Annual Report 2005

KONE Corporation's Annual Report 2005 comprises three separate parts. KONE's operations in the calendar year 2005 are presented in the section Review 2005 on pages 2–31. The audited Financial Statements for the post-demerger accounting period 1 June–31 December, 2005 are presented on pages 32–73. Comparable 2005 financial information is presented in the Pro Forma Review on pages 74–84.

Annual General Meeting
KONE Corporation's Annual General Meeting will be held on 27 February, 2006 at 2:00 p.m. at the Finlandia Hall, Mannerheimintie 13, Helsinki, Finland.

Shareholders wishing to attend the meeting must be registered on the KONE shareholder list at the Finnish Central Securities Depository no later than 17 February, 2006 and must register for attending the meeting by mail: KONE Corporation, P.O. Box 8, FIN-00331 Helsinki, by fax: +358 (0)204 75 4309, by telephone: +358 (0)204 75 4332 or over the Internet: www.kone.com/agm no later than 4:00 p.m. Finnish time on 22 February, 2006. Any proxies must be submitted at the same time.

Payment of Dividends
The Board of Directors has decided to propose a dividend of EUR 0.99 per class A share and EUR 1.00 per on outstanding class B share for the accounting period 1 June–31 December, 2005 to the Annual General Meeting. The Board of Directors' proposal for the distribution of profits is set out in the financial statements on page 72.

Only those registered as shareholders at the Finnish Central Securities Depository by 2 March, 2006, the record date for dividend distribution, are entitled to dividends. The date of dividend payments is 9 March, 2006.

Financial Information
KONE Corporation publishes financial information in Finnish and English. All material is available on the KONE website www.kone.com, where requests for e-mail distribution can also be made.

The Annual Report is mailed to all shareholders and to all individuals registered in the company's mailing list. Printed Interim Reports are mailed only on request.

Financial reports can be ordered by mail: KONE Corporation, Corporate Communications, P.O. Box 7, FI-02151 Espoo, Finland; by e-mail: corporate.communications@kone.com; by telephone: +358 (0)204 751; or by fax: +358 (0)204 75 4515.

KONE's Financial Statements Publication Schedule in 2006

Financial Statements 2005	27 January, 2006
Annual Report 2005	February 2006
Interim report for 1 January–31 March	25 April, 2006
Interim report for 1 January–30 June	25 July, 2006
Interim report for 1 January–30 September	24 October, 2006

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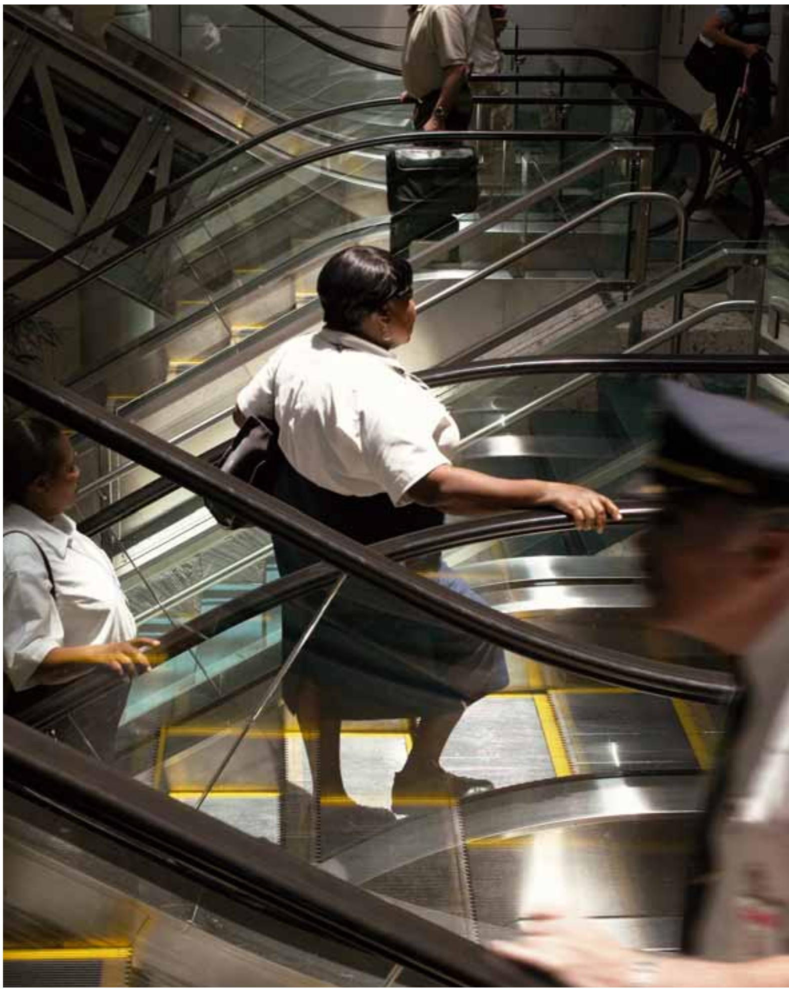
KONE in Brief

KONE is one of the world's leading elevator and escalator companies. It provides its customers with innovative elevators and escalators and versatile solutions for their maintenance and modernization. KONE also provides maintenance of automatic building doors. KONE's class B shares KNEBV have been listed on the Helsinki Stock Exchange as of 1 June, 2005, following the demerger of Kone Corporation into KONE Corporation and Cargotec Corporation.



Strategy

KONE gives a performance edge to its customers with innovative services and solutions. Simultaneously, KONE's products and services are cost-competitive and its processes characterized by globally aligned operational excellence.

Strategy Implementation

KONE has forcefully endeavored to implement its strategy, which was revised in the spring of 2005. Key initiatives in the successful implementation of the strategy are: increasing customer focus, broadening and improving product and service portfolio, improving business processes and productivity, utilizing sourcing power, and strengthening market position in Asia.

Market Position

The annual size of the global market for elevator installation, maintenance, repair and modernization is approximately EUR 30 billion. The market for new escalators is approximately EUR 1.5 billion, and the market for door service amounts to roughly EUR 5 billion annually.

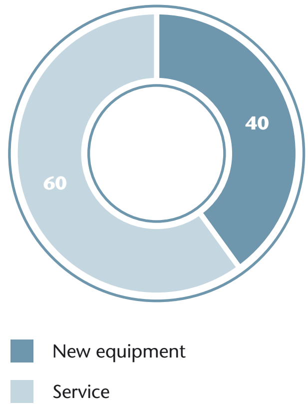
KONE has operations in all key markets through some 800 service centers worldwide. KONE's share of the global elevator and escalator market is approximately 10 percent.

Customers

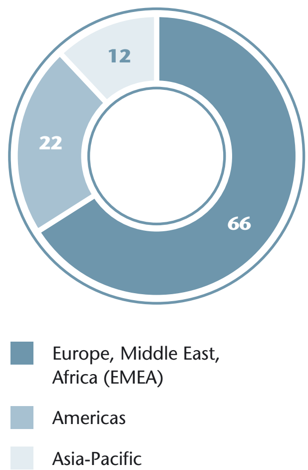
KONE's most important customer groups are building owners, construction companies, and facility management companies. Architects, elevator consultants, construction companies and designers are key parties in the decision-making process.

KONE has approximately 250,000 customers, of which the majority are maintenance customers. Customer segments and maintenance contracts vary from one-elevator residential buildings with yearly contracts to large international accounts with long-term extensive maintenance agreements.

Sales, Pro Forma, %



Sales by Market, Pro Forma, %



Year in Brief

Key Releases

4 February	Kone to Strengthen Its Presence in China (joint venture with Giant Elevator)
11 February	Kone Acquires U.K. Lift Company
17 March	Development and Restructuring Program for Kone Elevators & Escalators
30 March	Kone to Acquire Thai Lift Industries of Thailand
14 April	Kone to Deliver Elevators for Trump Tower, the Second Tallest Building in the United States
19 April	Kone Strengthens Its Position in Russia (joint venture with Karacharovo Mechanical Factory)
20 April	Kone and Toshiba Establish a Joint Venture for Escalator Production
1 June	Listing of KONE Shares Begins

1 2 3 4 5 6

A yearly summary of all KONE's releases in 2005 is available on the Internet at www.kone.com.

Orders and Sales Increased

KONE's order intake rose significantly in 2005. Revenue also increased, and KONE achieved its 2005 profitability target.

In the beginning of 2005, KONE realigned its strategy and initiated several development projects to be able to respond even better to the requirements of global competition. Change programs to improve customer focus, the product offering, productivity and cost competitiveness progressed as planned. The main actions of the development and restructuring program that was announced in March were completed by the end of 2005.

KONE continued its active acquisition policy during the year and strengthened its market position, particularly in the growing Asian markets, through acquisitions and joint-venture agreements.

On 1 June, 2005, Kone Corporation demerged into two separately listed corporations – KONE Corporation and Cargotec Corporation. The operations and financial performance for the calendar year of post-demerged KONE Corporation are presented on pages 2–31 in this Annual Report and in the pro forma review on pages 74–84. The audited Financial Statements of KONE Corporation for the accounting period 1 June–31 December, 2005 after the demerger are presented on pages 32–73.

17 June
Decisions of KONE Corporation's Extraordinary Shareholders' Meeting (Reino Hanhinen elected member of KONE's Board of Directors, approval of share buy-back authorization)

24 October
KONE's Board of Directors Proposes the Awarding of Option Rights and Approves Share-Based Incentive Plan

23 November
KONE to Deliver First Double-Deck Elevators with Destination Control System

7 8 9 10 11 12

8 September
KONE Wins Major Orders in the U.K. and Russia

21 October
KONE's Board of Directors Proposes Two-for-One Share Split

26 October
KONE Wins Beijing Airport Extension Order

28 November
KONE Wins Major Elevator Order for Royal Caribbean Ship

Key Figures (Pro Forma) 2005

		2005	2004 [2]	Change %
Sales	MEUR	3,242	2,895	12
Orders received	"	2,639	2,136	24
Order book as of 31 December	"	2,327	1,796	30
Operating income	"	272 [1]	235	16
Income before taxes	"	178	233	-24
Net income	"	109	164	-34
Total assets	"	2,145	2,065	4
Basic earnings per share [3]	EUR	0.87	1.33	-35
Equity/share [3]	EUR	5.24	5.53	-5
Return on equity [3]	%	15.6	24.3	
Return on capital employed [3]	%	18.3	23.1	
Total equity/total assets [3]	%	31.2	35.2	
Gearing [3]	%	14.8	-8.4	
Number of employees as of 31 December		27,238	25,262	8

1) Excluding MEUR 89.2 provision for the development and restructuring program
2) Disregarding MEUR 15.3 non-recurring income due to a provision reversal regarding disability pensions
3) The principles of calculating key figures can be found on page 70

CEO's Letter

The year under review was a remarkable one for KONE and its shareholders. From a shareholders' perspective, one of the most significant events was the demerger of the company into two separately listed corporations. KONE, which has refocused on the elevator and escalator business, successfully redefined its strategy under the leadership of President Matti Alahuhta.

KONE and Cargotec's listing on the Helsinki Stock Exchange at the beginning of June was extremely successful from both our company's and our shareholders' points of view. The share price development of both companies following the listing reflects investor confidence in the future of the companies. The KONE share increased in value nearly 50 percent after the demerger. KONE remains among the Helsinki Stock Exchange's 10 largest companies by market capitalization, and its class B shares are among the most actively traded stocks. To support the liquidity of the shares, a 2-for-1 stock split was implemented in November 2005.

Matti Alahuhta took over as President of KONE at a very challenging time, when pressure for change was created by both the global competitive environment and certain internal forces that had weakened our growth and profit development. KONE's strategy and main targets for change were defined during the early spring, and the company's operational model was revamped to provide better support for the new strategy.

I am pleased to confirm that KONE's outlook is, at the beginning of 2006, much better than it was a year ago. I would like to thank both the new President and our employees who energetically embraced the change program. The growth and profit development achieved during the year create a strong foundation for reaching the targets set according to the new strategy. Let's continue in our determined efforts to implement change in the coming year as well.

January 2006,

Antti Herlin
CEO, Board Chairman

President's Letter

We are very satisfied with the rapid progress of our change programs and the numerous small wins that we already achieved in 2005. KONE's operations showed positive development, and order intake rose in all geographical markets. The strong order growth in Asia was particularly encouraging.

At the outset of 2005, we reevaluated our strategy and defined change programs for accelerating growth and increasing profitability. We based the strategy on KONE's strengths: industry-leading technology, committed personnel and an innovative business culture. We were not, however, content with sales growth, especially in rapidly expanding Asian markets. Our cost-competitiveness and productivity were not satisfactory in the intensified global competitive environment. We also wanted to make our entire way of working even more customer-driven. In order to safeguard our future operations and profit growth, we needed to change.

During the year, we established the conditions necessary for improving KONE's growth and profitability in several ways. We took decisive action to fill out our product portfolio, increasing our ability to respond to local customer requirements in Asia and North America. We increased our focus on European and North American modernization markets. We intensified technological cooperation with our strategic partner, Toshiba, particularly with regard to double-deck elevators and new escalator products. These efforts have contributed in a significant way to enlarging our order intake.

To accelerate growth in China, we also strengthened our local management team, broadened the nationwide distribution network, and expanded R&D operations and production in Kunshan. Management of major projects was transferred from Finland to China. KONE's presence in industrializing markets was fortified through acquisitions and joint ventures in Russia, China, Thailand and Malaysia.

In order to increase profitability, we have started actions to improve the cost-competitiveness of our solutions, streamline logistics and sourcing, and improve productivity in our installation and maintenance operations. Through the measures that have been introduced to streamline our logistics and sourcing activities and improve our

President’s Letter

productivity, we are striving to eliminate overlaps, identify our company’s best practices and make use of them globally in our organization.

We have continued the extensive change program initiated in the U.S.A. in 2004. These efforts strengthen our sales force, increase the efficiency of our service business, and improve our business processes. The effects can be seen in a gratifying increase in orders during 2005, and actions to broaden the basis for better profitability will continue in the current year.

We have worked hard to make our organization and operations more customer-focused. Greater weight is now given to regional customer requirements in our organization’s global decision-making processes. We are also creating common global processes in order to serve customer segments with similar interests better, and strengthening our ability to manage major projects.

Our efforts to increase our organization’s customer focus will continue in 2006. Our aim is to combine outstanding competitiveness in our products with highly developed customer focus in our business approach throughout our operations.

Global competition in the new equipment business, coupled with a shift of production to low-cost countries, has intensified competition in our industry. During the year under review, we completed the restructuring of the production network designed to make KONE’s products more cost-competitive. Unfortunately, the restructuring also involved some painful effects for our personnel.

KONE already achieved faster-than-global-market growth in 2005. I would like to thank our customers, who have demonstrated confidence in our development efforts, and our personnel, who proved me right in considering them to be one of KONE’s key strengths when I joined the company, for this progress. We have a straightforward and action-oriented corporate culture as well as extremely motivated, skilled and committed personnel, who have set out without hesitation to implement change. Our work will continue in 2006.

January 2006,

Matti Alahuhta
President

Business Review

2005 was a year of change for KONE. In accordance with the revised strategy, KONE started to strengthen its customer focus and improve its product and service offering. Extensive measures to raise productivity were also initiated, and greater emphasis was placed on growth, especially in developing markets.

Growing Elevator and Escalator Markets

Urbanization and economic growth increase the demand for new elevators and escalators and service in Asia while the need for modernizing equipment and the ageing of the population drive demand in Europe and North America. Key competitive factors in the industry include striving for more efficient space and energy utilization, new technologies and the opportunities created by them, and demand for better and more versatile services.

The global elevator and escalator market has changed dramatically in the Twenty-First Century due to strong growth in China. Approximately half of the world's elevators and escalators are situated in Europe, nearly 20 percent in the U.S.A., and the rest in Asia and elsewhere in the world. However, more than 25 percent of new elevators and half of new escalators are installed in China alone while Europe's share of new elevators is slightly under a third and that of the U.S.A. a little over 10 percent. Thus, new equipment sales are heavily concentrated in Asia whereas the short-term growth potential for repairs and modernizations lies first and foremost in Europe and North America.

Growth in the EMEA Region Stems from the Middle East and Service

In Europe, new construction and renovation activity increased slightly in 2005. Due to the stable development of the construction industry, the overall trend in new equipment demand was steady, but it varied from country to country.

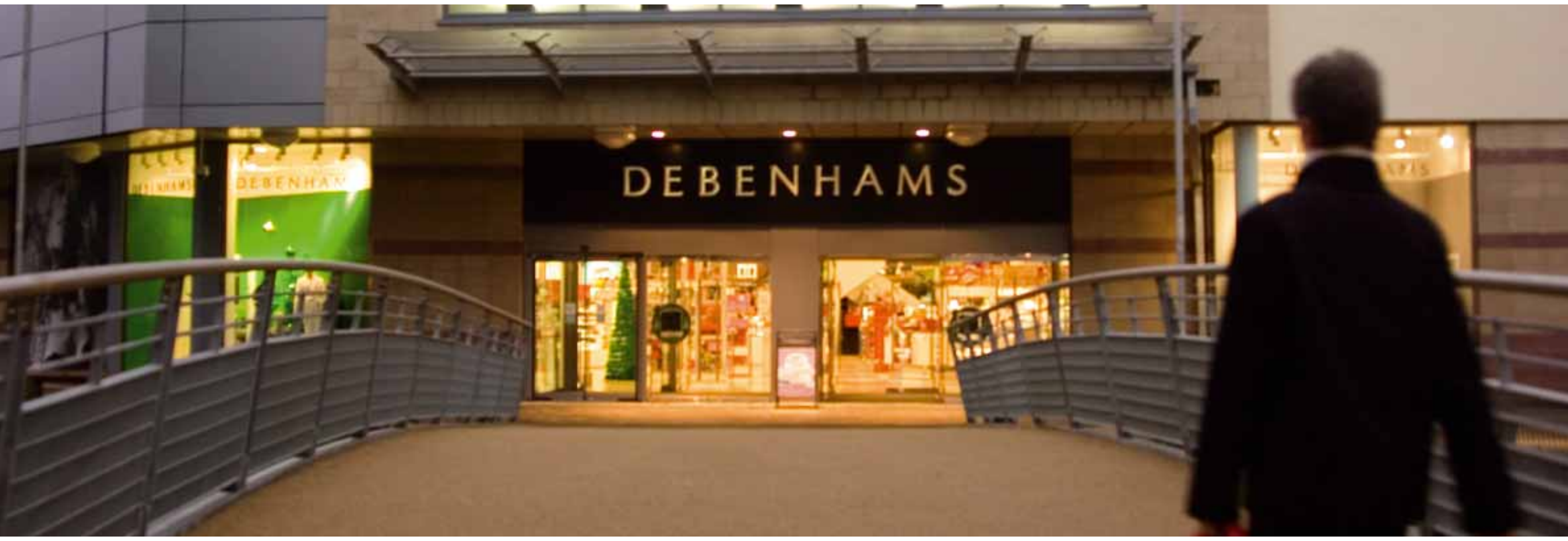
In Europe, approximately half of new elevators are installed in residential buildings. In 2005, demand from residential construction was strong in Italy, France, Spain, and Belgium and remained fairly strong in other European countries. Low interest rates supported the positive trend. Only in Germany demand remained weak.

Office-building construction activity was clearly weaker than residential construction except in the U.K., where it was good.

