of 2004, and all our employees for their efforts in a challenging environment, as well as for the work which has enabled us to divide KONE into two strong listed companies.

May 2005

Antti Herlin
CEO, Board Chairman,
KONE Corporation

President's Message

During the period under review, KONE achieved the targets it set for itself on many markets but also experienced disappointment with regard to growth and profitability. The greatest share of the total value of the markets is in Europe and North America. However, the focal point of the elevator and escalator markets has shifted ever more clearly to Asia, which experienced the fastest growth.

KONE's growth in Asia's rapidly expanding markets has not been sufficient. That is why we have strengthened our presence, as well as increased our production capacity within the region. We expect our increased production in China to improve our competitiveness in other markets, too. We also strengthened our position in Asia through acquisitions.

In the United States, we tackled our business challenges through a widespread change program: expanding our sales force, increasing the efficiency of our service operations and improving our business processes. The impact of these actions began to be visible at the end of the period under review.

The disappointments we experienced have brought our business development needs to the surface. The current year is a transitional one. The objective of the change activities is to create the basis for improving profitability and achieving faster growth than the industry, beginning in 2006.

We have launched a development and restructuring program through which elevator and escalator production is being concentrated in cost-efficient locations. Unfortunately, these actions also have painful consequences: the restructuring will affect nearly 450 jobs globally.

KONE's goal is to maintain its position as the industry's technology leader. We are now developing our product range to respond better to the changing needs of different market areas and strive, at the same time, to expand the part of the market that is accessible to us. In our development efforts we are emphasizing total solutions, covering both equipment and services, for targeted customer segments. We will also continue to grow by acquisition, focusing increasingly in these efforts on growth markets.

We are developing our organization's way of working in order to improve cooperation between global business units and local activities. That way we will get rapid feedback from the markets to support KONE's global decision-making. Global processes such as sourcing and the entire delivery chain will be further harmonized.

Our industry continues to offer a wide assortment of interesting business opportunities. New construction remains especially vigorous in Asia and the Middle East. In Europe and North America opportunities for growth are to be found in the modernization and replacement of existing equipment, which will increase in the coming years.

The straightforward and action-oriented culture of our global network and our very motivated, knowledgeable and committed personnel are KONE's clear strengths. I want to thank our personnel, which has shown itself to be ready to take on the challenges of the future.

May 2005

Matti Alahuhta
President, KONE Corporation

Business Review

During the reporting period, Asia showed the strongest market growth. The U.S. market also started to pick up, whereas in Europe conditions varied from country to country. The period was a challenging one for KONE, which has initiated measures targeted at further improving its profitability and accelerating sales growth.

Market Review

Growth in Eastern Europe and the Modernization Business

In Europe, industrial investment has increasingly focused on the East. Market weakness was particularly evident in Germany, traditionally Europe's largest market for new equipment. France recorded solid growth in demand for new equipment in the housing sector, and healthy demand also continued in Italy and Spain. The U.K. enjoyed good demand for both elevators and escalators. Demand in Russia picked up as a result of increased construction activity. In general, the demand for new elevators and escalators in Europe was at a low level for the office and retail sector.

The pricing environment remained tough, especially in the escalator market, where lower demand combined with increasing imports from China led to lower prices.

The service business in Europe was characterized by tougher competition influenced by the generally bleak economic outlook. The trend among large customers to bundle maintenance contracts for their entire equipment base continued, while there was a greater call for regular competitive bids by professional multinational property investors.

The European installed elevator base is particularly old; approximately two-thirds of the elevators are estimated to be over 30 years old. For this reason, the European Committee for Standardization (CEN) has published the European Safety Norms for Existing Lifts. Some EU nations, including France, Belgium, Spain and Germany, have already adapted this norm into their legislation, which has increased modernization activity in these areas. In the future, investment in elevator replacement and modernization is also expected to increase in the other EU countries.

North American Market on the Rebound

In North America, the new equipment market began to recover towards the end of the period. The machine-room-less elevator concept continued to gain ground in the U.S.A., with all major competitors following KONE's lead and marketing their own solutions. The requirement for shorter delivery times became more important in investment decisions. As a result of the improving U.S. economy, there is pent-up demand for new building starts in the office, residential, hotel and public transportation sectors.

The service business in North America showed steady growth, and competition continued to be intense. Increasing labor costs were not entirely reflected in price levels. Within the service business, growth is expected in repair and modernization activities.

Continued Growth in the Asia-Pacific Region

Strong growth in the demand for new equipment continued in Asia, especially China and India. The Australian market was also buoyant.

In China, where residential construction is a growth engine, market growth was even stronger than anticipated. Marked increases in construction were evident in major cities' suburban areas and new "satellite cities", which

Business Review

Ageing Elevators and Populations Create Demand

In developed markets, approximately two-thirds of elevators are over 30 years old. Consequently, their safety level does not always conform to current requirements and recommendations. Today, both the European Safety Norms for Existing Lifts and national standards require a high safety level in passenger elevators, increasing the demand for equipment modernizations.

Not only elevators but populations as well are ageing in Europe and North America, making elevators increasingly necessary. In many countries, subsidies for the installation of elevators in buildings that do not have them are boosting interest in elevator construction.

boosted demand, especially for low-cost product solutions.

In the Asia-Pacific area, demand increased for progressive solutions such as machine-room-less elevators. In addition to product considerations, customers also base their investment decisions on brand recognition.

The Asian elevator service market is still limited, but maintenance demand grew strongly as a result of the rapid growth in the installed elevator and escalator base.

KONE Strengthened its Position but Experienced Disappointments

KONE achieved its targets in several markets during the reporting period but also experienced disappointments. The focus of the development and restructuring program published in March 2005 is to ensure the long-term competitiveness and profitability of new equipment.

KONE continued its aggressive acquisition activity in order to strengthen its position in growth markets and increase the density of its maintenance base. Major acquisitions were made, especially in Asia. In China, KONE established a joint venture with Zhejiang Giant Elevator, thus enabling KONE to expand its sales network in China, enter a new market segment, and increase production capacity in the rapidly growing Chinese market.

In India, KONE substantially increased its market share with the acquisition of the elevator business of Bharat Bijlee Limited. It also began its own operations in Korea by acquiring a majority shareholding in the Soolim Elevator Company. At the end of the reporting period, KONE acquired a controlling interest in Thai Lift Industries, which is listed on the Thai Stock Exchange.

The following distributors became wholly owned subsidiaries during the year: Kandur

(Estonia), Liftco Hellas (Greece), I-Select (Iceland), Industrial Logistics (Ireland) and SIA KONE Lifti (Latvia). Door service operations were strengthened through an alliance with DORMA and the addition of Door Systems, Inc. in the United States and Overhead Doors in Australia.

KONE's difficulties during the reporting period were related to major projects, the escalator business and operations in the United States. During the last few years, KONE has actively increased its market share in infrastructure and other major projects and carried out many major reference projects around the world. While most of these projects have been successful, the budgeted cost was exceeded in some projects that were implemented during the reporting period.

Escalator business profitability weakened as a result of low prices and volumes. In accordance with its development and restructuring program, KONE will concentrate its standard escalator production for the European and Asian markets in Kunshan, China in order to improve the competitiveness of its escalators and strengthen its position in the rapidly growing Chinese market.

In the United States, the impact of several development projects launched to improve the efficiency of both the new elevator business and the maintenance business began to materialize at the end of the reporting period.

Innovations

KONE increasingly focuses its R&D efforts on applying leading-edge technology to providing solutions for the emerging people-flow needs of key customer segments. Located in Finland, Germany, Italy, the United States, China and India, KONE's R&D centers develop new elevator and escalator solutions as well as maintenance and modernization solutions and related services.

During the reporting period, KONE introduced a new technology platform, KONE MaxiSpace™, which eliminates the need for counterweights in roped elevators. Elevators using this technology can be fitted with cabins as much as one-third larger than traditional elevators designed for the same hoistway space, enabling KONE to offer a 6 or even 8-passenger elevator where previously only a 4-passenger unit could be installed. In addition, the KONE MonoSpace® product family was expanded to cover higher speeds and heavier loads.

R&D investment and resources were increasingly allocated to developing maintenance and modernization offerings. KONE Proximity, a real-time customer service concept, encompasses remote monitoring of equipment, field terminals for service personnel, extranet-based maintenance services and customer care centers. In addition, KONE developed new modernization packages using the KONE EcoDisc® hoisting machine.

Cooperation with Toshiba

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

During the reporting period, KONE and Toshiba agreed to strengthen their alliance through long-term collaboration in the promotion of high-rise elevator technology. As a first step, KONE and Toshiba agreed to a licensing arrangement enabling KONE to supply high-speed double-deck elevators based on Toshiba's proven technology and Toshiba to gain access to new markets outside Asia. The Alliance partners also agreed to exploit, on a case-by-

Business Review

Urbanization Increases Demand in Developing Markets

Currently, there are some 50 cities around the world that have more than five million inhabitants each. Most of these are located in Asia, where urbanization is accelerating. Sustainable urban planning requires tall and densely built buildings equipped with elevators and escalators that make them functional and link them to the surrounding city.

case basis, the potential for collaboration in bidding for and carrying out mega-projects around the globe.

If the market shares of KONE and Toshiba were combined, the alliance would hold the number three position in the global elevator and escalator industry.

Environment

KONE's goal is to develop its products, manufacturing processes and operating procedures so that their environmental impact remains as small as possible throughout the products' entire life cycle.

KONE has examined the life cycle impact of several of its products by carrying out thorough life cycle analyses. These analyses indicate that the greatest impact is generated by the products' use rather than their manufacture. KONE has reduced these use-related environmental impacts through continuous and efficient product development aimed at lowering energy and fuel consumption, oil requirements, and noise levels. KONE's machine-room-less elevators use no oil, and its escalator drive system significantly reduces the need for oil.

Elevators and escalators have the advantage of being durable and giving long-lasting service when provided with the appropriate maintenance. The environmental impact of maintenance is chiefly related to the disposal of components that have been replaced, the cleaning of equipment, and exhaust from service vehicles. Some 90–95 percent of elevator and escalator materials are easily recycled metals. KONE units have developed methods for the extensive recycling of metals and other reusable materials.

Although manufacturing accounts for only a minor part of the total environmental impact, it can have a significant local effect. Environmental issues related to KONE's manufacturing processes – such as exhaust fumes from painting lines and waste generated by metal machining – are typical of industrial engineering.

Responsibility for handling environmental issues in KONE lies with the business units, which determine the environmental impact of their operations and products through their environmental management systems. The ISO 14001 Environmental Management System is in use in two elevator and escalator production facilities and four country units. Five additional units plan to achieve ISO 14001 certification by 2006.

Environmentally Friendly Product Renovations

Energy consumption accounts for more than 80 percent of the total environmental impact of elevators and escalators, with lighting alone accounting for 27 percent. During the reporting period, KONE introduced LED-illuminated (LED = light emitting diode) elevators to the market. The new lighting system cuts elevator energy consumption by 22 percent and considerably reduces maintenance needs, since LED lamps last up to 100,000 hours. These reliable solid-state devices do not contain mercury, nor do they emit heat or UV radiation. LED lamps function at a very low voltage. An elevator prototype equipped with solar energy-powered LED lighting is currently in the testing stage.

Personnel

Customer Focus Workshop

During the reporting period, KONE focused on increasing the depth of customer focus in the organization. A Customer Focus Workshop was arranged in seventeen KONE units in order to achieve a standardized approach to customer focus in KONE. The workshop included the analysis of the units' customer relationships and organizational development needs. This systematic development and customer data analysis work continued in each unit after the workshop and is coordinated and supported on a global basis.

From the left: Leif Hultman, Ulrika Ridderstråle, Per-Erik Berggren, Rasmus Anjert and Hans Ericson at the KONE Scandinavian Customer Focus Workshop in August 2004.

The goal of KONE's personnel strategy is to support the company's business strategy. KONE leadership initiatives are designed to generate interest in KONE as an employer and secure the availability and retention of the right kinds of employees. Core competence areas are defined according to current and future business requirements. Motivational leadership and operating methods are implemented in order to ensure the achievement of business targets.

KONE's activities are guided by ethical principles. The rights and responsibilities of personnel include freedom from discrimination, the right to a safe and healthy working environment, and freedom from violations of personal integrity.

New Information from the Employee Survey

In early 2004, KONE carried out its first global employee survey that covered the entire Elevators & Escalators division. A total of 11,977 employees replied, for a response rate of 57 percent. The survey charted job satisfaction, satisfaction with supervisors' work, internal cooperation, communications and KONE as a workplace.

According to the results of the survey, KONE's strengths are its committed personnel; their awareness of, and commitment to, the company's goals, and their willingness to contribute to KONE's success. On the other hand, development needs were identified within leadership methods and interaction skills. The results of the survey were discussed by each KONE unit, after which related action plans were drawn up and implemented, starting from the summer of 2004.

Competence Development

KONE develops the know-how of its personnel in accordance with business requirements in their daily work as well as through training and job rotation. While each business unit's own

Training and Personnel Development Department is responsible for the development of the unit's personnel and the related training activities, KONE's training centers in various parts of the world are responsible for the technical training required. Global training programs are also organized in order to disseminate standard working methods and to train KONE's present and future managers.

During the reporting period, KONE's training activities focused on customer service and occupational safety training, in addition to the traditional technical product training. Training was supported by various web-based learning tools. With respect to management training, the revised programs concentrated on leadership and change management.

Talent and Performance Management

The purpose of annual personal development discussions is to ensure each employee's awareness of, and commitment to, the company's goals and to agree upon his or her individual goals and development needs.

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.

KONE is an active partner with educational institutions, participating, for example, in recruitment fairs and student publications. In addition, KONE's International Trainee Program offers internships in various KONE units around the world.

Regular Employee Information and Consultation Work

KONE complies with the EU directives on employee information and consultation and organizes the related annual international employee meetings, to which employees from non-EU countries are also invited.

Safety First

KONE strives to provide safe products and services to its customers and end-users as well as a safe working environment for its employees.

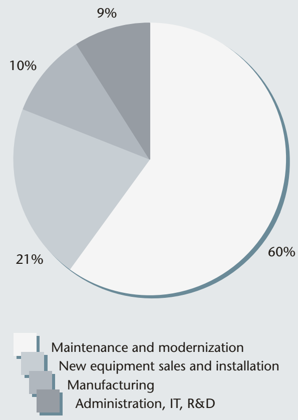
All KONE units are required to comply with the company's safety policy, which defines, for example, the general principles underlying safety operations and includes safety training and methods, as well as reporting information. A review system has been established for monitoring accidents in the workplace by following trends in the development of the IIFR* figure, which stood at 11.1 at the end of 2004 (12.6 in 2003).

The reporting period saw an increase in the modernization of old elevators and escalators to meet today's safety standards, substantially promoting the safety of both maintenance personnel and end-users. End-user safety was also enhanced through the implementation of KONE's Modular Based Maintenance model and the training of maintenance personnel.

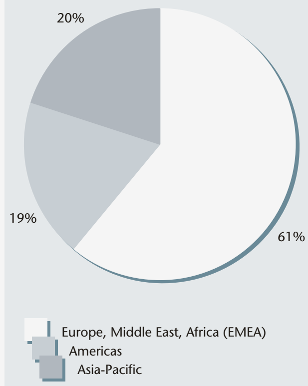
Human Resource Management Challenges

The most important HR challenge for 2005 will be supporting the acceleration of business growth. A more customer-focused approach will be promoted, for example, through sales training reforms. Development measures based on the employee survey will continue, and preparations for the 2006 employee survey will be initiated in the autumn.

Employees by Job Category



Employees by Market



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

Executive Committee

Back row, from left: Kerttu Tuomas, William Orchard and Aimo Rajahalme. Front row, from left
Klaus Cawén.

Matti Alahuhta
b. 1952
D. Sc. (Eng.)
President, KONE as of 1 January 2005
Member of KONE Board, 2003–
Primary working experience:
Executive Vice President, Nokia Corporation, 2004
President, Nokia Mobile Phones, 1998–2003
President, Nokia Telecommunications, 1993–1998
Other current key positions of trust:
Chairman of Foundation Board: International Institute for Management Development (IMD), Switzerland
Chairman of Board: Finnish Technology Industries, the Centennial Foundation

Klaus Cawén
b. 1957
LL.M.
Executive Vice President, M & A and Strategic Alliances, Legal Affairs
Member of KONE Executive Committee as of 1991
Employed by KONE since 1983
Primary working experience:
General Counsel, KONE Corporation, 1991–2001
Other current key positions of trust:
Board member: Oy Karl Fazer Ab, Kyro Corporation, Toshiba Elevator and Building Systems Corporation, Japan

Michel Chartron
b. 1949
M.Sc. (Eng.), MBA
Executive Vice President, Automatic Building Door Business
Member of KONE Executive Committee as of 1996
Employed by KONE since 1983
Primary working experience:
Area Director, North America, 1999–2001
Executive Vice President, Service Business, 1996–2001
Managing Director, KONE France, 1995–1996

William Orchard
b. 1947
B.Sc. (Production Engineering)
Executive Vice President, Service Business and Purchasing
Member of KONE Executive Committee as of 2001
Employed by KONE since 1988
Primary working experience:
Executive Vice President, Service Business, 2001–2004
Managing Director, KONE Plc (UK), 1991–2001
Other current key positions of trust:
President, European Elevator Association (EEA),
Board Member, European Lift Association (ELA)

Aimo Rajahalme
b. 1949
M.Sc. (Econ.)
Executive Vice President, Finance and Information Services
Member of KONE Executive Committee as of 1991
Employed by KONE since 1973
Primary working experience:
CFO, KONE Corporation, 1991–2001
Other current key positions of trust:
Board Member: Uponor Corporation

Kerttu Tuomas
b. 1957
B. Sc. (Econ.)
Executive Vice President, Human Resources and Communications
Member of KONE Executive Committee as of 2002
Employed by KONE since 2002
Primary working experience:
Group Vice President, Human Resources, Elcoteq Network Corporation, 2000–2002
Personnel & Organization Manager, Masterfoods Oy (Mars), 1994–1999

: Noud Veeger, Michel Chartron, Matti Alahuhta and

Noud Veeger

b. 1961
M. Sc. (Econ.)
Executive Vice President, New Elevator & Escalator Business
Member of KONE Executive Committee as of 2004
Employed by KONE since 1999
Primary working experience:
Managing Director, KONE Plc (UK), 2002–2004
Director, New Elevator & Escalator Business, KONE Netherlands, 1999–2002
Director, OTRA Netherlands, 1996–1998
Managing Director, HCI Central America, 1993–1996

Ownership information regarding KONE shares and option rights is presented on page 32.

Area Directors

Pekka Kemppainen
b. 1954
Licentiate in Technology
Area Director, Asia-Pacific
Employed by KONE since 1984

Heimo Mäkinen
b. 1944
M.Sc. (Eng.)
Area Director, North America
Employed by KONE since 1968

Eric Maziol
b. 1949
M.Sc. (Econ.)
Area Director, West and South Europe
Employed by KONE since 1974

Laurent Gielis
b. 1945
Industrial Engineer
Area Director, Central and North Europe
Employed by KONE since 1974

From left: Pekka Kemppainen, Heimo Mäkinen, Eric Maziol and Laurent Gielis.

KONE's Executive Board as of 1 May, 2005:

President Matti Alahuhta
Klaus Cawén, M & A and Strategic Alliances, Legal Affairs
Pekka Kemppainen, Asia-Pacific
Heikki Leppänen, New Elevator and Escalator Business
Eric Maziol, West and South Europe
Heimo Mäkinen, North America
Peter de Neef, Service Business
William Orchard, Major Projects
Aimo Rajahalme, Finance and Information Services
Kerttu Tuomas, Human Resources
Noud Veeger, Central and North Europe

President's Message

In connection with our year 2003 annual report I stated that after a period of significant structural changes Kone Cargotec was moving into a new interesting phase. The demand for our products had clearly increased during the fall of 2003 and our order backlog at the beginning of 2004 was at a record level.

The outcome was very well in line with our expectations. The demand for our products was extremely good. Global container traffic continued to grow. In Europe demand was, on average, at a good level, the exception being Central Europe, especially Germany. In the United States, increased domestic consumption resulted in strong demand for load handling solutions. In Asia and especially China, port investments remained at a high level.

The good investment cycle, our wide and competitive product offering, as well as continued investment in developing the service business, were factors that supported the strong growth in our order backlog.

Cargotec's profitability improved markedly. The operating profit for the year 2004 rose to EUR 112 million, which represents 7.1 percent of net sales. The continued weakening of the U.S. dollar and the strongly risen steel price had a negative effect on our result.

In December 2004, we signed an agreement for the acquisition of the share capital of MacGREGOR. The acquisition was finalized in March 2005. This is a significant step in strengthening our leading position as a global cargo-handling equipment and service provider, in a market segment where demand is primarily driven by the increasing globalization.

The decision to demerge KONE Corporation into two new listed companies, KONE Corporation and Cargotec Corporation, has meant and will also in the future mean new exciting challenges. For Cargotec's part it has meant, among other things, that we have gradually built up the necessary group level functions during the beginning of 2005, which are now ready for the listing. During the spring we have told our stakeholders what Cargotec is all about. It is important that we reach as many of our current shareholders as possible with our message. I sincerely hope that the current shareholders of KONE view Cargotec as an interesting and dynamic company, which they, also in the future, want to own. We in management and personnel will do our best to fulfill the owners' expectations.

The key challenges for 2005 are successfully implementing the listing, integrating the MacGREGOR business into the Cargotec family and delivering the record order backlog.

I would like to thank our customers, partners and personnel for the excellent cooperation during the reporting period. Together we will make 2005 another successful year!

May 2005

Carl-Gustaf Bergström
President, Kone Cargotec

Business Review

Kone Cargotec is the world's leading provider of cargo-handling solutions for ships, ports, terminals and local distribution.

Its three business areas, Kalmar, Hiab and MacGREGOR, operate in materials handling hubs in ships, ports, terminals and local distribution centers. Kalmar provides solutions for container, trailer and other heavy material handling while Hiab supplies on-road load-handling solutions. MacGREGOR focuses on the design, delivery and servicing of marine cargo flow solutions.

Increasing Material Flows Fuel Demand

Accelerating globalization and the resulting growth in world trade are supporting Cargotec's businesses while offshoring increases both long-distance and local transportation. The steady growth in container traffic, which began in the 1990s, is expected to continue in the near future. In 2004, container traffic is estimated to have increased by over 14 percent. The increase in material flows, as well as the number of lifts involved in transporting cargo, supports the demand for products and solutions offered by Cargotec.

Customer-focused Operations and Strong Market Position Key Strengths

Cargotec focuses on product development, assembly and distribution as well as the supply of product-related services. In line with its strategy, the company has steadily outsourced its own component production. Cargotec has an emphasis in organic growth. Especially, the development of the service business is estimated to provide the greatest growth potential.

Cargotec's key strengths comprise its customer-focused operations, strong brands and strong market position. The comprehensive product and service range and extensive distribution network enable it to offer efficient solutions for various customer applications. Cargotec aims at being its customers' preferred partner.

While Europe forms Cargotec's largest market area, demand is growing briskly in North America and the Asia-Pacific region. In order to improve its service level, Cargotec has moved its assembly operations closer to the end customer. Kalmar decided to invest in a new assembly plant for its products in Shanghai, China, which will open in early 2006. Hiab will also expand its operations in Asia by beginning to assemble demountables in Shanghai in 2005. Due to the shipbuilding industry's concentration in Asia, MacGREGOR has been systematically growing its operations in this region for several years.

Kalmar

Container Traffic – Driver for Growth

Key drivers fueling the demand for Kalmar products and services include developments in global container-handling volumes as production is transferred to new countries, as well as developments in heavy industry worldwide and in consumer consumption in the U.S.A. Container traffic is estimated to have increased by more than 14 percent in 2004. Such rapid growth is attributable to both increasing world trade and a higher degree of containerization as well as a growing number of moves per transported container.

Key figures 1.1.2004–31.3.2005

Sales: EUR 1,152 million
Orders: EUR 1,399 million
Order book: EUR 624 million
Employees: 2,899

Kalmar, Kone Cargotec's container-handling business, is the world's leading provider of equipment and services for container-handling and other heavy material handling for ports, intermodal traffic, terminals and demanding industrial customer applications.

Kalmar's product range includes reachstackers, straddle carriers, shuttle carriers, yard cranes (rubber-tired gantry cranes, rail mounted cranes and automatic stacking cranes), ship-to-shore cranes, terminal tractors, spreaders, empty container lift trucks, forklift trucks and log stackers.

Kalmar operates in more than 140 countries through 19 sales companies and an extensive dealer network. Each product has a specific production set-up center. They are located in Sweden, Finland, the Netherlands, Malaysia, China and the United States. The Kalmar brand is widely recognized in the markets.

Kalmar's customers include ports, port operators, distribution terminals and industrial customers. Every fourth container transfer in the world is handled by a Kalmar product. Kalmar specializes in products and services that enable its customers to operate efficiently and reliably.

Container Traffic Growth Increased Demand for Kalmar Products

Strong demand continued in all of Kalmar's market areas during the reporting period. Demand was supported by the global growth in container traffic and transportation activity. The general improvement of the U.S. economy led to higher demand, in particular for terminal tractors in ports and distribution centers. Demand for Kalmar's main products also remained strong in the Asian markets. Port maintenance and replacement investments increased considerably worldwide due to high port utilization rates.

Record Order Volumes

Kalmar achieved record order volumes in all of its product segments. In the port of Antwerp, Kalmar collected orders for 14 ship-to-shore (STS) cranes from PSA/Hesse-Noord Natie and P&O Ports Antwerp, thus becoming the leader in the European STS cranes business in accordance with its strategy. MSC Home Terminal, which also operates in the port of Antwerp, ordered 29 straddle carriers and five additional post-Panamax STS cranes.

In February 2005, Kalmar strengthened its presence in the Indian market by securing an order of 29 rubber-tired gantry cranes (RTGs) for the port of Nhava Sheva, Mumbai from Gateway Terminals India Ptv Ltd. These RTGs are Kalmar's new 2005 E-One model, which is fully electric and operates without hydraulics. It also contains fewer critical mechanical components and therefore provides less risk of mechanical failure, while extending the maintenance cycle.

Kalmar booked a new order of rough terrain container handlers from Tank Automotive & Armaments Command (TACOM), the U.S. Army's order management organization, and the U.S. Marines, as well as a major order on the refurbishment of container-handling equipment for TACOM.