Construction activity continued to be brisk in Russia, which accelerated demand in all customer segments. Demand was especially strong in the retail market.

In the Middle East, demand for new equipment remained strong in all customers segments. Increasing tourism boosted demand for hotel and entertainment building solutions, and new infrastructure projects such

Business Review



as airport extensions were also undertaken.

In Europe, services account for a substantially larger share of sales than new equipment. It is estimated that around two-thirds of the elevators in service in Europe are over 20 years old, which increases the need for both maintenance and modernization.

In 2000, the European Committee for Standardization (CEN) issued a safety recommendation regarding elevators in service: the European Safety Norms for Existing Lifts (SNEL). France, Belgium, Spain, and, to a lesser extent, Germany have already made the recommendation part of their national legislation. In the fall of 2005, a Ministerial Decree was passed in Italy to recommend its ratification.

In Europe, the Middle East and Africa (EMEA), KONE successfully maintained its market position in a tough competitive environment. Order intake grew substantially, and the company secured several major contracts, such as an order for White City in London, Europe's largest shopping center, and an order for Naberezhnaya Tower C that forms part of Moscow City, the largest construction project in the Moscow area. KONE will also deliver the world's first double-deck elevators equipped with a destination control system to the 35-floor Broadgate Tower office building in the City of London.

KONE's most significant projects in the Middle East include the Rose Tower in Dubai, which will be the tallest hotel in the region, and Park Place, where KONE will install the fastest elevators in the Middle East.

For further information on KONE's financial performance:

- Board of Directors' Report, page 33
- Pro Forma Review, page 75

Cooperation with Debenhams

The ever-changing demands of the U.K. consumer market cause retailers continually to have to reappraise their in-store operations to retain customers and maximize sales. Since 2004, KONE has been responsible for the supply, installation, maintenance, and modernization of the complete elevator and escalator portfolio of Debenhams, which is one of Great Britain's leading retail chains with 105 stores.

"Debenhams is an important customer, and we are pleased that they appreciate our progressive products as well as our maintenance and modernization solutions. Both parties benefit from long-term cooperation," says Keith Taylor, who is in charge of managing KONE's relationship with Debenhams.

KONE's Keith Taylor, account manager, and Glyn Wilson, engineer, met Mark Williams, Technical Services Assistant of Debenhams, in Debenhams' new department store in Hemel Hempstead, Hertfordshire.

Demand Picked Up in North America

In North America, demand for new equipment clearly picked up compared to 2004 and was strong for residential, office, and retail solutions. The clear growth in demand for machine-room-less elevators was particularly positive for KONE. Higher oil prices and natural catastrophes caused some market uncertainty.

The service market showed steady growth, but competition continued to be intense. Growth is particularly evident in repairs and modernizations as the functionality of older buildings vis-à-vis new ones needs to be ensured.

In North America, 2005 was successful for KONE, especially with regard to order intake. The company secured, for instance, an order for all elevators for the 97-floor Trump International Hotel and Tower in Chicago, a 414.5-meter tall skyscraper that will be the second tallest building in the United States.

Growth Continued in the Asia-Pacific Region

In the Asia-Pacific region, the market for new equipment continued to be good, especially in China and India. The Southeastern markets of Malaysia, Singapore and Thailand also showed positive development.

In China, residential buildings constitute approximately two-thirds of the construction segment. Residential building construction continued to be active and increased especially in suburbs and new satellite cities. The office-building sector and infrastructure projects also developed favorably. All in all, the Chinese market was slightly more subdued in the latter part of the year after a buoyant first half.

The Indian market grew considerably in 2005. As in China, the residential building sector is the engine of growth, but all segments developed well.

The service business is still young in the growing Asian markets, but the demand is expanding rapidly in line with new equipment installations.

Demand in Australia was at a good level with demand shifting from high-rise construction to low- and mid-rise buildings.

KONE's order intake in the Asia-Pacific region increased extraordinarily well. Significant orders in the Asia-Pacific region included an order for the new terminal of the Beijing airport, the first destination control elevators in Australia for the City Central Tower in Adelaide, and the Delhi Metro expansion.

A Year of Changes

2005 was a year of major changes for KONE. The company revised its strategy to strengthen further its customer focus and productivity. KONE wants to be the preferred partner of its customers, fulfilling their needs throughout their equipment's entire life cycle.

Product Portfolio Extended

In 2005, KONE focused on developing its product portfolio in order to maximize its accessible market. In particular, measures were initiated to broaden the product range to meet differing regional demands and improve cost competitiveness.

In Europe, KONE launched modernization solutions that meet the requirements of the European Safety Norms for Existing Lifts. In 2005, KONE also started deliveries of counterweightless KONE Maxi-Space™ elevators that make possible the installation of cabins as much as one-third larger than traditional elevators for the same hoistway space. KONE is building up the supply chain for its KONE MaxiSpace™ solutions in order to support increased order and installation volumes across Europe in 2006.

In North America, KONE further supplemented its KONE MonoSpace® product family (known as KONE EcoSpace® in the United States) and developed elevator and escalator modernization solutions tailored for the North American market.

In Asia, KONE introduced a more cost-efficient version of its KONE MiniSpace™ elevator, originally designed for office buildings, that also

Growth in China

In 2005, KONE won its largest order ever in China, a contract to provide more than 190 elevators, escalators and autowalks for the new terminal building in the Beijing Capital Airport. The airport extension is part of Beijing's massive infrastructure development in anticipation of the 2008 Olympics.

China is the world's largest market for major projects. KONE's success in this demanding area is based on a comprehensive product range and a customer-driven way of operating. For example, in Beijing's new airport terminal, KONE offered the world's highest-capacity machine-room-less elevators and fulfilled the customer's design requirements.

KONE's previous major projects in China include the Capital Museum, National Theater, Financial Street Project, Guangzhou Airport and Nanjing Metro.

William B. Johnson, managing director for KONE China, and Yuan Xuegong, Deputy Commander in Chief of Capital Airport Extension Project, signed the contract for KONE to deliver all elevators, escalators and autowalks for the new terminal building in the Beijing Capital Airport.

fulfills requirements of residential buildings. New alternatives for elevator interiors were also launched, particularly for the Asian market, and destination control system and double-deck elevator technology were further developed. In the escalator business, the joint venture founded by KONE and Toshiba Elevator and Building Systems Corporation (TELC) for escalator manufacturing introduced its first escalator product for Asian markets.

KONE developed its production structure in several ways during 2005 in order to improve the cost competitiveness of its products. The production method for tailored elevator solutions was standardized, and elevator production was consolidated by, among other moves, transferring production of hoisting equipment from Hämeenlinna, Finland to Hyvinkää, Finland. Escalator production was consolidated to Kunshan, China; Keighley, the U.K. and Coal Valley, the U.S.A. All commercial or standard escalators will be produced in Kunshan, which will also supply heavy-duty transit escalators to Asian markets. The production of escalators designed for public access or special applications as well as customer service support will be handled in Keighley for the European markets and in Coal Valley for the U.S. markets.

New Service Offerings Introduced

In 2005, KONE focused on new, comprehensive service concepts and improving productivity.

The KONE Care for Life concept ensures the operational safety, reliability, and usability of a customer's equipment throughout its life cycle. The related tools enable KONE to analyze the equipment with respect to potential safety risks, usability problems, technological obsolescence, and quality of appearance. On the basis of this assessment, the customer and KONE together draw up plans for maintaining and upgrading the equipment, following a schedule suited to the customer's requirements.

KONE Proximity, a real-time customer service concept, consists of

Business Review

Rick Ardire, Regional Service Operations Manager, Lee Messinger, Service Technician and Ben Grewe, Service Supervisor utilize an innovative mapping system which provides an efficient way to plan maintenance routes.

four main issues: remote equipment monitoring, field terminals for field personnel, a web-based customer service, and a 24/7 Customer Care Center.

In remote equipment monitoring, KONE introduced a further upgraded version that is included in all new KONE MonoSpace® deliveries. Through remote monitoring, the condition and performance of the elevators or escalators is continuously monitored. The system automatically reports any abnormal operations and conditions to the Customer Care Center. Thus downtime can be prevented and maintenance productivity improved.

The introduction of field terminals advanced during the reporting period as a global field terminal solution was implemented in the U.K. The field terminal makes it possible, for example, to send real-time call-outs to field personnel and provide more efficient reporting for the needs of the customer as well as for KONE.

A new web-based maintenance service was launched in the U.S.A. and Australia. It provides both KONE and the customer with more extensive opportunities to obtain information on equipment functioning, service and repair measures, and billing compared to traditional maintenance contracts.

KONE further improved the quality and productivity of its service business by commencing to implement new, uniform service methods both in maintenance and modernization operations.

Cooperation Agreements and Acquisitions

Successful cooperation between KONE and its long-term partner, Toshiba Elevator and Building Systems Corporation (TELC), continued in 2005. In April, the companies agreed to further strengthen their alliance by establishing an escalator manufacturing joint-venture company in China. KONE owns 70 percent of the new company, and TELC owns 30 percent. The company began its operations during the third quarter.

Increased Productivity through Innovative Mapping System

In the U.S.A., KONE has developed its service productivity with an innovative mapping system. With the help of this tool, KONE is able to design, plan and view maintenance route structures on an electronic map.

With the mapping system, KONE is able to provide its customers with the quickest possible time of arrival. For KONE, the tool delivers an efficient way to plan maintenance routes and reduce travel time and fuel consumption.

In addition to the U.S.A., the system has been launched in the U.K. and introduced in seven other European countries, where roll-out is scheduled for 2006.

In addition to its joint venture with TELC, KONE founded three other joint ventures in major growth markets.

KONE and one of China's largest national elevator companies, Zhejiang Giant Elevator Co. Ltd, started a joint venture, Giant Kone Elevator Company Ltd, which began its operations in the second quarter. KONE owns 40 percent and Giant Elevator 60 percent of the new company, and KONE holds an option to increase its shareholding to a majority stake.

KONE also signed a joint-venture agreement with Russia's leading elevator company, Karacharovo Mechanical Factory (KMZ). This cooperation significantly strengthens KONE's position in Russia's rapidly growing elevator and escalator market. KONE holds 40 percent of the joint venture, KMZ-Kone. The agreement includes an option entitling KONE to increase its shareholding to a majority stake in the future. Finalization of the joint-venture agreement will follow approval by the appropriate authorities.

In the third joint-venture agreement, KONE will take an 80 percent holding in Fuji Lift & Escalators of Malaysia.

KONE continued to pursue its active acquisition policy in 2005. Its major acquisitions included the U.K. Lift Company, which further strengthens KONE's position in the U.K. retail sector, and Thai Lift Industries, which makes KONE the market leader in the growing Thai market.

Personnel

The purpose of KONE's personnel strategy is to help the company meet its business targets. Central to KONE's personnel strategy is ensuring interest in KONE as an employer and securing the availability, commitment and continuous development of its human resources. Employees' core competence areas are developed to support the company's current and future business requirements. Motivational leadership and operating methods are employed to support the achievement of business targets.

KONE's activities are guided by ethical principles. The rights and responsibilities of personnel include the right to a safe and healthy working environment and personal well-being as well as prohibition of discrimination.

Strategy into Practice

In 2005, KONE's human resources management focused on implementing the corporate strategy that was revised in the spring. Approximately 300 KONE managers from around the world participated in strategy workshops, after which the strategy was cascaded in the KONE units and global employee meetings. Furthermore, the strategy was communicated in letters from the President, staff magazines and on the Intranet.

One of the key elements of the strategy is to increase customer focus. For this purpose, 22 Customer Focus Workshops were organized in 2005 in which the business units analyzed their market situation and customer base, concentrating on further upgrading their customer relationships and identifying KONE's strategic customers.

During the reporting period, particular emphasis was placed on developing the skills of employees who interface with customers. KONE will continue developing ways of working closely with different customer groups and performance models for sales personnel.

Competence Development

KONE develops the know-how of its personnel in their daily work as well as through targeted learning solutions and job rotation. Each business unit's own Training and Personnel Development Department is mainly responsible for the development of the unit's personnel. KONE's training centers in various parts of the world are responsible for technical training. Global training programs are also organized in order to strengthen common operating models, coach managers and ensure in-house generation of future managers. In 2005, the overall emphasis of management training was on leadership and change management.

During the reporting period, KONE continued to implement its development programs dedicated to product know-how, customer service and occupational safety. KONE's way of working is influenced by the global nature of the company's operation. The importance of virtual workgroups has increased, and virtual management is coached through web-based learning tools.

Talent and Performance Management

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

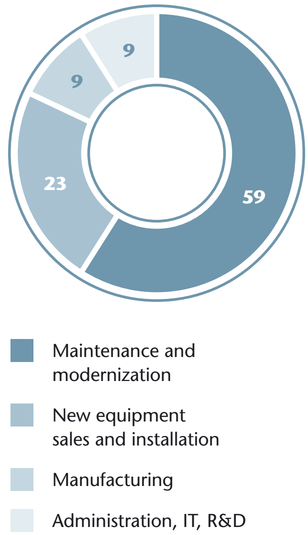
KONE cooperates actively with educational institutions, maintaining direct contacts and participating in recruitment fairs and student publications. KONE units around the world provide internships and final thesis positions for technical and economics students in their home countries while KONE's International Trainee Program enables them to apply for various positions around the world.

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. In early 2005, a study was performed on the effect of gender on career advancement at KONE. The study was based on interviews carried out in three countries, employee survey results, and employee and salary statistics. Based on the results of this study, KONE's management has defined targets for increasing the number of women in corporate management positions.

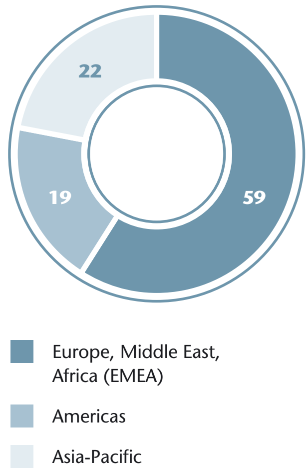
Regular Employee Information and Consultation Work

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. Communication between the annual global meeting and working group meetings has been increased, particularly in connection with major changes.

Employees by Job Category, %



Employees by Market, %



Personnel

Efficient Sales Skills

In the summer of 2005, KONE initiated a Sales Management Development Program aimed at upgrading sales preparedness with respect to sales process and sales management. The purpose of the program is to create a consistent sales culture and improve internal sales efficiency.

The first stage of the program focuses on improving the competences of sales management, after which the program is extended to the rest of the sales force.

In 2005, KONE focused particularly on further developing sales skills.

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. The corporate safety policy defines the general principles underlying safety operations and includes safety training and methods as well as reporting information. All KONE units are required to comply with the corporate safety policy.

In 2005, occupational safety measures focused on the implementation and continuous development of programs introduced earlier. This has been further supported by increasing safety communications and monitoring by utilizing, for instance, virtual meeting technology while at the same time increasing two-way communication between corporate management and business units.

Occupational safety development is monitored on a continuous basis by following trends in the key IIFR indicator. At the end of 2005 the figure reflecting work injuries was 8.7 (11.1 at end of 2004).

Modernization of old elevators and escalators to meet today's safety standards continued during the reporting period, promoting the safety of both maintenance personnel and end-users.

Human Resources Management Challenges

In 2006, KONE's human resources management will promote the implementation of the corporate strategy throughout the organization as well as the acceleration of business growth. In order to deepen customer focus, customer processes and sales-force skills – in particular the competences of sales managers – will be further developed. The global employee survey conducted in 2004 will be repeated in early 2006, charting not only the themes introduced in 2004 but also the adoption of the revised corporate strategy.

- 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.

Environment

KONE strives to contribute to environmental sustainability, both through its own operations and the operations of its customers and suppliers. This is achieved by developing operating practices and supplying products and services that are environmentally sound.

KONE thoroughly analyzes the environmental impact of several products over their entire life cycle. The analyses include an evaluation of the impact from the extraction and selection of raw materials to assembly, transportation, distribution, use and, finally, the safe disposal of the product.

Analysis indicates that product manufacturing has less effect than the use of the product. Through continuous and efficient product development, KONE strives to reduce the use-related environmental impact of its products. Key development issues include lowering energy and fuel consumption, oil requirements and noise levels. The hoisting units of KONE's machine-room-less elevators use no oil, and KONE's escalator drive system requires very little oil.

Appropriately maintained, elevators and escalators are durable and give long-lasting service. The main environmental effects of maintaining elevators and escalators are related to the disposal of replaced components, cleaning the equipment, and service vehicle emissions. Some 90–95 percent of the materials used in elevators and escalators are easily recyclable metals. This considerably reduces waste. KONE has 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 that are related to KONE's manufacturing processes – such as exhaust fumes from painting and waste generated in metal machining – are typical of the industrial engineering sector.

KONE's business units are responsible for handling environmental issues. They determine the environmental impact of their operations and products through environmental management systems. The ISO 14001 Environmental Management System is in use in two elevator production facilities and four country units. Five additional units plan to achieve ISO 14001 certification in 2006.

Corporate Governance

KONE Corporation complies with the Corporate Governance Recommendation for Listed Companies, dated 1 July, 2004, of the Helsinki Stock Exchange, Central Chamber of Commerce and The Confederation of Finnish Industry and Employers, with the exception of recommendations #17 (Board member autonomy), #29 (Audit Committee members), #32 (Nomination Committee members) and #35 (Compensation Committee members). The exception from recommendation #17 is due to the company's operating in a highly specialized industry, which justifies its Board members having in-depth experience of the business. The exceptions from recommendations #29, 32 and 35 are due to the company's ownership structure. The company's largest shareholder, Antti Herlin, controls 62 percent of the company's voting rights and 21 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, the Chief Executive Officer and the President. 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. The Annual General Meeting is convened by the Board of Directors. According to the articles of association, the Annual General Meeting of Shareholders shall be held annually within three months after the closing of the accounting period on a day designated by the Board of Directors.

On 1 June, 2005, Kone Corporation demerged into two listed corporations, KONE Corporation and Cargotec Corporation. The Shareholders' Meeting of demerged Kone Corporation, held on 7 September, approved the final settlement of the demerger and discharged the members of the Board of Directors and the President from liability for the period 1 April–31 May, 2005.

Two Extraordinary Shareholders' Meetings were held during the accounting period 1 June–31 December, 2005. The Extraordinary Shareholders' Meeting on 17 June, 2005 decided to raise the number of members of KONE Corporation's Board of Directors to eight and elected Reino Hanhinen as the new member of the Board, in accordance with the Nomination Committee's proposal. The Board of Directors' proposal that the Annual General Meeting authorize the Board of Directors to repurchase KONE's own shares with assets distributable as profit was approved. The second Extraordinary Shareholders' Meeting, which was held on 21 November, 2005, approved the Board proposal for a share split, amendments to terms of the 2005 option program, and approved the Board's proposal to issue new option rights to key personnel of the KONE group as well as to a wholly-owned subsidiary of KONE Corporation.

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 of the Group as well as the President 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. During the accounting period 1 June–31 December, 2005, the Board of Directors convened 7 times with an average attendance rate of 91 percent.

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

Selection of Board Members

The Annual General Meeting nominates 5–8 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. The Board of Directors chooses a Chairman and Vice Chairman from its members. In making the Board member selections, 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 is the Chairman of the Board of Directors of KONE Corporation. Sirkka Hämäläinen-Lindfors is the Vice Chairman of the Board. The members of the Board are Matti Alahuhta, Jean-Pierre Chauvarie, Reino Hanhinen, Masayuki Shimono, Gerhard Wendt, and Iiro Viinanen. Of the Board members, Sirkka Hämäläinen-Lindfors, Gerhard Wendt and Iiro Viinanen are independent of the corporation. With the exception of Antti Herlin, all Board members are independent of significant company shareholders.

Tapio Hakakari serves as Secretary to the Board.

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 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 consisted of Committee

Corporate Governance

Chairman Antti Herlin plus board members Sirkka Hämäläinen-Lindfors and Iiro Viinanen as independent members. The Audit Committee held one meeting during the accounting period 1 June–31 December, 2005.

The Compensation Committee makes decisions regarding senior management appointments and remuneration. In 2005, the Committee consisted of Committee Chairman Antti Herlin plus Sirkka Hämäläinen-Lindfors and Gerhard Wendt as independent members. The Compensation Committee held one meeting during the accounting period 1 June–31 December, 2005.

The Nomination Committee prepares presentations to be made to the Annual General Meeting regarding the nomination of Board members and their remuneration. In 2005, the Committee consisted of Committee Chairman Antti Herlin plus Sirkka Hämäläinen-Lindfors and Gerhard Wendt as independent members. The Nomination Committee did not convene in the accounting period 1 June–31 December, 2005.

Tapio Hakakari is Secretary to all committees.

Operative Management

Chief Executive Officer and President

KONE Corporation's Board of Directors appoints the Chief Executive Officer (CEO) and the President. 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 President and corporate staff. Antti Herlin has served as KONE´s CEO since 1996.

The employment conditions of KONE´s President are defined in a written employment contract. The President is responsible for the operative leadership within the scope of the strategic and operative plans, budgets and action plans approved by KONE Corporation's Board of Directors. The President presents issues concerning the operations and is responsible for implementing the decisions of the Board. Matti Alahuhta has served as KONE's President from the beginning 2005.

Executive Board

The Executive Board supports the President in executing the corporate strategy. The Executive Board follows business developments, initiates actions and defines operative principles and methods in accordance with guidelines handed down by the Board of Directors.

Compensation systems

Board Remuneration and Other Benefits

In December 2004, the Extraordinary Shareholders' Meeting that decided on the demerger of Kone Corporation confirmed the Chairman of the Board's monthly salary to be EUR 4,000, the Vice Chairman of the Board's monthly salary to be EUR 3,000, and Board members' salaries to be EUR 2,000 per month, with the exception that Board members employed by the company 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

Compensation for Chairman and CEO, Antti Herlin, consists of a basic salary and a yearly bonus, which is defined by the Board and based on the Corporation's financial result. This bonus may not exceed 50 percent of the recipient's annual salary. In year 2005, Antti Herlin's basic salary and benefits were EUR 458,170. In addition, his accrued bonus for 2005 totaled EUR 221,039. Herlin's holdings of option rights are presented on page 25. 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.

The CEO's compensation and other benefits for the accounting period 1 June–31 December, 2005 are presented in the notes to the financial statements on page 54.

Compensation and Other Benefits of the President

The President's compensation consists of a basic salary and yearly bonus, defined by the Board 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. Matti Alahuhta has served as President of KONE Corporation since 1 January, 2005. His basic salary and benefits for 2005 were EUR 643,673. In addition, his accrued bonus for 2005 totaled EUR 625,251.

Alahuhta was granted 5,000 KONE 2005B option rights. He is also included in the share-based incentive plan for the company's senior management, which the Board approved in October 2005. The potential reward is based on the growth in KONE's sales and operating income for 2006 and 2007. 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, which includes the salary for a 6-month term of notice.

The President's compensation and other benefits for the accounting period 1 June–31 December, 2005 are presented in the notes to the financial statements on page 54.

Executive Board Compensation

Compensation for members of KONE Corporation's Executive Board 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. In addition, the Executive Board members can be granted a 20 percent extra bonus for year 2005. Members of the Executive Board have also been granted KONE 2005A and 2005B option rights, and they are included in the share-based incentive plan. No separate agreement has been made regarding early retirement for members of the Executive Board. Compensation for termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a 6-month term of notice.

Control System

KONE Corporation's Board of Directors has ratified the internal control, risk

Corporate Governance

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, that 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.

KONE's risk management is presented in the notes to the financial statements on page 47. Operation risks are described in Board of Directors' Report on page 34 and KONE Corporation's Listing Particulars on page 5. The Listing Particulars are available on KONE's website www.kone.com.

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 one and a maximum of three regular Auditors. The Auditor must be an accountant 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.

KONE Corporation's Auditors are Jukka Ala-Mello, Authorized Public Accounts (APA), and PricewaterhouseCoopers. The fees paid to the Auditors of the Parent company and to other Pricewaterhouse-Coopers partner companies for their services during the period 1 June–31 December, 2005 were EUR 1.7 million for auditing and EUR 0.8 million for other consulting services. The fees paid to other Auditors during the period 1 June–31 December, 2005 were EUR 0.9 million for auditing and EUR 0.1 million for other consulting services.

Insiders

KONE Corporation adheres to the insider guidelines of the Helsinki Stock Exchange, which have been supplemented with internal insider guidelines approved by the Board of Directors. The company maintains its public and company-specific insider registers in the Finnish Central Securities Depository's SIRE system.

In accordance with the Finnish Securities Markets Act, KONE's public insiders include members of the Board of Directors, the President and the Auditors. In addition to these individuals, KONE's extended list of public insiders includes members of the Executive Board. KONE's company-specific permanent insiders include individuals who are defined by the company and who regularly possess insider information due to their position in the company. Permanent insiders are permitted to trade in KONE shares and securities entitling to KONE shares during a six-week period after the release of interim and annual reports.

The company also maintains a project-specific insider register when necessary. Project-specific insiders are prohibited from trading in KONE securities until termination of the project.

The person in charge of KONE's insider issues is the Secretary to the Board of Directors.

The holdings and changes in holdings of the individuals in KONE's public insider register on 31 December, 2005 are presented in the table below. A register of the holdings of KONE's public insiders is regularly updated on KONE's website www.kone.com.

Shareholdings of KONE Corporation's Public Insiders on 31 December, 2005 and Changes in Shareholding during the Period 1 June–31 December, 2005

	Class A share	Change	Class B share	Change	Series 2005A option right	Change	Series 2005B option right	Change
Alahuhta Matti			50,000	+50,000			5,000	+5,000
Cawén Klaus			14,000	+10,000	1,700		4,200	+1,000
Chauvarie Jean-Pierre			31,440					
De Neef Peter			10,000	+10,000	480		2,200	+1,000
Gielis Laurent					1,100		1,100	
Hakakari Tapio			132,000		1,700		1,600	
Hanhinen Reino			1,000					
Herlin Antti	17,640,402		8,771,050	-13,243,456	2,850		7,000	
Kemppainen Pekka			12,340	+10,000	1,700		5,800	+1,000
Leppänen Heikki			10,000	+10,000	1,100		1,500	+1,000
Maziol Eric			10,000	+10,000	1,700		4,200	+1,000
Mäkinen Heimo			40,360	+10,000			4,200	+1,000
Orchard William			10,000	+10,000	500	-1,200	1,000	-1,400
Rajahalme Aimo			10,000	+10,000			4,200	+1,000
Sihvola Pekka							1,400	
Tuomas Kerttu			10,000	+10,000			1,750	+400
Veeger Noud			14,020	+10,000			1,000	+1,000

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

Board of Directors

Antti Herlin

Board Chairman
b. 1956, D.Sc. (Econ.) h.c.
Member of the Board since 1991.
Has served as CEO of KONE Corporation since 1996 and as Board Chairman since 2003.
Previously served as Deputy Chairman 1996–2003.
Current key positions of trust are Chairman of the Board of Technology Industries of Finland, Security Trading Oy and Holding Manutas Oy; Deputy Chairman of the Board of the Confederation of Finnish Industries (EK); Deputy Chairman of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company and Board member of Cargotec Corporation and YIT Corporation.

Sirkka Hämäläinen-Lindfors

Vice Chairman of the Board
b. 1939, D.Sc. (Econ.)
Member of the Board since 2004.
Previously served as Member of the Executive Board of the European Central Bank 1998–2003, as Governor and Chairman of the Board of the Bank of Finland 1992–1998 and as Member of the Board of the Bank of Finland 1991–1992.
Current key positions of trust are Board member of SanomaWSOY Corporation, Investor AB and Foundation for Economic Education.

Matti Alahuhta

b. 1952, D. Sc. (Eng.)
Member of the Board since 2003.
Has served as President of KONE Corporation since 2005.
Previously served as Executive Vice President of Nokia Corporation 2004, as President of Nokia Mobile Phones 1998–2003 and as President of Nokia Telecommunications 1993–1998.
Current key positions of trust are Chairman of the Foundation Board of the International Institute for Management Development (IMD, Switzerland), Chairman of the Board for the Centennial Foundation of Technology Industries of Finland, and Board member of BT Group as of February 2006.

Jean-Pierre Chauvarie

b. 1935, Industrial Engineer
Member of the Board since 2000.
Previously served as Deputy Member of the Board 1999–2000, as President of KONE Corporation 1999–2001, as Area Director 1995–1998 and as Managing Director of KONE France 1980–1995.

Reino Hanhinen

b. 1943, M.Sc. (Eng.), D.Sc. (Tech.) h.c.
Member of the Board since 2005.
Previously served as President and CEO of YIT Corporation 1987–2005 and as Group CEO 2000–2005, as Managing Director of Perusyhtymä Oy 1986–1987, as Managing Director of YIT Oy Yleinen Insinööritoimisto 1985–1986, as Managing Director of Oy PPTH-Norden Ab 1976–1985, as Division Manager 1974–1976 and as Work Supervisor 1968–1974 of YIT Oy Yleinen Insinööritoimisto.
Current key position of trust is Chairman of the Board of YIT Corporation.

Masayuki Shimono

b. 1947
Member of the Board since 2004.
Has served as President and CEO of Toshiba Elevator and Building Systems Corporation since 2004.
Previously served as Executive Vice President and General Manager 2003–2004, as Senior Fellow of Toshiba Corporation 2001–2003, as President and CEO of Toshiba International Corporation (USA) 1999–2001, as Deputy General Manager of Toshiba Corporation, International Operations Division 1997–1999 and as Vice President of Toshiba International Corporation (USA) 1991–1997.

Iiro Viinanen

b. 1944, M.Sc. (Tech.)
Member of the Board since 1997.
Previously served as President and CEO of Pohjola Group 1996–2000, as Finland's Minister of Finance 1991–1996 and as Member of Finland's Parliament 1983–1996.
Current key positions of trust are Board member of Polttimo Companies Ltd and Kumera Ltd.

Gerhard Wendt

b. 1934, Ph.D.
Member of the Board since 1979.
Previously served as President of KONE Corporation 1989–1995.
Current key positions of trust are Chairman of the Board of Algol Oy and Board member of Oy Halton Group Ltd, Halton Oy and Vaisala Oyj.

Tapio Hakakari

b. 1953, LL.M.
Secretary to the Board of Directors since 1998.
Has served as Managing Director of Holding Manutas Oy since 2002 and as Managing Director of Security Trading Oy since 2000.
Previously served as Director, Administration of KCI Konecranes International Plc 1994–1998.
Employed by KONE Corporation 1983–1994.
Current key positions of trust are Board member of Security Trading Oy, Holding Manutas Oy, Etteplan Oyj, Martela Oyj and Cargotec Corporation.

From left to right:
Antti Herlin
Sirkka Hämäläinen-Lindfors
Matti Alahuhta
Jean-Pierre Chauvarie
Reino Hanhinen
Masayuki Shimono
Iiro Viinanen
Gerhard Wendt
Tapio Hakakari

Ownership information regarding KONE shares and option rights is presented on page 25.

Executive Board

Matti Alahuhta
President
b. 1952, D. Sc. (Eng.)
Member of the Board since 2003. Employed by KONE Corporation since 2005.
Previously served as Executive Vice President of Nokia Corporation 2004, as President of Nokia Mobile Phones 1998–2003 and as President of Nokia Telecommunications 1993–1998.
Current key positions of trust are Chairman of the Foundation Board of the International Institute for Management Development (IMD, Switzerland), Chairman of the Board for the Centennial Foundation of Technology Industries of Finland, and Board member of BT Group as of February 2006.

Klaus Cawén
M & A and Strategic Alliances, Legal Affairs
b. 1957, LL.M.
Member of the Executive Board since 1991. Employed by KONE Corporation since 1983.
Previously served as General Counsel of KONE Corporation 1991–2001.
Current key positions of trust are Board member of Oy Karl Fazer Ab, Kyro Corporation, and Toshiba Elevator and Building Systems Corporation (Japan).

Pekka Kemppainen
Asia-Pacific
b. 1954, Licentiate in Technology
Member of the Executive Board since 2005. Employed by KONE Corporation since 1984.
Previously served as Executive Vice President, New Equipment Business, Elevators and Escalators 2001–2004, as Senior Vice President, New Equipment Business and Technology 1995–2001 and as Director of the Research Center 1990–1994.
Current key positions of trust are Board member of Etteplan Design Center, and Toshiba Elevator and Building Systems Corporation (Japan).

Heikki Leppänen
New Elevators and Escalators
b. 1957, Licentiate in Technology
Member of the Executive Board since 2005. Employed by KONE Corporation since 1982.
Previously served as Senior Vice President, Technology and Global Research and Development 2004–2005 and as Head of the Research and Development Unit in Finland 2000–2004.

Eric Maziol
West and South Europe
b. 1949, M.Sc. (Econ.)
Member of the Executive Board since 2005. Employed by KONE Corporation since 1974.
Previously served as Area Director in West and South Europe 2000–2005, as Managing Director of KONE France 1996–2000 and as Vice President in Marketing & Field Operations of KONE Corporation 1991–1996.

Heimo Mäkinen
North America
b. 1944, M.Sc. (Eng.)
Member of the Executive Board since 2005. Employed by KONE Corporation since 1968.
Previously served as President and CEO of KONE Inc and as Area Director in North America 2004, as Executive Vice President, Technology & Purchasing and as Area Director in Asia-Pacific 2001–2004, as Senior Vice President, Escalator Business and as Area Director in Asia-Pacific 1999–2001, as President & CEO of Montgomery-KONE Inc and as Area Director in Americas 1994–1999, as Director, New Elevator Business 1993–1994 and as Director, Technology 1986–1994.
Current key position of trust is Vice President of the National Elevator Industry, Inc. (NEII, USA).

From left to right:
Matti Alahuhta
Klaus Cawén
Pekka Kemppainen
Heikki Leppänen
Eric Maziol
Heimo Mäkinen
Peter de Neef
William Orchard
Aimo Rajahalme
Kerttu Tuomas
Noud Veeger

Peter de Neef

Services
b. 1960, M.Sc (Organization Psychology)
Member of the Executive Board since 2005. Employed by KONE Corporation since 1997.
Previously served as Managing Director of KONE Netherlands 2003–2005, as Director, Service and Modernization 1999–2003 and as Manager, IT and Logistics 1997–1999.
Current key position of trust is Chairman of the Quality, Safety, Environment and Education Committee of the European Lift Association (ELA).

William Orchard

Major Projects
b. 1947, B.Sc. (Production Engineering)
Member of the Executive Board since 2001. Employed by KONE Corporation since 1988.
Previously served as Executive Vice President, Service Business 2001–2004 and as Managing Director of KONE Plc (U.K.) 1991–2001.
Current key positions of trust are President of European Elevator Association (EEA) and Board member of European Lift Association (ELA).

Aimo Rajahalme

Finance and Information Services
b. 1949, M.Sc. (Econ.)
Member of the Executive Board since 1991. Employed by KONE Corporation since 1973.
Has served as CFO since 1991.
Current key position of trust is Deputy Chairman of the Board of Uponor Corporation.

Kerttu Tuomas

Human Resources
b. 1957, B. Sc. (Econ.)
Member of the Executive Board since 2002. Employed by KONE Corporation since 2002.
Previously served as Group Vice President, Human Resources of Elcoteq Network Corporation 2000–2002 and as Personnel & Organization Manager of Masterfoods Oy (Mars) 1994–1999.

Noud Veeger

Central and North Europe
b. 1961, M. Sc. (Econ.)
Member of the Executive Board since 2004. Employed by KONE Corporation since 1999.
Previously served as Managing Director of KONE Plc (U.K.) 2002–2004, as Director, New Elevator & Escalator Business of KONE Netherlands 1999–2002, as Director of OTRA Netherlands 1996–1998 and as Managing Director of HCI Central America 1993–1996.

Ownership information regarding KONE shares and option rights is presented on page 25.

KONE as an Investment

KONE was founded in 1910 and listed on the Helsinki Stock Exchange in 1967. Today KONE is among the ten largest companies by market capitalization on the Helsinki Stock Exchange with an average daily trade of approximately 280,000 shares. KONE Corporation has two classes of shares: the listed class B share with the trading code KNEBV and the non-listed class A share.

At general meetings each KONE 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.

KONE has not adopted a specific dividend policy. In case of dividend distribution, the dividend paid on the class B share is higher than that on the class A share. The difference between the dividend is at minimum one (1) percent and maximum two and a half (2.5) percent, calculated from the accounting par value of the share. The accounting par value of the share is EUR 0.50.

IR Activity

All Investor Relations activities are coordinated by the Investor Relations Department. This ensures fair and equal access to company information and to its spokespersons.

During the accounting period 1 June–31 December, 2005, KONE released two pro forma quarterly reviews and one Interim Report for the period 1 June–30 September, 2005. In conjunction with the release of financial statements, KONE held domestic analyst and press conferences and online audio-cast conference calls for international investors and analysts. During the year, KONE management and IR also frequently held one-on-one meetings with investors, both in Finland and during road shows to major financial centers in Europe and in the United States, as well as taking part in industry seminars.

KONE has a silent period prior to releasing financial statements. This means that no discussions regarding financial issues are held with the capital market or media during a three-week period preceding the publication. This concerns meetings, telephone conversations and other means of communication.

KONE maintains comprehensive investor relations pages on its website. For more information please visit www.kone.com. For further information relating to shares and shareholders, please see page 65 of this report and page 20 regarding Corporate Governance.

Investor Relations Policy

KONE strives to offer liquid shares that present an attractive investment alternative to domestic and foreign institutional and private investors. The primary task of Investor Relations is to ensure that the market has timely and comprehensive information in order to evaluate KONE securities objectively and correctly at all times. This task is to be fulfilled in all written financial communication, annual and interim reports, press releases and Internet entries, as well as in communication with investors and analysts.

KONE complies with the legal requirements for listed companies as defined by the Securities Market Act and the Helsinki Stock Exchange rules regarding prompt and simultaneous disclosure of information in all its financial communication.

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Analysts

The following brokers and financial analysts followed KONE's development on their own initiative in 2005. KONE is not responsible for their comments and views.