Flexibility of Operations Enhanced

Kalmar continued to implement internal development programs during the reporting period in order to enhance the flexibility of its operations. Kalmar's strategy is to make its production structure more flexible by focusing on marketing, product development and assembly. Kalmar made several divestments as a result of this strategy. It divested the Finnish company, Velsa, which manufactures mobile cabins for machines. Furthermore, Kalmar sold Finmec, located in Estonia, which specializes in the welding and provision of steel components for heavy equipment. Kalmar's welding operation in Ljungby, Sweden was also outsourced.

Kalmar further strengthened its own maintenance and rental services by acquiring companies specializing in these activities in the Netherlands and Belgium. The aim is to expand the direct provision of maintenance and rental services in major ports and container terminals around the world.

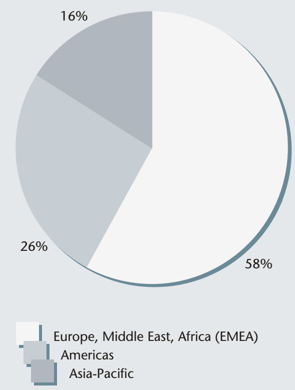
During the reporting period, Kalmar decided to fortify its position in Asia by investing in a new assembly plant in Shanghai. Opening at the beginning of 2006, the assembly plant will primarily serve the Asian container-handling equipment market, the fastest growing area for most Kalmar products.

New Products Support Customers' Business

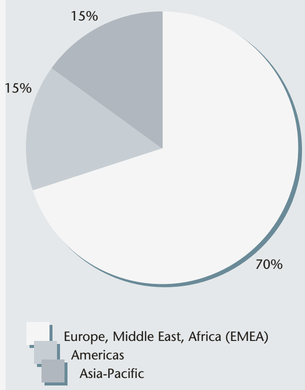
Kalmar continues to develop automated container-handling technology and extends its maintenance contracts to encompass new products. Kalmar's focus on increasing the automation and intelligence of its equipment offering was supported by a new simulation tool to assist customers in designing port operations.

During the reporting period the company launched several new products. The company introduced its 7th generation straddle carrier, a new 6–9 ton forklift range and a new RoRo terminal tractor. The new fully electric E-One rubber-tired gantry cranes were well received in the markets.

Sales by Market



Employees by Market



Hiab

Short-haul Distribution Continues to Increase

New truck sales, construction volumes and distribution activity are the key drivers for on-road load-handling demand. In industrialized regions, increasing short-haul distribution activity creates greater needs for faster, safer and more efficient systems for transporting, loading and unloading cargo. In developing markets the demand for load-handling equipment follows the increase in the standard of living.

Key figures 1.1.2004–31.3.2005

Sales: EUR 896 million
Orders: EUR 1,027 million
Order book: EUR 241 million
Employees: 3,487

Hiab, Kone Cargotec's load-handling business, is the global market leader in on-road load-handling solutions.

Hiab's comprehensive product range enables it to provide a solution to virtually all customer load-handling needs. Hiab's product range includes loader and timber cranes, truck-mounted forklifts, demountable systems and tail lifts. Its various product combination options enable it to provide the most efficient solution to its customers. Hiab's widespread global service network ensures the productivity of its equipment throughout the entire life cycle.

The sales and service network for Hiab's load-handling solutions consists of its own sales companies in 24 countries and more than 100 importers. The company has production plants in Finland, Sweden, Ireland, the Netherlands, Spain, the United States, South Korea and China.

Hiab's main customer segments include construction, delivery traffic, recycling and waste handling, forestry and agriculture, transportation of industrial products and logistic solutions for military use. Hiab's customers range from one-truck owner-operators to large transportation companies, delivery fleet rental companies, truck manufacturers and the public sector.

Growth in Heavy Truck Sales Increased Demand

Sales of heavy trucks increased by approximately 10 percent in Europe and more than 30 percent in the United States during the reporting period. This resulted in strong growth in the global load-handling solutions market. In Europe, Hiab's largest market area, the demand for all major products and services increased. Growth was strongest in North America, thanks to improved retail sales and construction materials deliveries. Market development remained strong also in the Asian markets.

Orders Grew Sizably

Hiab enjoyed record-breaking order volumes during the reporting period, especially in North America, where there was a significant increase in demand for truck-mounted forklifts and tail lifts. Following the launch of new load-handling applications, Hiab's overall market position also improved. In Asia and Europe, demand growth was reflected in higher order volumes. This positive trend was further supported by the introduction of Hiab's new XS loader cranes and XR hooklift systems, which were well received in the markets.

Hiab obtained several exceptionally large individual orders, the most important of these being the orders for demountable systems placed by the Dutch Army and the U.K. Fire Brigade. Furthermore, Hiab received its largest ever tail-lift order from the United States as well as several major orders for truck-mounted forklifts and loader cranes. Altogether, more than 55,000 Hiab products were sold in 2004.

New Visual Identity Supporting Business

During the reporting period Hiab's organizational structure was clarified and strengthened, transforming it from a product-line organization to a customer-driven matrix organization.

At the beginning of 2004, the business area was renamed Hiab after the company's best-known brand. In this connection, the majority of its sales companies also adopted the new Hiab name, and the visual identity for the various product lines was unified. Hiab product brands are MULTILIFT, MOFFETT, MOFFETT-KOOI, PRINCETON PIGGY BACK, ZEPRO, WALTCO, FOCOLIFT, LOGLIFT and JONSERED. In most of the product brands the Hiab "elephant symbol," which is widely recognized in the load-handling industry, is now used. This supports Hiab's integration of its sales outlets with the aim of offering customers the most productive load-handling equipment and services possible under the same roof.

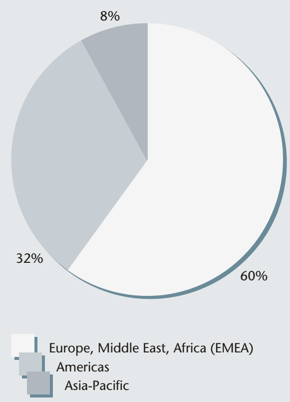
The transfer of JONSERED timber and recycling crane production from Hudiksvall, Sweden to the unit in Salo, Finland, whitch manufactures forestry cranes, was finalized during the reporting period. An agreement to sell the tipper and dumper bodies business, Zetterbergs from Sweden, to the company's operative management was made in the beginning of 2005.

Hiab decided to expand its operations in Asia by starting-up a demountables assembly plant in China. Assembly will begin in the new plant in Shanghai during 2005. This will strengthen Hiab's position as a manufacturer of demountables and meet the growing needs of the Asia-Pacific region better. The aim is, in the future, to supply all demountables for the region from the new plant.

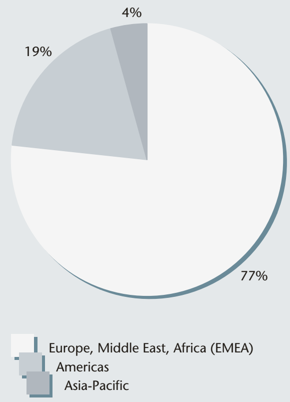
Several New Products Launched

Hiab launched several new products during the reporting period. The successful HIAB XS loader crane range and the LOGLIFT and JONSERED forestry crane families were complemented with new models. The MULTILIFT XR hooklift system and the new-generation ZEPRO tail lifts were also launched while the new PRINCETON P40 truck-mounted forklift was introduced to the U.S. market. One of the most significant upcoming launches will be the new MOFFETT M50 truck-mounted forklift in the high-volume product category for the North American markets.

Sales by Market



Employees by Market



MacGREGOR

Globalization Increases Maritime Transport

The increasing global industrialization and trade resulting in growing regional and world-wide maritime transport is increasing demand for additional ship cargo capacity, especially containers and dry cargo in bulk. Customers require comprehensive and professional service processes globally. Assuring operative availability of equipment and systems for its customers offers MacGREGOR sustainable growth opportunities.

Key figures 1.1.2004–31.3.2005*

Sales: EUR 416 million
Orders: EUR 586 million
Order book: EUR 447 million
Employees: 945

* MacGREGOR's balance sheet has been consolidated into KONE's balance sheet at the end of March 2005.

Kone Cargotec signed an agreement for the acquisition of the global marine cargo flow solution provider, MacGREGOR, in December 2004. The acquisition was finalized in March 2005.

MacGREGOR is the global market leader in providing marine cargo flow solutions. Its customers are ship owners, ship operators and shipyards. Its products include hatch covers, cranes, cargo-securing systems, RoRo equipment and maintenance services.

MacGREGOR products are used in more than 13,000 vessels worldwide. The company operates in more than 25 major shipping and shipbuilding countries, with a particularly strong position in Asia. The company's service network consists of more than 50 service stations.

MacGREGOR specializes in engineering, design, supply and service of ship-based and port-based equipment, providing solutions to various sectors of the maritime transportation industry. MacGREGOR is organized in Dry Cargo, RoRo and Service divisions. MacGREGOR's shipboard elevator and escalator business will be transferred into KONE Elevators & Escalators. A letter of intent has been made to divest the catering technology business.

MacGREGOR's Markets

MacGREGOR caters for the needs of the global maritime transportation industry. Its customers employ their fleets in global trade-related transportation, naval supply and logistics. MacGREGOR's expertise also covers ship loading and unloading solutions used in ports.

Although ship operators and ship owners are located around the world, shipbuilding is concentrated mainly in Europe and the Far East, dominated by Japan, Korea and China. While the current servicing market is global, ship operators and ship owners are nevertheless expected to concentrate ship servicing to their main ports in line with the shifting of transportation routes used in global trade. Recently, China has strengthened its position in the ship servicing business. For this reason, MacGREGOR has concentrated on strengthening its existing position and developing new servicing activities, especially in China and the Middle East.

Flexible Business Model

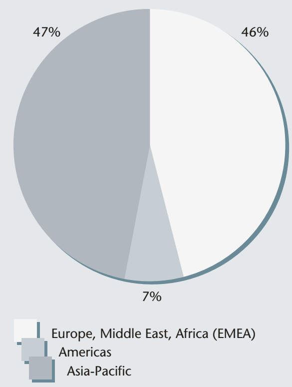
MacGREGOR's success is based on its ability to create innovative solutions and adapt quickly to market fluctuations. The manufacture of all main products has been outsourced to partners in Poland, Croatia, China, Korea and Vietnam while some design and engineering activities have been outsourced to European and Chinese subcontractors.

During the last two years, MacGREGOR has further enhanced the flexibility of its operations and focused on its core competencies. In order to streamline its operations and upgrade its supply chain management, the company has standardized parts and introduced a common design platform. It has established new logistics centers in Hamburg, Germany and Shanghai, China. A third center is planned for the U.S. East Coast. Internal efficiency has been enhanced by integrating Hatch Covers, Cranes and Securing into the Dry Cargo division with the aim of further increasing the innovativeness of its marine cargo flow solutions.

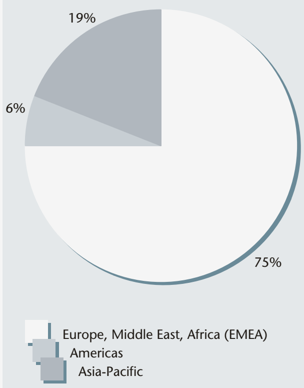
In October 2004, MacGREGOR launched MacGREGOR Onboard Care, a new service product comprising a range of service solution levels in order to provide operative availability and ensure the efficiency of the customer's operations. The customer can choose the solution that best matches its needs from four service packages. At the highest level of the MacGREGOR Onboard Care range, MacGREGOR takes full responsibility for the maintenance of all MacGREGOR equipment onboard the customer's ships.

Furthermore, MacGREGOR develops its products to be increasingly environmentally friendly. Its hydraulic systems have been designed to meet the emission regulations in force and it has introduced a research and testing program aimed at replacing hydraulic operative systems with electric ones in its RoRo equipment and cranes.

Sales by Market



Employees by Market



Executive Committee

Carl-Gustaf Bergström
b. 1945
B.Sc. (Econ.)
President, Kone Cargotec
Employed by Kone Cargotec since 1970
Primary working experience:
Senior Executive Vice President, 1986–2002,
President, Hiab (former Partek Cargotec),
1985–1997
Other current key positions of trust:
Chairman of the Trade Policy Committee of the Confederation of Finnish Industries
Member of the Board: Förslags Ab Sydvästkusten

Kari Heinistö
b. 1958
M.Sc. (Econ.)
Senior Executive Vice President, Kone Cargotec
Employed by Kone Cargotec since 1983
Primary working experience:
Chief Financial Officer, Kone Cargotec, 1993–2000
Other current key positions of trust:
Vice Chairman of the Board: Consolis Oy Ab
Member of the Board: Suomen Autoteollisuus Oy

Christer Granskog
b. 1947
M.Sc. (Eng.)
President, Kalmar
Employed by Kone Cargotec since 1979
Primary working experience:
President, Sisu Corporation, 1994–1997
President, Valmet Automation Inc., 1990–1994
Other current key positions of trust:
Member of the Board: Rautaruukki Corporation, Sarlin Corporation

Pekka Vartiainen
b. 1956
M.Sc. (Eng.)
President, Hiab
Employed by Kone Cargotec since 2003
Primary working experience:
Several positions in ESAB 1983–2003

Back row, from left: Pekka Vartiainen, Hans Pettersson and Tor-Erik Sandelin. Front row, from lef
Christer Granskog.

Hans Pettersson
b. 1951
M.Sc. (Forestry)
President, MacGREGOR
Employed by MacGREGOR since 2001
Primary working experience:
Executive Vice President, Assi Domän AB,
1999–2001
President, Modo Paper AB, 1991–1999

Tor-Erik Sandelin
b. 1943
Engineer
Senior Vice President, Service Business Development
Employed by Kone Cargotec since 2004
Primary working experience:
Area Director, Northern Europe, KONE Elevators and Escalators, 1993–1999
Other current key positions of trust:
Member of the Board: Teknos Group

t: Lauri Björklund, Kari Heinistö, Carl-Gustaf Bergström and

Lauri Björklund
b. 1953
M.Sc. (Eng.)
Senior Vice President, Production & Purchasing
Employed by Kone Cargotec since 2002
Primary working experience:
SVP, Manufacturing and Purchasing,
KONE Corporation (Brussels) 1996–2001,
(Helsinki) 2001–2002
Director, Manufacturing and Logistics,
KONE Elevators and Escalators (Brussels), 1993–1996
Other current key positions of trust:
Member of the Board: Suomen Laatukeskus Oy,
Suomen Laatuyhdistys ry, Suomen Konepajainsinööri-yhdistys ry
Member of Delegate Council of Espoo Chamber of Commerce

Information regarding ownership of KONE shares and option rights by the President and Senior Executive Vice President is presented on page 32.

Member of Executive Committee as of 1 April, 2005

Eeva Mäkelä
b. 1973
M.Sc. (Econ.), CEFA
Senior Vice President, Investor Relations and Communications
Employed by Kone Cargotec as of 1 April, 2005
Primary working experience:
VP, Investor Relations, Metso Corporation, 2002–2005
Equity Analyst, Mandatum Stockbrokers Ltd
(Sampo Bank plc), 1999–2002

Board of Directors

Back row, from left: Matti Alahuhta, Gerhard Wendt, Iiro Viina
Jean-Pierre Chauvarie and Sirkka Hämäläinen-Lindfors.

Antti Herlin

b. 1956
D.Sc. (Econ.) H.C.
Board Chairman 2003–
Primary working experience:
CEO, KONE Corporation, 1996–
Deputy Chairman, 1996–2003
Member of the Board, 1991–
Other current key positions of trust:
Chairman of Board: Technology Industries of Finland, Security Trading Oy, Holding Manutas Oy
Deputy Chairman of the Board:
Confederation of Finnish Industries EK
Deputy Chairman of the Supervisory Board:
Ilmarinen Mutual Pension Insurance Company
Member of Board: YIT Corporation

Gerhard Wendt

b. 1934
Ph.D.
Primary working experience:
President, KONE Corporation, 1989–1994
Member of Board, 1979–
Other current key positions of trust:
Chairman of Board: Algol Oy
Member of Board: Oy Halton Group Ltd, Halton Oy, Vaisala Oyj

Iiro Viinanen

b. 1944
M.Sc. (Tech.)
Member of the Board, 1997–
Primary working experience:
President and CEO, Pohjola Group, 1996–2000
Minister of Finance, 1991–1996
Member of Parliament, 1983–1996
Other current key positions of trust:
Member of Board: Polttimo Companies Ltd

Jean-Pierre Chauvarie

b. 1935
Industrial Engineer
Member of the Board, 2000–
Deputy Member of the Board, 1999–2000
Primary working experience:
President, KONE Corporation, 1999–2001
Area Director, KONE Corporation, 1995–1998
Managing Director, KONE France, 1980–1995

nen, Masayuki Shimono and Tapio Hakakari. Front row, from left: Antti Herlin,

Sirkka Hämäläinen-Lindfors

b. 1939
D.Sc. (Econ.)
Member of the Board, 2004–
Primary working experience:
Member of the Executive Board of the European Central Bank, 1998–2003
Governor and Chairman of the Board of the Bank of Finland, 1992–1998
Member of the Board of the Bank of Finland, 1991–1992
Other current key positions of trust:
Member of Board: SanomaWSOY Corporation, Investor AB, Foundation for Economic Education

Masayuki Shimono

b. 1947
President & Chief Executive Officer, Toshiba Elevator and Building System Corporation
Member of the Board, 2004–
Primary working experience:
Employed by Toshiba Corporation since 1972
Executive Vice President, 2003–,
Associate Director 2001–2003
Vice President, Toshiba International Corp. USA, 1991–1996, CEO 1999–2001
Other current key positions of trust:
Member of Board: Shenyang Toshiba Elevator Co Ltd, Shanghai Toshiba Elevator Co Ltd

Tapio Hakakari

b. 1953
LL.M.
Secretary to the Board of Directors, 1998–
Primary working experience:
Managing Director, Holding Manutas Oy, 2002–
Managing Director, Security Trading Oy, 2000–
Director Administration, KCI Konecranes International Plc, 1994–1998
Employed by KONE Corporation 1983–1994
Other current key positions of trust:
Member of Board: Security Trading Oy, Holding Manutas Oy, Etteplan Oyj, Martela Oyj, Consolis Oy

Matti Alahuhta

b. 1952
D. Sc. (Eng.)
President, KONE as of 1 January 2005
Member of the Board, 2003–
Primary working experience:
Executive Vice President, Nokia Corporation, 2004
President, Nokia Mobile Phones, 1998–2003
President, Nokia Telecommunications, 1993–1998
Other current key positions of trust:
Chairman of Foundation Board: International Institute for Management Development (IMD), Switzerland
Chairman of Board: Finnish Technology Industries, the Centennial Foundation

Ownership information regarding KONE shares and option rights is presented on page 32.

Corporate Governance

KONE Corporation complies with the Corporate Governance Recommendation for Listed Companies, dated 1 July, 2004, of the Helsinki Exchanges, Central Chamber of Commerce and The Confederation of Finnish Industry and Employers, with the exception of recommendations #17 (Independence of Board members), #29 (Audit Committee members), #32 (Nomination Committee members) and #35 (Compensation Committee members). The exception from recommendation #17 was due to the appointment of an independent Board member, Matti Alahuhta, as KONE's President during the reporting period and the exception from recommendations #29, 32 and 35 was due to the company's ownership structure. The company's largest shareholder, Antti Herlin, controls 66 percent of the company's voting rights and 31 percent of its shares. The significant entrepreneurial risk connected with ownership justifies the main shareholder serving as Chairman of the Board of Directors and its Committees and, in this capacity, overseeing shareholders' interests.

KONE's administrative bodies and officers with the greatest decision-making power are the General Meeting of Shareholders of the parent company, KONE Corporation, the Board of Directors and the Chief Executive Officer (CEO). With respect to these Corporate Governance Principles, KONE refers to the KONE Group of Companies. KONE's operations are organized into two divisions: KONE Elevators & Escalators and a cargo-handling solutions provider Kone Cargotec. Each division is responsible for its respective business operations and result. Each division has a president and executive committee. The President of KONE Corporation currently serves as President of KONE Elevators & Escalators.

KONE will be demerged into two listed corporations, KONE Corporation and Cargotec Corporation, on 31 May, 2005 in accordance with the demerger plan. The corporate governance principles for both corporations will be more precisely defined in conjunction with the demerger.

The parent company of the KONE Group of Companies is KONE Corporation, whose General Meeting of Shareholders is the organization's highest decision-making body. At the Annual General Meeting of Shareholders, the shareholders approve the consolidated income statement 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 General Meeting of Shareholders is convened by its Board of Directors. According to the articles of association, the ordinary Shareholders' Meeting must be held annually within three months of the end of the financial period on a day determined by the Board of Directors.

KONE Corporation's Annual General Meeting was held in Helsinki on 27 February, 2004. In addition, an Extraordinary Shareholders' Meeting convened on 17 December, 2004 and approved the demerger plan proposed by the Board of Directors, the extension of the corporation's financial period until 31 March, 2005, and the amendment of sections 12 and 13 of the Articles of Association.

Board of Directors

Duties and Responsibilities

The Board of Directors' duties and responsibilities are defined primarily by the articles of association and the Finnish Companies Act. Its duties include the approval and confirmation of strategic guidelines and principles of risk management, ratification of annual budgets and plans, decisions on corporate structure, and major acquisitions and investments. The Board appoints the Chief Executive Officer (CEO) of the Group, as well as the presidents of the two divisions and determines the conditions of their employment. It has created rules of procedure stipulating the duties of the Board, its Chairman and its committees.

The Board of Directors holds six regular meetings a year and additional meetings as required, meeting 15 times during the financial period with an average attendance rate of 94 percent.

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

Selection of Board Members

The Annual General Meeting nominates the Chairman, 3–6 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 the views of both KONE's and other businesses.

CEO Antti Herlin was re-elected by the Annual General Meeting on 27 February, 2004 as Chairman of the Board of Directors of KONE Corporation. KONE's Board of Directors consists of the Chairman and six members: Matti Alahuhta (2003–), Jean-Pierre Chauvarie (2000–), Sirkka Hämäläinen-Lindfors (2004–), Masayuki Shimono (2004–), Iiro Viinanen (1997–), and Gerhard Wendt (1979–). Of the Board members, Sirkka Hämäläinen-Lindfors, Iiro Viinanen and Gerhard Wendt are independent of the corporation. Tapio Hakakari serves as Secretary to the Board (1998–).

Permanent Committees

The Board of Directors has appointed three permanent committees consisting of its members: the Audit Committee, the Compensation Committee and the Nomination Committee. The Board has confirmed the working order of these Committees.

The Audit Committee, established in 1996, monitors the Group's financial situation, supervises reporting related to financial statements and interim reports, assesses the adequacy and appropriateness of KONE's internal control and risk management efforts and adherence to rules and regulations, and handles the corporation's internal audit plans and reports. Urpo Paasovaara, Director of Internal Auditing, reports the audit results to the Committee. The Audit Committee evaluates the auditing of the Group companies' accounts, the appropriateness of the related arrangements and auditing services, and considers auditors' reports. Furthermore, the Committee formulates a proposal to the Annual General Meeting regarding the auditors to be selected on behalf of the corporation. In 2005, the Committee will consist of Committee chairman Antti Herlin, and Board members Sirkka Hämäläinen-Lindfors and Iiro Viinanen, as independent members. The Audit Committee held four meetings during the financial period.

The Compensation Committee makes decisions regarding senior management appointments and remuneration. In 2005, the Committee consists of Committee Chairman Antti Herlin, and Sirkka Hämäläinen-Lindfors and Gerhard Wendt as independent members. The Compensation Committee held one meeting during the financial period. Until the end of 2004, the duties of the Compensation Committee were exercised by the Executive Resources Committee, founded in 1994, which convened six times in 2004.

The Nomination Committee, established in 2003, prepares presentations to be made to the Annual General Meeting regarding the nomination of Board members and their remuneration. In 2005, the Committee will consist of Committee Chairman Antti Herlin, and Sirkka Hämäläinen-Lindfors and Gerhard Wendt as independent members. The Nomination Committee held one

Corporate Governance

meeting during the financial period.

Tapio Hakakari is Secretary to all committees.

Operative Management

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 ensuring that the targets, plans, strategies and goals set by the Board of Directors are carried out within the KONE organization. He/she prepares matters to be considered by the Board together with the division presidents and corporate staff. 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 and action plans approved by KONE Corporation's Board of Directors. The division presidents present issues concerning their operations and are responsible for implementing the decisions of the Board within their divisions. Manfred Eiden served as KONE's President and KONE Elevators & Escalators' President until 31 December, 2004, followed by Matti Alahuhta as of 1 January, 2005. Carl-Gustaf Bergström has served as President of Kone Cargotec since 2002.

Executive Committees

The business divisions' executive committees support their respective presidents in executing the corporate strategy. The executive committees follow business developments, initiate actions and define operative principles and methods in accordance with guidelines handed down by the Board of Directors.

Compensation Systems

Board Remuneration and Other Benefits

KONE's Annual General Meeting on 27 February, 2004 confirmed the Chairman of the Board's monthly salary to be EUR 3,500 and Board members' salaries to be EUR 2,000 per month, with the exception that Board members employed by KONE do not receive remuneration for serving on the Board. Board members' travel expenses and daily allowances are handled in accordance with the company's travel expense policy.

Compensation and Other Benefits of the Chairman of the Board and President

Compensation for Chairman and CEO, Antti Herlin, consists of a basic salary and a yearly bonus, defined by the Board and based on the Corporation's annual result. This bonus may not exceed 40 percent of the recipient's annual salary. Antti Herlin's basic salary for the financial period (15 months) was EUR 540,979, in addition to which he was paid a bonus of EUR 54,950 for 2004. Herlin was issued with 2,850 KONE 2004 A-option rights and 7,000 KONE 2004 B-option rights. The Chairman of the Board's pension and retirement age are determined in accordance with the retirement age legislation in force. No separate agreement has been made regarding early retirement.

Compensation for KONE Corporation's President consists of a basic salary and yearly bonus, defined by the Board and based on the Corporation's annual result. Manfred Eiden served as President of KONE Corporation until 31 December, 2004. His basic salary for 2004 was EUR 432,000, in addition to which he was granted 2,850 KONE 2004 A-option rights and 7,000 KONE 2004 B-option rights. As of 1 January, 2005, Matti Alahuhta served as President of KONE Corporation. His basic salary for January–March 2005 was EUR 157,300, in addition to which he is entitled to a yearly bonus defined by the Board of Directors on the basis of the Corporation's annual result and other key targets. This bonus may not exceed 100 percent of the recipient's annual salary. Alahuhta will also be included in future option incentive programs. His pension and retirement age are determined in accordance with the legislation in force. No separate agreement has been made regarding early retirement. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary.