ABG Sundal Collier Ltd.	Erik Ejerhed	+44 7855 234 688
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CA Cheuvreux	Patrick Sjöblom	+46 8 723 51 00
Cazenove	Kenneth Leiling	+44 207 155 8221
D. Carnegie Ab Finland	Miikka Kinnunen	+358 (0)9 6187 1241
Danske Bank, Danske Equities	Søren Samsøe	+45 33 44 0448
Deutsche Bank AG	Timo Pirskanen	+358 (0)9 2525 2553
Enskilda Securities	Kaisa Ojainmaa	+358 (0)9 616 28 726
Evli Securities	Derek Silva	+358 (0)9 476 69 204
eQ Bank Ltd.	Juha Iso-Herttua	+358 (0)9 2312 3326
FIM Securities	Mikko Linnanvuori	+358 (0)9 613 4600
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Financial Statements
for the Accounting Period 1 June–31 December, 2005

Kone Corporation demerged into two separately listed corporations, KONE Corporation and Cargotec Corporation, on 1 June, 2005. This report presents the financial performance of KONE Corporation as of the demerger date, for the period June–December 2005. KONE Corporation's complete Financial Statements for the accounting period 1 June–31 December, 2005 are included in the corporation's official financial statements documents.

Board of Directors' Report

Kone Corporation demerged into two separately listed corporations, KONE Corporation and Cargotec Corporation, on 1 June, 2005. This report presents the financial performance of KONE Corporation as of the demerger date, for the period June–December 2005. Hereafter, KONE's reporting period will follow the calendar year.

In order to facilitate the evaluation of the financial performance and status of the company, a separate pro forma review for year 2005 is published. The unaudited pro forma information has been compiled according to the business and corporate structure prevailing after the demerger. The pro forma review describes the development of the market, the business and the financial performance compared to year 2004.

Financial Performance

KONE's net sales during the reporting period 1 June–31 December, 2005 totaled EUR 2,101 million. Operating income was EUR 194.7 million, representing 9.3 percent of net sales. KONE's operations for the period under review met the targets that had been set. A large number of elevator and escalator installations were completed particularly during the last months of the year. Net income amounted to EUR 124.0 million, and diluted earnings per share equaled EUR 0.97. The Board proposes a dividend of EUR 1.00 for each outstanding class B share and EUR 0.99 for each class A share.

Order intake during the reporting period, excluding the value of maintenance contracts, totaled EUR 1,622 million. At the end of December, the order book stood at EUR 2,327 million. Order intake was good in all market areas, with North America and China posting extra-ordinarily strong growth, but good results were also achieved in many European countries.

Cash flow from operations (before financial items and taxes) totaled EUR 215.4. At the end of December, net working capital was negative at EUR –158.0 million. Capital expenditure totaled EUR 29.4 million. The high installation volume during the last months reduced the amount of work in progress. Payment collection was efficient, reducing accounts receivable and improving cash flow.

At the end of December, KONE's net debt amounted to EUR 99.3 million. Total equity as a share of total assets was 31.2 percent, and gearing was 14.8 percent. Total assets amounted to EUR 2,145 million, and assets employed totaled EUR 768.5 million.

KONE had 27,238 employees at the end of the period. The average number of employees during the period June–December 2005 was 27,016.

Market Review

Demand for new equipment continued strong in Asia, and the North American market picked up some, with demand shifting from hydraulic to machine-room-less technology. The European market, which is more mature than the Asian market, remained fairly unchanged.

In Europe, the Middle East and Africa (EMEA), the overall market for new equipment grew moderately, but development differed from one country to another. Overall demand for the residential sector was at a good level while the office-building sector remained weak in most major countries except the U.K. The high-rise market in the Middle East remained strong. The service market, including maintenance and modernizations, improved; modernization order intake showed strong growth.

As a result of the improved U.S. economy, demand for new equipment and modernizations in North America continued to be at a good level, boosted by growth in the apartment building, office building and public transportation markets. The impact of higher oil prices and natural catastrophes caused some market uncertainty in the U.S. KONE benefited from the growing machine-room-less elevator market, which continued to gain ground. The maintenance market also showed stable growth.

In the Asia-Pacific region, the market for new equipment continued to be good. All major markets contributed to KONE's extraordinarily strong new equipment order intake. KONE clearly benefited from extensions to its product portfolio targeted for the Asian markets, as well as from strengthened sales network. In addition, acquisitions contributed to growth. As a result of the rapid growth of the installed base, particularly in China, maintenance demand grew rapidly, but the maintenance market is still relatively small.

In the EMEA and the Asian-Pacific regions, new equipment pricing remained intense. In Europe, the continuing trend of large customers bundling maintenance contracts for their entire equipment base increased pricing competition. In Asia, the escalator-pricing environment in particular was adversely affected by continuing production capacity increases in China. In North America, price pressure was relatively unchanged after easing somewhat during the first half of the year. Maintenance pricing continued to be under pressure globally.

Board of Director's Report

Net Sales

Net sales in June–December 2005 totaled EUR 2,101 million. Europe, the Middle East and Africa (EMEA) accounted for 66 percent, North America for 22 percent and Asia-Pacific for 12 percent of net sales.

New equipment net sales were EUR 883.9 million, or 42 percent of the total sales. Net sales from services totaled EUR 1,218 million, or 58 percent of total sales, including building door maintenance sales of EUR 109.0 million.

The number of elevators and escalators under service contract amounted to more than 575,000 units, of which more than 440,000 are in Europe, slightly over 90,000 in North America and approximately 40,000 in the Asia-Pacific region.

Development and Restructuring Program

In order to improve the cost-competitiveness of KONE's supply chain and its products, a development and restructuring program was initiated in March, prior to the demerger. The total one-time operating income impact of the program of EUR 89.2 million was provided for in the accounts of the demerged Kone Corporation and transferred to the new KONE Corporation. The main actions of the development and restructuring program were completed by the end of 2005.

Negotiations in the electrification component unit in the U.K. were concluded during the second quarter of the calendar year, and production was closed down by the end of 2005. Production was moved to facilities in Italy and Finland.

Regarding the escalator production facility in Germany, negotiations were concluded in September, and production was closed down by the end of the month. During the negotiations, different alternatives were evaluated, but no alternative solution was found to discontinuing production. The German facility is carrying on as KONE's Global Escalator Technology and Service Business Center. KONE's standard escalator production is now mainly concentrated in China, which represents roughly half of the global escalator market.

Construction of a Mexican facility for the manufacture of elevator doors for the North American market started in September. Production will begin in the second quarter of 2006.

Capital Expenditure and Product Development

Capital expenditure totaled EUR 29.4 million. In addition, acquisitions accounted for EUR 37.1 million.

Research and Development expenditures totaled EUR 24.7 million or 1.2 percent of net sales. In order to improve its position in Asia, KONE strengthened its R&D operations in China and India.

KONE also focused on developing its product portfolio in order to maximize accessible markets. During the reporting period, measures to broaden the product range to meet differing regional demand and improve competitiveness continued successfully. In addition, KONE is building up the supply chain process for its counterweightless KONE MaxiSpace™ solution in order to support KONE's order and installation volumes across Europe in 2006.

Acquisitions and Cooperation Agreements

KONE continued to make acquisitions in order to strengthen its position in growth markets and increase the density of its maintenance base. Most of the acquired companies were local elevator or door service companies. Capital expenditure for acquisitions totaled EUR 37.1 million.

The KONE and Toshiba Elevator and Building Systems Corporation (TELC) joint venture for escalator production in China launched its first escalator product for the Chinese market during the autumn and to other markets in Asia at the end of the year. KONE owns 70 percent of the new company, and TELC owns 30 percent.

The process of establishing a joint venture between KONE and Russia's premier elevator company, Karacharovo Mechanical Factory (KMZ), is proceeding. Finalization of the joint-venture agreement will follow approval by the appropriate authorities.

European Commission Investigation

On 10 October, 2005 KONE received a Statement of Objections from the European Commission concerning its investigation of localized anticompetitive practices in the elevator and escalator industry in Belgium, Germany, Luxemburg and the Netherlands. KONE has cooperated fully with the European Commission since the initiation of the investigation in January 2004. The company will submit its reply to the Statement of Objections during the first quarter of 2006.

Possible Operational Risks

KONE's business activities are exposed to possible risks, of which the most significant are fluctuations in currency rates and increases in raw material prices and personnel costs. Fluctuations in currency rates have an impact on the consolidated figures while increases in raw material and personnel costs might weaken the result. In addition, relocation and concentration of the production network in order to improve cost-competitiveness of the products requires a stable business environment.

KONE Shareholders' Meetings and Board of Directors

KONE Corporation's Extraordinary Shareholders' Meeting was held in Helsinki on 17 June, 2005. The Extraordinary Shareholders' Meeting decided to raise the number of members of KONE Corporation's Board of Directors to eight and elected Reino Hanhinen as a new member of the Board in accordance with the Nomination Committee's proposal. The other members of the Board are Antti Herlin (Chairman), Sirkka Hämäläinen-Lindfors (Vice Chairman), Matti Alahuhta, Jean-Pierre Chauvarie, Masayuki Shimono, Gerhard Wendt and Iiro Viinanen.

In addition, the Board of Directors' proposal that the Annual General Meeting authorize the Board of Directors to repurchase KONE's own shares with assets distributable as profit was approved. Altogether no more than 6,367,000 shares may be repurchased, of which no more than 952,000 are class A shares and 5,415,000 are class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of own shares that the company is allowed to possess. The proposed amount corresponds to nearly 10 percent of both the share capital and total voting rights of the company.

The Board of Directors was authorized to decide to whom and in which order the repurchased shares will be distributed. The repurchased shares may be used as compensation in acquisitions and in other arrangements in the manner and to the extent decided by the Board of Directors.

These authorizations shall remain in effect for a period of one year from the date of decision of the Extraordinary Shareholders' Meeting.

KONE Corporation's Extraordinary Shareholders' Meeting in Helsinki on 21 November, 2005 approved the Board proposal that the number of the company's shares be increased (share split) in proportion to the holdings of the shareholders by doubling the number of shares from 63,867,465 to 127,734,930 shares without increasing the share capital. As a result, each share with the an accounting par value of EUR 1.00 was at the time split into two shares with accounting par values of EUR 0.50.

The increase in the number of shares was entered into the Trade Register on 28 November, 2005. Trading of the split shares began on 29 November, 2005.

In addition, the Shareholders Meeting approved the Board's proposal that the number of shares that can be subscribed for with KONE 2005A and KONE 2005B option rights be increased in proportion to the split. The total accounting par value of shares to be subscribed and the total subscription price remain unchanged. As a result, one option right will entitle to subscription for six (6) class B shares at a price of EUR 8.04 per share.

The Shareholders' Meeting also approved the Board's proposal to issue new option rights to key personnel of the KONE group as well as to a wholly owned subsidiary of KONE Corporation.

Incentive Programs and Share Capital

KONE 2005A and KONE 2005B option rights are based on the option program 2004 of the demerged Kone Corporation. The option program includes approximately 250 key employees. The program was introduced in 2000, and the amount of option rights to be given was tied to the development of Kone's cumulative net income (after taxes) in 2001–2003.

The new option rights 2005A and 2005B have been entered into the book-entry system and listed on the main list of the Helsinki Stock Exchange as of 1 June, 2005. The share subscription price of KONE 2005A and 2005B option rights is EUR 8.04 per share. Each KONE 2005A and 2005B option right entitles to subscribe six KONE class B shares.

During the period under review 345,930 shares have been subscribed for with the 2005A and 2005B option rights, raising KONE's share capital to EUR 63.9 million, comprising 108,803,262 listed class B shares and 19,052,178 unlisted class A shares. The 2005A option rights remaining at the end of the accounting period entitle to subscription of 307,380 class B shares, and the remaining 2005B option rights to subscription of 655,200 class B shares.

The issuance KONE 2005C options for key personnel of the KONE group as well as a wholly owned subsidiary of KONE Corporation was approved by the Extraordinary Shareholders' Meeting on 21 November, 2005. The option program includes a maximum of 300 key employees and subsidiary directors globally. The purpose of the stock options is to encourage long-term efforts by key personnel to grow shareholder value and increase their commitment to the company by offering them an internationally competitive incentive program. The company's CEO, President and members of the executive board are not included in the program.

All 2,000,000 KONE 2005C option rights offered for subscription were subscribed, and the Board of Directors of KONE Corporation approved the subscriptions on 19 December, 2005. The maximum number of option rights per person has been limited to 8,000 shares. Each stock option entitles its owner to subscribe for one (1) class B share. The class B shares for which these stock options can be exchanged constitute no more than 1.56 percent of the company's total number of shares. The share subscription price for 2005C option rights is EUR 28.40. The amount of KONE Corporation's dividend paid after the determination of the subscription price shall be deducted from the subscription price up to the time of share subscription, as per the dividend record date.

The share subscription period for 2005C option rights shall be 1 April, 2008–30 April, 2010. The share subscription period will begin only if the average net sales growth of the KONE Group for financial years 2006 and 2007 exceeds market growth and the Earnings before Interest and Taxes (EBIT) of the KONE Group for the financial year 2006 exceeds the EBIT for the financial year 2005 and the EBIT for the financial year 2007 exceeds the EBIT for the financial year

Board of Director's Report

2006. If these criteria decided by the Board of Directors have not been attained, stock options 2005C expire in the manner decided by the Board of Directors.

A share-based incentive plan for the company's senior management, consisting of approximately 35 individuals, was decides upon by the Board of Directors on 24 October, 2005. The potential reward is based on the growth in KONE's sales and operating profit for 2006 and 2007. The reward is to be paid as a combination of class B shares and the cash equivalent of the tax and taxable benefit costs that are incurred. The share ownership plan amounts to no more than 0.2 percent of the entire corporation's shares. The plan prevents participants from transferring the shares during the fifteen-month period following the termination of each earning period.

Repurchase of KONE Shares

During the reporting period, KONE Corporation repurchased 374,840 of its class B shares at the average price of EUR 27.18 (split-adjusted figures). In addition, relating to the share-based incentive plan, a company included in the consolidated financial statements acquired 400,000 KONE class B shares in December 2005 for a total of EUR 11.8 million. These shares are taken into account in the maximum number of own shares that can be purchased within the Board's authorization approved by the Annual General Meeting. At the end of December, the group had 774,840 class B shares in its possession. The shares in the group's possession represent 0.7 percent of the total number of class B shares of the voting rights of the class B shares. This corresponds to 0.3 percent of the total voting rights.

At the end of the financial period, KONE's Board of Directors had no valid authorization to increase the share capital or to issue convertible bonds or option rights.

Annual General Meeting and Distribution of Profits

KONE's distributable equity as of 31 December, 2005 stands at EUR 487.8 million. The company's distributable equity on 31 December, 2005 totaled EUR 1,206 million, and net income from the accounting period under review was EUR 70.5 million. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.99 be paid for each class A share and EUR 1.00 for each outstanding class B share from retained earnings. The date of record for dividend distribution is 2 March, 2006, and it is proposed that dividends be paid on 9 March, 2006. If the Annual General Meeting of 27 February, 2006 approves the Board of Directors' proposal of profit distribution, the dividends will total EUR 127.3 million.

Ownership

On 5 April, 2005 an agreement was reached by Antti Herlin, Ilkka Herlin, Ilona Herlin and Niklas Herlin, the execution of which led to a change in the ownership structure of KONE Corporation. As a part of the announced reorganization, KONE Corporation was informed on 30 June, 2005 of the demerger of Security Trading Oy becoming effective, the exchange of shares by main shareholders in the new companies established in the demerger, and the share transactions carried out by Holding Manutas Oy. with the companies that were created by the demerger. As a consequence of this reorganization, the shareholding in KONE Corporation controlled by Antti Herlin corresponded to 20.83 percent of the shares and 61.99 percent of the votes.

On 20 July, 2005, KONE announced a shareholders' agreement between the Kone Foundation and Antti Herlin. Under the agreement, the Kone Foundation has the right to recommend a candidate for KONE's Board of Directors to the Nomination Committee. The agreement will be applied during KONE's next annual general meeting to be held on 27 February, 2006.

Outlook for 2006

At comparable exchange rates, KONE's target is to achieve approximately a 10 percent increase in 2006 net sales, compared to the 2005 pro forma figure. This is supported by the strong 2005 order intake. Order intake growth, however, is not expected to achieve the 2005 level. The operating income (EBIT) target is to achieve growth of approximately 20 percent from the comparable 2005 pro forma figure of EUR 272 million.

Helsinki, 27 January, 2006

KONE Corporation

Board of Directors

Consolidated Statement of Income

MEUR	Note	1 Jun–31 Dec, 2005	%
Sales	4	2,101.4	
Costs, expenses and depreciation	5, 6	-1,906.7	
Operating Income		194.7	9.3
Share of associated companies' net income	13	0.9	
Financing income and expenses	7	-2.1	
Income before Taxes		193.5	9.2
Taxes	8	-69.5	
Net Income		124.0	5.9
Net Income attributable to:			
Shareholders of the parent company		124.8	
Minority interests		-0.8	
Total		124.0	
Earnings per share for profit attributable to the shareholders of the parent company, EUR (Note 9)			
Basic earnings per share, EUR		0.98	
Diluted earnings per share, EUR		0.97	

Consolidated Balance Sheet

Assets MEUR		Note	31 Dec, 2005
Non-Current Assets			
Goodwill		10	497.9
Other intangible assets		11	53.7
Property, plant and equipment		12	217.7
Investments in associated companies		13	22.2
Shares		14	129.8
Available-for-sale investments		15	5.2
Non-current financial receivables	I	16	53.1
Deferred tax assets		17	130.1
Total Non-Current Assets			1,109.7
Current Assets			
Inventories		18	584.9
Advance payments received		18	-464.2
Accounts receivable			524.3
Deferred assets		19	148.6
Income tax receivables			33.8
Current financial receivables	I	16	0.6
Financial assets	I	20	93.3
Cash and bank	I		113.5
Total Current Assets			1,034.8
Total Assets			2,144.5

Equity and Liabilities MEUR		Note	31 Dec, 2005
Capital and reserves attributable to the shareholders of the parent company			
Share capital		21	63.9
Share premium account			96.4
Fair value and other reserves			-5.1
Translation differences			9.9
Retained earnings			501.3
Total Shareholders' Equity			666.4
Minority interests			2.8
Total Equity			669.2
Non-Current Liabilities			
Loans	I	22	144.2
Deferred tax liabilities		17	24.7
Employee benefits		23	148.9
Total Non-Current Liabilities			317.8
Provisions		24	112.0
Current Liabilities			
Current portion of long-term loans	I	22	12.8
Other liabilities	I	22	202.8
Accounts payable			214.2
Accruals		25	557.0
Income tax payables			58.7
Total Current Liabilities			1,045.5
Total Equity and Liabilities			2,144.5

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 Jun, 2005	63.8	93.8	-2.2	0.0	397.9	22.9	576.2
Net income for the period					124.8	-0.8	124.0
Items booked directly into equity:							
Transactions with shareholders and minority shareholders:							
Dividends paid							-
Issue of shares (option rights)	0.1	2.6					2.7
Purchase of own shares					-21.9		-21.9
Sales of own shares							-
Change in minority interests						-19.3	-19.3
Cash flow hedge			-2.9				-2.9
Translation differences				15.2			15.2
Hedging of foreign subsidiaries				-7.1			-7.1
Tax impact of hedging				1.8			1.8
Option and share based compensation					0.5		0.5
31 Dec, 2005	63.9	96.4	-5.1	9.9	501.3	2.8	669.2

The retained earnings contains non-distributable earnings EUR 13.5 million, including the cumulative untaxed reserves less the deferred tax.

Consolidated Statement of Cash Flow

MEUR	1 Jun–31 Dec, 2005
Cash receipts from customers	1,983.0
Cash paid to suppliers and employees	-1,767.6
Cash Flow from Operations	215.4
Interest received	5.8
Interest paid	-8.5
Dividends received	2.4
Other financial items	-3.0
Income taxes paid	-137.4
Cash Flow from Operating Activities	74.7
Capital expenditure	-29.4
Proceeds from sales of fixed assets	0.9
Acquisitions, net of cash	-37.1
Proceeds from divested operations, net of cash	0.0
Cash Flow from Investing Activities	-65.6
Cash Flow after Investing Activities	9.1
Change in current creditors, net	37.7
Proceeds from long-term borrowings	9.1
Repayments of long-term borrowings	-16.8
Purchases of own shares	-22.0
Sales of own shares	-
Share issue	2.8
Dividends paid	-
Other financing activities	0.0
Cash Flow from Financing Activities	10.8
Change in Net Cash	19.9
Cash and bank at the end of period	113.5
Translation difference	-1.0
Cash and bank in the beginning of period	92.6
Change in Net Cash	19.9
Reconciliation of Net Income to Cash Flow from Operating Activities	
Net Income	124.0
Depreciation	34.8
Income before Change in Working Capital	158.8
Change in receivables	-127.5
Change in payables	-21.1
Change in inventories	64.5
Cash Flow from Operating Activities	74.7

In drawing up the Statement of Cash Flow, 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) as adopted by the EU observing the standards and interpretations effective on 31 December, 2005. The Group has not applied those standards, which has been issued by International Accounting Standard Board (IASB) but application was not compulsory.

IFRS standard 7 (Financial Instruments: Disclosures) will be applied in 2007 when application will be compulsory. The Group will apply in 2005 issued changes of IAS 39 from the beginning of 2007. These changes are estimated not to have significant effect on financial result or position of the Group.

KONE Corporation demerged into two separately listed corporations, KONE Corporation and Cargotec Corporation, on 1 June, 2005. KONE Corporation's (the parent company) first financial reporting period is 1 June–31 December, 2005. After this KONE Corporation's reporting period will follow the calendar year. The accounting period of Finnish subsidiaries was 1 April–31 December, 2005 and the accounting period of foreign subsidiaries was the calendar year 2005.

The consolidated financial statements have been prepared for the accounting period of 7 months between 1 June and 31 December, 2005. 1st of June opening balances were based on interim accounts, which were prepared in accordance with IFRS. Due to the demerger comparative figures are not available. The Consolidated Financial Statements are presented in millions of euros and prepared under the historical cost convention except as disclosed below.

Consolidation Principles

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. In addition to these holdings, the consolidated accounts include possible holdings that are of a controlling-right nature (units/companies established for a specific reason). 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").

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".

Net income for the period is disclosed in the Statement of Income as an allocation to the shareholders of the parent company and minority interests. Minority interests are disclosed separately under consolidated total equity

All intra-corporate transactions, receivables, liabilities and unrealized profits, as well as distribution of profits within the Group 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.

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 period end exchange rate. Foreign exchange gains and losses related to 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 non-Euro currency 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

Derivative financial instruments are initially recognized in the Balance Sheet at cost and subsequently measured at their fair value on each Balance Sheet date. Hedge accounting for qualifying hedges is required in the companies having a considerable volume of foreign exchange forward contracts. In other companies with relatively small volumes of derivative financial instruments the hedging of sales and purchases is classified as economic hedging.

When derivative contracts are entered into, the Group designates them as either cash flow hedges under IFRS hedge accounting for forecast transactions or firm commitments of sales or purchases, economic 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 accounting 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 of sales and purchases are recognized in other income or expense in the Statement of Income. Commodity derivatives consisting of electricity derivatives are also classified as economic hedges and recognized in other income and expenses.

Changes in the fair value 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

Changes in the fair values of hedges of investments in foreign entities have been booked into Translation Difference in the Balance Sheet.

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 and by eliminating the accrued interests already booked as a net amount in deferred assets. The fair value of electricity derivatives is the period end value listed by Nord Pool (Scandinavian electricity pool).

Segment Reporting

The profitability of KONE Corporation is presented as a single entity. KONE business idea is to serve its customers by providing solutions throughout the entire lifecycle of a product, beginning from the installation of a new products until it is replaced with new equipment, including maintenance and modernizations. KONE strives to seek extensive customerships, including deliveries of new products with a long-term maintenance contract. Also KONE's operating business structure is global. Due to the reasons presented above and concerning the risk-return relationships, splitting the operating income between new equipment business and service business or between the market areas is not relevant.

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

Notes on the Consolidated Financial Statements

for temporary differences arising between the tax basis of assets and liabilities and their book values in financial 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 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.

Non-current Assets Held for Sale and Discontinued Operations

Non-current assets held for sale and discontinued operations classified as held for sale are measured lower of carrying amount and fair value less costs to sell.

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. 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. An allowance is recorded for obsolete items.

Receivables

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 rate 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.

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 plans are classified as either defined contribution plans or defined benefit plans. The pension plans are generally funded by payments from employees and by the relevant KONE companies. The assets of these plans are generally held in separate insurance companies or trustee-administered funds. Pension costs and liabilities are based on calculations by the local authorities or 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. 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.

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. The discount rates used in actuarial calculations of employee benefits liabilities are adjusted to market rates. 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 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.

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held own shares. Diluted earnings per share has been computed by

Notes on the Consolidated Financial Statements

applying the "treasury stock" method, under which earnings per share data is computed as if the warrants and options were exercised as the beginning of the period, or if later, on issue and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options. If criteria for options set in the terms and conditions of the option plan are not met options are not included in calculated number of shares.

Equity

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.

Dividend

The dividend proposed by the board has not been deducted from the equity prior to the shareholders meeting's acceptance.

Share-Based Compensation

The Group has applied IFRS 2 for its option plan and share ownership plan from which the rewards have been granted to the Group's management and other key personnel during the financial year ending 31 December, 2005.

Pursuant to the option plan the Board has granted the option rights to around 300 key employees as well as to a wholly-owned subsidiary of KONE Corporation. The options will be distributed to key personnel when the criteria for options set in the terms and conditions of the option plan are met. The fair value of the options granted to the key employees has been determined at the grant date and it will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the options that are expected to be vested at the end of the vesting period. The fair value of the options granted are determined by Black-Scholes pricing model. The impact of any non-market vesting conditions (sales growth and profitability improvement) has been excluded, but they are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates in the income statement. When the options are exercised, the proceeds received (net of any transaction costs) are credited to share capital (nominal value) and share premium.

The Board has granted the share ownership plan 2006–2007 to the Group's management. Pursuant to the share ownership plan the reward to the management will be settled as a combination of KONE class B shares and cash when the criteria set in the terms and conditions for the plan are met. The fair value of the share-based payments settled with KONE class B shares has been determined at the grant date and it will be recognized as an expense over the vesting periods. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the shares that are expected to be vested at the end of the vesting period. The impact of any non-market vesting conditions (sales and EBIT development) has been excluded, but they are included in assumptions about the number of shares that are expected to become distributed. At each balance sheet date, the entity revises its estimates of the number of shares that are expected to become distributed. It recognizes the impact of the revision of original estimates in the income statement. The fair value of the share-based payments settled with cash has been determined as 1.5 fold the fair value of the estimated grantable shares. The liability shall be measured, initially and at each reporting date until settled, at the fair value of the shares expected to be distributed, by applying the option pricing model and the extent to which the employees have rendered service to date. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to the liability.

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 December, 2005 appear in note 27.

Currency Risks

KONE operates internationally and is, thus, exposed to currency risks arising from exchange rate fluctuations related to currency flows from sales and purchases (transaction risk) and from translation of balance sheet items of foreign subsidiaries into euros (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 into 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 firm contracts and estimated quarterly cash flows of highly probable purchases or sales 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 in subsidiaries having large volume of foreign currency transactions. Other companies use economic hedging. 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 three 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, FX forward contracts 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 and Energy Price Risks

The group uses electricity derivatives to hedge risk in electricity price development. Electricity derivatives 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 un-drawn credit facilities. The long-term loan repayment schedule can be found in note 22.

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. Management considers that no significant concentration of credit risk with any individual customer, counterparty or geographical region exists for the Group.

Notes on the Consolidated Financial Statements

3. Acquisitions

KONE continued to pursue an aggressive acquisition policy during the financial period. 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 the accounting period 1 June–31 December, 2005 KONE made major acquisitions for a total consideration of EUR 34.1 million and an increase in goodwill EUR 23.7 million. Among the major acquisitions were Thai Lift Industries Public Company Limited (Thailand), of which KONE owned previously 10 percent, Ballier SAS (France), LTF Liften BV (Netherlands) and three companies in Spain. The above mentioned acquisitions have been summarized in the following table.

Assets and liabilities of the acquired companies:	**1 Jun–31 Dec, 2005**
Intangible assets	0.4
Tangible assets	4.5
Inventories	4.8
Accounts receivables	6.7
Cash and bank	7.0
Total assets	23.4
Pension liabilities	0.0
Interest-bearing loans	4.0
Provisions	0.8
Other liabilities	8.2
Total liabilities	13.0
Net assets	10.4
Acquisition cost	34.1
Goodwill	23.7

4. Percentage of Completion Method

The effect of the percentage of completion method on the amount of sales was EUR 19.2 million for the period. The balance sheet includes EUR 39.8 million in unbilled contract revenue due to the percentage of completion method for long-term contracts in progress on the balance sheet date.

5. Costs and Expenses

	1 Jun–31 Dec, 2005
Change of work in progress	41.9
Materials, supplies and external services	708.0
Wages and other salaries	520.8
Pension costs	44.8
Other statutory employer expenses	195.4
Other expenses	376.5
Costs and expenses total	1,887.4
Other income	15.5
Depreciation and amortization (Note 6)	34.8
Impairment charges	-
Costs, expenses and depreciation total	1,906.7

	1 Jun–31 Dec, 2005
R&D costs included in total costs	24.7
as percentage of sales, %	1.2

The change in the provision for doubtful accounts included in costs was EUR 3.8 million.

6. Depreciation and Amortization

	1 Jun–31 Dec, 2005
Other intangible assets	
Maintenance contracts	7.2
Other	3.6
Buildings	5.0
Machinery and equipment	19.0
Total	34.8

7. Financing Income and Expenses

	1 Jun–31 Dec, 2005
Dividend income	2.4
Interest income	6.3
Other financing income	0.5
Change in fair value of interest rate swaps	0.2
Interest expenses	-8.0
Other financing expenses	-1.3
Exchange rate differences	-2.2
Total	-2.1

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 loss amounted to EUR 3.7 million.

8. Income Taxes

Taxes in statement of income	**1 Jun–31 Dec, 2005**
Current year tax expense	66.7
Change in deferred tax assets and liabilities	3.4
Tax expense for previous years	-0.6
Other	-
Total	69.5

Reconciliation of income before taxes with total income taxes in the statement of income	**1 Jun–31 Dec, 2005**
Income before taxes	193.5
Tax calculated at the domestic corporation tax rate	50.3
Effect of different tax rates in foreign subsidiaries	20.2
Permanent differences	-0.4
Previous years taxes	-0.6
Other items	-
Total	69.5
Effective tax rate	35.9%

Notes on the Consolidated Financial Statements

9. Earnings per Share

Basic earnings per share are calculated by dividing the Net income attributable to the shareholders of the parent company 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. Issued 2005C share option rights are not included in the calculation of the dilution effect, as the option program is based on conditions related to the net sales and operating income of future accounting periods and these conditions are not yet attained at the end of the financial year.

	1 Jun–31 Dec, 2005
Net income attributable to the shareholders of the parent company, MEUR	124.8
Weighted average number of shares (1,000 pcs)	127,392
Basic earnings per share, EUR	0.98
Dilution effect of issued share options (1,000 pcs)	823
Weighted average number of shares, dilution adjusted (1,000 pcs)	128,215
Diluted earnings per share, EUR	0.97

10. 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 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 at the level at which the goodwill is monitored for internal management purposes. A market area summary of the goodwill allocation is presented below (carrying amounts):

	31 Dec, 2005
EMEA	321.3
Americas	133.8
Asia-Pacific	42.8
Total	497.9

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. Discount rates used in calculations:

EMEA	Americas	Asia-Pacific
5.33%	7.70%	9.13%

Goodwill	**31 Dec, 2005**
Opening net book value	473.2
Translation difference	4.7
Increase	0.4
Decrease	-10.1
Reclassifications	6.0
Companies acquired	23.7
Companies sold	-
Impairment charges	-
Closing net book value	497.9

11. Other Intangible Assets

1 Jun–31 Dec, 2005	Maintenance contracts	Other	Total
1 Jun, 2005:			
Acquisition cost	89.1	96.2	185.3
Accumulated amortization and impairment	-53.3	-75.6	-128.9
Net book value	35.8	20.6	56.4
Opening net book value	35.8	20.6	56.4
Translation difference	0.4	0.0	0.4
Increase	0.5	2.8	3.3
Decrease	-0.5	-0.3	-0.8
Reclassifications	0.0	0.6	0.6
Companies acquired	4.6	0.0	4.6
Companies sold	-	-	-
Amortization	-7.2	-3.6	-10.8
Impairment charges	-	-	-
Closing net book value	33.6	20.1	53.7
31 Dec, 2005:			
Acquisition cost	94.1	99.3	193.4
Accumulated amortization and impairment	-60.5	-79.2	-139.7
Net book value	33.6	20.1	53.7

Maintenance Contracts

In KONE 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

12. Property, Plant and Equipment

12.1 Property, Plant and Equipment, Total

1 Jun–31 Dec, 2005	Land	Buildings	Machinery & equipment	Fixed assets under construction	Advance Payments	Total
1 Jun, 2005:						
Acquisition cost	16.3	216.2	561.2	2.2	4.8	800.7
Accumulated depreciation	-1.0	-112.6	-471.0	-	-	-584.6
Net book value	15.3	103.6	90.2	2.2	4.8	216.1
Opening net book value	15.3	103.6	90.2	2.2	4.8	216.1
Translation difference	0.1	1.6	1.8	0.4	0.4	4.3
Increase	0.3	2.0	13.8	6.8	3.9	26.8
Decrease	-0.2	-5.2	-3.1	-0.1	0.0	-8.6
Reclassifications	0.0	3.7	6.8	-6.1	-5.8	-1.4
Companies acquired	1.4	2.0	1.1	-	-	4.5
Companies sold	-	-	-	-	-	-
Depreciation	0.0	-5.0	-19.0	0.0	0.0	-24.0
Impairment charges	-	-	-	-	-	-
Closing net book value	16.9	102.7	91.6	3.2	3.3	217.7
31 Dec, 2005:						
Acquisition cost	17.9	220.3	581.6	3.2	3.3	826.3
Accumulated depreciation	-1.0	-117.6	-490.0	-	-	-608.6
Net book value	16.9	102.7	91.6	3.2	3.3	217.7

During the period of 1 June–31 December, 2005 capital expenditure in production facilities, customer service of sales and maintenance operations and information systems including new finance lease agreements, totaled EUR 29.4 million.

12.2 Plant and Equipment, Leased for Own Use

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

1 Jun–31 Dec, 2005	Machinery & equipment
1 Jun, 2005:	
Acquisition cost	36.4
Accumulated depreciation	-18.3
Net book value	18.1
Opening net book value	18.1
Translation difference	0.7
Increase	3.0
Decrease	-0.2
Reclassifications	-
Companies acquired	-
Companies sold	-
Depreciation	-4.3
Impairment charges	-
Closing net book value	17.3
31 Dec, 2005:	
Acquisition cost	39.9
Accumulated depreciation	-22.6
Net book value	17.3

Notes on the Consolidated Financial Statements

13. Associated Companies and Related Party Transactions

Investments in associated companies	31 Dec, 2005
Total in the beginning of period	27.6
Translation difference	0.2
Share of associated companies result after taxes	0.9
Dividend received	-0.3
Acquisitions	0.8
Disposals	-7.0
Total at the end of period	22.2

Investments in associates at the end of period include goodwill of EUR 15.5 million.

The total amount of assets in the balance sheet of the associated companies of KONE were EUR 24.4 million and total equity EUR 8.2 million. The total sales of associated companies was EUR 38.9 million and net income EUR 1.9 million.

The associated companies' financial information presented here is based on the latest official financial statements. The calculation of the share of net income for KONE finacial statements 31 December, 2005 has been done based on the information those companies have compiled for KONE.

KONE has a joint venture Giant Kone Elevator Company Ltd, which is an associated company of KONE at the end of financial year. The joint venture is not included in the total figures, because it began its operations during the third quarter and the official financial statements were not available at the end of financial year.

Transactions with associated companies	1 Jun–31 Dec, 2005
Sales of goods and services	2.0
Purchases of goods and services	0.8

Balances with associated companies

Receivables from associated companies	31 Dec, 2005
Long-term loans	0.6
Short-term loans	0.1
Accounts receivables	0.9
Deferred assets	0.0
Total	1.6

Liabilities to associated companies	31 Dec, 2005
Long-term loans	0.0
Short-term loans	0.6
Accounts payables	0.1
Accruals	0.0
Total	0.7

Transactions with key management

Key management of KONE consists of Board of Directors and Executive Board.

Paid compensation for the key management	31 Dec, 2005
Salaries and remunerations	2.9
Severance payments	0.3
Post-employment benefits	0.0
Share based payments	0.0
Total	3.2

Paid compensation for members of Board of Directors and President, '000	1 Jun–31 Dec, 2005
Alahuhta Matti, President	383.8 [1)]
Chauvarie Jean-Pierre	14.0
Hanhinen Reino	12.0
Herlin Antti	273.0 [1)]
Hämäläinen-Lindfors Sirkka	14.0
Shimono Masayuki	24.0
Viinanen Iiro	14.0
Wendt Gerhard	14.0
Total	748.8

[1)] In addition, Matti Alahuhta's accrued bonus for the accounting period 1 June–31 December, 2005 totaled EUR 364,730 and Antti Herlin's bonus EUR 128,939.

Compensation for Chairman and CEO, Antti Herlin, consists of a basic salary and a yearly bonus, which is defined by the Board and based on the Corporation's financial result. This bonus may not exceed 50 percent of the recipient's annual salary. In the accounting period 1 June–31 December, 2005, Antti Herlin's basic salary was EUR 272,971. In addition, his accrued bonus for the accounting period 1 June–31 December, 2005 totaled EUR 128,939. Herlin's holdings of option rights are presented on page 25. 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.

The President's compensation consists of a basic salary and yearly bonus, defined by the Board 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. Since 1 January, 2005, Matti Alahuhta has served as President of KONE Corporation. His basic salary for the accounting period 1 June–31 December, 2005 was EUR 383,773. In addition, his accrued bonus for the accounting period 1 June –31 December, 2005 totaled EUR 364,730. Alahuhta was granted 5,000 KONE 2005B option rights. He is also included in the share-based incentive plan for the company's senior management, which the Board approved in October 2005. The potential reward is based on the growth in KONE's sales and operating profit for 2006 and 2007. 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, which includes the salary for a 6-month term of notice.

Compensation for members of KONE Corporation's Executive Board 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. In addition, the Executive Board members can be granted a 20 percent extra bonus for year 2005. Members of the Executive Board have also been granted 2005A and 2005B option rights, and they are included in the share-based incentive plan. No separate agreement has been made regarding early retirement for members of the Executive Board. Compensation for termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a 6-month term of notice.

14. 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 June–31 December, 2005 for acquisitions that have not been finalized on the Balance Sheet date.