Executive Committee Compensation

Compensation for members of KONE Corporation's Executive Committee comprises a fixed basic salary and bonus, based on the Corporation's annual result and the achievement of personal targets. The bonus amount is determined by the Compensation Committee and may not exceed 30 percent of the annual salary. The company's senior management is also eligible for inclusion in the option program. No separate agreement has been made regarding early retirement for members of the Executive Committee. Compensation for termination of the employment contract prior to retirement is a maximum of 15 months' salary.

Control Systems

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

Internal Control System

The goal of KONE's internal control system is to ensure that its 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. Operative management of the Corporation is separated from the internal auditing function, the head of which reports to the Chairman of the Board. The Internal Auditing Department is responsible for internal auditing activities and risk management and reports its findings to the Audit Committee.

Risk Management

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. While the monitoring, coordination and management of certain risks takes place at group level, 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.

Audit

Under law, the auditing function must verify that, upon the closing of the books, accurate and adequate information was provided on KONE's result and financial position for the year under review. In addition, the auditors report to the Board of Directors on ongoing auditing activities concerning the corporation's administration and operations.

According to the Articles of Association, the company must have a minimum of two and a maximum of four regular Auditors and two deputies for each. At least one regular Auditor and his/her deputy must be accountants authorized by the Central Chamber of Commerce. The assignment of an Auditor expires at the end of the first Annual General Meeting of Shareholders following the election.

Corporate Governance

KONE Corporation's auditors are PricewaterhouseCoopers, Authorized Public Accounts (APA) and Jukka Ala-Mello, APA, with Niina Raninen, APA, and Barbro Löfqvist, APA, as deputy auditors. The fees paid to the auditors and PricewaterhouseCoopers partner companies for their services during the financial period were EUR 2.9 million for auditing and EUR 1.7 million for other consulting services.

Insider Rules

KONE Corporation has applied the insider guidelines approved by the Helsinki Exchanges as of 1 January, 2000. 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 Senior Vice President, Corporate Controller, the Senior Vice President for Communications & Investor Relations and the Investor Relations Manager, and the President and Senior Executive Vice President of Kone Cargotec. Insiders may not trade in KONE shares for 21 days prior to the release of interim reports or financial bulletins.

The secretary of KONE's Board of Directors is responsible for compliance with insider guidelines and monitoring the duty to declare. The company maintains its insider register in the Finnish Central Securities Depository's Sire system.

The holdings of permanent insiders on 31 March, 2005, as well as the changes in their holdings during the report period, are listed in the table below. A table on permanent insiders' holdings, updated on a monthly basis, can also be inspected on the company's website at www.konecorp.com.

Shareholdings of KONE Corporation's Permanent Insiders on 31 March, 2005 and Changes in Shareholdings during the Period 1.1.2004–31.3.2005

	Class A share	Change	Class B share	Change	Series A option right*	Change
Bergström Carl-Gustaf					1,000	
Cawén Klaus			2,000		1,700	
Chartron Michel					1,700	
Chauvarie Jean-Pierre			15,720	-18,980		
Eiden Manfred			4,500	+4,500	1,350	-1,500
Gielis Laurent					1,100	
Hakakari Tapio			66,000		1,700	
Heinistö Kari					1,000	
Herlin Antti	8,820,201		10,980,993	-85,150	2,850	
Kemppainen Pekka			1,170		1,700	
Leppänen Heikki					1,100	
Maziol Eric					1,700	
Mäkinen Heimo			15,180	+5,100	0	-1,700
Orchard William					1,700	
Rajahalme Aimo					0	-1,700
Sihvola Pekka					0	-750
Tuomas Kerttu					0	-1,100
Veeger Noud					0	-1,100

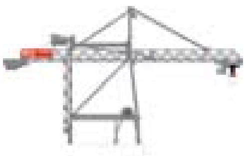
* Series A option rights were given on 1 April, 2004.

The other insiders do not own shares or option rights in KONE Corporation.

Lay out GREY PRO Oy, printing Frenckellin Kirjapaino Oy

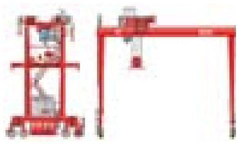
Kone Cargotec

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, 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.

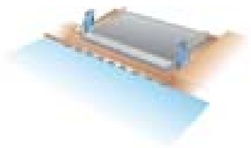
MacGREGOR

Hatch covers are mainly used in container, general cargo and bulk ships to ensure weathertightness of the cargo hold and to carry containers and other loads on top.

Cranes ensure quick and safe loading and unloading of general cargo, containers and project cargo in the harbor. Service cranes for all types of ships, hose-handling cranes for tankers and transloading cranes are also available.

Cargo Securing equipment secures the safe transportation of cargo onboard container ships and general cargo vessels. Products include lashing bridges, fixed and loose fittings, and cellguide systems.

MacGREGOR provides optimum solutions for **RoRo equipment.** Products include a wide selection of internal and external ramps, bow doors, car decks, ramp covers, bulkhead doors, flood control doors and side doors.



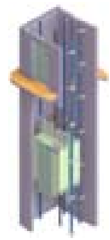
MacGREGOR offers expertise in designing, installing and supplying diverse **ship access systems for ports and terminals.** Products include linkspans, passenger gangways, mooring systems as well as floating car parks and floating terminals.

MacGREGOR offers **global 24-hour service** - maintenance and repairs, inspections, spare parts, conversions and modernizations - to extend the lifetime of its customers' vessels and to help to keep them utilized at the maximum level. To deliver uptime, MacGREGOR developed the MacGREGOR Onboard Care program, designed to give the customer optimum equipment availability. There are four levels in the service agreement, and the customer chooses one of them based upon his needs.

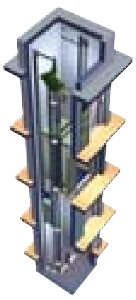
KONE Elevators & Escalators

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 small machine rooms.



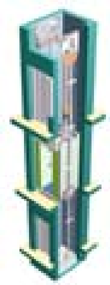
KONE Alta™ elevators have been developed for next-generation skyscrapers reaching up to 500 meters. Their maximum speed rises to 17 m/s.



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 MaxiSpace™ eliminates the need for counterweights. Elevators using this technology can have cabins as much as one-third larger than traditional elevators designed for the same hoistway space.

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.

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Kone Corporation

Financial Statements for Accounting Period 1 Jan, 2004–31 Mar, 2005

KONE Financial Statements
1 Jan, 2004–31 Mar, 2005

Board of Directors' Report

KONE's Extraordinary Shareholders' Meeting on 17 December, 2004 approved the demerger plan that the Board of Directors signed on 1 November, 2004, according to which KONE will split into two separate corporations, KONE Corporation and Cargotec Corporation. The planned date of registration is 31 May, 2005. The recipient corporations will apply for the listing of their class B shares and option rights on the main list of the Helsinki Stock Exchange as of 1 June, 2005.

The Extraordinary Shareholders' Meeting also approved the Board's proposal that the corporation's financial period be extended through 31 March, 2005.

As a result of these decisions, the consolidated figures for the 15-month period under review are not comparable to the figures for 2003, which are shown in brackets. The period under review also includes non-recurring revenue from the sale of businesses and a provision for the non-recurring costs of an elevator and escalator operations development and restructuring program.

In order to facilitate the evaluation of the financial performance and status of the companies, New KONE and Cargotec, to be listed in the demerger of KONE Corporation, separate pro forma reviews will be published in conjunction with this report. These reviews give a more detailed and comparable picture of the development of the market and the two businesses for the period 1 January–31 March, 2005. They present New KONE's and Cargotec's January–March 2005 financial results according to the business and corporate structure prevailing after the demerger, and are based on KONE Corporation's Financial Statements and the inclusion of the recently acquired MacGREGOR Group.

Discontinued Operations and Changes in Group Structure

The following divestments and discontinued businesses are included in the 2003 consolidated figures but no longer in the figures for the accounting period 1 January, 2004–31 March, 2005:

- Forest Machines business
- Tractors business
- Oy Sisu Auto Ab and discontinued non-core businesses
- Velsa Inc. (consolidated up to the end of October, 2004)

Kone Cargotec's acquisition of global marine cargo-flow solution and service provider MacGREGOR was finalized on 4 March, 2005, and MacGREGOR's balance sheet has been consolidated in KONE's balance sheet at the end of March 2005.

The parent company, KONE Corporation, transferred the operative elevator and escalator business in Finland to two fully owned Finnish subsidiaries on 1 October, 2004. The operative business unit and the export and major project units were transferred to KONE Elevators Ltd. The Finnish production units were transferred to KONE Industrial Ltd. Shared headquarter functions remain in the parent company, KONE Corporation.

During the accounting period KONE Finance Oy, Tracfin Holding Oy and KONE Lift Oy were merged in the parent company, KONE Corporation.

KONE's Financial Result, Balance Sheet, Cash Flow and Personnel

KONE's consolidated net sales in the 15-month period 1 January, 2004–31 March, 2005 totaled EUR 5,562 (1-12/2003: 5,410) million.

Consolidated operating income in the period 1 January, 2004–31 March, 2005 totaled EUR 530.4 (437.0) million, representing 9.5 (8.1) percent of net sales.

Net income totaled EUR 308.4 (302.7) million and diluted earnings per share from continuing operations equaled EUR 3.72 (3.96). Cash flow from operating activities was EUR 270.3 (435.5) million.

KONE's net debt at the end of March 2005 was EUR 335.2 (end of 2003: 746.7) million. Total equity as a share of total assets was 37 (29) percent. Gearing was 25 (67) percent. Total assets amounted to EUR 3,667 (3,824) million, and assets employed totaled EUR 1,677 (1,862) million.

KONE had 33,021 (33,305) employees at the end of March 2005. The average number of employees during 1 January, 2004–31 March, 2005 was 30,976 (34,489).

KONE Elevators & Escalators

Market Review, Orders Received and Order Book

In recent years, demand for new equipment has shown moderate growth, with Asia recording strong growth while the more mature markets of North America and Europe have remained fairly unchanged. This development also characterized the period under review.

Orders received in 1 January, 2004–31 March, 2005, excluding the value of maintenance contracts, totaled EUR 2,706 (2003: 2,021) million. At the end of March 2005, the order book amounted to EUR 2,023 (end of 2003: 1,640) million. The average margin for the order book is somewhat below the end-2003 level.

Total order intake in Europe, the Middle East and Africa (EMEA) rose despite weakness on some markets, buoyed particularly by strong demand in the Middle East. The residential sector showed healthy growth in several major markets. In general, new equipment demand in Europe was at a low level in the office and retail sector.

The pricing environment remained tough, especially in the escalator market, where lower demand combined with increasing imports from China led to lower prices. In Germany, heavy pressure on construction prices resulting from overcapacity in the market led to elevator price erosion.

The service business in Europe was characterized by tougher competition, which was influenced by the bleak

Board of Directors' Report

economic outlook. The trend of large customers to bundle maintenance contracts for their entire equipment base continued. Modernization demand continued to increase steadily, supported by growing demand for full replacements and the installation of elevators in existing buildings that do have them.

In North America, the new equipment market began to recover from the last quarter of 2004 onwards. Acceptance of the machine-room-less elevator concept continued to gain ground in the U.S.A. as all major competitors have followed KONE's lead and begun marketing their own solutions. As a result of the improved U.S. economy, there is pent-up demand for new building starts in the office, residential, hotel and public transportation segments. Price levels were still low because of tough competition, but increased material costs resulted in signs of pressure on prices easing somewhat towards the end of the period under review.

The service business in the U.S.A. suffered from high industry-wide labor inflation, which was not fully reflected in higher prices.

Strong growth in new equipment demand in China and India boosted growth in the Asia-Pacific region. KONE's order-intake activity in the Asia-Pacific region remained roughly unchanged for the 15-month period under review, but order intake posted increases the last quarter of 2004 and first quarter of 2005. Products made in China have achieved acceptance in other Asian markets. In particularly, the pricing environment for escalators suffered due to production capacity increases in China. Maintenance demand in China grew strongly as a result of the rapid growth of the installed base.

Net Sales

Net sales during 1 January, 2004–31 March, 2005 totaled EUR 3,516 (1-12/2003:2,856) million. Europe, the Middle East and Africa (EMEA) accounted for 66 (65) percent, North America for 22 (24) percent and Asia-Pacific for 12 (11) percent of net sales.

Revenue from new equipment sales in the 15-month period under review was EUR 1,339 (1,163) million, or 38 (41) percent of total revenue. Service revenue totaled EUR 2,177 (1,693) million, or 62 (59) percent of total revenue, including building door service revenue of EUR 205 (130) million.

The number of elevators and escalators under service contract increased slightly to more than 550,000 (end of 2003: 520,000) units, of which approximately 420,000 are in Europe, over 90,000 in North America and more than 35,000 in the Asia-Pacific region.

Profitability

KONE Elevators & Escalators' operating income during 1 January, 2004–31 March, 2005 was EUR 208.2 (289.6) million, representing 5.9 (10.1) percent of net sales. This figure includes both the EUR 89.2 million provision for the development and restructuring program described below and a positive impact of EUR 15.3 million from the reversal of disability pensions.

The overall profitability in the maintenance business was stable despite some erosion in the U.S.A. due to significant labor inflation. The decline in operating profitability, disregarding the EUR 89.2 million provision for the development and restructuring program, was mainly due to lower profitability in the new equipment business as the pricing environment remained tough while material and labor costs increased. The profitability of the new equipment business also suffered from cost overruns in some major projects in the first half of 2004.

Net working Capital and Cash Flow

At the end of March 2005, net working capital allocated to KONE Elevators & Escalators was negative at EUR –246.4 (end of 2003: –184.2) million. The EUR 89.2 million provision for the development and restructuring program reduced working capital. Due to the timing of maintenance contract payments, working capital is seasonally lower at the end of March than at the end of the calendar year.

Cash flow from operations (before financial items and taxes) totaled EUR 357.1 (331.3) million.

Elevator and Escalator Development and Restructuring Program

KONE's Board of Directors decided in 19 October, 2004 to initiate preparations for a development and restructuring program in order to secure the long-term competitiveness and profitability of its elevator and escalator business. The program was published on 17 March, 2005.

In order to improve the productivity of production lines and the cost-competitiveness of KONE products, certain supply functions are to be relocated and production volumes are to be consolidated in cost-effective locations. In addition, KONE will continue consolidating certain competencies globally in order to achieve benefits of scale.

The initiatives in this plan will be implemented in the new equipment business during 2005–2006 and are aimed at returning KONE to double-digit EBIT margin by 2007. In total, the plans affect almost 450 jobs globally in KONE's elevator and escalator business. Some 300 of these positions – located in Hattingen, Germany – are affected by the plan to discontinue escalator manufacturing in Germany. The plan to concentrate production of electrification components in two locations would affect about 95 jobs in Bristol in the U.K. The rest of the positions are located in production units in the U.S.A. and Finland and in global KONE functions that are indirectly affected by the initiatives to be taken in the manufacturing functions.

The measures presented in this program target an annual positive impact on operating income of almost EUR 30 million with much of this effect already being felt in 2006.

The total one-time operating income impact of the program, including lay-offs, canceling of long-term commitments, and write-offs of assets will be close to EUR 90 million.

Capital Expenditure and Product Development

Capital expenditure totaled EUR 184.0 (100.4) million, of which acquisitions accounted for EUR 124.1 (59.9) million. KONE's new elevator component plant in the Czech Republic started production of elevator doors in December, 2004. Production also came on stream in the expanded escalator plant in China.

KONE Elevators & Escalators' product development expenditures in the 15-month period under review totaled EUR 51.8 (40.5) million, representing 1.5 (1.4) percent of net sales. Research and development investment and resources are increasingly being allocated to develop maintenance and modernization offerings. KONE Proximity is a real-time customer service concept that encompasses remote equipment monitoring, field terminals for service personnel, extranet-based maintenance service and customer care centers, which are examples of ongoing initiatives.

In 2004, KONE also introduced a new technology platform, KONE MaxiSpace™, that eliminates the need for counterweights in roped elevators. Elevators using this technology can have cabins as much as one-third larger than traditional elevators designed for the same hoistway space, enabling KONE to offer a 6- or even 8-passenger elevator where previously only a 4-passenger unit could have been installed.

In 2004, KONE MaxiSpace™ received pan-European approval, and the first pilot installations were successfully completed. KONE MaxiSpace™ was well received on the market. Low-volume deliveries for the full replacement market have started, and installations will be completed during 2005. Currently KONE is building up the supply chain to support increased order and installation volumes across Europe in 2006.

Acquisitions and Cooperation Agreements

KONE continued its aggressive acquisition activity in order to strengthen its position in growth markets and to increase the density of its maintenance base. Most of the acquired units were local elevator or door service companies.

In 2004, KONE substantially increased its market share in India with the acquisition of Bharat Biljee Limited's elevator operations (BBL). BBL has a maintenance portfolio of about 5,000 units and sells some 800 new elevators annually. BBL's elevator business net sales total approximately EUR 12 million.

KONE also began its own operations in Korea by acquiring a majority shareholding in Soolim Elevator.

In February 2005, KONE and Giant Elevator Co. Ltd of China agreed to form an independent joint venture: Giant Kone Elevator Company Ltd. KONE will own 40 percent of Giant-Kone, Giant Elevator will own 60 percent, and KONE has an option to increase its shareholding to more than 50 percent. Giant Elevator, with annual sales of EUR 18 million and 1,100 units, a service base of 2,500 elevators, and 620 employees, is one of the largest national elevator companies in China.

In February 2005, KONE also acquired U.K. Lift Company Ltd, with annual sales of approximately EUR 40 million and 200 employees.

In March 2005, KONE acquired a controlling interest in Thai Lift Industries Public Company Limited, which is listed on the Stock Exchange of Thailand, and made a public offer to acquire all its outstanding shares. Thai Lift has represented KONE in Thailand for more than ten years and is a leading elevator company in the Thai market with 2004 net sales of approximately EUR 9.2 million, 2,500 units under maintenance contract and annual installations of more than 400 elevators, a majority of which are KONE products.

The following distributors became fully owned subsidiaries during the period under review: Kandur (Estonia), Liftco Hellas (Greece), I-Select (Iceland), Industrial Logistics (Ireland) and SIA KONE Lifti (Latvia).

KONE and Toshiba Elevator and Building Systems Corporation agreed to strengthen their alliance through a licensing arrangement enabling KONE to supply high-speed double-deck elevators based on Toshiba's proven technology.

The building door service operations were strengthened through a strategic global alliance with the door systems supplier DORMA, and the addition of Door Systems, Inc. in the United States and Overhead Doors in Australia.

European Commission Investigation

In January 2004 the European Commission initiated an investigation of the European elevator and escalator industry, alleging anticompetitive behavior on an EEA-wide basis. As a result of an internal audit, KONE identified certain local anti-competitive practices in Belgium, Luxembourg and Germany but has not found evidence or indications of any European-wide anti-competitive practices.

KONE has taken immediate measures to stop anything that could potentially be considered anti-competitive behavior. KONE continues to be fully responsive to and cooperative with the European Commission's investigations.

Significant Events after the Period under Review

In April 2005, KONE and Toshiba Elevator and Building Systems Corporation (TELC) agreed to strengthen their alliance by establishing an independent joint-venture company for escalator production in China. KONE will own 70 percent of the new company, and TELC will own 30 percent. The joint venture will be the main source of

Board of Directors' Report

escalators for both parties and will offer a full range of escalator products based on KONE and TELC designs.

The joint venture will operate two manufacturing facilities, consisting of the current KONE and TELC escalator manufacturing lines in China. Operations are expected to start during the second half of 2005 and reach full-scale operations in the second half of 2006.

Finalization of the agreement will follow approval by the appropriate authorities.

KONE also signed a joint-venture agreement with Russia's premier elevator company, Karacharovo Mechanical Factory (KMZ), which will significantly increase KONE's participation in the rapidly growing Russian elevator and escalator market. KONE will own 40 percent of the new company, KMZ-Kone, and KMZ's current beneficial owner will own 60 percent, with KONE holding an option to increase its shareholding to a majority stake.

KONE and KMZ have a combined share of more than 35 percent in the Russian new elevator market, which totals about 15,000 units per year. KONE is strongly positioned in the high end of the market, while KMZ is Russia's largest elevator company and the market leader in the low end of the market with over 5,000 units produced in 2004. Initially, KMZ-Kone's annual sales are expected to exceed EUR 70 million.

KMZ-Kone aims to take advantage of significant maintenance and modernization growth opportunities by combining KONE's worldwide expertise with KMZ's market knowledge. In addition, immediate plans include identifying and implementing a new production site for a new elevator product line. Execution of the joint-venture agreement will follow approval by the appropriate authorities.

KONE announced at the end of April a new organizational structure, which takes effect from 1 May, 2005. The organization will be developed by clarifying and strengthening the matrix consisting on the one hand of global business units and on the other of areas comprising local sales and service companies. These developments will make it possible to respond better to the differing needs of various market areas while simultaneously taking advantage of globally harmonized processes, operational methods, and product and service concepts. At the same time the activities of the Major Project Unit activities will be strengthened, and its focus will be shifted to Asia.

Concurrently, KONE's area directors will become members of the Executive Board, and KONE management will be located more evenly across the company's main market areas. As of 1 May, the members of the Executive Board will include area directors Eric Maziol, Noud Veeger, Heimo Mäkinen and Pekka Kemppainen. Joining them will be Heikki Leppänen, who takes responsibility for New Elevator and Escalator Business, Peter de Neef, whose responsibility is Service Business and William Orchard, whose responsibility is the Major Project Unit. In addition, Aimo Rajahalme, Kerttu Tuomas, Klaus Cawén and Matti Alahuhta will continue in their current roles and as members of the Executive Board.

Outlook

KONE reiterates its outlook for unchanged operative profitability for the calendar year 2005, disregarding the EUR 89.2 million costs of the development and restructuring program. No major changes have been made to our expectations in regard to factors that will affect the operating environment during 2005: higher steel and oil prices, price competition and currency rates.

KONE Elevators & Escalators' focus in 2005 is on implementing the necessary changes to enable faster-than-market growth and improving profitability from 2006 onward. One key action is the implementation of the comprehensive development and restructuring program aimed at strengthening the competitiveness of our new equipment business. We have raised our ambition for growth. The key opportunity here is to better exploit growth opportunities in Asia, particularly in China and India, as well as in Russia. Other areas of growth include the machine-room-less elevator, high-rise segments and the market for modernizations.

Kone Cargotec

Market Review, Orders Received and Order Book

The investment cycle for investments in new ports and port expansions was at an exceptionally high level during the period under review. Container traffic is estimated to have increased by over 14 percent in 2004, as it did in 2003. This double-digit growth kept activity in ports at a continued high level, which was also reflected in strong demand for service, replacement investments and refurbishments.

The market for on-road load-handling solutions improved clearly in the period under review. The North American market continued to show the greatest growth, buoyed by the robust retail and building material markets, which increased demand for efficient local distribution solutions. Heavy truck sales grew by approximately 10 percent in Europe and by over 30 percent in North America in 2004 after several years of flat or decreasing sales.

Kone Cargotec's order intake in the 15-month period under review amounted to EUR 2,423 (1-12/2003: 1,482) million, of which Kalmar accounted for EUR 1,399 (834.9) million and Hiab for EUR 1,027 (653.2) million.

Kalmar benefited from high demand for all product lines. Port investments were at a high level, especially in Asia and Europe. In the Americas, the general strengthening of the U.S. economy led to significantly higher demand, in particular for terminal tractors in ports and distribution centers.

In Hiab, growth was strongest in North America. Hiab improved its market position by launching new load-handling applications. Demand in Europe, which is the largest market for equipment and services provided by

Hiab, improved for all key products. Demand in Asia also continued to be strong.

Kone Cargotec's order book strengthened clearly and at the end of March 2005 totaled EUR 1,312 (end of 2003: 473.6) million. Kalmar accounted for EUR 624.4 (359.7) million, Hiab for EUR 241.2 (114.2) million and MacGREGOR for EUR 446.5 million of the order book.

In March 2005, Kalmar won a major order from Gateway Terminals India Pvt Ltd. (GTI) for the supply of 29 rubber-tired gantry cranes (RTGs) for a new terminal under construction at the Port of Nhava Sheva. GTI is joint venture between Maersk A/S and Container Corporation of India Ltd. and is due to start operations in August 2006. The RTGs will be delivered during 2006.

Net Sales

Net sales in 1 January, 2004–31 March, 2005 amounted to EUR 2,046 (1,364) million. Production capacity was increased in both Kalmar and Hiab, which facilitated the necessary increase in delivery volumes, especially from the third quarter of 2004 onward.

Kone Cargotec's service revenue amounted to EUR 402 million, accounting for 20 (19) percent of net sales. Of total revenue, Kalmar's service business accounted for 24 (23) percent and Hiab for 14 (14) percent.

Profitability

Kone Cargotec's operating income in 1 January, 2004–31 March, 2005 rose to EUR 149.4 (76.7) million or 7.3 (5.6) percent of net sales. This includes a non-recurring pension liability reversal of EUR 3.1 million. Both Kalmar's and Hiab's operating income rose clearly as profitability continued to benefit from the strong market situation and increased deliveries. In addition, both businesses saw further benefits from the restructuring of production done over the past three years.

Profitability was negatively affected by the weaker dollar and, especially in the fourth quarter of 2004 and first quarter of 2005, by higher steel and component prices.

Net Working Capital and Cash Flow

At the end of March 2005, Kone Cargotec's net working capital was EUR 211.7 (end of 2003: 197.6) million.

Kalmar's working capital decreased from the end of 2003 level despite substantially higher sales while Hiab's working capital increased due to higher volumes and work in progress. MacGREGOR's working capital was negative.

Cash flow from operations (before financial items and taxes) was EUR 155.5 (136.0) million. Kalmar's cash flow improved further due to the improvements achieved in capital turnover and operating income.

Capital Expenditure and Product Development

Capital expenditure amounted to EUR 211.3 (23.6) million, of which acquisitions accounted for EUR 183.1 (0.0) million. In addition, customer financing totaled EUR 21.3 (6.9) million.

In order to strengthen its position in the Asia-Pacific region, Kalmar has initiated an approximately USD 10 million investment in a new assembly plant in the Shanghai area. The assembly plant will primarily serve the Asian container-handling equipment market, which is the fastest growing area for most Kalmar products.

Hiab is also expanding its operations in Asia by starting up a demountables assembly plant in China. Assembly will begin in the new plant in Shanghai during 2005. This project will strengthen Hiab's position as a manufacturer of demountables, and it will prepare for future growth in the Asia-Pacific region. The target is to supply this region with demountable products from the new plant in the future.