15. Available-for-Sale Investments

	31 Dec, 2005
Opening net book value	7.7
Increase	0.2
Decrease	-2.7
Companies sold	0.0
Closing net book value	5.2

16. Financial Receivables

	31 Dec, 2005
Non-current loans receivable	20.5
Non-current cross currency swaps	32.6
Current	0.6
Total	53.7

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 December, 2005 was 2.4 percent.

17. Deferred Tax Assets and Liabilities

Deferred tax assets	31 Dec, 2005
Tax losses carried forward	19.6
Provisions	57.4
Pensions	28.8
Consolidation entries	11.5
Other temporary differences for assets	12.8
Total	130.1
Total in the beginning of period	125.6
Translation difference	7.4
Change in statement of income	-4.7
Booked to equity	1.8
Total at the end of period	130.1

Deferred tax liabilities	31 Dec, 2005
Depreciation difference	1.6
Goodwill depreciation	14.0
Other temporary differences for liabilities	9.1
Total	24.7
Total in the beginning of period	25.8
Translation difference	0.3
Change in statement of income	-1.4
Acquisitions and divestments	-
Total at the end of period	24.7
Net deferred tax assets and liabilities	105.4

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18. Inventories

	31 Dec, 2005
Raw materials, supplies and finished goods	132.9
Work in progress	446.9
Advance payments paid	5.1
Inventories	584.9
Advance payments received	-464.2
Total	120.7

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.

19. Deferred Assets

	31 Dec, 2005
Deferred interests	2.0
Accrued income of service contracts	12.6
Unbilled contract revenue (Note 4)	39.8
Derivative assets	11.5
Pension surplus	1.3
Prepaid expenses and other receivables	81.4
Total	148.6

The net present value of cross currency swaps excluding accrued interests is not included in derivative assets but in financial receivables (Note 16).

20. Financial Assets

	31 Dec, 2005
Total	93.3

Financial assets consist of deposits and the average interest rate of the financial assets portfolio on 31 December, 2005 was 2.7 percent.

21. Shareholders’ Equity and its Changes

Total shareholders’ 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 accounting 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. 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 liablilities in foreign subsidiaries are entered also in translation differences. The purchase price of own shares purchased by KONE Group companies is deducted from the retained earnings. Net income of the accounting period is booked directly to retained earnings.

Shares and Share Capital

At the end of the financial period on 31 December, 2005 the number of shares outstanding was 127,855,440. The accounting par value of each share is EUR 0.50. The share capital was EUR 63.9 million and the total number of votes was 29,931,893. 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. According to the Articles of Association of KONE Corporation, the minimum share capital is EUR 60 million and the maximum share capital is EUR 260 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, KONE’s Board of Directors had no valid authorisation to increase the share capital or to issue convertible bonds or option rights, nor were any convertible loans issued during the financial period.

In accordance with the Articles of Association, class B shares are preferred for a dividend, which is at least 1 percent and no more than 2.5 percent higher than the dividend paid to the holders of class A shares, calculated form the accounting par value of the share.

The Extraordinary Shareholders' Meeting approved on 21 November, 2005 the proposal by the Board of Directors to increase the number of shares in proportion to the holdings of the shareholders by doubling the number of shares from 63,867,465 to 127,734,930 shares without increasing the share capital. The number of class A shares will increase to 19,052,178 and the number of class B shares to 108,682,752. As a result, each share with the current accounting par value of EUR 1.00 was split into two shares with accounting par values of EUR 0.50. Trading of these shares started on Tuesday 29 November, 2005.

Changes in share capital	Class A	Class B	Total
Number of shares as of 1 June, 2005	9,526,089	54,228,666	63,754,755
Share subscription with 2005A and 2005B option rights 24 Aug, 2005		45,600	45,600
Share subscription with 2005A and 2005B option rights 23 Sep, 2005		24,930	24,930
Share subscription with 2005A and 2005B option rights 26 Oct, 2005		42,180	42,180
Increase in the numebr of shares (share split two-for-one) 28 Nov, 2005	9,526,089	54,341,376	63,867,465
Share subscription with 2005A and 2005B option rights 22 Dec, 2005		120,510	120,510
Number of shares, 31 December, 2005	19,052,178	108,803,262	127,855,440
Number of votes, 31 December, 2005	19,052,178	10,879,715	29,931,893
Share capital, 31 December, 2005, MEUR	9.5	54.4	63.9

Option Rights

KONE 2005A and KONE 2005B option rights are based on the option program of the demerged Kone Corporation. In the demerger, option rights of the demerging corporation were exchanged to option rights of the new companies KONE Corporation and Cargotec Corporation on the effective date of the demerger 1 June, 2005 as follows:

- Each series A option right of Kone Corporation option program 2004 was exhanged to one (1) series A option right of New KONE Corporation and one (1) series A option right of Cargotec Corporation; and
- Each series B option right of Kone Corporation option program 2004 was exchanged to one (1) series B option right of New KONE Corporation and one (1) series B option right of Cargotec Corporation

According to the decision of the Extraordinary Shareholders' Meeting on 17 November, 2000, the option rights were awarded to approximately 250 employees of the company's global organization. The program was introduced in 2000 and the amount of option rights to be given was tied to the development of Kone's cumulative net income (after taxes) in 2001–2003. The conditions required for the option program were met because Kone's aggregated net income according to the Consolidated Financial Statements for 2001–2003 exceeded EUR 470 million. 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's wholly-owned subsidiary Kone Capital Oy. A total of 145,130 A option rights were subscribed and Kone Capital subscribed all 170,000 B option rights to be offered to employees designated by the Board of Directors. A total of 149,340 B option rights were transferred to employees on 1 April, 2005 and further 16,000 B option rights during the period under review.

Following the decision to increase the number of company shares (split) made by the Extraordinary Shareholders' Meeting on 21 November, 2005, the number of shares that can be subscribed for with KONE 2005A and 2005B option rights was increased in proportion to the split. As a result, one option right will entitle to subscription for six (6) KONE Corporation's class B shares at a price of EUR 8.04 per share. The annual subscription period during which the shares can be subscribed with the option rights lasts from 2 January to 30 November. The shares acquired shall first qualify for dividend payment for the financial year during which the subscription has taken place. Other rights related to the shares shall commence on the date when the increase in the share capital is entered in the Trade Register.

Notes on the Consolidated Financial Statements

The Extraordinary Shareholders' Meeting approved on 21 November, 2005 the Board's proposal to issue new option rights to key personnel of the KONE group as well as to a wholly-owned subsidiary of KONE Corporation. The option program will include a maximum of 300 key employees and subsidiary directors globally. The purpose of the stock options is to encourage long-term efforts by key personnel to grow shareholder value and increase their commitment to the company by offering them an internationally competitive incentive program. The company's CEO, President and members of the executive board are not included in the program. Some of the personnel included in the program belong to the inner circle of the company. These persons currently own a maximum of 0.1 percent of the shares and 0.04 percent of the voting rights in the company.

A maximum total of 2,000,000 stock options marked with the symbol 2005C were offered for subscription. The maximum number of option rights per person has been limited to 8,000 option rights. During the period under review, the employees subscribed for 1,528,000 option rights and the subsidiary Kone Capital Oy the remaining 472,000 option rights to be offered to employees designated by the Board of Directors. Each stock option entitles its owner to subscribe for one (1) KONE class B share. The class B shares for which these stock options can be exchanged constitute no more than 1.56 percent of the company's total number of shares.

The share subscription price for 2005C option rights is the trade volume weighted average price of the KONE Corporation class B share on the Helsinki Stock Exchange between 24 October, 2005 and 18 November, 2005, which was EUR 28.40 (split adjusted). The amount of KONE Corporation's dividend paid after the determination of the subscription price shall be deducted from the subscription price up until the time of share subscription, as per the dividend record date.

The share subscription period for 2005C option rights shall be 1 April, 2008–30 April, 2010. However, the share subscription period will begin only if the following criteria have been attained: the average net sales growth of the KONE Group for financial years 2006 and 2007 exceeds market growth and the Earnings before Interest and Taxes (EBIT) of the KONE Group for the financial year 2006 exceeds the EBIT for the financial year 2005 and the EBIT for the financial year 2007 exceeds the EBIT for the financial year 2006. If the above-mentioned criteria have not been attained, stock options 2005C expire in the manner decided by the Board of Directors.

Option rights	Option rights granted to employees	Unexcercised option rights	Option rights held by the subsidiary 31 Dec, 2005	Number of class B shares that can be subscribed for with the option rights	Share subscription price EUR	Share subscription period
2005A	145,130	51,230	0	6	8.04	13.6.2005–31.3.2008
2005B	165,340	104,540	4,660	6	8.04	13.6.2005–31.3.2009
2005C	1,528,000	1,528,000	472,000	1	28.40	1.4.2008–30.4.2010

Changes in the number of option rights outstanding

	1 Jun-31 Dec, 2005
Number of option rights outstanding on 1 June, 2005	197,425
Granted option rights	1,544,000
Exercised option rights	57,655
Number of option rights outstanding on 31 December, 2005	1,683,770
Exercisable option rights on 31 December, 2005	155,770

Share-based Incentive Plan

The Board of Directors decided on 24 October, 2005 on a share-based incentive plan for the company's senior management, consisting of approximately 35 individuals. The potential reward is based on the growth in KONE's sales and operating profit for 2006 and 2007. The reward is to be paid as a combination of class B shares and the cash equivalent of the tax and taxable benefit costs that are incurred. The share ownership plan amounts to no more than 0.2 percent of all the corporation's shares. The plan prevents participants from transferring the shares during the fifteen-month period following the termination of each earning period.

Authority to Purchase Own Shares

The Extraordinary Shareholders' Meeting held on 17 June, 2005 authorized the Board of Directors to repurchase and redistribute the company's own shares. On the basis of this authorization the Board of Directors decided to commence repurchasing shares at the earliest on 27 June, 2005.
The repurchasing of shares will continue until otherwise announced.

The Company's own repurchased shares shall be used as compensation in possible acquisitions and in other arrangements as well as to develop the Company's capital structure. Altogether no more than 6,367,000 shares may be repurchased, of which no more than 952,000 are class A shares and 5,415,000 are class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of own shares that the Company is allowed to possess. The amount of shares that can be repurchased corresponds to less than 10 percent of the share capital of the Company and the total voting rights.

Class B shares shall be purchased at the market price in public trading on the Helsinki Stock Exchange. Class A shares shall be purchased outside the Stock Exchange at a price equivalent to the average paid for class B shares on the Stock Exchange at the time of purchase.

During the financial period 1 June–31 December, 2005, KONE Corporation purchased a total of 374,840 own class B shares (split-adjusted amount).

Repurchased own class B shares by KONE Corporation	Number of shares	Cost in MEUR
1 June, 2005	0	
September 2005	160,840	8.7
October 2005	26,580	1.5
Increasing the number of shares (split two-for-one)	187,420	
31 December, 2005	374,840	10.2

In addition, relating to the share-based incentive plan, a company included in the consolidated financial statements acquired 400,000 KONE class B shares in December 2005 for a total of EUR 11.8 million.

Share-based cash payments

	1 Jun–31 Dec, 2005
Share-based cash payments recognized as an expense in statement of income, MEUR	1.0

	31 Dec, 2005
Liabilities resulting from share based cash payments, MEUR	0.5

Share price at the date of issuing the share-based incentive plan was 28.2 EUR.

The non-market related conditions for the share-based incentive plan are expected to be attained to the extent that 70 percent of the reward will be realized.

The value for the option program is calculated using the Black-Scholes option pricing model.

The parameters used in defining the fair value of the option program are:

	2005C option rights
Share price at the date of issue, EUR	31.9
Subscription price, EUR	28.4
Duration (years)	2.28
Expected volatility, %	25
Riskless interest rate, %	3.5
Expected redundancy, %	0
Option fair value at the date of issue, EUR	7.75

The share subscription price is reduced with the amount of dividends decided before the share subscription at the date of record of each dividend distribution.

22. Interest-Bearing Liabilities

	Carrying amount 31 Dec, 2005
Non-current	
Loans	133.0
Finance lease liabilities	11.2
Total	144.2
Current portion of long-term loans	
Loans	6.8
Finance lease liabilities	6.0
Total	12.8
Current	
Loans	3.7
Commercial papers	150.1
Overdrafts used	49.0
Total	202.8
Total interest-bearing liabilities	359.8

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 December, 2005 was 3.4 percent and that of current liabilities 2.6 percent.

Repayment schedule of non-current interest-bearing liabilities

	2007	2008	2009	2010	Later	Total
Loans	42.8	69.2	4.2	1.3	15.5	133.0
Finance lease liabilities	5.9	3.6	1.4	0.3	-	11.2
Total	48.7	72.8	5.6	1.6	15.5	144.2

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

	31 Dec, 2005
Minimum lease payments	
Less than 1 year	7.6
1–5 years	11.3
Over 5 years	-
	18.9
Future finance charges	-1.7
Present value of finance lease liabilities	17.2

	31 Dec, 2005
Present value of finance lease liabilities	
Less than 1 year	7.3
1–5 years	9.9
Over 5 years	-
Total	17.2

23. 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. Under defined contribution plans the group's contributions are recorded as an expense in the accounting period to which they relate. 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 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 the U.S.A. relating to retirement, medical and life insurance programmes.

	31 Dec, 2005
Employee benefits	
Defined benefit plans	125.2
Other post-employment benefits	23.7
Total	148.9

Amounts recognised in the balance sheet 31 Dec, 2005	Defined benefit plans	Other post-employment benefits
Present value of unfunded obligations	63.4	14.2
Present value of funded obligations	256.3	16.8
Fair value of benefit plans' assets	-156.3	-3.4
Unrecognized actuarial gains (+)/losses (-)	-38.2	-3.9
Total	125.2	23.7

Benefit plan reconciliation 31 Dec, 2005	Defined benefit plans	Other post-employment benefits
Net liability in the beginning of period	129.2	19.1
Translation difference	1.6	0.8
Acquisition of new companies	-	-
Disposal of companies	-	-
Costs recognized in statement of income	7.2	3.8
Paid contributions	-12.8	0.0
Net liability at the end of period	125.2	23.7

Amounts recognised in the statement of income

Total pensions	1 Jun–31 Dec, 2005
Defined contribution pension plans	31.9
Defined benefit pension plans	9.1
Other post-employment benefits	3.8
Total	44.8

Notes on the Consolidated Financial Statements

1 Jun–31 Dec, 2005	Defined benefit plans	Other post-employment benefits
Current service costs	5.9	3.3
Interest costs	8.7	0.5
Expected return on plans' assets	-7.2	-0.2
Net actuarial gains (-)/losses (+) recognized	-0.2	0.1
Past-service costs	0.2	0.0
Settlements	-2.0	0.0
Loss curtailments	1.8	0.1
Total	7.2	3.8

The actual return on plan assets was EUR 7.2 million.

Defined benefit plans: Assumptions used in calculating benefit obligations

1 Jun–31 Dec, 2005	Europe	U.S.A.
Discount rate, %	4.00–4.80	5.75
Expected return on plan assets, %	3.00–6.40	9.00
Future salary increase, %	3.0–4.3	4.0
Future pension increase, %	2.5–3.0	4.0
Expected average remaining working years	10–18	15

24. Provisions

1 Jun–31 Dec, 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	17.9	6.4	90.2	38.1	30.5	183.1
Translation difference	0.4	0.1	0.1	2.3	0.5	3.4
Increase	7.9	1.4	0.0	14.9	5.9	30.1
Provision used	-2.6	-1.1	-61.8	-13.6	-12.0	-91.1
Reversal of provision	-5.0	0.0	-0.3	-6.0	-3.0	-14.3
Companies acquired	-	0.1	-	0.2	0.5	0.8
Companies sold	-	-	-	-	-	-
Total provision at the end of period	18.6	6.9	28.2	35.9	22.4	112.0

	Non-current liabilities	Current liabilities	Total
Distribution of the provisions as of 31 Dec, 2005	21.5	90.5	112.0

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 in the balance sheet only when the general recognition criteria are met. On 17 March, 2005 KONE disclosed a detailed development and restructuring program concerning the elevator and escalator business, which satisfied these criterias to be recognized as a provision in the balance sheet. During the accounting period, the provision has been used to cover the expenses related to the program and to write offs of related assets.

25. Accruals

	31 Dec, 2005
Accrued interests	0.4
Deferred income of service contracts	34.4
Late costs accruals	95.7
Accrued salaries, wages and employment costs	194.3
Derivative liabilities	16.8
Other accrued expenses	215.4
Total	557.0

26. Commitments

	31 Dec, 2005
Mortgages	
Group and parent company	30.7
Pledged assets	
Group and parent company	5.8
Guarantees	
Associated companies	2.0
Others	23.6
Operating leases	118.9
Total	181.0

Possible unidentified debts and liabilities of the demerged Kone Corporation are transferred to the new KONE Corporation according to the demerger plan.

KONE leases cars, 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 Dec, 2005
Less than 1 year	31.2
1–5 years	72.2
Over 5 years	15.5
Total	118.9

The aggregate operating lease expenses totaled EUR 18.5 million.

Notes on the Consolidated Financial Statements

27. Derivatives

Fair values of derivative financial instruments	Positive fair value 31 Dec, 2005	Negative fair value 31 Dec, 2005	Net fair value 31 Dec, 2005
FX Forward contracts	10.8	16.9	-6.1
Currency options	0.0	0.0	0.0
Cross-currency swaps	32.6	0.0	32.6
Electricity derivatives	0.7	0.0	0.7
Total	44.1	16.9	27.2

Nominal values of derivative financial instruments	31 Dec, 2005
FX Forward contracts	859.3
Currency options	7.4
Cross-currency swaps	173.8
Electricity derivatives	2.4
Total	1,042.9

28. Principal Subsidiaries

		Shareholding (%)	
Company	**Country**	**Parent company**	**Group**
KONE Inc.	United States		100
Société Française des Ascenseurs KONÉ S.A.	France		99.96
KONE plc	United Kingdom	100	100
KONE S.p.A.	Italy		100
KONE GmbH	Germany		100
KONE Elevators Pty Ltd	Australia	30	100
KONE B.V.	Netherlands		100
KONE Elevators Ltd	Finland	100	100
KONE Elevators Co. Ltd	China		95
KONE AB	Sweden		100
Other subsidiaries (172 companies)			

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

Market Area Information

1 Jun–31 Dec, 2005	Sales	Assets employed	Investments	Personnel at the end of period
EMEA	1,388.6	447.7	17.2	16,029
Americas	452.7	127.9	4.7	5,088
Asia-Pacific	260.1	142.4	7.5	6,122
Non-allocated		50.5		
Total	2,101.4	768.5	29.4	27,238

Shares and Shareholders

Market Value

The price of the KONE Corporation class B share rose 48 percent during the period under review from EUR 22.66 to EUR 33.53. During the same period, the OMX Helsinki Cap Index rose 17 percent and the OMX Helsinki Industrials Index rose 23 percent. The KONE Corporation class B share price peaked during the period under review at EUR 33.90 and was at its lowest at EUR 21.55. 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 4,261 million. At the end of December 2005, the group had 774,840 own class B shares in its possession.

During the period under review, 43.2 million KONE Corporation class B shares were traded on the Helsinki Stock Exchange. The value of shares traded was EUR 1,116 million. The average daily traded number of shares was 275,588, representing EUR 7.4 million. The relative turnover was approximately 40 percent.

Shares and Share Capital

KONE Corporation's Articles of Association state that the minimum share capital is EUR 60 million and the maximum share capital EUR 260 million. The share capital can be raised or reduced within these limits without an amendment to the Articles of Association. At the end of December 2005, the share capital was EUR 63.9 million. The share capital was increased by EUR 172,965 due to subscriptions of shares with KONE 2005A and 2005B option rights during the period under review. See note 21 to the financial statements for a 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 December 2005, the total number of shares was 127,855,440, comprising 108,803,262 class B shares and 19,052,178 class A shares, with the accounting par value of EUR 0.50 per share. The total number of votes was 29,931,893.

Share split

During KONE Corporation's Extraordinary Shareholders' Meeting in Helsinki on 21 November, 2005, the Shareholders' Meeting approved the Board proposal that the number of the company's shares be increased (share split) in proportion to the holdings of the shareholders by doubling the number of shares without increasing the share capital. As a result, each share with the current accounting par value of EUR 1.00 was split into two shares with accounting par values of EUR 0.50.

The increase in the number of shares was entered into the Trade Register on 28 November, 2005. Trading of the split shares began on 29 November, 2005.

Dividends

In accordance with the Articles of Association, class B shares are preferred for a dividend, which is at least one percent and no more than 2.5 percent higher than the dividend paid to the holders of class A shares, calculated from the accounting par value of the share. KONE's Board proposes that dividends for the accounting period 1 June–31 December, 2005 be EUR 0.99 for each class A share and EUR 1.00 per class B share.

KONE Corporation's share capital consists of the following:

	Number of shares	Accounting par value (EUR)
Class A	19,052,178	9,526,089
Class B	108,803,262	54,401,631
Total	127,855,440	63,927,720

	KONE class B share	KONE 2005A option rights	KONE 2005B option rights
Trading code, Helsinki Stock Exchange	KNEBV	KNEBVEW105	KNEBVEW205
ISIN code	FI0009013403	FI0009618334	FI0009618342
Trading lot	20	10	10
Accounting par value	EUR 0.50		
Conversion rate		1:6	1:6

Shares and Shareholders

Authority to Raise Share Capital

At the end of the financial period, KONE's Board of Directors had no valid authorization to increase the share capital or to issue convertible bonds or option rights, nor were any convertible loans issued during the financial period.

Authority to Purchase and Surrender Own Shares

KONE Corporation's Extraordinary Shareholders' Meeting held on 17 June, 2005 authorized the Board of Directors to repurchase and redistribute the company's own shares. On the basis of this authorization, KONE Corporation's Board of Directors has decided to commence repurchasing shares at the earliest on 27 June, 2005. The repurchasing of shares will continue until otherwise announced.

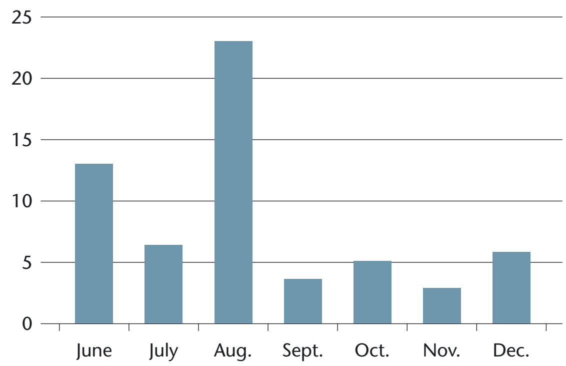
The proposed amount corresponds altogether to nearly 10 percent of the share capital of the company and the total voting rights. Specifically, no more than 6,367,000 shares may be repurchased, of which no more than 952,000 are class A shares and 5,415,000 are class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of own shares that the company is allowed to possess.

The company's own repurchased shares shall be used as compensation in possible acquisitions and in other arrangements as well as to develop the company's capital structure.

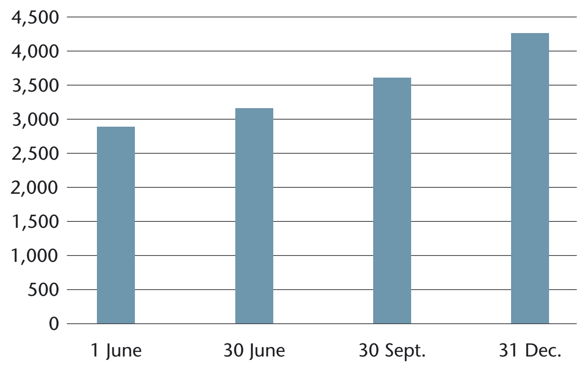
Class B shares shall be purchased at the market price in public trading on the Helsinki Stock Exchange. Class A shares shall be purchased outside the Helsinki Stock Exchange at a price equivalent to the average paid for class B shares on the Helsinki Stock Exchange at the time of purchase.

During the accounting period 1 June–31 December, 2005, 374,840 class B shares were acquired by KONE Corporation at the average price of EUR 27.18. The number of class B shares in the group's possession after consolidation at the end of the period was 774,840. See note 21 to the financial statements for more information.

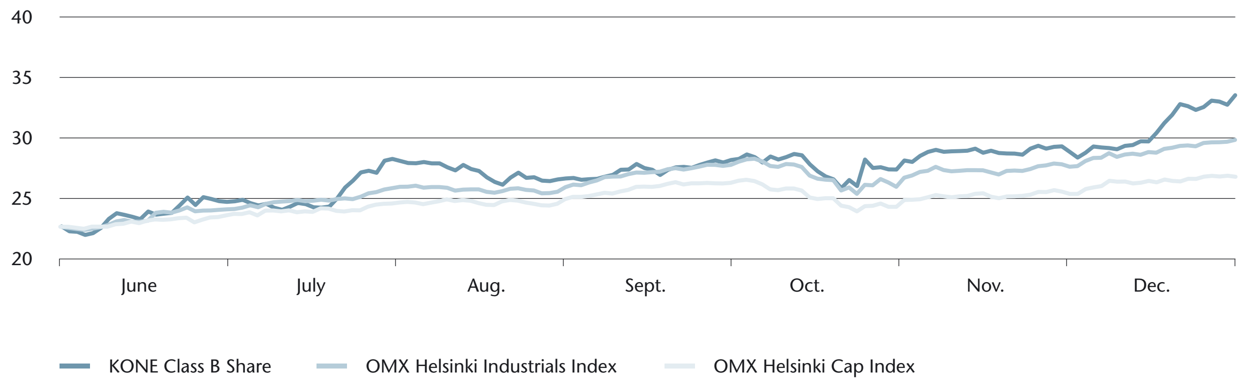
KONE Class B Shares Traded 1 June–31 December, 2005, million shares



Market Capitalization, MEUR



KONE Class B Share Price Development 1 June–31 December, 2005, EUR



Option Rights 2005A and 2005B

KONE 2005A and KONE 2005B option rights are based on the option program 2004 of the demerged Kone Corporation. In the demerger, option rights of the demerging corporation were exchanged for option rights of the new companies KONE Corporation and Cargotec Corporation on the effective date of the demerger 1 June, 2005 as follows: Each series A option right of Kone Corporation option program 2004 was exchanged for one (1) series A option right of New KONE Corporation and one (1) series A option right of Cargotec Corporation; and each series B option right of Kone Corporation option program 2004 was exchanged for one (1) series B option right of New KONE Corporation and one (1) series B option right of Cargotec Corporation.

The option rights were awarded free of charge to approximately 250 employees of the company's global organization. The program was introduced in 2000, and the amount of option rights to be given was tied to the development of Kone's cumulative net income (after taxes) in 2001–2003.

A total of 145,130 KONE 2005A option rights was initially subscribed, and Kone Capital subscribed all 170,000 2005B option rights to be offered to employees designated by the Board of Directors. A total of 149,340 2005B option rights was transferred to employees on 1 April, 2005. In addition, 16,000 2005B option rights were transferred to employees during the period under review.

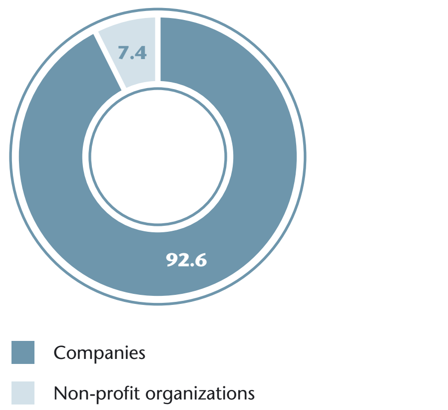
A total of 72,815 new 2005A and 145,900 2005B option rights was entered into the book-entry system and listed on the main list of the Helsinki Stock Exchange as of 1 June, 2005

Following the share-split decision made in the Extraordinary Shareholders' Meeting in 21 November, 2005, the number of shares that can be subscribed for with 2005A and 2005B option rights was increased in proportion to the split. One option right entitles to subscription for six (6) KONE class B shares. The subscription price is EUR 8.04 per share. The annual share subscription period lasts from 2 January to 30 November. The maximum increase in shares represents 0.75 percent of the shares and 0.32 percent of the voting rights.

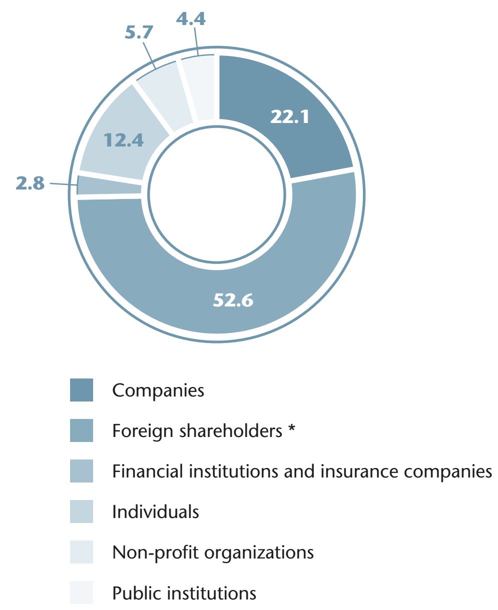
During the period under review 125,730 (split-adjusted amount) B shares were subscribed for with 20,955 2005A option rights. The remaining 51,230 2005A option rights entitle to subscription of 307,380 B shares. The share subscription period will last until 31 March, 2008.

During the period under review 220,200 (split-adjusted amount) B shares were subscribed for with 36,700 2005B option rights. The remaining 109,200 2005B option rights entitle to subscription of 655,200 B shares. The share subscription period will last until 31 March, 2009.

Class A Shares, %



Class B Shares, %



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

Shares and Shareholders

Option Rights 2005C

The Extraordinary Shareholders' Meeting approved on 21 November, 2005 the Board's proposal to issue new option rights to key personnel of the KONE group as well as to a wholly-owned subsidiary of KONE Corporation. The option program will include a maximum of 300 key employees and subsidiary directors globally. The purpose of the stock options is to encourage long-term efforts by key personnel to grow shareholder value and increase their commitment to the company by offering them an internationally competitive incentive program. The company's CEO, President and members of the executive board are not included in the program.

Some of the personnel included in the program belong to the inner circle of the company. These persons currently own a maximum of 0.1 percent of the shares and 0.04 percent of the voting rights in the company.

A maximum total of 2,000,000 option rights was offered for subscription. The maximum number of option rights per person has been limited to 8,000 option rights. All 2,000,000 KONE 2005C option rights have been subscribed, and the Board of Directors of KONE Corporation approved the subscriptions on 19 December, 2005.

Each stock option entitles its owner to subscribe for one (1) KONE class B share. The class B shares for which the 2005C option rights can be exchanged constitute no more than 1.56 percent of the company's total number of shares. The share subscription price for 2005C option rights is the trade volume weighted average price of the KONE Corporation B share on the Helsinki Stock Exchange between 24 October, 2005 and 18 November, 2005, which was EUR 28.40 (split adjusted). The amount of KONE Corporation's dividend paid after the determination of the subscription price shall be deducted from the subscription price up until the time of share subscription, as per the dividend record date.

The share subscription period for 2005C option rights shall be 1 April, 2008–30 April, 2010. However, the share subscription period will begin only if the following criteria have been attained: the average net sales growth of the KONE Group for financial years 2006 and 2007 exceeds market growth, and the Earnings before Interest and Taxes (EBIT) of the KONE Group for the financial year 2006 exceeds the EBIT for the financial year 2005 and the EBIT for the financial year 2007 exceeds the EBIT for the financial year 2006. If the above-mentioned criteria have not been attained, option rights 2005C expire in the manner decided by the Board of Directors.

Share-based Incentive Plan

A share-based incentive plan for the company's senior management, consisting of approximately 35 individuals, was decided upon by the Board of Directors on 24 October, 2005. The potential reward is based on the growth in KONE's sales and operating income for 2006 and 2007. The reward is to be paid as a combination of class B shares and the cash equivalent of the tax and taxable benefit costs that are incurred. The share ownership plan amounts to no more than 0.2 percent of the entire corporation's shares. The plan prevents participants from transferring the shares during the fifteen-month period following the termination of each earning period.

Shareholders

At the end of December 2005, KONE had 13,451 shareholders. A breakdown of shareholders is given in the adjacent tables.

At the end of December 2005, the ownership of approximately 45 percent of KONE shares was in non-Finnish hands, corresponding to around 19 percent of the votes in the company. Of foreign-owned shares, 6,467,179 were registered in the shareholders' own name. Foreign-owned shares can also 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 50,768,524 foreign-owned shares – representing 39.7 percent of the shares – registered in the name of Finnish nominees at the end of December 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 a total of 415,028 class B shares and indirectly a total of 17,640,402 class A shares and 8,438,462 class B shares on 31 December, 2005, representing 20.7 percent of shares and 61.9 percent of votes.

Members of the Board of Directors and the President have a combined 2,850 KONE 2005A option rights and 12,000 KONE 2005B option rights, which entitle the holders to subscription of class B shares representing 0.08 percent of the number class B shares and voting rights.

On 5 April, 2005 CEO Antti Herlin, Ilkka Herlin, Ilona Herlin and Niklas Herlin signed an agreement aimed 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 was completed on 30 June, 2005. When the agreement came into effect, the shares of the new KONE Corporation controlled by Antti Herlin entitled to 20.8 percent of the shares and 62 percent of the votes.

Shareholdings on 31 December, 2005 by number of class B shares

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 – 10	62	0.46	378	0.00
11 – 100	2,586	19.23	156,634	0.14
101 – 1,000	8,203	60.98	3,109,971	2.86
1,001 – 10,000	2,301	17.11	6,618,340	6.08
10,001 – 100,000	252	1.87	6,635,366	6.10
100,001 –	47	0.35	92,271,341	84.81
Total	**13,451**	**100.00**	**108,792,030**	**99.99**
Shares which have not been transferred to the paperless book entry system			11,232	0.01
Total			**108,803,262**	**100.00**

Largest shareholders on 31 December, 2005

		A Series	B Series	Total	Of shares, %	Of votes, %
1	**Shares controlled by Antti Herlin**					
	Holding Manutas Oy *	13,571,148	6,624,486	20,195,634	15.8	47.6
	Security Trading Oy **	4,069,254	1,786,986	5,856,240	4.6	14.2
	Antti Herlin ***	0	359,578	359,578	0.3	0.1
	Total	17,640,402	8,771,050	26,411,452	20.7	61.9
2	**Toshiba Elevator And Building Systems Corporation**	0	6,046,680	6,046,680	4.7	2.0
3	**D-Sijoitus Oy**	0	4,367,982	4,367,982	3.4	1.5
4	**Mariatorp Oy**	0	4,367,982	4,367,982	3.4	1.5
5	**Sijoitus-Wipunen Oy**	0	4,367,982	4,367,982	3.4	1.5
6	**KONE Foundation**	1,411,776	2,464,908	3,876,684	3.0	5.5
7	**Ilmarinen Mutual Pension Insurance Company**	0	1,264,980	1,264,980	1.0	0.4
8	**Finnish State Pension Fund**	0	880,000	880,000	0.7	0.3
9	**Mutual Insurance Company Pension-Fennia**	0	585,030	585,030	0.5	0.2
10	**OP-Delta mutual fund**	0	543,054	543,054	0.4	0.2
	10 major shareholders total	**19,052,178**	**33,659,648**	**52,711,826**	**41.2**	**74.9**
	Nominee registered ****		50,768,524	50,768,524	39.7	16.9
	Repurchased own shares		774,840	774,840	0.6	0.3
	Other owners		23,600,250	23,600,250	18.5	7.9
Total		**19,052,178**	**108,803,262**	**127,855,440**	**100.0**	**100.0**

* Antti Herlin's ownership in Holding Manutas represents 1.1 percent of the shares and 12.8 percent of the voting rights and together with the ownership of Security Trading, company in which he exercises controlling power, his ownership represents 51.0 percent of the shares and 62.7 percent of the voting rights.

** Antti Herlin's ownership in Security Trading Oy represents 91.8 percent of the shares and 96.2 percent of the voting rights.

*** Antti Herlin's ownership also includes the holdings of his underaged children.

**** 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.

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 (%)	=	$100 \times \frac{\text{net income}}{\text{total equity (average of the figures for the accounting period)}}$
Return on Capital Employed (%)	=	$100 \times \frac{\text{income after financing items + interest + other financing costs}}{\text{total assets - non-interest-bearing-debt (average of the figures for the accounting period)}}$
Total Equity/Total Assets (%)	=	$100 \times \frac{\text{total equity}}{\text{total assets}}$
Gearing (%)	=	$100 \times \frac{\text{interest-bearing-debt - liquid assets - loans receivable}}{\text{total equity}}$
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 (%)	=	$100 \times \frac{\text{dividend/share}}{\text{earnings/share}}$
Effective Dividend Yield (%)	=	$100 \times \frac{\text{dividend/share}}{\text{price of class B shares at the end of the accounting period}}$
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 [1]
Shares Traded	=	number of class B shares traded during the accounting period
Shares Traded (%)	=	$100 \times \frac{\text{number of class B shares traded}}{\text{average weighted number of class B shares}}$

[1] Excluding repurchased own shares

Summary in Figures

Consolidated Statement of Income	1 Jun–31 Dec, 2005
Sales, MEUR	2,101
- sales outside Finland, MEUR	2,034
Operating income, MEUR	195
- as percentage of sales, %	9.3
Income before taxes, MEUR	194
- as percentage of sales, %	9.2
Net income, MEUR	124

Consolidated Balance Sheet, MEUR	31 Dec, 2005
Non-current assets	1,110
Inventories	121
Other current assets	914
Total equity	669
Non-current liabilities	318
Provisions	112
Current liabilities	1,046
Total assets	2,145
Interest bearing net debt	99
Assets employed [1]	769
Net working capital [1]	-158

Other Data	1 Jun–31 Dec, 2005
Orders received, MEUR	1,622
Order book, MEUR	2,327
Capital expenditure , MEUR	29
- as percentage of sales, %	1.4
Expenditure for research and development, MEUR	25
- as percentage of sales, %	1.2
Average number of employees	27,016
Number of employees at the end of period	27,238

Key Ratios, %	1 Jun–31 Dec, 2005
Return on equity [2]	34.1
Return on capital employed [2]	36.4
Total equity/total assets	31.2
Gearing	14.8

Key Figures per Share [3]	1 Jun–31 Dec, 2005
Basic earnings per share, EUR	0.98
Diluted earnings per share, EUR	0.97
Basic earnings per share [2], EUR	1.68
Diluted earnings per share [2], EUR	1.67
Equity per share, EUR	5.24
Dividend per class B share [4], EUR	1.00
Dividend per class A share [4], EUR	0.99
Dividend per earnings, class B share, %	102.0
Dividend per earnings, class A share, %	101.0
Effective dividend yield, class B share, %	3.0
Price per earnings, class B share	34
Market value of class B share, average, EUR	27
- high, EUR	34
- low, EUR	22
- at the end of period, EUR	34
Market capitalization at the end of period, MEUR	4,261
Number of class B share traded, ‘000	43,202
Class B share traded, %	40
Weighted average number of class A shares, ‘000	19,052
Number of class A shares at the end of period, ‘000	19,052
Weighted average number of class B shares, ‘000	108,340
Number of class B shares at the end of period [5], ‘000	108,028
Weighted average number of shares [6], ‘000	128,215

1) Including tax receivables and liabilities, accrued interest and derivative items
2) Annualized
3) On 28 November, 2005 the shares were split at a ratio of one to two
4) Board’s proposal
5) Reduced by the number of repurchased own shares
6) Adjusted for share issue and option dilution, and reduced by the number of repurchased own shares

Board of Directors' Dividend Proposal

KONE's distributable equity as of 31 December, 2005 is EUR 487.8 million. The parent company's distributable equity on 31 December, 2005 is EUR 1,205,697,167.58 of which net profit from the accounting period under review is EUR 70,548,335.84.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.99 be paid on the 19,052,178 class A shares and EUR 1.00 on outstanding 108,428,422 class B shares. The total amount of proposed dividends will be EUR 127,290,078.22. The Board of Directors further proposes that the rest, EUR 1,078,407,089.36, be retained and carried forward.