Hiab launched its new corporate name in 2004, including name changes in most sales companies and a new unified visual identity for all product lines. The integration of sales outlets support Hiab's aim of offering load-handling products and services from under one roof.

Research and development expenditure was EUR 32.3 (25.1) million, which is 1.6 (1.8) percent of net sales. Kalmar's R&D expenses totaled EUR 13.5 million and, in addition, several product development projects were implemented jointly with customers. Hiab's R&D expenses totaled EUR 18.8 million.

New Products

In 2004, Kalmar launched its seventh generation straddle carrier, a new 6–9 ton forklift range and a new RoRo terminal tractor. Kalmar's focus on increasing the automation and intelligence in its equipment range was enhanced by launching a simulation tool to assist customers in port design. In addition, Kalmar introduced to the market the first all-electric rubber-tired gantry (RTG), the E-One, which operates without hydraulics. The E-One contains fewer critical mechanical components and therefore provides less opportunity for mechanical failure, while extending the maintenance cycle.

Hiab launched several new products during 2004; complementary products to the successful HIAB XS loader crane range, the MULTILIFT XR hooklift system, six new LOGLIFT and JONSERED forestry cranes, ZEPRO's new generation of medium to heavy standard tail lifts, and the PRINCETON P40 truck-mounted forklift for the U.S. market. Some major launches are being made during the first half of 2005, which include the new MOFFETT M50 truck-mounted forklift in the high-volume product category for the North American markets.

Acquisitions and Divestments

Kone Cargotec agreed on 2 December, 2004 to purchase the entire share capital of global marine cargo-flow solution provider MacGREGOR International AB. The acquisition was

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finalized on 4 March, 2005.The debt-free transaction price was approximately EUR 180 million.

MacGREGOR is the global market leader in providing marine cargo flow solutions for ship owners, ship operators and shipyards. Its products include hatch covers, cranes, cargo-securing systems, RoRo equipment, shipboard elevators and escalators, and galleys. MacGREGOR's 2004 net sales totaled EUR 360 million. MacGREGOR employed 975 people at the end of December 2004. Because the elevator operations of MacGREGOR will be transferred to KONE Elevators & Escalators, the respective reported balance sheet and order book figures have been excluded from Kone Cargotec and are included in KONE Elevators & Escalators.

In February 2005, Hiab signed an agreement to divest the entire shareholding of Zetterbergs Produkt AB of Sweden to its operative management. Zetterbergs' product range comprises tipper and dumper bodies as well as other truck bodies. Its 2004 net sales totaled EUR 15 million, and it employed 143 people. The final necessary competition authority approvals were received on 22 April, 2005.

In October 2004, Kalmar divested the Finnish company, Velsa, which manufactures mobile cabins for machines. Furthermore, in March 2005 Kalmar sold Finmec, located in Estonia, which specializes in the welding and provision of steel components for heavy equipment.

Kalmar's own maintenance and rental services were further strengthened in the beginning of 2005 by the acquisition of companies specializing in these activities in the Netherlands. The acquisitions of Peinemann Kalmar CV and Peinemann Kalmar Rental BV strengthened Kalmar's strategy of expanding maintenance and rental services in major ports and container terminals around the world. In addition, Kalmar acquired Belgian BIA NV's Material Handling Equipment Division at the end of May 2004.

Changes in Kone Cargotec's Executive Committee

Tor-Erik Sandelin was appointed Senior Vice President, Service Business Development of Kone Cargotec, and member of the Executive Committee as of 1 September, 2004. Hans Pettersson, President of MacGREGOR, was appointed a member of the Executive Committee as of 4 March, 2005. Ms. Eeva Mäkelä was appointed Senior Vice President, Investor Relations and Communications of Kone Cargotec and a member of the Executive Committee effective 1 April, 2005. Sandelin, Pettersson and Mäkelä report to Kone Cargotec's President Carl-Gustaf Bergström.

Outlook

Kone Cargotec's outlook is based on figures including MacGREGOR. Order intake during the rest of the year is expected to return to a normalized level from the record levels experienced during the past twelve months. However, the current strong order backlog supports expectations of Kone Cargotec's net sales clearly exceeding EUR 2 billion in 2005. Comparable operating income is estimated to improve somewhat from the previous year despite the negative effects of changes in product mix, cost increases in raw materials and components, and currency effects.

KONE Shareholders' Meetings and Board of Directors

During KONE's Annual General Meeting (AGM) in February 2004, shareholders approved the 2003 financial statements and discharged the responsible parties from liability for the financial year. Dividends of EUR 1.98 for each of the 9,526,089 class A shares and EUR 2.00 for the 53,104,052 outstanding class B shares were approved. The rest of the distributable equity, EUR 743.6 million, will be retained and carried forward.

The number of members of the Board of Directors was confirmed at seven. Antti Herlin was re-elected chairman of the Board. Re-elected as full members of the Board were Matti Alahuhta, Jean-Pierre Chauvarie, Iiro Viinanen and Gerhard Wendt. Sirkka Hämäläinen-Lindfors and Masayuki Shimono were elected as new members of the Board.

The Board of Directors' proposal that the AGM authorize the Board of Directors to repurchase KONE's own shares with assets distributable as profit was approved. The number of shares to be repurchased shall not exceed 3,173,180 (maximum 476,304 class A shares and 2,696,876 class B shares), respecting the provisions of the Companies Act regarding the maximum number of own shares held by the company.

In addition, the proposal to 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 the AGM.

KONE's Extraordinary Shareholders' Meeting on 17 December, 2004 approved the demerger plan that the Board of Directors signed on 1 November, 2004, according to which KONE will split into two separate companies, KONE Corporation and Cargotec Corporation. The demerger will enter into force when the execution of the demerger is registered in the Trade Register. The planned date of registration is 31 May, 2005. The recipient corporations will apply for the listing of their class B shares and option rights on the main list of the Helsinki Stock Exchange as of 1 June, 2005.

In addition, the Board of Directors' proposal that the financial period of the corporation be extended until 31 March, 2005 was approved.

Appointment of New President

KONE's Board of Directors decided in November, 2004 to appoint Matti Alahuhta, D.Sc (Eng) as President, effective 1 January, 2005. Before joining KONE, Alahuhta was Executive Vice President, Chief Strategy Officer of Nokia.

Matti Alahuhta has been a member of KONE's Board of Directors since February 2003.

Option Program and Increase in Share Capital

The Board of Directors' proposal that the AGM confirm the option program and issue option rights to the key personnel of KONE was approved. The option program was connected to the development of KONE's aggregated net income (after taxes) during 2001–2003 as shown in the Consolidated Financial Statements.

The AGM confirmed that KONE's aggregated net income for 2001–2003 exceeded EUR 470 million. In accordance with the decision of the shareholder meeting, a maximum of 350,000 options rights were issued, of which a maximum of 180,000 A option rights were offered to the Group's key personnel and a maximum of 170,000 B option rights to Kone Capital Oy. The Board of Directors approved the 145,130 A option rights and 170,000 B option rights that have been subscribed.

The option program also includes a cash bonus totaling EUR 5.8 million. The cash bonus related to each A option right has been separated from the option rights after 27 February, 2004, when the AGM confirmed the amount of option rights to be offered.

The KONE 2004 A option rights are listed on the main list of the Helsinki Exchanges. Subscription of shares with the option rights commenced on 1 April, 2004, and by 31 March, 2005, 212,835 class B shares have been subscribed. The maximum number of shares that can be subscribed with the 2004 A option rights is 435,390 class B shares.

Each option right confers the right to subscribe to three KONE class B shares with a par value of 1.00 euro. The subscription price is EUR 24.67/share. The A option rights confer entitlement to subscribe to 435,390 KONE B shares between 1 April, 2004 and 31 March, 2008, and the B option rights to subscribe to 510,000 KONE B shares between 1 April, 2005 and 31 March, 2009. The annual window during which the shares can be subscribed to with these option rights is from 2 January to 30 November.

On 28 January, 2005, the Board of KONE Corporation decided to apply for listing of series B option rights on the main list of the Helsinki Stock Exchange as of 1 April, 2005. Due to the demerger of the company, share subscriptions with A and B option rights will not be allowed from 1 May, 2005 to 31 May, 2005.

On 31 March, 2005, KONE's share capital was 63,676,455.00 euros, comprising 54,150,366 listed class B shares and 9,526,089 unlisted class A shares.

Repurchase and Assignment of KONE Shares

During the first half of 2004, KONE repurchased 1,863,397 of its class B shares at an average price of EUR 48.35. KONE's Board of Directors decided on 1 December, 2004 to assign class B shares held by the company and to use the proceeds in financing the acquisition of MacGREGOR Group. On 10 December, 2004, KONE sold all of its 2,696,876 class B shares as a contractual trade on the Helsinki Stock Exchange. The price was EUR 56.00 per share and the total transaction value was EUR 150.1 million. The sold shares represented 4.24 percent of KONE's share capital. The shares were acquired at the average price of EUR 43.18 per share.

At the end of March 2005, KONE's Board of Directors had no authorization to raise the share capital or to issue convertible or warrant loans.

Annual General Meeting and Distribution of Profits

KONE's distributable equity as of 31 March, 2005 stands at EUR 983.3 million. The parent company's distributable equity from previous years totaled EUR 2,026 million, and net income from the accounting period under review was EUR 1,269 million. The Board of Directors proposes to the AGM that a dividend of EUR 1.98 (1.98) be paid for each class A share and EUR 2.00 (2.00) for each class B share from retained earnings. The date of record for dividend distribution is 23 May, 2005, and it is proposed that dividends be paid on 30 May, 2005. If the AGM of 18 May, 2005 approves the Board of Directors' proposal on profit distribution, the dividends will total EUR 127.3 (2003: EUR 125.1) million.

Ownership Reorganization in Companies with a Significant Shareholding in KONE

The ownership of KONE Corporation's largest shareholders, Security Trading Ltd. and Holding Manutas Ltd., will be reorganized through an exchange of shares in June–July, 2005. At the conclusion of the reorganization, the shareholding inherited by each of Pekka Herlin's children will be allocated to his or her own company and joint ownership will be dissolved. The multi-phased reorganization will be completed by 15 July, 2005.

These actions will clarify the ownership structure as KONE Corporation is demerged. A separate and simpler ownership structure in both new companies supports the objective of developing the corporations as independent companies in accordance with their own business and ownership strategies.

Antti Herlin, Ilona Herlin, Niklas Herlin and Ilkka Herlin, in conjunction with some other individuals and the KONE Foundation, share ownership in KONE Corporation through their holdings in KONE's two principal owners, Security Trading Ltd. and Holding Manutas Ltd. These companies owned 30.84 percent of KONE Corporation's shares and held 66.28 percent of the voting rights at the end of March 2005. Antti Herlin commands a majority of the voting rights in both companies.

The conclusion of the reorganization of ownership will affect the ownership of shares and voting rights in the post-

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demerger KONE Corporation and Cargotec Corporation in such a way that Security Trading Ltd. and Holding Manutas Ltd. will hold about 21 percent of the shares and 62 percent of the voting rights in new KONE. After the reorganization, Antti Herlin will be the principal owner of Security Trading Ltd. with a more than 90 percent shareholding, and neither Security Trading Ltd. nor Holding Manutas Ltd. will have a shareholding in Cargotec Corporation.

The largest corporate shareholders in Cargotec Corporation will be Sijoitus-Wipunen Ltd., Mariatorp Ltd. and D-Sijoitus Ltd., whose principal owners are Ilkka Herlin, Niklas Herlin and Ilona Herlin, each with more than 90 percent of the shares in the respective company. Each of the three companies will control approximately 10.3 percent of the shares and 22 percent of the voting rights. In addition, each company will own approximately 3.4 percent of KONE's shares and hold 1.5 percent of KONE's voting rights.

At the end of March 2005, Antti Herlin's personal shareholding in KONE and Cargotec corresponded to 0.21 percent of the shares and 0.09 percent of the voting rights.

Helsinki, 2 May, 2005

KONE Corporation, Board of Directors

Consolidated Financial Statements, IFRS

Consolidated Statement of Income

MEUR	Note	1 Jan, 2004– 31 Mar, 2005	%	1 Jan, 2003– 31 Dec, 2003	%
Sales	3, 5	**5,561.9**		**5,410.4**	
Costs, expenses and depreciation	6, 7	-5,219.3		-4,998.3	
Gain on divested operations	4	187.8		24.9	
Operating Income	3	**530.4**	**9.5**	**437.0**	**8.1**
Share of associated companies' net income	14	3.7		6.7	
Financing income and expenses	8	-14.0		-27.8	
Income before Taxes		**520.1**	**9.4**	**415.9**	**7.7**
Taxes	9	-211.7		-113.2	
Net Income		**308.4**	**5.5**	**302.7**	**5.6**
Net Income attributable to:					
Shareholders of the parent company		306.9		300.2	
Minory interests		1.5		2.5	
Total		308.4		302.7	
Earnings per share for profit attributable to the shareholders of the parent company, EUR (Note 10)					
Basic earnings per share, from continuing operations, EUR		3.75		3.98	
Diluted earnings per share, from continuing operations, EUR		3.72		3.96	
Basic earnings per share, from divested operations, EUR		1.20		0.81	
Diluted earnings per share, from divested operations, EUR		1.20		0.81	

Consolidated Balance Sheet

Assets MEUR		Note	31 Mar, 2005	31 Dec, 2003
Non-Current Assets				
Goodwill		11	937.2	955.1
Other intangible assets		12	62.5	63.7
Property, plant and equipment		13	400.1	444.8
Investments in associated companies		14	86.4	69.8
Shares		15	158.7	150.6
Available-for-sale investments		16	8.4	8.2
Non-current financial receivables	I	17	69.4	67.8
Deferred tax assets		18	163.6	131.2
Other non-current assets			2.3	5.3
Total Non-Current Assets			**1,888.6**	**1,896.5**
Current Assets				
Inventories		19	938.3	787.8
Advance payments received		19	-456.6	-311.1
Accounts receivable			802.5	755.8
Deferred assets		20	255.7	210.3
Income tax receivables			82.0	70.9
Current financial receivables	I	17	1.8	1.6
Financial assets	I	21	50.4	308.7
Cash and bank	I		104.2	103.5
Total Current Assets			**1,778.3**	**1,927.5**
Total Assets			**3,666.9**	**3,824.0**

Items designated " I " comprise interest-bearing net debt

Equity and Liabilities MEUR		Note	31 Mar, 2005	31 Dec, 2003
Capital and reserves attributable to the shareholders of the parent company				
Share capital		22	63.7	63.5
Share premium account			249.5	219.6
Fair value and other reserves			3.1	15.4
Translation differences			-41.0	-37.7
Retained earnings			1,038.0	829.9
Total Shareholders' Equity			**1,313.3**	**1,090.7**
Minority interests			28.3	24.1
Total Equity			**1,341.6**	**1,114.8**
Non-Current Liabilities				
Loans	I	23	226.2	723.5
Deferred tax liabilities		18	32.3	25.5
Employee benefits and other liabilities		24	188.1	185.8
Other non-current liabilities			1.1	0.0
Total Non-Current Liabilities			**447.7**	**934.8**
Provisions		25	**245.8**	**151.9**
Current Liabilities				
Current portion of long-term loans	I	23	95.6	159.7
Other liabilities	I	23	239.2	345.1
Accounts payable			438.9	376.8
Accruals		26	719.3	630.4
Income tax payables			138.8	110.5
Total Current Liabilities			**1,631.8**	**1,622.5**
Total Equity and Liabilities			**3,666.9**	**3,824.0**

Items designated " I " comprise interest-bearing net debt

Consolidated Statement of Changes in Equity

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Retained earnings	Minority interests	Total equity
1 Jan, 2004	63.5	219.6	15.4	-37.7	829.9	24.1	1,114.8
Dividends paid					-125.1		-125.1
Issue of shares	0.2	5.0					5.2
Purchase of own shares					-90.1		-90.1
Sales of own shares		24.9			116.4		141.3
Cash flow hedge			-12.3				-12.3
Translation differences				3.2			3.2
Hedging of foreign subsidiaries				-6.5			-6.5
Change in minority interests						2.7	2.7
Net income for the period					306.9	1.5	308.4
31 Mar, 2005	63.7	249.5	3.1	-41.0	1,038.0	28.3	1,341.6

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Retained earnings	Minority interests	Total equity
1 Jan, 2003	63.5	219.6	13.2	0.0	623.4	20.1	939.8
Dividends paid					-93.7		-93.7
Cash flow hedge			2.2				2.2
Translation differences				-38.9			-38.9
Hedging of foreign subsidiaries				1.2			1.2
Change in minority interests						1.5	1.5
Net income for the period					300.2	2.5	302.7
31 Dec, 2003	63.5	219.6	15.4	-37.7	829.9	24.1	1,114.8

The sales profit of own shares is presented after deducting the related income taxes, the amount of income taxes was EUR 8.8 (0.0) million.

The retained earnings contains non-distributable earnings EUR 16.8 (16.4) million, including the cumulative untaxed reserves less the deferred tax.

Consolidated Statement of Cash Flows

MEUR	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Cash receipt from customers	5,717.6	5,432.3
Cash paid to suppliers and employees	-5,216.2	-4,895.8
Cash Flow from Operations	**501.4**	**536.5**
Interest received	46.3	35.0
Interest paid	-51.5	-74.0
Dividends received	2.9	1.7
Other financial items	-5.1	16.3
Income taxes paid	-223.7	-80.0
Cash Flow from Operating Activities	**270.3**	**435.5**
Capital expenditure	-102.0	-102.4
Proceeds from sales of fixed assets	10.4	18.2
Acquisitions, net of cash	-324.5	-89.0
Proceeds from divested operations, net of cash	617.2	364.8
Cash Flow from Investing Activities	**201.1**	**191.6**
Cash Flow after Investing Activities	**471.4**	**627.1**
Change in current creditors, net	-170.0	-171.1
Proceeds from long-term borrowings	0.6	180.0
Repayments of long-term borrowings	-497.9	-582.1
Purchases of own shares	-90.1	0.0
Sales of own shares	150.1	0.0
Share issue	5.2	0.0
Dividends paid	-125.1	-93.7
Other financing activities	256.5	27.4
Cash Flow from Financing Activities	**-470.7**	**-639.5**
Change in Net Cash	**0.7**	**-12.4**
Cash and bank at the end of period	104.2	103.5
Translation difference	0.0	10.0
Cash and bank in the beginning of period	103.5	125.9
Change in Net Cash	**0.7**	**-12.4**
Reconciliation of Net Income to Cash Flow from Operating Activities		
Net Income	308.4	302.7
Depreciation	113.2	108.1
Gain on divested operations	-187.8	-24.9
Income before Change in Working Capital	**233.8**	**385.9**
Change in receivables	-54.9	41.5
Change in payables	202.2	-63.5
Change in inventories	-110.8	71.6
Cash Flow from Operating Activities	**270.3**	**435.5**

In drawing up the Statement of Cash Flows, 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 Statements

1. Accounting Principles

Basis of Presentation

The Consolidated Financial Statements of KONE Corporation ("KONE" or "the Group"), a Finnish limited liability company domiciled in Helsinki, have been prepared in accordance with International Financial Reporting Standards (IFRS) observing the standards and interpretations effective on 31 March, 2005. The Group has adopted the revised standards IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 21, IAS 24, IAS 27, IAS 28 and IAS 33. The Group has also applied IFRS 3 as well as the related revised standards IAS 36, and IAS 38, the application of which was not compulsory during this accounting period. IFRS 2, IFRS 5, IAS 32 (revised in 2003) and IAS 39 (revised in 2003) will be adopted as of 1 April, 2005.

The consolidated financial statements have been prepared for the extraordinary accounting period of 15 months between 1 January, 2004 and 31 March, 2005, due to the corresponding extension of the accounting period of the parent company and Finnish subsidiaries. The accounting period of foreign subsidiaries was the calendar year 2004, hence the Group's Consolidated Financial Statements have been prepared based on the interim financial closings of foreign subsidiaries as of 31 March, 2005. The comparative financial statements have been prepared based on an accounting period of 12 months, between 1 January–31 December, 2003.

The Consolidated Financial Statements are presented in millions of euros and prepared under the historical cost convention except as disclosed below. The First-Time Adoption of IFRS Standards was undertaken according to IFRS 1 using 1 January, 2003 as the transition date. Prior to IFRS adoption, KONE reported its financial performance under the Finnish Accounting Standards (FAS). The most significant exemption applied in the transition in compliance with IFRS 1 was the use of the goodwill values of FAS financial statements in the opening Balance Sheet on the IFRS transition date. The Group used the exemption to recognize all cumulative actuarial gains and losses of defined employee benefit plans and to reclassify the cumulative translation differences for all foreign operations in retained earnings upon the transition date. The effect of adopting IFRS is summarized in the bridge calculations provided with the Consolidated Financial Statements. Comparative figures for 2003 have been restated accordingly.

Consolidation Principles

All intra-corporate transactions have been eliminated in the Consolidated Financial Statements. Intra-corporate 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.

Subsidiaries

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 or controls through management agreements with majority shareholders at the end of the accounting period. Subsidiaries acquired during the period were included in the Consolidated Financial Statements from the date of acquisition, and divested subsidiaries up to the date of sale. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. Acquisition costs are allocated as assets and liabilities on the basis of fair value. The excess cost of an acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see "Goodwill and Other Intangible Assets").

Associated Companies

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 or in which the Group has considerable influence. Investments in associated companies were accounted for in the Consolidated Financial Statements under the equity method. KONE's share of the profit or loss of an associated company is shown in the Consolidated Statement of Income as a separate item and its investments in the associated companies upon the date of acquisition, adjusted for changes in the associated companies' equity after the date of acquisition, are shown in the Balance Sheet under "Investments in Associated Companies".

Minority Share

Minority interests are disclosed separately under consolidated shareholders' equity and are recorded as a separate deduction on the Consolidated Statement of Income.

Foreign Currency Transactions and Translations

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the individual transaction. An approximate exchange rate that is close enough to the exchange rate of the transaction date may be used. Foreign currency denominated receivables and liabilities were translated using the exchange rate of the Balance Sheet date. Foreign exchange gains and losses related to normal business operations are treated as adjustments to sales or costs. Foreign exchange gains and losses associated with financing are included as a net amount under financial income and expenses.

The Statements of Income of foreign subsidiaries are translated into euros based on the average exchange rate of the accounting period. Balance Sheet items, with the exception of net income for the accounting period, are translated into euros with the Balance Sheet exchange rate. Translation differences are recorded under equity. Exchange rate differences resulting from derivatives and loans designated as hedges on assets and liabilities in foreign subsidiaries have been entered as translation differences under shareholders' equity. Exchange rate differences arising on the translation of the net investments in foreign subsidiaries and associated companies are recorded in translation difference. When a foreign entity is sold, cumulative translation differences are recognized in the Statement of Income as part of the gain or loss on the sale.

Settlement Date Accounting is applied to all financial assets and liabilities.

Derivative Financial Instruments

The Group applies IAS 39, issued in 2000, and hence also hedge accounting for qualifying hedges. Derivative financial instruments are initially recognized in the Balance Sheet at cost and subsequently measured at their fair value on each Balance Sheet date.

When derivative contracts are entered into, the Group designates them as either cash flow hedges for forecast transactions or firm commitments, fair value hedges for loans or deposits in foreign currencies or other Balance Sheet items or as hedges of investments in foreign entities.

Changes in the fair value of hedges qualifying as cash flow hedges that are effective are recognized in equity in the Fair Value and Other Reserves. Cumulative gain or loss of derivatives deferred to equity is transferred to the Statement of Income and classified as revenue or expense for the period when the hedged item affected the Statement of Income. Changes in the fair value of cash flow hedges that no longer qualify for hedge accounting under IAS 39 are recognized as they are incurred in the Statement of Income.

Changes in the fair value of economic hedges for loans and deposits in foreign currencies or other Balance Sheet items are recognized in financing items in the Statement of Income, alongside the change in the valuation of the underlying exposure.

The fair values of FX forward contracts are calculated by discounting the future cash flows of the contracts with the interest rate yield curves of the currencies bought and sold, translating the discounted amounts into the reporting currency using the Balance Sheet date foreign exchange rate and calculating the difference between the discounted amounts. The fair values of foreign currency options are calculated with an option pricing model using exchange rates, interest rate yield curves and volatilities of foreign currencies quoted in the FX market on the Balance Sheet date. The fair values of interest rate swaps and cross currency swaps are determined by discounting the future cash flows of the contracts with the interest rate yield curves of the currencies concerned, translating the discounted amounts into the reporting currency using the Balance Sheet date foreign exchange rate and calculating the difference between the incoming and outgoing discounted amounts.

Segment Reporting

The segment information is presented by business segment in primary segment reporting format and by geographical segment in secondary reporting format. Primary business segments provide products and services subject to risks and returns that are different from those of other business segments. Secondary segments, geographical segments, are the main market areas. These provide products and services within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments. Sales are reported by customer location and assets and capital expenditure by the location of the assets.

Discontinued Operations

A discontinued operation results from a decision, pursuant to a single disposal plan, to divest an operation comprising a separate major line of business for which the assets less liabilities and net financial results may be distinguished physically, operationally and for financial reporting purposes. The pre-tax gain or loss on the disposal of a discontinued operation is shown as a separate item on the Consolidated Statement of Income. Divested operations -segment consist of discontinued operations.

Revenue Recognition

Sale of goods is recognized after KONE has transferred the risks and rewards to the customer, and KONE retains neither a continuing right to dispose of the goods, nor effective control of the goods. The main rule is that revenue is recorded when goods have been handed over to the customer in accordance with the agreed contractual terms.

Revenues from separately defined, long-term major projects are recorded as sales under the percentage of completion method. The percentage of completion is defined as the proportion of individual contract cost incurred to date from the total estimated contract costs. Expected contract losses are recognized as they are incurred. Revenues from repairs are recognized when the work has been carried out. Revenues from services are recognized when the services have been rendered

Research and Development Costs

Research and development costs are expensed as they are incurred as future economic benefits of new products can only be proven after their successful introduction to the market.

Income Tax

The Group tax expense includes taxes of Group companies based on taxable income for the period, together with tax adjustments for previous periods and the change of deferred taxes. Deferred taxes are provided using the liability method for temporary differences arising between the tax basis of assets and liabilities and their book values in financial

Notes on the Consolidated Financial Statements

reporting, and measured with enacted tax rates. The principal temporary differences arise from defined benefit plans, provisions, inter-company inventory profits, untaxed reserves and tax losses carried forward. Tax losses carried forward are recognized only to the extent that it is probable that future taxable profits will be available, against which unused tax losses can be used. Only deferred tax assets that seem certain to be realized are recognized. Deferred taxes are not provided for goodwill that is not deductible for tax purposes.

Goodwill and Other Intangible Assets

Acquisitions of companies are accounted for using the purchase method of accounting. Goodwill represents the excess of purchase cost over the fair value of assets and liabilities of acquired companies. Goodwill represents the value of business and market share acquired. Goodwill is not amortized but impairment tested (see impairment of assets below).

In connection with the KONE Elevators & Escalators business' minor acquisitions, typically acquisitions of small elevator and door service companies, the excess of purchase cost over the fair value of the net identifiable assets is allocated to the acquired maintenance contracts with the estimated useful lifetime and included in intangible assets with a definite lifetime. They are amortized on a straight-line basis over the expected useful lifetime, typically five years.

Expenditure on acquired patents, trademarks and licenses, including acquired software licenses, is included in other intangible assets and capitalized and amortized using the straight-line method over their useful lives, but not exceeding five years. Where an indication of impairment exists, the book value of any intangible asset is impairment tested (see impairment of assets below).

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and less any impairment losses (see impairment of assets below). Depreciation is recorded on a straight-line basis over the economic useful lives of the assets as follows:

Buildings	5–40 years
Machinery and equipment	4–10 years

Land is not depreciated.

Impairment of Assets

The book values of non-current tangible assets and other intangible assets are reviewed upon each Balance Sheet date to determine whether there is any indication of impairment, or more frequently should any indication arise. If any such an indication arises, the recoverable amount is estimated as the higher of the net selling price and the value in use. An impairment loss is recognized in the Statement of Income whenever the book value exceeds the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a significant change in the estimates used to determine the recoverable amount, however not to an extent higher than the book value that would have been determined had no impairment loss been recognized in prior years.

The Group assesses the book value of goodwill annually or more frequently if any indication of impairment exists. Goodwill is allocated to the cash generating units (CGUs) of the Group, identified according to the country of operation and business unit at the level at which goodwill is monitored for internal management purposes. The recoverable amount of a CGU is determined by value-in-use calculations. In assessing the recoverable amount, estimated future cash flows are discounted to their present value based on the weighted average cost of capital prevailing in KONE for the main currency area in the location of the cash generating unit (country or business area). The weighted average cost of capital reflects the average, long-term financial structure prevailing in KONE and the shareholder risk premium. An impairment loss of goodwill is never reversed.

Leases

KONE has entered into various operating leases under which payments are treated as rentals and charged to the Statement of Income on a straight-line basis over the leasing term. Leases of plant and equipment where KONE fundamentally bears all the rewards and risks of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased equipment and the estimated present value of the underlying lease payments. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. Plant and equipment acquired under finance leasing contracts are depreciated over the lesser of the useful life of the asset and lease period.

Customer Finance

Customer finance arrangements are used in different customer segments, distribution channels and geographical markets. For these arrangements KONE, especially Kone Cargotec, is involved in arranging financing for the customer and/or the dealer. Customer finance contracts can either be operating or finance lease contracts, hire purchase contracts or loans with similar features. In operating lease agreements, the end customer has the sole right to use the equipment. In finance lease agreements, the risks and rewards of ownership are transferred to the end customer in practice, even if legal title remains with the financing partner. Revenue recognition and Balance Sheet treatment of sales transactions that include end customer or dealer financing depend on the substance of the transaction.

Inventories

Inventories are valued at the lowest of cost and net realizable value. Cost is determined on a first in first out (FIFO) basis. Raw materials and supplies, however, are valued at standard cost. Semi-manufactures have been valued at variable production costs. Work in progress includes direct labor and material costs as of the Balance Sheet date with a proportion of indirect costs related to manufacturing and installation costs of sales orders included in work in progress. An allowance is recorded for obsolete items. Inventories are presented in the Balance Sheet as a gross amount, however, the advance payments received from customers for the orders in work in progress are presented in current assets.

Receivables and Other Current Assets

Accounts receivable are initially measured at cost. Subsequently, an estimate is made for doubtful accounts based on an analysis of potential credit loss risk. Bad debts are written off when identified.

Loans Receivable

Loans receivable originated by the Group with a fixed maturity are measured at amortized cost using the effective interest method and those that do not have a fixed maturity are measured at cost. Loans receivable are impaired if the book value is greater than the estimated recoverable amount.

Financial Assets

Deposits at banks are classified as financial assets held to maturity. Commercial papers, bonds and other comparable financial assets are measured at fair values. These fair values are based on market quotations or the net present value calculations of the future cash flows of the assets. Changes in the fair values of available-for-sale financial assets are recognized in equity through the statement of changes in equity until the item is sold, collected, otherwise disposed or impaired, at which time the cumulative gain or loss recognized in equity is included in the Statement of Income for the period. Non-current available-for-sale investments are recognized at cost as they include unlisted shares for which fair value cannot be measured reliably.

Shares

Share investments are valued at fair values, and change in fair values and exchange gains and losses of designated hedging instruments are recognized in the Statement of Income. Investments in shares are measured at cost when fair values are not available.

Cash and Bank

Cash and cash equivalents include cash balances and short-term deposits with banks. Bank overdrafts are included in other current liabilities.

Post-Employment Benefits

The Group operates various employee benefit plans in accordance with local conditions and practices, the assets of which are generally held in separate insurance companies or trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant KONE companies, taking into account the recommendations of independent qualified actuaries. Contributions to the defined contribution plans are charged directly to the Statement of Income in the year to which these contributions relate.

The liability of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets together with adjustments for unrecognized actuarial gains or losses. For defined benefit plans, pension cost is determined based on the advice of qualified actuaries who carry out a full valuation of the plan on a regular basis using the projected unit credit method. Under this method, the costs of providing pensions are charged to the Statement of Income so as to spread the regular costs over the working lives of employees. Actuarial gains and losses are recognized in the Statement of Income for the employees' average remaining working lives to the extent that they exceed the greater of 10 percent of the defined benefit obligation or 10 percent of the fair value of plan assets. Obligations to pay long-term disability benefit, whose level is dependent on the length of service of the employee, are measured to reflect the probability that payment will be required and the length of service for which payment is expected to be made.

Provisions

Provisions are recognized when KONE has a current legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions for warranties cover the estimated liability to repair or replace products still under warranty on the Balance Sheet date. This provision is calculated based on historical experience of levels of repair and replacements. Obligations arising from restructuring plans are recognized only when the detailed and formal plans have been established, when there is a valid expectation that such a plan will be carried out and the plan has been communicated.

Loans Payable

Loans payable are initially recognized at cost. Costs directly attributable to the issuing of the debt are deducted from the amount of loan payable and initially recognized. Interest expenses are accrued and recorded in the Statement of Income over the period of the loan payable using the effective interest rate method.

Notes on the Consolidated Financial Statements

Equity and Share Based Compensation

When the Group purchases KONE Corporation's own shares, the consideration paid and directly attributable costs are recognized as a deduction in equity. When such shares are sold, the consideration received, net of directly attributable transaction costs and income tax effect, is included in equity.

The granted stock option program allows certain key employees of the Group to subscribe KONE Corporation's shares. No compensation cost or obligation is recognized for the stock option program. When the options are exercised, the proceeds received, net of any transaction costs, are credited to share capital and share premium fund. IFRS 2, which will be applied for the accounting period commencing 1 April, 2005, may have an effect on the said recognition principle.

2. Financial Risk Management

KONE business activities are exposed to financial risks such as currency risks, interest rate risks, refinancing and liquidity risks, commodity risks, energy price risks, counterparty risks and operative credit risks. KONE Group Treasury function manages financial risks centrally according to limits set in the Group Treasury Policy approved by the Treasury Committee, which are based on the main principles for risk management determined by the Board. The derivative instruments used and their nominal values on 31 March, 2005 appear in note 28.

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) in foreign subsidiaries (translation risk).

The policy of the Group is to fully hedge the initial transaction exposure. This means that the effect of foreign exchange rate changes on the margin of already contracted and highly probable business deals is eliminated while also giving the business time to react and adapt to changes in the exchange rate levels.

The initial exposure is managed in the business units by taking in the account the foreign exchange risk considerations when deciding on the currencies used in export/import pricing and invoicing and by using currency clauses in tenders. The Group companies hedge their exposures with internal forward contracts and report monthly their transaction risk position to the Group Treasury. Binding contracts are hedged for the whole contract period and estimated sales or purchases for the period of 6 to 9 months. Large tenders are hedged on basis of option strategies. The Group Treasury is responsible for managing the Group's currency risks externally.

Hedge accounting is applied to cash flow hedges of firm contracts and estimated quarterly cash flows of highly probable purchases or sales. The instruments used for cash flow hedging are FX forward contracts. The majority of the hedged cash flows are denominated in SEK, USD, GBP, SGD and AUD and they are expected to be realized within one year. A few longer-term projects are estimated to be realized within two to four years.

The policy regarding translation risks is to hedge the balance sheet structure in such a way that changes in exchange rates have a neutral impact on KONE's gearing. Balance sheet structure in foreign entities is hedged by using cross-currency swaps and loans denominated in foreign currencies.

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.

Commodity Derivatives and Energy Price Risks

The group uses electricity derivatives to hedge risk in electricity price development. These instruments are classified as economic hedges.

Refinancing and Liquidity Risks

In order to minimize funding and liquidity risks and to cover estimated financing needs, KONE has committed 5–7 years bilateral undrawn credit facilities.

Interest-bearing net debt fell as a result of divestments and strong cash flow from operations. The long-term loan repayment schedule can be found in note 23.

Counterparty Risks

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

Operative Credit Risks

Group's customer base consists of a large number of customers in all market areas. Measures to reduce credit risks include advance and progress payments, documentary credits and guarantees. Some customer credit risks have been shared with financing partners as described in Accounting Principles under Customer Finance. Management considers that no significant concentration of credit risk with any individual customer, counterparty or geographical region exists for the Group.

3. Segment Information

The segment information is presented by business segments in primary segment reporting format and by geographical segment in secondary segment reporting format.

The primary business segments based on the internal reporting and management structure are KONE Elevators & Escalators and Kone Cargotec. KONE Elevators & Escalators sells, manufactures, installs, maintains and modernizes elevators and escalators and services automatic building doors. Kone Cargotec comprises three globally leading businesses: Kalmar provides container and heavy industrial handling solutions and services. Hiab provides on-road load-handling equipment and services and MacGREGOR, which joined the company on 31 March, 2005, provides marine cargo-flow solutions and services.

Segment Others includes the non-core businesses. The Divested operations -segment includes the business operations sold during the reported periods including the pre-tax gain on these disposals.

Geographical segments are the main market areas. Sales is reported by customer location and assets and capital expenditure by the location of the assets.

The accounting policies of the reportable segments are described in Note 1.

3.1. Business Segments

Sales, operating income & share of associated companies' net income

1 Jan, 2004– 31 Mar, 2005	KONE Elevators & Escalators	Kone Cargotec	Divested operations	Others	Eliminations	Non allocated	KONE Corporation total
Sales, external	3,516.3	2,045.6	-	-	-	-	5,561.9
Sales, internal	-	-	-	-	-	-	-
Total sales	3,516.3	2,045.6	-	-	-	-	5,561.9
Operating income	208.2	149.4	187.8	-1.1	-	-13.9	530.4
Share of associated companies' net income	1.8	0.4	-	1.5	-	-	3.7
Financing items & taxes						-225.7	-225.7
Net income							308.4

1 Jan, 2003– 1 Dec, 2003	KONE Elevators & Escalators	Kone Cargotec	Divested operations	Others	Eliminations	Non allocated	KONE Corporation total
Sales, external	2,856.0	1,356.0	1,196.9	1.5	-	-	5,410.4
Sales, internal	-	8.4	3.8	0.7	-12.9	-	0.0
Total sales	2,856.0	1,364.4	1,200.7	2.2	-12.9	-	5,410.4
Operating income	289.6	76.7	83.8	0.4	-	-13.5	437.0
Share of associated companies' net income	1.6	-	-0.1	5.2	-	-	6.7
Financing items & taxes						-141.0	-141.0
Net income							302.7

Notes on the Consolidated Financial Statements

Capital expenditure* & depreciation, amortization and impairment

1 Jan, 2004–31 Mar, 2005	Capital expenditure	Depreciation and amortization	Impairment
KONE Elevators & Escalators	184.0	72.8	-
Kone Cargotec	232.6	40.1	-
Divested operations	-	-	-
Others	-	0.3	-
Total	416.6	113.2	-

1 Jan, 2003–31 Dec, 2003	Capital expenditure	Depreciation and amortization	Impairment
KONE Elevators & Escalators	100.4	56.6	-
Kone Cargotec	30.5	34.4	-
Divested operations	31.4	17.1	-
Others	-	-	-
Total	162.3	108.1	-

* Capital expenditure on property, plant and equipment and on intangible assets including additions resulting from acquisitions through business combinations

Segment assets and liabilities

31 Mar, 2005	KONE Elevators & Escalators	Kone Cargotec	Divested operations	Others**	Eliminations	Non allocated	KONE Corporation total
Segment assets excluding fixed assets	792.6	729.1	-	7.7	-3.8	-	1,525.6
Segment liabilities	1,039.0	517.4	-	21.1	-3.8	4.5	1,578.2
Working capital	-246.4	211.7	-	-13.4	0.0	-4.5	-52.6
Fixed assets *	914.8	673.7	-	65.4	-0.5	-	1,653.4
Assets employed	668.4	885.4	-	52.0	-0.5	-4.5	1,600.8
* Of which investments in associated companies	22.3	1.4	-	62.7	-	-	86.4

31 Dec, 2003	KONE Elevators & Escalators	Kone Cargotec	Divested operations	Others**	Eliminations	Non allocated	KONE Corporation total
Segment assets excluding fixed assets	639.4	477.3	264.6	12.2	-7.0	-1.7	1,384.8
Segment liabilities	823.6	279.7	158.3	33.7	-7.0	26.4	1,314.7
Working capital	-184.2	197.6	106.3	-21.5	0.0	-28.1	70.1
Fixed assets *	785.7	534.1	316.3	56.1	-	-	1,692.2
Assets employed	601.5	731.7	422.6	34.6	0.0	-28.1	1,762.3
* Of which investments in associated companies	13.4	0.6	4.4	51.4	-	-	69.8

** Includes the non-core businesses

Reconciliation of assets employed to total assets

	31 Mar, 2005	31 Dec, 2003
Assets employed	1,600.8	1,762.3
Segment liabilities	1,578.2	1,314.7
Interest bearing receivables	225.8	481.6
Tax receivables	245.6	202.1
Other receivables *	16.5	63.3
Total assets	3,666.9	3,824.0

* Includes derivative receivables and deferred interests

Reconciliation of segment liabilities to total liabilities

	31 Mar, 2005	31 Dec, 2003
Equity	1,341.6	1,114.8
Segment liabilities	1,578.2	1,314.7
Interest bearing liabilities	561.0	1,228.3
Tax liabilities	171.1	136.0
Other liabilities *	15.0	30.2
Total equity and liabilities	3,666.9	3,824.0

* Includes derivative liabilities and accrued interests

3.2 Geographical Segments

Sales

KONE Corporation	1 Jan, 2004– 31 Mar, 2005	1 Jan, 2003– 31 Dec, 2003
EMEA	3,513.3	3,507.1
Americas	1,349.0	1,394.1
Asia-Pacific	699.6	509.2
Total	5,561.9	5,410.4

KONE Elevators & Escalators	1 Jan, 2004– 31 Mar, 2005	1 Jan, 2003– 31 Dec, 2003
EMEA	2,312.7	1,859.0
Americas	767.4	681.7
Asia-Pacific	436.2	315.3
Total	3,516.3	2,856.0

Kone Cargotec	1 Jan, 2004– 31 Mar, 2005	1 Jan, 2003– 31 Dec, 2003
EMEA	1,200.6	772.7
Americas	581.6	445.4
Asia-Pacific	263.4	146.3
Total	2,045.6	1,364.4

Assets employed

	31 Mar, 2005	31 Dec, 2003
EMEA	778.0	885.4
Americas	220.0	260.1
Asia-Pacific	167.8	147.1
Unallocated & Eliminations *	435.0	469.7
Total assets employed	1,600.8	1,762.3

* Includes the goodwill in Kone Cargotec and divested operations, which is not allocated to geographical segments.

Capital expenditure*

	1 Jan, 2004– 31 Mar, 2005	1 Jan, 2003– 31 Dec, 2003
EMEA	205.4	121.2
Americas	32.7	34.5
Asia-Pacific	23.6	6.6
Unallocated	154.9	-
Total	416.6	162.3

* Capital expenditure on property, plant and equipment and on intangible assets, including additions resulting from acquisitions through business combinations

3.3 Other Segment Information

	Orders received		Order book	
	1 Jan, 2004– 31 Mar, 2005	1 Jan, 2003– 31 Dec, 2003	31 Mar, 2005	31 Dec, 2003
KONE Elevators & Escalators	2,705.9	2,021.0	2,023.1	1,639.6
Kone Cargotec	2,423.0	1,481.5	1,311.9	473.6
Divested operations	-	1,067.5	-	83.0
Eliminations	-	-11.6	-	-
Total	5,128.9	4,558.4	3,335.0	2,196.2

Number of employees

	31 Mar, 2005	31 Dec, 2003
KONE Elevators & Escalators	25,593	23,664
Kone Cargotec	7,335	6,377
Divested operations	-	3,177
KONE Corporation group administration	93	87
Total	33,021	33,305

Average number of employees

	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
KONE Elevators & Escalators	24,427	23,488
Kone Cargotec	6,461	6,701
Divested operations	-	4,212
KONE Corporation group administration	88	88
Total	30,976	34,489

Notes on the Consolidated Financial Statements

Number of employees

	31 Mar, 2005	31 Dec, 2003
EMEA	21,203	23,279
Americas	6,049	6,550
Asia-Pacific	5,769	3,476
Total	33,021	33,305

4. Acquisitions, Divested Operations and Disposal

4.1 Acquisitions

KONE Elevators & Escalators

KONE continued to pursue an aggressive acquisition policy during the financial periods. Most of the acquisitions were companies specializing in elevator, escalator and automatic building door service. The acquisitions are individually immaterial to KONE's financial statements. The fair values of the asset and liability items booked on the acquisitions did not differ materially from the book values prior to the business combinations.

During 1 January, 2004–31 March, 2005 KONE made major acquisitions for a total consideration of EUR 91.5 million and an increase in goodwill EUR 73.9 million. Among the major acquisitions were Bharat Bijlee Ltd. (India), Soolim Elevator Company (South Korea), Door Systems Inc. (U.S.A.), Lödige Service Management GmbH (Germany), Overhead Doors Pty Ltd (Australia), Isalp S.A.S. (France), U.K. Lift Company Ltd (Great Britain) and five companies in Spain. The marine elevator business of MacGREGOR International AB, acquired by Kone Cargotec, was transferred to KONE Elevators and Escalators. The Group also acquired majority shares in companies in Ireland and Greece, that were previously associated companies. The above mentioned acquisitions have been summarized in the following table. KONE acquired a controlling interest in Thai Lift Industries Public Company Limited, which is listed on the Stock Exchange of Thailand, and made a public offer to acquire all its outstanding shares. Previously KONE held 10 percent of its shares. This acquisition is presented in Note 15 Shares due to the transaction not being finalized on the Balance Sheet date. The shares in real estate company KONE Building were acquired in the beginning of 2005 and it is presented in Note 13 Property, plant and equipment under companies acquired, land and buildings.

In 2003, among the major acquisitions for a total consideration of EUR 53.1 million were Lift Service KM S.A. (Switzerland), ATS Ascenseurs S.A. (France), Peters Aufzüge GmbH (Germany), Block Elevator Co. (U.S.A.), Baxter & Sons Elevator, Inc. (U.S.A.) and Staley Elevator Co. (U.S.A.). These acquisitions have been summarized in the following table.

Assets and liabilities of the acquired companies:

	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Intangible assets	0.1	0.1
Tangible assets	3.0	0.6
Inventories	15.7	2.0
Accounts receivables	26.5	2.7
Cash and bank	8.9	3.8
Total assets	54.2	9.2
Pension liabilities	0.2	0.0
Interest-bearing loans	4.2	0.0
Provisions	1.6	0.2
Other liabilities	30.6	4.8
Total liabilities	36.6	5.0
Net assets	17.6	4.2
Acquisition cost	91.5	53.1
Goodwill	73.9	48.9

Kone Cargotec

During 1 January, 2004–31 March, 2005 Kone Cargotec made one major acquisition. On 2 December, 2004 Kone Cargotec agreed to purchase the entire share capital in global marine cargo-flow solution and service provider MacGREGOR International AB. The transaction was closed on 4 March, 2005 and MacGREGOR has been consolidated to the group from 31 March, 2005. The initial accounting for MacGREGOR was determined only provisionally as the fair values to be assigned to the assets, liabilities and contingent liabilities and the cost of the combination were being determined at the time of the preparation of these financial statements. The summary of the intial accounting for the acquisition is presented in the table below. The consolidated sales of Kone Cargotec would have been increased with EUR 412 million if the MacGREGOR had been consolidated from the beginning of the accounting period.

Other acquisitions during the accounting period include Peinemann Kalmar CV and Peinemann Kalmar BV, which were previously Kone Cargotec's associated companies, and BIA NV's Material Handling Equipment Division.

In 2003, Kone Cargotec made no major acquisitions.

Assets and liabilities of the acquired companies:

1 Jan, 2004–31 Mar, 2005	MacGREGOR	Other acquisitions
Goodwill	82.1	0.0
Intangible assets	1.1	0.0
Tangible assets	24.1	16.9
Inventories	24.2	1.1
Other receivables	81.1	4.7
Cash and bank	18.8	0.0
Total assets	231.4	22.7
Pension liabilities	16.7	0.0
Interest-bearing loans	58.0	9.7
Provisions	16.6	0.0
Other liabilities	90.0	7.6
Total liabilities	181.3	17.3
Minority interests	1.2	-
Net assets	48.9	5.4
Acquisition cost	115.7	13.6
Goodwill total	148.9	8.2

Acquired goodwill has been revaluated and reallocated when measuring total goodwill.

4.2 Divested Operations

The divestment of the Tractors and Forest Machines businesses and that of Partek's non-core businesses and assets are presented as divested operations. The pre-tax gain on disposal of divested operations after deducting transaction costs is shown as a separate item in the consolidated income statement and discontinued operations are presented as a separate segment in the segment information.

Forest machines operations was sold to Komatsu Ltd. of Japan on 31 December, 2003. The enterprise value of the transaction was EUR 120 million. Net assets sold totaled EUR 53.4 million.

Tractor operations was sold to the U.S. based AGCO Corporation on 5 January, 2004. The transaction price was EUR 600 million. Net assets sold totaled EUR 344.2 million.

Divestments of Partek's non-core businesses and assets include Oy Sisu Auto Ab (closed beginning of 2004), Cellit Oy Ab (closed end of March 2003) and holdings in Polar Kiinteistöt Oyj (closed October 2003). These transactions did not significantly affect KONE's result.

Total pre-tax profit from the sale of divested operations came to EUR 187.8 (24.9) million. Proceeds from the disposal of divested operations in the consolidated cash flow statement was EUR 617.2 (364.8) million.

Consolidated statement of income contains the following amounts related to divested operations:

	1 Jan, 2003–31 Dec, 2003
Sales	1,200.7
Costs, expenses and depreciation	-1,141.8
Operating income	58.9
Share of associated companies' net income	-0.1
Financing income and expenses	-4.5
Income before taxes	54.3
Taxes	-15.7
Net income	38.6

Assets and liabilities as of 31 December, 2003 contain following amounts related to divested operations:

	31 Dec, 2003
Total assets	725.0
Total liabilities	366.9
Net assets	358.1

Divested operations as of 1 January–31 December, 2003 generated EUR 60.4 million in cash flow from operations before financial items and taxes and EUR -23.5 million in cash flow from investing activities.

Divestments of Nordkalk Corporation and Paroc Group Oy Ab were finalized at the beginning of the year 2003 and thus the disposals have a material impact only on the consolidated statement of cash flows. Cash flow from investing activities of 2003 includes EUR 244.7 million from these disposals.

4.3 Disposals

KONE Elevators & Escalators

In KONE Elevators & Escalators all the disposals were immaterial during the financial periods.

Kone Cargotec

Disposals during 1 January, 2004–31 March, 2005 include Velsa Inc and Finmec AS, and during 2003 Nummi Oy Ab and Nummi Cylinder AB. Total disposal consideration EUR 39.7 (3.9) million was received in cash. The net assets disposed totaled EUR 37.7 (2.5) million.

5. Percentage of Completion Method

The effect of the percentage of completion method on the amount of sales was EUR 81.7 (48.7) million for the period. The balance sheet includes EUR 46.4 (5.7) million in unbilled contract revenue due to the percentage of completion method for long-term contracts in progress on the balance sheet date.

Notes on the Consolidated Financial Statements

6. Costs and Expenses

		1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Change of work in progress		-162.1	11.3
Materials, supplies and external services		2,397.8	2,355.0
Wages and other salaries		1,286.6	1,169.7
Pension costs		103.1	102.4
Other statutory employer expenses		467.2	324.2
Other expenses		1,094.2	973.4
Other income		-80.7	-45.8
Depreciation and amortization	(Note 7)	113.2	108.1
Impairment charges		-	-
Total		5,219.3	4,998.3

R&D costs included in total costs	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
KONE Elevators & Escalators	51.8	40.5
Kone Cargotec	32.3	25.1
Divested operations	-	22.8
Total	84.1	88.4
as percentage of sales	1.5	1.6

The change in the provision for doubtful accounts included in costs was EUR 17.3 (11.1) million.

7. Depreciation and Amortization

	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Other intangible assets		
Maintenance contracts	13.7	8.2
Other	11.0	12.1
Buildings	13.6	14.5
Machinery and equipment	74.9	73.3
Total	113.2	108.1

8. Financing Income and Expenses

	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Dividend income	2.9	1.7
Interest income	31.7	32.8
Other financing income	0.5	0.8
Change in fair value of interest rate swaps	2.6	2.6
Interest expenses	-43.4	-66.1
Other financing expenses	-7.6	-7.5
Exchange rate differences	-0.7	7.9
Total	-14.0	-27.8

Exchange rate differences arising from the effective hedging of sales and material purchases by FX derivatives are recognized in operating income as a correction to sales and material purchases. The net exchange rate gain amounted to EUR 10.3 million.

9. Income Taxes

Taxes in Statement of Income	1 Jan,2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Current year tax expense	227.1	118.3
Change in deferred tax assets and liabilities	-10.6	-0.9
Tax expense for previous years	3.4	4.6
Tax credit on dividends	-4.5	-8.8
Other/taxes from associated companies	-3.7	0.0
Income taxes in the Statement of Income	211.7	113.2

Reconciliation of income before taxes with total income taxes in the Statement of Income	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Income before taxes	520.1	415.9
Tax calculated at the domestic corporation tax rate	135.2	120.6
Effect of different tax rates in foreign subsidiares	18.9	2.0
Permanent differences	64.1	-3.0
Previous years taxes	3.4	4.6
Tax credit on dividends	-4.5	-8.8
Utilization of unrecorded carry forward tax losses	-8.3	-13.9
Depreciation	-0.9	-1.2
Provisions	-0.1	4.4
Other items	3.9	8.5
Total	211.7	113.2
Effective tax rate	40.7%	27.2%

10. Earnings per Share

Basic earnings per share are calculated by dividing the Net income of the Group by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated by adjusting the weighted average number of shares for the effect of all dilutive potential shares. The Group has only one category of dilutive potential shares, i.e. share options.

	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Weighted average number of shares (1,000 pcs)	62,013	62,630
Basic earnings per share, from continuing operations, EUR	3.75	3.98
Weighted average number of shares, dilution adjusted (1,000 pcs)	62,443	62,987
Diluted earnings per share, from continuing operations, EUR	3.72	3.96
Basic earnings per share, from divested operations, EUR	1.20	0.81
Diluted earnings per share, from divested operations, EUR	1.20	0.81

Notes on the Consolidated Financial Statements

11. Goodwill

Goodwill is impairment tested annually or more frequently if there is any indication that the current asset value is not recoverable.

In connection with minor acquisitions in KONE Elevators & Escalators business, the excess of the purchase cost over the fair value of the net identifiable assets is allocated to the acquired maintenance contracts with the estimated useful lifetime and therefore these excess values are treated as intangible assets with definite lifetime.They are amortized on a straight-line basis over their expected useful lifetimes, typically in five years.

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the country of the operation and business unit at the level at which the goodwill is monitored for internal management purposes. In KONE Elevators & Escalators, this level is country consolidation and in Kone Cargotec it is by business area. A segment-level summary of the goodwill allocation is presented below (carrying amounts):

KONE Elevators & Escalators	31 Mar, 2005	31 Dec, 2003
EMEA	302.8	245.3
Americas	121.7	115.0
Asia-Pasific	32.0	18.7
Total	456.5	379.0

Kone Cargotec	31 Mar, 2005	31 Dec, 2003
Kalmar	167.7	190.6
Hiab	164.1	165.2
MacGREGOR	148.9	-
Total	480.7	355.8

	31 Mar, 2005	31 Dec, 2003
Divested operations	-	220.3

Kone Corporation	31 Mar, 2005	31 Dec, 2003
Total	937.2	955.1

The value-in-use calculations use cash flow projections based on financial estimates approved by the management covering a three year period. Cash flows beyond the three year period are extrapolated by using the estimated growth rate of zero. Based on these calculations no impairment loss needs to be recognized. Discount rates used in calculations:

KONE Elevators &	EMEA	Americas	Asia-Pacific
Escalators	5.82%	7.50%	8.40%
	Kalmar	Hiab	MacGREGOR
Kone Cargotec	7.79%	7.79%	7.79%

Goodwill	31 Mar, 2005	31 Dec, 2003
Opening net book value	955.1	1,027.4
Translation difference	-3.8	-27.1
Increase	1.7	0.2
Decrease	-2.7	-6.0
Reclassifications	5.9	-
Companies acquired	231.0	48.9
Companies sold	-250.0	-88.3
Impairment charges	-	-
Closing net book value	937.2	955.1

12. Other Intangible Assets

1 Jan, 2004–31 Mar, 2005	Maintenance contracts	Other	Total
1 Jan, 2004:			
Acquisition cost	66.5	105.7	172.2
Accumulated amortization and impairment	-37.7	-70.8	-108.5
Net book value	28.8	34.9	63.7
Opening net book value	28.8	34.9	63.7
Translation difference	1.1	0.0	1.1
Increase	6.2	4.5	10.7
Decrease	-2.1	-1.7	-3.8
Reclassifications	-5.9	-	-5.9
Companies acquired	24.3	1.2	25.5
Companies sold	-1.9	-2.2	-4.1
Amortization	-13.7	-11.0	-24.7
Impairment charges	-	-	-
Closing net book value	36.8	25.7	62.5
31 Mar, 2005:			
Acquisition cost	88.2	107.0	195.2
Accumulated amortization and impairment	-51.4	-81.3	-132.7
Net book value	36.8	25.7	62.5

1 Jan, 2003–31 Dec, 2003	Maintenance contracts	Other	Total
1 Jan, 2003:			
Acquisition cost	57.1	116.9	174.0
Accumulated amortization and impairment	-29.5	-59.8	-89.3
Net book value	27.6	57.1	84.7
Opening net book value	27.6	57.1	84.7
Translation difference	-0.6	-2.5	-3.1
Increase	0.0	7.3	7.3
Decrease	-0.2	-8.0	-8.2
Reclassifications	-	-	-
Companies acquired	10.2	0.1	10.3
Companies sold	0.0	-7.0	-7.0
Amortization	-8.2	-12.1	-20.3
Impairment charges	-	-	-
Closing net book value	28.8	34.9	63.7
31 Dec, 2003:			
Acquisition cost	66.5	105.7	172.2
Accumulated amortization and impairment	-37.7	-70.8	-108.5
Net book value	28.8	34.9	63.7

Maintenance Contracts

In KONE Elevators & Escalators most acquisitions are elevator, escalator and automatic door service businesses. These businesses are based on firm contractual commitments with customers to service and maintain the said equipment. The value of these contracts is usually not included in the Balance Sheet of the acquired business prior to the acquisition. For the acquisition, goodwill is calculated as disclosed in the Accounting Principles and it represents the fair value of the acquired maintenance contracts, market share and business. When the object of the acquisition is mainly the maintenance contract portfolio and when the value of goodwill is insignificant it is allocated to intangible assets with a finite useful lifetime. It is amortized over five years on a straight line basis.

Others

Externally acquired intangible assets, e.g. patents, trademarks and licences, including software licenses, amortized using the straight line method over their useful lives not exceeding five years.

Notes on the Consolidated Financial Statements

13. Property, Plant and Equipment

13.1 Property, Plant and Equipment, Total

1 Jan, 2004–31 Mar, 2005	Land	Buildings	Machinery & equipment	Fixed assets under construction	Advance payments	Total
1 Jan, 2004:						
Acquisition cost	27.7	291.3	709.3	6.4	6.6	1,041.3
Accumulated depreciation	-1.3	-117.7	-477.5	0.0	0.0	-596.5
Net book value	26.4	173.6	231.8	6.4	6.6	444.8
Opening net book value	26.4	173.6	231.8	6.4	6.6	444.8
Translation difference	0.0	-0.4	-0.9	0.0	0.0	-1.3
Increase	1.6	12.2	84.1	13.5	4.7	116.1
Decrease	-0.5	-1.6	-18.5	-3.1	-4.4	-28.1
Reclassifications	0.0	3.3	2.6	-6.1	-0.1	-0.3
Companies acquired	5.3	22.0	22.9	0.0	0.0	50.2
Companies sold	-1.6	-35.3	-50.7	-4.6	-0.6	-92.8
Depreciation	-	-13.6	-74.9	0.0	0.0	-88.5
Impairment charges	-	-	-	-	-	-
Closing net book value	31.2	160.2	196.4	6.1	6.2	400.1
31 Mar, 2005:						
Acquisition cost	32.5	285.9	731.6	6.1	6.2	1,062.3
Accumulated depreciation	-1.3	-125.7	-535.2	0.0	0.0	-662.2
Net book value	31.2	160.2	196.4	6.1	6.2	400.1

1 Jan, 2003–31 Dec, 2003	Land	Buildings	Machinery & equipment	Fixed assets under construction	Advance payments	Total
1 Jan, 2003:						
Acquisition cost	103.9	351.4	764.5	21.2	0.9	1,241.9
Accumulated depreciation	-4.8	-106.2	-414.4	0.0	0.0	-525.4
Net book value	99.1	245.2	350.1	21.2	0.9	716.5
Opening net book value	99.1	245.2	350.1	21.2	0.9	716.5
Translation difference	-4.2	-11.2	-19.0	-0.1	0.0	-34.5
Increase	1.5	12.1	92.9	16.1	8.5	131.1
Decrease	-1.3	-9.1	-24.5	0.0	-0.1	-35.0
Reclassifications	0.0	5.7	18.2	-21.4	-2.4	0.1
Companies acquired	0.0	0.0	0.6	0.0	0.0	0.6
Companies sold	-68.7	-54.6	-113.2	-9.4	-0.3	-246.2
Depreciation	0.0	-14.5	-73.3	0.0	0.0	-87.8
Impairment charges	-	-	-	-	-	-
Closing net book value	26.4	173.6	231.8	6.4	6.6	444.8
31 Dec, 2003:						
Acquisition cost	27.7	291.3	709.3	6.4	6.6	1,041.3
Accumulated depreciation	-1.3	-117.7	-477.5	0.0	0.0	-596.5
Net book value	26.4	173.6	231.8	6.4	6.6	444.8

KONE Elevators & Escalators

During the period of 1 Jan, 2004–31 March, 2005 capital expenditure in production facilities, customer service of sales and maintenance operations and information systems including new finance lease agreements, totaled EUR 59.9 (40.5) million. In recent years the major investment target has been information systems as production and maintenance have been streamlined and harmonized. Principal capital expenditure in production facilities: The elevator component plant in the Czech Republic began operating in December 2004, for which the total capital expenditure amounted to approximately EUR 8 million. New production facilities were acquired and old ones sold at the Slimpa production unit in Italy. The production of electrification components for standard elevators will be concentrated in this unit, and the total capital expenditure was approximately EUR 6 million. The expansion of the escalator plant in China, which had reached its final stage by the end of the period is included in fixed assets under construction on 31 March, 2005.

Shares in a real estate company KONE Building were acquired in the beginning of 2005 and it is presented under companies acquired, land and buildings.

In 2003, capital expenditure in production facilities, customer service field operations and information systems including new finance lease agreements totaled EUR 40.5 million. Investments in production facility machinery and information systems accounted for the major part of the capital expenditure.

Kone Cargotec

During the period of 1 Jan, 2004–31 March, 2005 capital expenditure including new finance lease agreements totalled EUR 28.3 (23.6) million and customer financing agreements EUR 21.3 (6.9) million.

In addition to replacement investment the main focus has been investments, which increase the flexibility and efficiency of assembling.

13.2 Property, Plant and Equipment, Leased for Own Use

Property, plant and equipment include capitalized finance leases as follows:

1 Jan, 2004–31 Mar, 2005	Buildings	Machinery & equipment	Total
1 Jan, 2004:			
Acquisition cost	15.8	32.3	48.1
Accumulated depreciation	-1.1	-10.5	-11.6
Net book value	14.7	21.8	36.5
Opening net book value	14.7	21.8	36.5
Translation difference	-0.1	-0.3	-0.4
Increase	0.0	10.3	10.3
Decrease	0.0	-2.0	-2.0
Reclassifications	-2.3	0.3	-2.0
Companies acquired	0.0	0.0	0.0
Companies sold	-7.7	-1.0	-8.7
Depreciation	-0.4	-10.3	-10.7
Impairment charges	-	-	-
Closing net book value	4.2	18.8	23.0
31 Mar, 2005:			
Acquisition cost	5.1	39.2	44.3
Accumulated depreciation	-0.9	-20.4	-21.3
Net book value	4.2	18.8	23.0

1 Jan, 2003–31 Dec, 2003	Buildings	Machinery & equipment	Total
1 Jan, 2003:			
Acquisition cost	16.5	28.7	45.2
Accumulated depreciation	-0.4	-2.3	-2.7
Net book value	16.1	26.4	42.5
Opening net book value	16.1	26.4	42.5
Translation difference	-0.6	-0.9	-1.5
Increase	0.0	5.5	5.5
Decrease	-0.1	-1.0	-1.1
Reclassifications	0.0	0.1	0.1
Companies acquired	0.0	0.0	0.0
Companies sold	0.0	-0.1	-0.1
Depreciation	-0.7	-8.2	-8.9
Impairment charges	-	-	-
Closing net book value	14.7	21.8	36.5
31 Dec, 2003:			
Acquisition cost	15.8	32.3	48.1
Accumulated depreciation	-1.1	-10.5	-11.6
Net book value	14.7	21.8	36.5

Notes on the Consolidated Financial Statements

13.3 Customer Finance for Equipment

Property, plant and equipment include machinery and equipment leased under trade finance contracts as follows:

1 Jan, 2004–31 Mar, 2005	Machinery & equipment
1 Jan, 2004:	
Acquisition cost	64.0
Accumulated depreciation	-15.8
Net book value	48.2
Opening net book value	48.2
Translation difference	0.0
Increase	21.1
Decrease	-10.7
Reclassifications	-0.6
Companies acquired	16.1
Companies sold	-9.9
Depreciation	-13.1
Impairment charges	-
Closing net book value	51.1
31 Mar, 2005:	
Acquisition cost	78.0
Accumulated depreciation	-26.9
Net book value	51.1

1 Jan, 2003–31 Dec, 2003	Machinery & equipment
1 Jan, 2003:	
Acquisition cost	49.7
Accumulated depreciation	-5.7
Net book value	44.0
Opening net book value	44.0
Translation difference	-5.7
Increase	26.8
Decrease	-3.6
Reclassifications	0.0
Companies acquired	0.0
Companies sold	-3.2
Depreciation	-10.1
Impairment charges	-
Closing net book value	48.2
31 Dec, 2003:	
Acquisition cost	64.0
Accumulated depreciation	-15.8
Net book value	48.2

14. Associated Companies and Related Party Transactions

Investments in associated companies	31 Mar, 2005	31 Dec, 2003
Total in the beginning of period	69.8	73.0
Translation difference	0.2	-1.2
Share of associated companies result after taxes	3.7	6.7
Dividend received	-1.9	-1.8
Acquisitions	26.9	2.7
Disposals	-9.6	-9.6
Reclassification from associated company to subsidiary	-3.5	-
Reclassification from subsidiary to associated company	0.8	-
Impairment charges	-	-
Total at the end of period	86.4	69.8

Investments in associated companies at the end of period include goodwill of EUR 7.7 (2003: 9.0) million.

Lödige Aufzugstechnik GmbH in Germany became an associated company at the end of accounting period 1 January, 2004–31 March, 2005. It is presented under acquisitions at cost since there were no financial statements of 31 March, 2005 available from the company.

In February 2005 it was published that KONE Corporation and Giant Elevator Co. Ltd of China have agreed to form an independent joint venture company: Giant Kone Elevator Company Ltd. KONE will own 40 percent of Giant-Kone, and Giant Elevator will own 60 percent. The investment is not included in financial statements on 31 March, 2005 since the approval by the appropriate authorities required for the finalization of joint venture agreement is pending.

The group's investments in its principal associates are as follows:

31 Mar, 2005 Company	Country	Assets	Equity	Sales	Net income	Asset value	Shareholding (%) Parent company	Group
Consolis Oy Ab	Finland	461.1	153.4	646.1	4.3	60.3	42	42
Other associated companies (12 companies)						18.4		
Goodwill						7.7		
Total						86.4		

31 Dec, 2003 Company	Country	Assets	Equity	Sales	Net income	Asset value	Shareholding (%) Parent company	Group
Konette Design Center Oy	Finland	6.3	3.5	15.3	0.9	1.4	40	40
Consolis Oy Ab	Finland	437.9	121.6	618.4	11.4	50.3		41
Valtra Traktor AB	Sweden	17.5	3.6	71.8	0.1	1.4		40
Sisu Akselit Oy	Finland	8.2	2.3	19.8	0.1	0.4		30
Other associated companies (26 companies)						7.3		
Goodwill						9.0		
Total						69.8		

The figures presented in the tables above are based on the latest available financial statements. The financial period for associated companies is mainly the calendar year, and for the calculation of the share of net income the reporting of associates for year 2004 has been adjusted to comply with KONE's financial period.

Transactions with associated companies

	1 Jan, 2004– 31 Mar, 2005	1 Jan, 2003– 31 Dec, 2003
Sales of goods and services	25.1	53.1
Purchases of goods and services	17.2	21.0

Balances with associated companies

Receivables from associated companies	31 Mar, 2005	31 Dec, 2003
Long-term loans	0.7	8.1
Short-term loans	0.0	2.0
Accounts receivables	2.0	6.9
Deferred assets	0.0	0.7
Total	2.7	17.7

Liabilities to associated companies	31 Mar, 2005	31 Dec, 2003
Long-term loans	0.0	0.0
Short-term loans	0.9	1.1
Accounts payables	0.3	2.4
Accruals	2.0	0.0
Total	3.2	3.5

Transactions with key management

Key management of KONE consist of Board of Directors, KONE Elevators & Escalators Executive Committee and Kone Cargotec Executive Committee.

	31 Mar, 2005	31 Dec, 2003
Salaries and remunerations	5.9	3.8
Severance payments	0.3	0.3
Post-employment benefits	0.0	0.0
Share based payments	0.0	0.0
Total	6.2	4.1

Compensation for Chairman and CEO, Antti Herlin, consists of a basic salary and a yearly bonus, defined by the Board and based on the Corporation's annual result. This bonus may not exceed 40 percent of the recipient's annual salary. Antti Herlin's basic salary for the financial period (15 months) was EUR 540,979, in addition to which he was paid a bonus of EUR 54,950 for 2004. Antti Herlin was issued with 2,850 KONE 2004 A option rights and 7,000 KONE 2004 B option rights. The Chairman of the Board's pension and retirement age are determined in accordance with the retirement age legislation in force. No separate agreement has been made regarding early retirement.

Notes on the Consolidated Financial Statements

Compensation for KONE Corporation's President consists of a basic salary and yearly bonus, defined by the Board and based on the Corporation's annual result. Manfred Eiden served as President of KONE Corporation until 31 December, 2004. His basic salary for 2004 was EUR 432,000, in addition to which he was granted 2,850 KONE 2004 A option rights and 7,000 KONE 2004 B option rights. As of 1 January, 2005, Matti Alahuhta served as President of KONE Corporation. His basic salary for January–March 2005 was EUR 157,300, in addition to which he is entitled to a yearly bonus defined by the Board of Directors on the basis of the Corporation's annual result and other key targets. This bonus may not exceed 100 percent of the recipient's annual salary. Alahuhta will also be included in future option incentive programs. His pension and retirement age are determined in accordance with the legislation in force. No separate agreement has been made regarding early retirement. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary.

15. Shares

Shares held includes a 19.9 percent ownership in Toshiba Elevator and Building Systems Corporation together with the advance payments paid at the end of the period 1 January, 2004–31 March, 2005 for acquisitions that have not been finalized on the Balance Sheet date. These advance payments paid include the acquisition of Thai Lift Industries Public Company Limited, published in March 2005, of which company KONE acquired a controlling interest and made a public offer to acquire all its outstanding shares.

16. Available-for-Sale Investments

	31 Mar, 2005	31 Dec, 2003
Opening net book value	8.2	16.8
Increase	1.6	0.1
Decrease	-1.3	-6.5
Companies sold	-0.1	-2.2
Closing net book value	8.4	8.2

17. Financial Receivables

	31 Mar, 2005	31 Dec, 2003
Non-current	69.4	67.8
Current	1.8	1.6
Total	71.2	69.4

Financial receivables consist mainly of loans receivable from companies divested in 2003–2004, loans receivable from associated companies and the fair value of cross-currency swaps.

The average interest rate of the loans receivable portfolio on 31 March, 2005 was 2.4 percent.

18. Deferred Tax Assets and Liabilities

Deferred tax assets	31 Mar, 2005	31 Dec, 2003
Tax losses carried forward	9.8	20.9
Provisions	62.5	37.5
Pensions	31.2	33.6
Consolidation entries	28.0	19.0
Other temporary differences for assets	32.1	20.2
Total	163.6	131.2
Total in the beginning of period	131.2	148.2
Translation difference	-0.3	-0.8
Change in statement of income	16.6	-8.4
Acquisitions and divestments	16.1	-7.8
Total at the end of period	163.6	131.2

Deferred tax liabilities	31 Mar, 2005	31 Dec, 2003
Depreciation difference	2.4	6.9
Goodwill depreciation	12.5	5.0
Other temporary differences for liabilities	17.4	13.6
Total	32.3	25.5
Total in the beginning of period	25.5	47.2
Translation difference	-0.1	-0.1
Change in statement of income	6.0	-9.3
Acquisitions and divestments	0.9	-12.3
Total at the end of period	32.3	25.5
Net deferred tax assets and liabilities	131.3	105.7

19. Inventories

	31 Mar, 2005	31 Dec, 2003
Raw materials, supplies and finished goods	385.7	403.1
Work in progress	544.0	381.6
Advance payments paid	8.6	3.1
Inventories	938.3	787.8
Advance payments received	-456.6	-311.1
Total	481.7	476.7

Work in progress includes direct labour and material costs as of the Balance Sheet date with the proportion of indirect costs related to manufacturing and installation of firm customer orders received. Firm customer orders are mainly fixed price contracts with customers for the sale of new equipment or for the modernization of old equipment. Advance payments include customer payments for the orders in work in progress according to the contractual payment terms.

20. Deferred Assets

	31 Mar, 2005	31 Dec, 2003
Deferred interests	1.7	15.7
Accrued income of service contracts	19.5	9.1
Unbilled contract revenue (Note 5)	46.4	5.7
Derivative assets	14.8	47.6
Prepaid expenses and other receivables	173.3	132.2
Total	255.7	210.3

The net present value of cross currency swaps excluding accrued interests is not included in derivative assets but in financial receivables (Note 17).

21. Financial Assets

	31 Mar, 2005	31 Dec, 2003
Deposits	48.8	308.4
Other	1.6	0.3
Total	50.4	308.7

The average interest rate of the financial assets portfolio on 31 March, 2005 was 2.2 percent.

22. Shareholders' Equity and its Changes

Total shareholder's equity consists of share capital, share premium account, fair value and other reserves, translation differences and retained earnings. Share premium account includes the impacts of change in share capital, which exceeds the par value of the shares and the sales of own shares over or under the acquisition value. Fair value and other reserves include the changes in fair value of cash flow hedges and in the fair values of available-for-sale financial assets.

Translation differences arising from the application of the purchase method on the translation of the net investment in foreign subsidiaries and associated companies are recorded in translation differences. Exchange rate differences resulting from derivatives and loans intended as hedges on assets and liabilities in foreign subsidiaries are entered also in translation differences. Net income of the accounting period is booked directly to retained earnings.

Notes on the Consolidated Financial Statements

Shares and Share Capital

At the end of the financial period on 31 March, 2005 the number of shares outstanding was 63,676,455. Par value of each share is 1 EUR. Share capital was EUR 63.7 million and the total number of votes was 14,940,323. Each class A share is assigned one vote, as is each block of 10 class B shares, with the provision that each shareholder is entitled to at least one vote. KONE Corporation's Articles of Association state that the minimum share capital is EUR 54 million and the maximum share capital is EUR 216 million. The share capital can be raised or reduced within these limits without an amendment to the Articles of Association. At the end of the financial period, 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 the financial period 1 January, 2004–31 March, 2005.

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.

Option Incentive Program

On 27 February, 2004 the AGM approved the option incentive program, which was introduced to approximately 250 key employees in the year 2000, and which was tied to KONE's cumulative net income (after taxes) in 2001–2003. 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, was to 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 had been exceeded. As the requirement was fulfilled, the total amount of 350,000 option rights was offered and it comprised 180,000 series 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 payable in April 2004, and 170,000 series B option rights, entitling their holders to subscription to 510,000 class B shares starting 1 April, 2005. Assuming all option rights subscribed pursuant to the terms of the program, KONE Corporation share capital could have been increased by total EUR 1,050,000 or 1,050,000 class B shares, representing 1.65 percent of the share capital and 0.70 percent of the voting rights on 31 December, 2003.

Subscription period for option rights was 1 March, 2004–19 March, 2004. The option rights were granted free of charge. During that period 145,130 series A and 170,000 series B option rights were subscribed for and in April 2004 a cash bonus of EUR 5.8 million was paid. Series A option rights were subscribed for by KONE key personnel and series B option rights by KONE Capital Oy to be offered to plan participants according to the terms of the program. Pursuant to the option rights subscribed, KONE Corporation share capital can be increased by maximum EUR 945,390 or 945,390 class B shares.

The annual period of subscription for shares falls between 2 January and 30 November, on dates to be determined by the company. The subscription price is EUR 24.67. The shares entitle for dividends for the financial year in which the subscribtion occurs. Other shareholders rights will commence on the date on which the share subscribtion is entered in the Finnish Trade Register.

Due to the demerger of the company and the extension of the financial period, the Board of Directors decided to allow subscription of shares with option rights also from 1 December, 2004 to 31 December, 2004. Subscription was, however, not allowed one month prior to the end of the accounting period, from 1 March, 2005 to 31 March, 2005. The Board accepted as well share subscriptions made in January and February 2005 and these shares qualify for dividend payment for the extended financial year. Other rights related to the shares commence on the date when the increase in the share capital is entered in the Trade Register.

The Board has also decided that share subscriptions will not be allowed one month prior to the estimated demerger date 31 May, 2005, or from 1 May, 2005 to 31 May, 2005.

In connection with the demerger, the Board of Directors of KONE has offered an exchange of option rights so that for each current series A option right will be given one series A option right of New KONE and one series A option right of Cargotec, and for each current series B option right will be given one series B option right of New KONE and one series B option right of Cargotec. The share subscription price of EUR 24.67 based on the terms of the KONE 2004 option program is to be divided between the two corporations new option rights and recalculated to reflect the market value of KONE Corporation and Cargotec Corporation at the time of their listing. The market value to be used in recalculating the new subscription price is the trade volume weighted average price of the first six (6) trading days of New KONE shares and Cargotec shares, excluding the first trading day. The subscription prices of New KONE and Cargotec shares are anticipated to be disclosed on 13 June, 2005. According to the demerger plan, the subscription period for shares in New KONE and Cargotec will commence on 13 June, 2005. The subscription period is subject to the execution of the demerger on 31 May, 2005.

Option rights	Amount of option rights subscribed for	Number of class B shares one option right entitles to subscribe for	Subscribtion price, EUR	Period of subscription for shares
Series A	145,130	3	24.67	1 April, 2004–31 March, 2008
Series B	170,000	3	24.67	1 April, 2005–31 March, 2009

Changes in share capital

	Class A	Class B	Total
Number of shares as of 1 January, 2003	9,526,089	53,937,531	63,463,620
Number of shares as of 1 January, 2004	9,526,089	53,937,531	63,463,620
Share subscription with 2004 A option rights 28 Apr, 2004		79,200	79,200
Share subscription with 2004 A option rights 1 Jun, 2004		22,350	22,350
Share subscription with 2004 A option rights 30 Jun, 2004		22,500	22,500
Share subscription with 2004 A option rights 2 Aug, 2004		21,000	21,000
Share subscription with 2004 A option rights 28 Oct, 2004		32,790	32,790
Share subscription with 2004 A option rights 10 Dec, 2004		17,130	17,130
Share subscription with 2004 A option rights 3 Feb, 2005		10,080	10,080
Share subscription with 2004 A option rights 24 Mar, 2005		7,785	7,785
Number of shares at 31 March, 2005	9,526,089	54,150,366	63,676,455
Number of votes at 31 March, 2005	9,526,089	5,414,234	14,940,323
Share capital at 31 March, 2005, MEUR	9.5	54.2	63.7

Changes in the number of option rights outstanding

	1 Jan, 2004–31 Mar, 2005
Number of option rights outstanding at 1 January, 2004	0
Granted	315,130
Exercised	70,945
Lapsed	0
Number of option rights outstanding at 31 March, 2005	244,185

Authority to Purchase Own Shares

In 2002 the 833,479 KONE class B shares were purchased by the Corporation and were in its possession at the end of 2003 (1.3 percent of total shares at 1 January, 2004).

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 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 set 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.

In 2004 AGM approved the proposal of Board of Directors for the authorization to be extended and during the year 2004 total amount of 1,863,397 shares was purchased.

KONE's Board of Directors decided on 1 December, 2004 to assign all class B shares held by the company and to use the proceeds in financing the acquisition of MacGREGOR Group.

KONE Corporation has on 10 December, 2004, in accordance with the authorization approved by KONE's Annual General Meeting on 27 February, 2004, sold all of its 2,696,876 class B shares that were in the company's possession as a contractual trade on the Helsinki Stock Exchange. The price was EUR 56.00 per share and the total transaction value was EUR 150.1 million.

The sold shares represent 4.24 percent of KONE's share capital. The shares were acquired in accordance with the decisions of KONE's 2003 and 2004 Annual General Meetings to the average price of EUR 43.18 per share.

Own shares bought

	Number of shares	Cost in MEUR
Year 2002	833,479	26.3
March 2004	150,980	7.3
April 2004	1,050,020	51.2
May 2004	662,397	31.5
Total year 2004	1,863,397	90.1
Total Jan 2002–May 2004	2,696,876	116.4
Own shares sold		
December 2004	2,696,876	150.1
Total own shares as of 31 March, 2005	0	

Notes on the Consolidated Financial Statements

23. Interest-Bearing Liabilities

	Fair value	Carrying amount	
	31 Mar, 2005	31 Mar, 2005	31 Dec, 2003
Non-current			
Loans	199.0	199.0	673.5
Finance lease liabilities	27.2	27.2	50.0
Total	226.2	226.2	723.5
Current portion of long-term loans			
Loans	80.1	80.1	147.7
Finance lease liabilities	15.5	15.5	12.0
Total	95.6	95.6	159.7
Current			
Loans	35.0	35.0	101.0
Commercial papers	179.6	179.6	206.7
Overdrafts used	24.6	24.6	37.4
Total	239.2	239.2	345.1
Total interest-bearing liabilities	561.0	561.0	1,228.3

The fair values of the interest-bearing liabilities are not materially different from their carrying amounts. The average interest rate of the non-current liabilities portfolio on 31 March, 2005 was 3.3 percent and that of current liabilities 2.6 percent.

Repayment schedule of non-current interest-bearing liabilities

	2006	2007	2008	2009	Later	Total
Loans	37.5	43.2	58.1	2.2	58.0	199.0
Finance lease liabilities	12.7	7.0	3.1	0.8	3.6	27.2
Total	50.2	50.2	61.2	3.0	61.6	226.2

KONE has non-cancellable finance lease agreements for machinery & equipment and buildings with varying terms and renewal rights.

	31 Mar, 2005	31 Dec, 2003
Minimum lease payments		
Less than 1 year	16.3	12.5
1–5 years	26.9	49.4
Over 5 years	5.1	9.3
	48.3	71.2
Future finance charges	-5.6	-9.2
Present value of finance lease liabilities	42.7	62.0

	31 Mar, 2005	31 Dec, 2003
Present value of finance lease liabilities		
Less than 1 year	15.5	12.0
1–5 years	23.2	42.8
Over 5 years	4.0	7.2
Total	42.7	62.0

24. Employee Benefits and Other Liabilities

Employee Benefits

The group operates various employee benefits plans throughout the world. Pension arrangements are made in accordance with local regulations and practise in line with the defined contribution pension plans or defined benefit pension plans. For defined benefit pension plans retirement, disability, death and termination income benefits are determined, retirement benefits generally being a function of years worked and final salary.

In Finland, pension cover has been arranged through local insurance companies in accordance with defined contribution plans (Finnish Statutory Employment Pension Scheme " TEL "). In the transition to IFRS reporting as per 1 January, 2003, the disability portion of TEL has been accounted for as a defined benefit plan. Following changes in the TEL scheme, enacted late 2004, the disability pensions arranged with insurance companies will change from a defined benefit plan to defined contribution plan. Due to this change the Group released EUR 18.4 million in the Statement of Income by decreasing the defined benefit pension liability. In Sweden, pension cover is arranged through both insurance companies and book reserves in accordance with the Swedish "FPG/PRI System". Same type of book reserve for unfunded defined benefit pension plans are used also e.g. in Germany and in Italy. Other post-employment unfunded obligations include book reserves for termination income benefits, which are made in some countries in accordance with local practise.

The main countries to have funded defined benefit plans are U.K., U.S.A., Canada and Australia. Defined benefit pension plans are funded by the relevant KONE companies to satisfy local statutory funding requirements. The discount rates used in actuarial calculations of employee benefits liabilities are adjusted to market rates. The group funds also include certain other post-employment benefits in U.S.A. relating to retirement, medical and life insurance programmes.

Other Liabilities

Repurchase liability relates to customer finance agreements. It comprises future obligations to repurchase the equipment, rented to the end-user, from the finance company at the residual value.

	31 Mar, 2005	31 Dec, 2003
Employee benefits		
Defined benefit plans	162.1	154.0
Other post-employment benefits	19.3	18.2
Repurchase liabilities	6.7	13.6
Total	188.1	185.8

	Defined benefit plans		Other post-employment benefits	
Amounts recognised in the balance sheet	31 Mar, 2005	31 Dec, 2003	31 Mar, 2005	31 Dec, 2003
Present value of unfunded obligations	87.7	101.0	11.2	9.4
Present value of funded obligations	233.5	171.5	14.0	12.7
Fair value of benefit plans' assets	-146.2	-114.1	-3.5	-3.5
Unrecognized actuarial gains (+)/losses (-)	-12.9	-4.4	-2.4	-0.4
Total	162.1	154.0	19.3	18.2

	Defined benefit plans		Other post-employment benefits	
Benefit plan reconciliation	31 Mar, 2005	31 Dec, 2003	31 Mar, 2005	31 Dec, 2003
Net liability in the beginning of period	154.0	154.9	18.2	18.9
Translation difference	0.4	-6.2	-0.2	-1.5
Acquisition of new companies	16.7	0.0	0.0	0.0
Disposal of companies	0.0	0.0	0.0	0.0
Costs recognized in statement of income	2.6	15.0	1.4	1.8
Paid contributions	-11.6	-9.7	-0.1	-1.0
Net liability at the end of period	162.1	154.0	19.3	18.2

Amounts recognised in the statement of income

Total pensions	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Defined contribution pension plans	99.1	85.6
Defined benefit pension plans	2.6	15.0
Other post-employment benefits	1.4	1.8
Total	103.1	102.4

Notes on the Consolidated Financial Statements

	Defined benefit plans		Other post-employment benefits	
	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003	1 Jan, 2004–31 Mar, 2005	1 Jan, 2003–31 Dec, 2003
Current service costs	13.9	12.3	1.2	1.2
Interest costs	18.3	14.6	0.9	1.1
Expected return on plans' assets	-12.3	-8.8	-0.7	-0.5
Net actuarial gains (-)/losses (+) recognized	0.1	-0.4	0.0	0.0
Past-service costs	1.1	1.3	0.0	0.0
Settlements/TEL-disability adjustment	-18.5	-4.0	0.0	0.0
Loss curtailments	0.0	0.0	0.0	0.0
Total	2.6	15.0	1.4	1.8

The actual return on plan assets was EUR 13.0 (18.7) million.

Defined benefit plans: Assumptions used in calculating benefit obligations

	1 Jan, 2004–31 Mar, 2005		1 Jan, 2003–31 Dec, 2003	
	Europe	U.S.A.	Europe	U.S.A.
Discount rate, %	4.80–5.40	6.50	4.80–5.40	6.75
Expected return on plan assets, %	3.0–7.45	9.25	3.00–7.75	9.25
Future salary increase, %	3.0–4.5	4.0	3.0–4.5	4.0
Future pension increase, %	2.2–3.0	4.0	2.0–2.8	4.0
Expected average remaining working years	11–19	15	11–19	15

25. Provisions

1 Jan, 2004–31 Mar, 2005	Provision for warranty	Provision for claims	Provision for business re-organization	Provision for loss contracts	Other provisions	Total
Total provision in the beginning of period	30.1	7.8	3.3	31.1	79.6	151.9
Translation difference	-0.3	-0.5	-0.1	-0.3	-0.6	-1.8
Increase	26.7	7.5	90.5	47.1	25.1	196.9
Provision used	-23.4	-2.6	-1.0	-33.8	-36.9	-97.7
Reversal of provision	-4.4	-0.2	-1.7	-2.1	-10.6	-19.0
Companies acquired	13.2	0.1	0.1	2.9	0.3	16.6
Companies sold	0.0	0.0	-0.1	0.0	-1.0	-1.1
Total provision at the end of period	41.9	12.1	91.0	44.9	55.9	245.8

	Non-current liabilities	Current liabilities	Total
Distribution of the provisions as of 31 March, 2005	14.2	231.6	245.8

1 Jan, 2003–31 Dec, 2003	Provision for warranty	Provision for claims	Provision for business re-organization	Provision for loss contracts	Other provisions	Total
Total provision in the beginning of period	35.7	10.7	19.5	22.1	94.1	182.1
Translation difference	-0.2	0.0	0.0	0.0	-0.2	-0.4
Increase	9.1	0.5	1.2	15.6	31.7	58.1
Provision used	-10.3	-2.1	-17.4	-4.1	-25.1	-59.0
Reversal of provision	-0.1	-1.3	0.0	-2.5	-12.0	-15.9
Companies sold	-4.1	0.0	0.0	0.0	-8.9	-13.0
Total provision at the end of period	30.1	7.8	3.3	31.1	79.6	151.9

	Non-current liabilities	Current liabilities	Total
Distribution of the provisions as of 31 December, 2003	39.9	112.0	151.9

Provisions for warranties cover the expenses related to warranty claims from goods sold with a valid warranty in the accounting period or earlier. Provisions for claims are made for claims received for which the value, probability and realization can be estimated. Provisions for loss contracts are recognized when it is probable that contract costs will exceed the estimated total contract revenue. The expected loss is recognized as an expense immediately. Other provisions include various items, e.g. related to product quality, severance, unemployment and other employment items and the sale of divested operations.

A provision for restructuring costs is recognized only when the general criteria for the recognition are met. KONE Corporation's Board of Directors decided in its meeting on 19 October, 2004 to initiate preparations for a development and restructuring program in order to secure the long-term competitiveness and profitability of its elevator and escalator business. KONE announced on 17 March, 2005 a detailed formal plan of development and restructuring program, which meets the general recognized criteria for provisions. In the accounting period 1 January, 2004–31 March, 2005 a provision for restructuring costs totaling EUR 89.2 million is recognized.

26. Accruals

	31 Mar, 2005	31 Dec, 2003
Accrued interests	2.4	13.2
Deferred income of service contracts	137.8	18.8
Late costs accruals	103.2	68.8
Accrued salaries, wages and employment costs	197.0	166.9
Derivative liabilities	12.6	17.0
Rent income, customer finance	9.0	16.2
Other accrued expenses	257.3	329.5
Total	719.3	630.4

Notes on the Consolidated Financial Statements

27. Commitments

	31 Mar, 2005	31 Dec, 2003
Mortgages		
Group and parent company	6.2	18.6
Pledged assets		
Group and parent company	12.5	14.7
Guarantees		
Associated companies	5.3	10.1
Others	26.3	33.9
Operating leases	122.7	112.8
Customer finance	15.3	27.8
Other contingent liabilities	0.3	4.5
Total	188.6	222.4

KONE leases machinery & equipment and buildings under non-cancellable operating leases. The leases have varying terms and renewal rights.

The future minimum lease payments under non-cancellable

operating leases	31 Mar, 2005	31 Dec, 2003
Less than 1 year	33.5	37.5
1-5 years	75.3	59.4
Over 5 years	13.9	15.9
Total	122.7	112.8

The aggregate operating lease expenses totaled EUR 44.1 (35.1) million.

Customer finance commitments	31 Mar, 2005	31 Dec, 2003
Dealer financing	8.4	9.0
End customer financing	6.9	18.8
Total	15.3	27.8

It is not anticipated that any material liabilities will arise from customer finance commitments.

28. Derivatives

Fair values of derivative financial instruments	Positive fair value 31 Mar, 2005	Negative fair value 31 Mar, 2005	Net fair value 31 Mar, 2005	Net fair value 31 Dec, 2003
FX Forward contracts	14.6	10.5	4.1	41.3
Currency options	0.1	0.1	0.0	0.5
Cross-currency swaps	37.1	0.0	37.1	32.7
Interest rate swaps	0.0	2.0	-2.0	-4.6
Electricity derivatives	0.4	0.0	0.4	0.1
Total	52.2	12.6	39.6	70.0

Nominal values of derivative financial instruments	31 Mar, 2005	31 Dec, 2003
FX Forward contracts	1,382.5	958.3
Currency options	52.0	94.1
Cross-currency swaps	173.8	173.8
Interest rate swaps, due under 1 year	75.0	20.0
Interest rate swaps, due in 1–3 years	45.0	120.0
Electricity derivatives	3.0	2.8
Total	1,731.3	1,369.0

29. KONE as Lessor

KONE rents out container handling equipment under non-cancellable operating leases. The leases have varying terms and renewal rights.

The future minimum lease payment receivables under non-

cancellable operating leases	31 Mar, 2005	31 Dec, 2003
Less than 1 year	10.3	4.0
1–5 years	24.4	20.0
Over 5 years	0.6	0.2
Total	35.3	24.2

Rent income recognised in the statement of income was EUR 11.7 (7.9) million.

Parent Company Financial Statements, FAS
Parent Company: Statement of Income

MEUR	1 Jan, 2004– 31 Mar, 2005	1 Jan, 2003– 31 Dec, 2003
Sales	402.4	374.8
Change of work in progress	10.8	-8.2
Other business income	642.3	7.3
Materials and supplies	-235.9	-175.6
Personnel expenses	-72.1	-79.8
Depreciation	-4.7	-3.0
Other business expenses	-130.7	-72.7
Operating Income	612.1	42.8
Financing income and expenses	439.1	190.4
Income after Financial Items	1,051.2	233.2
Extraordinary items	319.5	-87.0
Income before Taxes and Allocations	1,370.7	146.2
Depreciation difference	2.5	0.2
Taxes for the period	-104.1	-42.5
Deferred taxes	0.0	3.9
Net Income	1,269.1	107.8

Figures are presented according to Finnish Accounting Standards (FAS).

Parent Company: Balance Sheet

Assets MEUR	31 Mar, 2005	31 Dec, 2003
Fixed Assets and Other Long-term Investments		
Intangible assets		
Trademarks	0.9	-
Other long-term expenditures	0.4	0.8
	1.3	0.8
Tangible assets		
Land	0.4	1.3
Buildings	3.9	17.9
Machinery and equipment	2.7	6.6
	7.0	25.8
Investments		
Shares in subsidiaries	2,008.2	416.1
Other stocks and shares	72.2	4.7
Own shares	-	26.3
Advances paid	18.2	-
	2,098.6	447.1
Total Fixed Assets and Other Long-term Investments	2,106.9	473.7
Current Assets		
Inventories		
Raw materials and supplies	-	19.5
Work in progress	-	12.1
	-	31.6
Receivables		
Deferred tax assets	1.7	3.9
Accounts receivable	21.9	60.4
Loans receivable	2,176.2	2,162.7
Deferred assets	74.9	152.0
	2,274.7	2,379.0
Current Investments	16.9	254.3
Cash and bank	2.4	8.1
	19.3	262.4
Total Current Assets	2,294.0	2,673.0
Total Assets	4,400.9	3,146.7

Shareholders' Equity and Liabilities MEUR	31 Mar, 2005	31 Dec, 2003
Shareholders' Equity		
Share capital	63.7	63.5
Share premium account	249.5	219.6
Reserve for own shares	0.0	26.3
Retained earnings	757.3	760.8
Net income	1,269.1	107.8
Total Shareholders' Equity	2,339.6	1,178.0
Untaxed Reserves	-	1.6
Provision for Liabilities and Charges	0.3	9.9
Liabilities		
Long-term debt		
Loans from financial institutions	144.2	420.3
Current liabilities		
Loans from financial institutions	114.6	153.6
Advances received	-	19.9
Accounts payable	7.8	32.9
Other current liabilities	1,643.7	1,185.5
Accruals	150.7	145.0
	1,916.8	1,536.9
Total Debt	2,061.0	1,957.2
Total Shareholders' Equity and Liabilities	4,400.9	3,146.7

Figures are presented according to Finnish Accounting Standards (FAS).

Principal Subsidiaries

KONE Elevators & Escalators		Shareholding (%)	
Company	Country	Parent company	Group
KONE Inc.	United States		100
KONE plc	United Kingdom	100	100
Société Française des Ascenseurs KONÉ S.A.	France		99.96
KONE S.p.A.	Italy		100
KONE GmbH	Germany		100
KONE Elevators Pty Ltd	Australia	30	100
KONE B.V.	Netherlands		100
KONE Elevators Co. Ltd	China		95
KONE AB	Sweden		100
KONE Belgium S.A.	Belgium	80.88	80.88
KONE Elevadores S.A.	Spain	0.02	100
Other subsidiaries (166 companies)			

Kone Cargotec		Shareholding (%)	
Company	Country	Parent company	Group
Kone Cargotec Oy	Finland	100	100
Kalmar Industries Oy Ab	Finland		100
Kalmar Industries AB	Sweden		100
Cargotec Inc	United States		100
Kalmar Industries USA LLC	United States		100
MacGREGOR (FIN) Oy	Finland		100
MacGREGOR Cranes AB	Sweden		100
Kalmar Industries B.V.	Netherlands		100
Kalmar Ltd	United Kingdom		100
Bromma Conquip AB	Sweden		100
Waltco Truck Equipment Co. Inc.	United States		100
Other subsidiaries (159 companies)			

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 32 percent during the period under review from EUR 45.50 to EUR 59.97. During the same period, the Helsinki Exchanges All Share Index rose 9 percent, the HEX Portfolio Index rose 23 percent, and the HEX Metal and Engineering Sector Index rose 23 percent. The highest KONE Corporation class B share price during the period under review was EUR 66.48 and the lowest EUR 45.01. 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 accounting period, was EUR 3,819 (end-2003: 2,850) million. At the end of March 2005, the company had no own shares in its possession (end-2003: 833,479 class B shares).

During the period under review 55,360,575 (2003: 34,985,572) KONE Corporation class B shares were traded on the Helsinki Exchanges. The value of shares traded was EUR 2,851 (1,307) million. The average daily traded number of shares was 176,308 (139,942), representing EUR 9.1 million. The annualized relative turnover was 84 (65) percent.

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	54,150,366	54,150,366
Total	63,676,455	63,676,455

KONE class B share	
Trading code, Helsinki Exchanges	KONBS
ISIN Code	FI0009000566
Trading lot	20
Par value	EUR 1.00

KONE 2004 A option rights	
Trading code, Helsinki Exchanges	KONBSEW104
ISIN code	FI0009612287
Trading lot	10
Conversion rate	1:3 KONBS

KONE 2004 B option rights	
Trading code, Helsinki Exchanges	KONBSEW204
ISIN code	FI0009612295
Trading lot	10
Conversion rate	1:3 KONBS

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. The share capital can be raised or reduced within these limits without an amendment to the Articles of Association. At the end of March 2005, the share capital was EUR 63.7 (63.5) million. The increase in share capital was the result of subscriptions of 212,835 B shares with 2004 A option rights during the period under review. (See note 22 to the financial statements for table of changes in share capital)

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 March 2005, the total number of shares was 63,676,455, comprising 54,150,366 B shares and 9,526,089 A shares, with the par value of EUR 1.00 per share. The total number of votes was 14,940,323 (14,919,039).

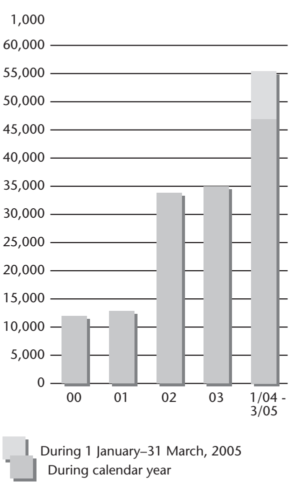
Dividends

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. KONE's Board proposes that dividends for the accounting period 1 January, 2004–31 March, 2005 be EUR 1.98 (1.98) for each class A share and EUR 2.00 (2.00) per class B share.

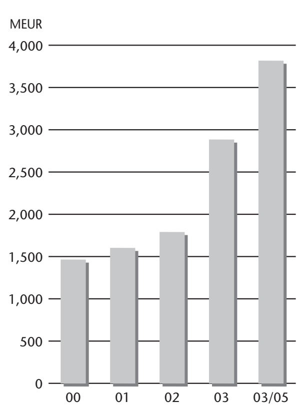
Authority to Raise Share Capital

At the end of the period under review, KONE's Board 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 the period under review.

Number of class B shares traded



Market capitalization



Authority to Purchase and Surrender Own Shares

On 27 February, 2004 the Annual General Meeting (AGM) authorized the Board 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 AGM authorized the Board to decide to whom and in what order the shares were to be surrendered.

The total amount of KONE 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. During 2004, 1,863,397 B shares were acquired, which increased the number of B shares in the company's possession to the maximum allowed 2,696,876 B shares, as the company had 833,479 B shares in its possession at the end of 2003. On 1 December, 2004, KONE's Board decided to assign all B shares in its possession and to use the proceeds to finance the acquisition of MacGREGOR Group. The shares were sold on 10 December, 2004 for EUR 56.00 per share and the total transaction value was EUR 150.1 million. The average price of the acquired shares was EUR 43.18 per share.

Option Program

KONE's AGM in February 2004 approved 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.

According to the terms of the program, the maximum number of option rights, 350,000, would be issued, entitling to subscription of 1,050,000 class B shares and a cash bonus of maximum EUR 7.2 million, as the minimum cumulative 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.

During the subscription period 1–19 March, 2004, a total of 145,130 A option rights were subscribed for, entitling to subscription of 435,390 class B shares starting 1 March, 2004 and a cash bonus of EUR 40 per option right, which was paid in April 2004 (EUR 5.8 million in total). Provisions covering in full the cash bonus were made in the 2002 and 2003 accounts. The A option rights were listed on the main list of the Helsinki Exchanges as of 1 April, 2004. During the period under review 212,835 B shares were subscribed for with 70,945 A option rights. The remaining 74,185 A option rights entitle to subscription of 222,555 B shares.

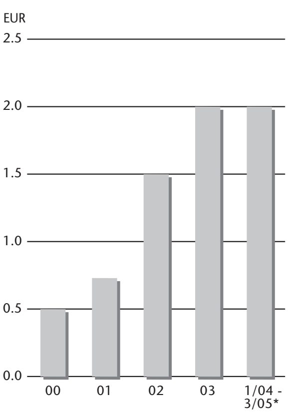
All 170,000 B option rights were subscribed for by Kone Capital Oy, to be offered to key personnel according to the terms of the option program. The B option rights entitle to subscription to 510,000 class B shares starting 1 April, 2005, when the option rights were also listed on the main list of the Helsinki Stock Exchange.

The subscription price is EUR 24.67 for both A and B option rights. The option rights were given free of charge, and they were issued in the book-entry system. The maximum increase in shares through subscription with outstanding option rights represents 1.15 percent of the shares and 0.49 percent of the voting rights in KONE. The annual subscription period will fall between 2 January and 30 November, on dates to be determined by the company.

Shareholders

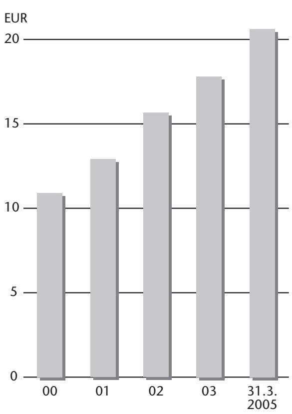
At the end of March 2005, KONE had 12,373 (10,249) shareholders. A breakdown of shareholders is given in the enclosed table.

Dividend/class B share

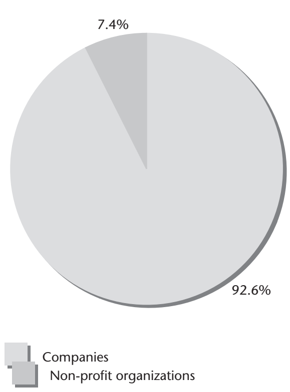


* Board's proposal

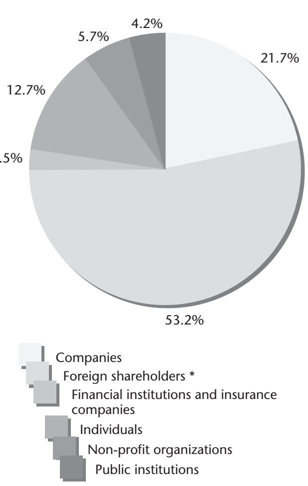
Equity/share



Class A shares



Class B shares



*) Includes foreign-owned shares registered by Finnish nominees

Shares and Shareholders

At the end of March 2005, the ownership of approximately 45 (41) percent of KONE shares was in non-Finnish hands, corresponding to around 19 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 25,637,842 (22,717,729) foreign-owned shares – representing 40.3 percent of the shares – registered in the name of Finnish nominees at the end of March 2005.

Shareholdings of the President and Members of the Board of Directors

KONE Corporation's president and members of the Board of Directors directly owned 152,014 class B shares, and indirectly 8,820,201 class A shares and 10,817,709 class B shares on 31 March, 2005, representing 31.05 percent of shares and 66.37 percent of votes.

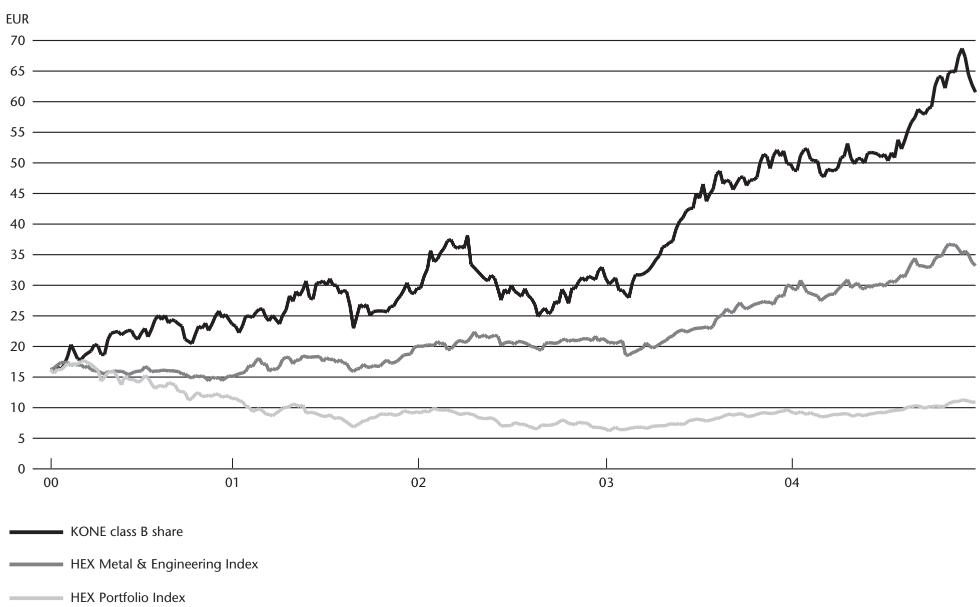
On 5 April, 2005 KONE CEO Antti Herlin, Ilkka Herlin, Ilona Herlin and Niklas Herlin signed an agreement aiming at the reorganization of the ownership of the holding companies of KONE, Security Trading Oy and Holding Manutas Oy, as well of their holdings in KONE and their other holdings. The multi-phased reorganization will be completed by 15 July, 2005, at which time the demerger of KONE will have come into effect.

When the agreement comes into effect, the shares of the new KONE Corporation controlled by Antti Herlin will correspond to 20.8 percent of the shares and 62 percent of the votes.

Shareholdings in KONE Corporation on 31 March, 2005 by Number of Shares

Number of shares			Number of owners	Percentage of owners	Number of shares	Percentage of shares
1	–	10	210	1.70	1,626	0.00
11	–	100	4,905	39.64	307,822	0.48
101	–	1,000	5,908	47.75	2,139,291	3.36
1,001	–	10,000	1,207	9.76	3,358,756	5.28
10,001	–	100,000	114	0.92	3,158,169	4.96
100,001	–		29	0.23	54,705,166	85.91
Total			12,373	100.00	63,670,830	99.99
Shares which have not been transferred to the paperless book entry system					5,625	0.01
Total					63,676,455	100.00

KONE Class B Share Price Development 2000–3/2005



Largest Shareholders on 31 March, 2005

		Number of Class A shares	Number of Class B shares	Total number of shares	% of shares	% of votes
1	Ownership of Antti Herlin					
	Holding Manutas*	6,785,574	145,890	6,931,464	10.89	45.52
	Security Trading**	2,034,627	10,671,819	12,706,446	19.95	20.76
	Antti Herlin		136,294	136,294	0.21	0.09
	Total	8,820,201	10,954,003	19,774,204	31.05	66.37
2	Toshiba Elevator and Building Systems Corporation		3,023,340	3,023,340	4.75	2.02
3	The KONE Foundation	705,888	1,232,454	1,938,342	3.04	5.55
4	Ilmarinen Mutual Pension Insurance Company		463,986	463,986	0.73	0.31
5	Finnish State Pension Fund		440,000	440,000	0.69	0.29
6	Hanna Nurminen		390,001	390,001	0.61	0.26
7	Niklas Herlin		383,985	383,985	0.60	0.26
8	Etera Mutual Pension Insurance Company		305,220	305,220	0.48	0.20
9	Mutual Insurance Company Pension Fennia		247,015	247,015	0.39	0.17
10	Polaris Pension Foundation		218,520	218,520	0.34	0.15
	10 major shareholders total	9,526,089	17,658,524	27,184,613	42.68	75.58
	Nominee registered (within 100 largest shareholders)***		25,625,066	25,625,066	40.25	17.15
	Other shareholders		10,866,776	10,866,776	17.07	7.27
Total		9,526,089	54,150,366	63,676,455	100.00	100.00

* 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, company in which he exercises controlling power, his ownership represents 45.75 percent of the shares and 50.58 percent of the voting rights.
** Antti Herlin's ownership in Security Trading Oy represents 21.85 percent of the shares and 68.54 percent of the voting rights.
*** The American investment fund company Tweedy Browne Company LLC notified KONE Corporation on 1 April, 1999 that its holdings of KONE Corporation was over 5 percent of the shares.

Transition to IFRS Reporting

KONE Group has applied the International Financial Reporting Standards (IFRS) as of 1 January, 2004. Prior to IFRS adoption KONE Group reported under Finnish Accounting Standards (FAS). The transition date to IFRS is 1 January, 2003. The transition to IFRS changed the Accounting Principles, financial reports and notes compared to the previously published financial reports.

Accounting Principles (Note 1) were applied in preparing the data on the previous year as per 31 December, 2003 and the opening IFRS balance sheet on the date of the transition to IFRS. In the transition to IFRS, KONE has applied the First-Time Adoption Standard that allows exemptions to some of the specific standards at the time of transition. The most significant exemption applied is the use of goodwill values in FAS financial statements in the opening balance sheet on IFRS transition date.

The Reconciliations of Consolidated Statement of Income, Consolidated Balance Sheet and Equity presented below provide information on the main differences between Finnish Accounting Standards (FAS) and IFRS in year 2003 and as of Transition Date 1 January, 2003. Reconciliation of Statement of Cash Flow is not presented since there are no significant differences between IFRS and FAS.

There are few minor changes in classification, presentation, and interpretation of some items and corrections of items between figures presented in the Consolidated Balance Sheet on 31 December, 2003 and the comparative figures presented in the Balance Sheet, published in Interim Reports during 2004. The total of Balance Sheet has changed since some items have been presented as gross amounts.

Principal IFRS adjustments

The numbers below refer to the effects of adopting IFRS in the reconciliation of net income and equity.

1) Cumulative translation differences in shareholders' equity prior to the transition date have been transferred to retained earnings.
2) Capital loans are classified as liabilities in IFRS balance sheet.
3) Own shares held by the company are not included in assets or in equity.
4) Goodwill is not amortized but impairment tested. The amount of goodwill amortizations in reconciliation calculations is different from the amount of goodwill amortizations in the FAS consolidated statement of income due to the reclassification of items previously included in goodwill as intangible assets in the IFRS balance sheet.
5) The percentage of completion revenue recognition method is applied to long term projects.
6) Deferred tax includes the impact of several IFRS adjustments.
7) Leasing agreements have been classified as financial leases.
8) Customer finance arrangements, e.g. sale and lease-back agreements, and customer finance commitments have been classified in compliance with IAS 17 (Leases), IAS 18 (Revenue) and IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).
9) The change in the accounting treatment of cash flow hedging and interest rate derivatives is in compliance with IAS 39. The fair value of cash flow hedging derivatives is included in the balance sheet and the changes in the fair values in the cash flow hedge reserve in equity.
10) Defined benefit plans in various KONE Group companies. The disability element of the Finnish pension scheme (TEL) is calculated as a defined benefit plan in Finnish Group companies. All cumulative actuarial gains and losses are recognized in the balance sheet on the IFRS transition date.
11) Revaluations on land and buildings in accordance with FAS have been cancelled.
12) The main item in other IFRS adjustments consists of the share repurchase commitment of the associated company Consolis Oy Ab. This commitment has been transferred from contingent liabilities to the balance sheet.
13) Minority shares are included in equity.

Other additional information

Research and development cost and development cost on information technology are expensed as incurred. Extraordinary items in accordance with FAS are presented in the IFRS statement of income above operating income.

Reconciliation of Consolidated Statement of Income

MEUR	FAS 2003	IFRS restatements	IFRS 2003
Sales	5,344.4	66.0	5,410.4
Costs, expenses and depreciation	-4,845.0	-153.3	-4,998.3
Depreciation without goodwill amortization	-80.9	80.9	0.0
Goodwill amortization	-89.1	89.1	0.0
Gain on divested operations	0.0	24.9	24.9
Operating Income	329.4	107.6	437.0
Share of associated companies' net income	4.9	1.8	6.7
Financing income and expenses	-27.3	-0.5	-27.8
Income before Taxes (and Extraordinary Items)	307.0	108.9	415.9
Extraordinary items	21.6	-21.6	0.0
Income before Taxes	328.6	87.3	415.9
Taxes	-109.2	-4.0	-113.2
Minority share	-2.5	2.5	0.0
Net Income	216.9	85.8	302.7
Net Income Attributable to:			
Shareholders of the parent company	216.9	83.3	300.2
Minory interests	0.0	2.5	2.5
Total	216.9	85.8	302.7
Earnings per Share for Profit Attributable to the Shareholders of the Parent Company			
Basic earnings per share, EUR	3.12	1.67	4.79
Diluted earnings per share, EUR	3.10	1.67	4.77

Reconciliation of Net Income

MEUR		1-12/2003
Net income according to FAS		216.9
Effects of adopting IFRS:		
Goodwill amortization	(4)	80.9
Long-term contracts according to the percentage of completion method	(5)	3.5
Deferred taxes	(6)	-4.1
Finance leases	(7)	-0.1
Customer finance arrangements	(8)	-0.9
Cash flow hedge	(9)	0.7
Employee benefits	(10)	-1.1
Other IFRS adjustments	(12)	4.4
Total IFRS restatement		83.3
Net income according to IFRS		300.2

The numbers in parentheses refer to the Principal IFRS adjustments mentioned above.

Reconciliation of Consolidated Balance Sheet

Assets MEUR	FAS 31 Dec, 2002	IFRS restatements	IFRS 1 Jan, 2003	FAS 31 Dec, 2003	IFRS restatements	IFRS 31 Dec, 2003
Non-Current Assets						
Goodwill	1,063.1	-35.7	1,027.4	912.0	43.1	955.1
Other intangible assets	57.1	27.6	84.7	35.0	28.7	63.7
Property, plant and equipment	648.7	67.8	716.5	401.4	43.4	444.8
Investments in associated companies	0.0	72.9	72.9	0.0	69.8	69.8
Shares	0.0	141.8	141.8	0.0	150.6	150.6
Available-for-sale investments	0.0	15.8	15.8	0.0	8.2	8.2
Shares and Participating Interest	207.7	-207.7	0.0	182.7	-182.7	0.0
Own shares	26.3	-26.3	0.0	26.3	-26.3	0.0
Non-current financial receivables	0.0	309.5	309.5	0.0	67.8	67.8
Deferred tax assets	0.0	147.4	147.4	0.0	131.2	131.2
Other non-current assets	0.0	0.0	0.0	0.0	5.3	5.3
Total Non-Current Assets	2,002.9	513.1	2,516.0	1,557.4	339.1	1,896.5
Current Assets						
Inventories	936.5	-54.0	882.5	874.1	-86.3	787.8
Advance payments received	-406.1	60.2	-345.9	-416.1	105.0	-311.1
Accounts receivable	842.9	-9.9	833.0	764.6	-8.8	755.8
Deferred assets	295.9	-199.9	96.0	340.6	-130.3	210.3
Loans receivable	60.8	-60.8	0.0	65.7	-65.7	0.0
Income tax receivables	0.0	51.0	51.0	0.0	70.9	70.9
Current financial receivables	7.6	-7.6	0.0	13.5	-11.9	1.6
Financial assets	293.8	-250.0	43.8	313.6	-4.9	308.7
Cash and bank	125.9	0.0	125.9	103.5	0.0	103.5
Total Current Assets	2,157.3	-471.0	1,686.3	2,059.5	-132.0	1,927.5
Total Assets	4,160.2	42.1	4,202.3	3,616.9	207.1	3,824.0

Equity and Liabilities MEUR	FAS 31 Dec, 2002	IFRS restatements	IFRS 1 Jan, 2003	FAS 31 Dec, 2003	IFRS restatements	IFRS 31 Dec, 2003
Capital and Reserves Attributable to the Shareholders of the Parent Company						
Share capital	63.5	0.0	63.5	63.5	0.0	63.5
Share premium account	219.6	0.0	219.6	219.6	0.0	219.6
Reserve for own shares	26.3	-26.3	0.0	26.3	-26.3	0.0
Fair value and other reserves	0.0	13.2	13.2	0.0	15.4	15.4
Translation differences	20.9	-20.9	0.0	-19.2	-18.5	-37.7
Retained earnings	519.8	103.6	623.4	583.1	246.8	829.9
Net income	157.1	-157.1	0.0	216.9	-216.9	0.0
Capital loans	102.1	-102.1	0.0	0.0	0.0	0.0
Total Shareholders' Equity	1,109.3	-189.6	919.7	1,090.2	0.5	1,090.7
Minority interests	20.1	0.0	20.1	24.1	0.0	24.1
Total Equity	1,129.4	-189.6	939.8	1,114.3	0.5	1,114.8
Non-Current Liabilities						
Loans	975.8	175.8	1,151.6	683.9	39.6	723.5
Deferred tax liabilities	49.6	-2.5	47.1	24.5	1.0	25.5
Employee benefits and other liabilities	0.0	177.3	177.3	0.0	185.8	185.8
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total Non-Current Liabilities	1,025.4	350.6	1,376.0	708.4	226.4	934.8
Provisions	247.0	-76.7	170.3	195.5	-43.6	151.9
Current Liabilities						
Current portion of long-term loans	0.0	119.9	119.9	0.0	159.7	159.7
Loans	596.2	-101.4	494.8	353.5	-353.5	0.0
Other liabilities	57.9	7.0	64.9	107.3	237.8	345.1
Accounts payable	385.7	-11.4	374.3	380.0	-3.2	376.8
Accruals	718.6	-117.1	601.5	757.9	-127.5	630.4
Income tax payables	0.0	60.8	60.8	0.0	110.5	110.5
Total Current Liabilities	1,758.4	-42.2	1,716.2	1,598.7	23.8	1,622.5
Total Equity and Liabilities	4,160.2	42.1	4,202.3	3,616.9	207.1	3,824.0

Reconciliation of Equity

MEUR		Share capital	Share premium account	Reserve for own share	Fair value and other reserves	Translation differences	Retained earnings	Net Income	Capital loans	Minority interests	Total Equity
Equity according to FAS as of 31 December, 2002		63.5	219.6	26.3	0.0	20.9	519.8	157.1	102.1	0.0	1,109.3
Transfer of Net Income to Retained earnings							157.1	-157.1			0.0
Effects of adopting IFRS:											
Transfer of Translation difference to Retained earnings	(1)					-20.9	20.9				0.0
Capital loans	(2)								-102.1		-102.1
Reserve for own share	(3)			-26.3							-26.3
Long-term contracts according to the percentage of completion method	(5)						-1.2				-1.2
Deferred taxes	(6)						36.4				36.4
Finance leases	(7)						-1.5				-1.5
Customer finance arrangements	(8)						-9.2				-9.2
Cash flow hedge	(9)				13.2		-5.1				8.1
Employee benefits	(10)						-74.4				-74.4
Cancellation of revaluations	(11)						-13.9				-13.9
Other IFRS adjustments	(12)						-5.5				-5.5
Total IFRS restatements		0.0	0.0	-26.3	13.2	-20.9	-53.5	0.0	-102.1	0.0	-189.6
Transfer of Minority interests to Total equity	(13)									20.1	20.1
Total equity according to IFRS as of 1 January, 2003		63.5	219.6	0.0	13.2	0.0	623.4	0.0	0.0	20.1	939.8

MEUR		Share capital	Share premium account	Reserve for own share	Fair value and other reserves	Translation differences	Retained earnings	Net Income	Capital loans	Minority interests	Total Equity
Equity according to FAS as of 31 December, 2003		63.5	219.6	26.3	0.0	-19.2	583.1	216.9	0.0	0.0	1,090.2
Transfer of Net Income to Retained earnings							216.9	-216.9			0.0
Effects of adopting IFRS:											
Transfer of Translation difference to Retained earnings	(1)					-20.9	20.9				0.0
Reserve for own share	(3)			-26.3							-26.3
Goodwill amortization	(4)						80.9				80.9
Long-term contracts according to the percentage of completion method	(5)						2.4				2.4
Deferred taxes	(6)						31.8				31.8
Finance leases	(7)						-1.4				-1.4
Customer finance arrangements	(8)						-8.8				-8.8
Cash flow hedge	(9)				15.4		-3.3				12.1
Employee benefits	(10)						-71.5				-71.5
Cancellation of revaluations	(11)						-13.9				-13.9
Other IFRS adjustments	(12)					2.4	-7.2				-4.8
Total IFRS restatements		0.0	0.0	-26.3	15.4	-18.5	29.9	0.0	0.0	0.0	0.5
Transfer of Minority interests to Total equity	(13)									24.1	24.1
Total equity according to IFRS as of 1 January, 2004		63.5	219.6	0.0	15.4	-37.7	829.9	0.0	0.0	24.1	1,114.8

The numbers in parentheses refer to the Principal IFRS adjustments mentioned above.

Calculation of Key Figures

Average Number of Employees	=		the average number of employees at the end of each calendar month during the accounting period
Return on Equity (%)	=	100 x	$\frac{\text{net income}}{\text{total equity (average of the figures for the accounting period)}}$
Return on Capital Employed (%)	=	100 x	$\frac{\text{income after financing items + interest + other financing costs}}{\text{total assets - non-interest-bearing-debt (average of the figures for the accounting period)}}$
Total Equity/Total Assets (%)	=	100 x	$\frac{\text{total equity}}{\text{total assets}}$
Gearing (%)	=	100 x	$\frac{\text{interest-bearing-debt - liquid assets - loans receivable}}{\text{total equity}}$
Basic Earnings/Share	=		$\frac{\text{net income attributable to the shareholders of the parent company}}{\text{issue and conversion adjusted weighted average number of shares - repurchased own shares}}$
Equity/Share	=		$\frac{\text{total shareholders' equity}}{\text{number of shares (issue adjusted) - repurchased own shares}}$
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	$\frac{\text{dividend/share}}{\text{price of class B shares at the end of the accounting period}}$
Price/Earnings	=		$\frac{\text{price of class B shares at the end of the accounting period}}{\text{earnings/share}}$
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 at the end of the accounting period
Shares Traded	=		number of class B shares traded during the accounting period
Shares Traded (%)	=	100 x	$\frac{\text{number of class B shares traded}}{\text{average weighted number of class B shares}}$

Summary in Figures 2000–3/2005

Consolidated Statement of Income	IFRS 1 Jan, 2004– 31 Mar, 2005	IFRS 2003	FAS 2003	FAS 2002	FAS 2001	FAS 2000
Sales, MEUR	5,562	5,410	5,344	4,342	2,816	2,602
- sales outside Finland, MEUR	5,374	4,898	4,823	3,959	2,725	2,509
Operating income, MEUR	530	437	329	275	218	186
- as percentage of sales, %	9.5	8.1	6.2	6.3	7.7	7.2
Income before taxes, MEUR	520	416	329	256	219	183
- as percentage of sales, %	9.4	7.7	6.2	5.9	7.8	7.0
Net income, MEUR	308	303	217	157	141	106

Consolidated Balance Sheet	IFRS 31 Mar, 2005	IFRS 2003	FAS 2003	FAS 2002	FAS 2001	FAS 2000
Non-current assets, MEUR	1,889	1,897	1,557	2,003	721	699
Inventories, MEUR	482	477	458	530	112	154
Receivables, cash and cash equivalents, MEUR	1,297	1,451	1,602	1,627	1,274	976
Total equity, MEUR	1,342	1,115	1,114	1,129	807	677
Non-current liabilities, MEUR	448	935	709	1,026	376	87
Provisions, MEUR	246	152	196	247	221	195
Current liabilities, MEUR	1,632	1,623	1,599	1,758	703	870
Total assets, MEUR	3,667	3,824	3,617	4,160	2,107	1,829
Interest bearing net debt	335	747	662	1,252	-47	100
Assets employed[1], MEUR	1,677	1,862	1,750	2,252	703	746

Other data	IFRS 1 Jan, 2004– 31 Mar, 2005	IFRS 2003	FAS 2003	FAS 2002	FAS 2001	FAS 2000
Orders received, MEUR	5,129	4,558	4,558	3,261	2,100	1,854
Order book, MEUR	3,335	2,196	2,254	2,240	1,881	1,656
Capital expenditure, MEUR	417[2]	162[2]	82	93	46	46
- as percentage of sales, %	7.5	3.0	1.5	2.1	1.6	1.8
Expenditure for research and development, MEUR	84	88	88	63	41	37
- as percentage of sales, %	1.5	1.6	1.7	1.5	1.4	1.4
Average number of employees	30,976	34,489	34,489	29,407	22,964	22,804
Number of employees at the end of period	33,021	33,305	33,305	35,864	22,949	22,978

Key Ratios	IFRS 1 Jan, 2004– 31 Mar, 2005	IFRS 2003	FAS 2003	FAS 2002	FAS 2001	FAS 2000
Return on equity[3], %	15.2	28.3	18.9	18.4	20.4	17.2
Return on capital employed[3], %	13.1	16.8	15.2	16.4	23.4	23.5
Total equity/total assets, %	36.6	29.2	30.3	24.2	36.6	35.9
Gearing, %	25	67	61	125	neg.	15

Key Figures per Share	IFRS 1 Jan, 2004– 31 Mar, 2005	IFRS 2003	FAS 2003	FAS 2002	FAS 2001	FAS 2000
Earnings per share, EUR			3.10	2.54	2.42	1.77
Basic earnings per share, from continuing operations, EUR	3.75	3.98				
Diluted earnings per share, from continuing operations, EUR	3.72	3.96				
Basic earnings per share, from divested operations, EUR	1.20	0.81				
Diluted earnings per share, from divested operations, EUR	1.20	0.81				
Equity per share, EUR	20.62	17.80	16.99	15.66	12.91	10.91
Dividend per class B share, EUR	2.00[4]	2.00	2.00	1.50	0.73	0.50
Dividend per class A share, EUR	1.98[4]	1.98	1.98	1.48	0.71	0.48
Dividend per earnings, class B share, %	53.3	50.3	64.5	59.0	30.4	28.2
Dividend per earnings, class A share, %	52.8	49.7	63.9	58.2	29.5	27.1
Effective dividend yield, class B share, %	3.3	4.4	4.4	5.2	2.7	2.0
Price per earnings, class B share	16	9	15	11	11	14
Market value of class B share, average, EUR	52	37	37	31	25	21
- high, EUR	66	47	47	37	31	26
- low, EUR	45	27	27	24	22	16
- at the end of period, EUR	60	46	46	29	28	25
Market capitalization at the end of period, MEUR	3,819	2,850	2,850	1,792	1,604	1,466
Number of class B shares traded[5], '000	44,288	34,986	34,986	33,785	12,840	11,991
Class B share traded [5], %	84.4	64.9	64.9	65.4	26.4	24.0
Weighted average number of class A shares, '000	9,526	9,526	9,526	10,442	10,455	10,455
Number of class A shares at the end of period '000	9,526	9,526	9,526	9,526	10,455	10,455
Weighted average number of class B shares, '000	52,487	53,104	53,938	51,665	50,009	50,009
Number of class B shares at the end of period, '000	54,150	53,938	53,938	53,938	50,009	50,009
Weighted average number of shares [6], '000	62,443	62,987	62,987	61,809	58,406	60,464

[1] Including tax receivables and liabilities, accrued interest and derivative items
[2] Including acquisitions
[3] Annualized and excluding the gain on divested operations
[4] Board's proposal
[5] Annualized
[6] Adjusted for share issue and option dillution, and reduced by the number of own shares held by the company.

Board of Directors’ Dividend Proposal

KONE’s distributable equity as of 31 March, 2005 is EUR 983.3 million. The parent company’s distributable equity on 31 March, 2005 is 2,026,443,814.22 EUR of which net profit from the accounting period under review is EUR 1,269,100,444.29.

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 outstanding 54,150,366 class B shares. In addition the Board of Directors proposes that shares, total number of 78,300 class B shares, which were subscribed during 1 April–27 April, 2005 by option rights, are entitled to dividend from the accounting period of 1 April, 2004–31 March, 2005. The total amount of proposed dividends will be EUR 127,318,988.22. The Board of Directors further proposes that the rest, EUR 1,899,124,826.00, be retained and carried forward.

The Board proposes that the dividends be payable from 30 May, 2005.

Helsinki, 2 May, 2005

Antti Herlin	Gerhard Wendt
Iiro Viinanen	Jean-Pierre Chauvarie
Masayuki Shimono	Sirkka Hämäläinen-Lindfors

Matti Alahuhta
President

Auditors' Report

To the shareholders of KONE Corporation

We have audited the accounting records, the financial statements and the administration of KONE Corporation for the period 1 January, 2004–31 March, 2005. The financial statements prepared by the Board of Directors and the President include the report of the Board of Directors, the consolidated financial statements of KONE Group prepared in accordance with International Financial Reporting Standards (IFRS), and the parent company's financial statements prepared in accordance with prevailing rules and regulations in Finland. Based on our audit we express an opinion on these financial statements and on the parent company's administration.

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 administration has been to examine that the members of the Board of Directors and the President of the parent company have legally complied with the rules of the Finnish Companies' Act.

In our opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards give a true and fair view of the consolidated result of operations, as well as of the financial position of KONE Group. The consolidated financial statements have been prepared in accordance with prevailing rules and regulations in Finland and can be adopted.

The parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements. The parent company's financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations and of the financial position. The parent company's financial statements can be adopted and the members of the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable profits is in compliance with the Finnish Companies' Act.

Helsinki, 2 May, 2005

PricewaterhouseCoopers Oy
Authorized Public Accountants

Jouko Malinen	Jukka Ala-Mello
Authorized Public Accountant	Authorized Public Accountant