The Board proposes that the dividends be payable from 9 March, 2006.

Helsinki, 27 January, 2006

Antti Herlin	Gerhard Wendt
Iiro Viinanen	Jean-Pierre Chauvarie
Masayuki Shimono	Sirkka Hämäläinen-Lindfors
Reino Hanhinen	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 June–31 December, 2005. The Board of Directors and the President have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company’s financial statements prepared in accordance with prevailing regulations in Finland, that include the parent company’s balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company’s financial statements and on the administration of the parent company.

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 is to examine that the members of the Board of Directors and the President of the parent company have complied with the rules of the Companies’ Act.

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company’s financial statements and administration

In our opinion 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 in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company’s result of operations as well as of the financial position. The 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 funds is in compliance with the Companies’ Act.

Helsinki, 27 January, 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant

Jukka Ala-Mello
Authorised Public Accountant

Pro Forma Review 2005

This pro forma review describes the development of the elevator and escalator markets where KONE operates as well as KONE's business and financial performance compared to 2004. It is published in order to facilitate the evaluation of the financial performance and status of the company. The unaudited pro forma information has been compiled according to the business and corporate structure prevailing after the demerger.

Pro Forma Review

Market Development, Order Intake and Order Book

During January–December 2005, order intake, excluding the value of maintenance contracts, totaled EUR 2,639 (2004: 2,136) million. Growth was nearly 24 percent. The good order intake was a result of improved product portfolio and increased sales activity. Currency rate changes did not significantly affect the growth rate. At the end of December, the order book was at a record high of EUR 2,327 (1,796) million. At comparable exchange rates, the growth was 21 percent. The average order book margin differed only slightly from that at the end of year 2004.

In Europe, the Middle East and Africa (EMEA), the overall market for new equipment grew moderately, but development differed from one country to another. Overall demand in the residential sector was at a good level, and KONE was especially successful in this customer segment. The office-building sector remained weak, except in the U.K., where it was good. The high-rise market in the Middle East remained strong. KONE's new equipment order intake in EMEA grew substantially, buoyed especially by growth in the U.K., Italy and the Netherlands. Modernization demand continued to improve, partly due to the European Safety Norms for Existing Lifts (SNEL).

Demand in North America continued to show solid growth. KONE benefited from success in the growing machine-room-less elevator market, boosted by growth in the apartment building, office and public transportation sectors. The impact of higher oil prices and natural catastrophes caused some market uncertainty in the U.S.A. KONE achieved strong order intake growth in both new equipment and modernizations.

In the Asia-Pacific region, the market for new equipment continued strong in all major areas. Particularly China and India contributed to KONE's extraordinarily strong new equipment order intake growth. KONE benefited from recent additions to its product portfolio targeted for the Asian markets as well as from a strengthened sales network.

In the EMEA and the Asian-Pacific regions, price competition for new equipment orders remained tough. Price pressure was relatively unchanged in North America after easing somewhat during the first half of the year. The maintenance market showed steady growth globally, but prices continued to be under pressure.

Net Sales

During January–December 2005, net sales totaled EUR 3,242 (2,895) million, representing an increase of 12 percent. Currency rate changes did not significantly affect the growth rate. New equipment sales accounted for EUR 1,301 (1,130) million of the total or 40 (39) percent and service for EUR 1,942 (1,765) million or 60 (61) percent. Modernization activity posted strong growth, and maintenance grew steadily.

Net sales grew in all market areas.

Sales by market areas, MEUR

	2005	%	2004	%
EMEA [1]	2,149.4	66	1,904.0	66
Americas	696.8	22	628.9	22
Asia-Pacific	396.0	12	361.6	12
Total	3,242.2		2,894.5	

[1] EMEA = Europe, Middle East, Africa

The number of elevators and escalators under service contract amounted to more than 575,000 (550,000) units, of which more than 440,000 (420,000) are in Europe, slightly over 90,000 (90,000) in North America and approximately 40,000 (35,000) in the Asia-Pacific region.

Income and Balance Sheet

During January–December 2005, KONE's operating income, excluding the EUR 89.2 million provision for the development and restructuring program described below, was EUR 272.0 (234.6) million, representing 8.4 (8.1) percent of net sales. Operating income, including the EUR 89.2 million provision, was EUR 182.8 million. A large number of

Pro Forma Review

elevator and escalator installations was completed particularly during the last months of the year. Net income amounted to EUR 108.8 (164.0) million.

Net debt amounted to EUR 99.3 (–61.4) million at the end of the period. The total equity/total assets ratio was 31.2 (35.2) percent, and gearing was 14.8 (–8.4) percent. The change in net debt was partly due to demerged Kone Corporation's capital gains taxes from divested operations and dividend payments in addition to KONE's buy-back of own shares.

Net Working Capital and Cash Flow

At the end of December, net working capital was negative at EUR –158.0 (–180.0) million. During January–December 2005, cash flow from operations (before financial items and taxes) totaled EUR 329.4 (289.0) million.

Development and Restructuring Program

In order to improve the cost-competitiveness of KONE's supply chain and its products, a development and restructuring program was initiated in March, prior to the demerger. The total one-time operating income impact of the program of EUR 89.2 million was provided for in the accounts of the demerged Kone Corporation and transferred to the new KONE Corporation. The main actions of the development and restructuring program were completed by the end of 2005.

Negotiations in the electrification component unit in the U.K. were concluded during the second quarter, and production was closed down by the end of 2005. Production was moved to facilities in Italy and Finland.

Regarding the escalator production facility in Germany, negotiations were concluded in September, and production was closed down by the end of the month. During the negotiations, different alternatives were evaluated, but no alternative solution was found to discontinuing production. The German facility is carrying on as KONE's Global Escalator Technology and Service Business Center. KONE's standard escalator production is now mainly concentrated in China, which represents roughly half of the global escalator market.

Construction of a Mexican facility for the manufacture of elevator doors for the North American market started in September. Production will begin in the second quarter of 2006.

Capital Expenditure and Product Development

During January–December 2005, capital expenditure totaled EUR 80.5 (46.6) million, including the completion of full ownership of the KONE Building in Espoo, Finland. In addition, acquisitions accounted for EUR 93.2 (79.0) million.

Research and Development expenditures totaled EUR 41.4 (41.0) million or 1.3 (1.4) percent of net sales. In order to improve its position in Asia, KONE strengthened its R&D operations in China and India.

In 2005, KONE focused on developing its product portfolio in order to maximize accessible markets. Measures to broaden the product range to meet differing regional demand and improve competitiveness continued successfully throughout the year. In addition, KONE is building up the supply chain process for its counterweightless KONE MaxiSpace™ solutions in order to support KONE's order and installation volumes for modernizations across Europe in 2006.

Personnel

KONE had 27,238 (25,262) employees at the end of 2005. The average number of employees during the period was 26,405 (24,315). The increases are mainly due to acquisitions in India and Thailand and expanded operations in China.

Acquisition and Cooperation Agreements

KONE continued its acquisition activity in order to strengthen its position in growth markets and increase the density of its maintenance base. Most of the acquired companies were local elevator or door service companies. In total, acquisitions accounted for EUR 93.2 (79.0) million in capital expenditure.

In February 2005, KONE and Giant Elevator Co. Ltd of China agreed to form a joint venture, Giant Kone Elevator Company Ltd, which was founded during the second quarter. KONE owns 40 percent of Giant Kone, and Giant Elevator owns 60 percent. KONE has an option to increase its shareholding to more than 50 percent.

In April, KONE and Toshiba Elevator and Building Systems Corporation (TELC) agreed to strengthen their alliance by establishing a joint venture for escalator production in China. The joint venture will be the main source of escalators for both parties and make it possible to increase volumes and improve productivity. The joint venture began its operations during the third quarter. The company launched its first escalator product for the Chinese market during the autumn and for other markets in Asia at the end of the year. KONE owns 70 percent of the new company, and TELC owns 30 percent.

In April, KONE also signed a joint-venture agreement with Russia's premier elevator company, Karacharovo Mechanical Factory (KMZ). KONE will own 40 percent of the new company and hold an option to increase its shareholding to a majority stake. The establishment of the joint venture is proceeding. Finalization of the joint-venture agreement will follow approval by the appropriate authorities.

In December, KONE signed an agreement to acquire an 80 percent shareholding in Fuji Lift & Escalator of Malaysia. Fuji's current management will hold the remaining 20 percent. The addition of Fuji's operations makes KONE one of the market leaders in both new equipment and service in Malaysia.

U.K. Lift Company, which was acquired in February 2005, was consolidated into KONE's figures as of 1 January. Thai Lift Industries, which was acquired in March, was consolidated into KONE's figures as of 1 June, and the company has been de-listed from the stock exchange.

Other Significant Events

On 10 October, 2005 KONE received a Statement of Objections from the European Commission concerning its investigation of localized anticompetitive practices in the elevator and escalator industry in Belgium, Germany, Luxemburg and the Netherlands. KONE has cooperated fully with the European Commission since the initiation of the investigation in January 2004. The company will submit its reply to the Statement of Objections during the first quarter of 2006.

Outlook for 2006

At comparable exchange rates, KONE's target is to achieve approximately a 10 percent increase in 2006 net sales, compared to the 2005 pro forma figure. This is supported by the strong 2005 order intake. Order intake growth, however, is not expected to achieve the 2005 level. The operating income (EBIT) target is to achieve growth of approximately 20 percent from the comparable 2005 pro forma figure of EUR 272 million.

Pro Forma Consolidated Statement of Income

MEUR	2005 [1]	%	2004 [2]	%
Sales	3,242.2		2,894.5	
Costs and expenses	-3,000.4		-2,601.5	
Depreciation	-59.0		-58.4	
Operating income	182.8	5.6	234.6	8.1
Share of associated companies' income	1.5		1.3	
Financing income and expenses	-6.4		-2.7	
Income before taxes	177.9	5.5	233.2	8.1
Taxes	-69.1		-69.2	
Net income	108.8	3.4	164.0	5.7
Net income attributable to:				
Shareholders of the parent company	110.2		163.9	
Minority interests	-1.4		0.1	
Total	108.8		164.0	

[1] Including a MEUR 89.2 provision for the development and restructuring program. Operating income excluding the provision was MEUR 272.0.

[2] Disregarding MEUR 15.3 non-recurring income due to a provision reversal regarding disability pensions.

Basic earnings per share for profit attributable to the shareholders of the parent company, EUR	0.87		1.33	

Pro Forma Consolidated Balance Sheet

Assets, MEUR	31 Dec, 2005	31 Dec, 2004
Non-current assets		
Intangible assets	551.6	500.2
Tangible assets	217.7	186.8
Loans receivable and other interest-bearing assets	53.1	77.1
Other non interest-bearing assets	130.1	97.7
Investments	157.2	158.4
Total	1,109.7	1,020.2
Current assets		
Inventories	120.7	130.3
Loans receivable and other interest-bearing assets	0.6	0.8
Accounts receivable and other non interest-bearing assets	706.7	658.4
Cash and bank	206.8	255.1
Total	1,034.8	1,044.6
Total assets	2,144.5	2,064.8

Equity and liabilities, MEUR	31 Dec, 2005	31 Dec, 2004
Equity	669.2	726.8
Non-current liabilities		
Loans	144.2	139.1
Deferred tax liabilities	24.7	10.6
Employee benefits	148.9	141.4
Total	317.8	291.1
Provisions	112.0	124.8
Current liabilities		
Loans	215.6	132.5
Accounts payable and other liabilities	829.9	789.6
Total	1,045.5	922.1
Total equity and liabilities	2,144.5	2,064.8

Pro Forma 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, 2005	63.7	91.6	11.0	-1.7	539.6	22.6	726.8
Dividends paid					-127.3		-127.3
Issue of shares (option rights)	0.2	4.8					5.0
Purchase of own shares					-21.9		-21.9
Sales of own shares							-
Cash flow hedge			-16.1				-16.1
Change in translation differences				11.8			11.8
Change in minority interests						-18.4	-18.4
Option and share based compensation					0.5		0.5
Net income for the period					110.2	-1.4	108.8
31 Dec, 2005	63.9	96.4	-5.1	10.1	501.1	2.8	669.2

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Retained earnings	Minority interests	Total equity
1 Jan, 2004	63.5	62.1	0.6	0.7	474.5	20.5	621.9
Dividends paid					-125.1		-125.1
Issue of shares (option rights)	0.2	4.6					4.8
Purchase of own shares					-90.1		-90.1
Sales of own shares		24.9			116.4		141.3
Cash flow hedge			10.4				10.4
Change in translation differences				-2.4			-2.4
Change in minority interests						2.0	2.0
Net income for the period					163.9	0.1	164.0
31 Dec, 2004	63.7	91.6	11.0	-1.7	539.6	22.6	726.8

Pro Forma Consolidated Statement of Cash Flow

MEUR	2005	2004
Operating income	182.8	234.6
Change in working capital	87.6	-4.0
Depreciation	59.0	58.4
Cash flow from operations	329.4	289.0
Cash flow from financial items and taxes	-163.4	-55.3
Cash flow from operating activities	166.0	233.7
Cash flow from investing activities	-182.5	-125.6
Purchase and sales of own shares	-21.9	60.0
Share issue	5.0	4.8
Dividends paid	-127.3	-125.1
Change in net debt	-160.7	47.8
Net debt in the beginning of period	-61.4	-13.6
Net debt in the end of period	99.3	-61.4
Change in net debt	-160.7	47.8

Pro Forma Notes

Commitments, MEUR	31 Dec, 2005	31 Dec, 2004
Mortgages		
Group and parent company	30.7	0.7
Pledged assets		
Group and parent company	5.8	11.4
Guarantees		
Associated companies	2.0	18.4
Others	23.6	18.8
Operating leases	118.9	89.5
Total	181.0	138.8

The future minimum lease payments under non-cancellable operating leases	31 Dec, 2005	31 Dec, 2004
Less than 1 year	31.2	23.1
1–5 years	72.2	53.4
Over 5 years	15.5	13.0
Total	118.9	89.5

Derivatives	Positive fair value	Negative fair value	Net fair value	Net fair value
Fair values of derivative financial instruments, MEUR	**31 Dec, 2005**	**31 Dec, 2005**	**31 Dec, 2005**	**31 Dec, 2004**
FX Forward contracts	10.8	16.9	-6.1	22.6
Currency options	0.0	0.0	0.0	0.2
Cross-currency swaps	32.6	0.0	32.6	39.1
Interest rate swaps	-	-	-	-0.8
Electricity derivatives	0.7	0.0	0.7	0.0
Total	44.1	16.9	27.2	61.1

Nominal values of derivative financial instruments, MEUR	31 Dec, 2005	31 Dec, 2004
FX Forward contracts	859.3	1,608.4
Currency options	7.4	86.3
Cross-currency swaps	173.8	173.8
Interest rate swaps, due under 1 year	-	75.0
Interest rate swaps, due in 1–3 years	-	0.0
Electricity derivatives	2.4	2.6
Total	1,042.9	1,946.1

Pro Forma Quarterly Key Figures

		Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Orders received	MEUR	700.4	646.4	688.3	604.1	568.5	505.3	543.7	518.3
Order book	MEUR	2,326.8	2,371.7	2,264.7	2,023.1	1,796.1	1,938.6	1,959.5	1,907.5
Sales	MEUR	1,008.4	801.4	783.1	649.3	896.0	746.3	695.1	557.1
Operating income	MEUR	94.1	78.1	60.8	39.0 [1)]	92.3 [2)]	72.4	42.5	27.4
Operating income	%	9.3	9.7	7.8	6.0 [1)]	10.3 [2)]	9.7	6.1	4.9

[1)] Excluding MEUR 89.2 provision for the development and restructuring program

[2)] Disregarding MEUR 15.3 non-recurring income due to a provision reversal regarding disability pensions

Summary in Figures 2003–2005

Consolidated Statement of Income	2005	2004 [1]	2003
Sales, MEUR	3,242	2,895	2,856
- sales outside Finland, MEUR	3,137	2,801	2,767
Operating income, MEUR	272 [2]	235	280
- as percentage of sales, %	8.4 [2]	8.1	9.8
Income before taxes, MEUR	178	233	281
- as percentage of sales, %	5.5	8.1	9.8
Net income, MEUR	109	164	205

Consolidated Balance Sheet, MEUR	2005	2004	2003
Non-current assets	1,110	1,020	954
Inventories	121	130	108
Other current assets	914	914	1,035
Total equity	669	727	622
Non-current liabilities	318	291	367
Provisions	112	125	149
Current liabilities	1,046	922	960
Total assets	2,145	2,065	2,097
Interest bearing net debt	99	-61	-25
Assets employed [3]	769	665	597
Net working capital [3]	-158	-180	-194

Other Data	2005	2004	2003
Orders received, MEUR	2,639	2,136	2,021
Order book, MEUR	2,327	1,796	1,640
Capital expenditure, MEUR	58	47	41
- as percentage of sales, %	1.8	1.6	1.4
Expenditure for research and development, MEUR	41	41	41
- as percentage of sales, %	1.3	1.4	1.4
Average number of employees	26,405	24,315	23,562
Number of employees at the end of period	27,238	25,262	23,737

Key Ratios, %	2005	2004	2003
Return on equity	15.6	24.3	-
Return on capital employed	18.3	23.1	-
Total equity/total assets	31.2	35.2	29.7
Gearing	14.8	-8.4	-4.0

Key Figures per Share [4]	2005	2004	2003
Basic earnings per share, EUR	0.87	1.33	1.64
Equity per share, EUR	5.24	5.53	4.80
Weighted average number of class A shares, '000	19,052	19,052	19,052
Number of class A shares at the end of period, '000	19,052	19,052	19,052
Weighted average number of class B shares [5], '000	108,333	104,147	106,208
Number of class B shares at the end of period [6], '000	108,028	108,267	107,876
Weighted average number of shares [5], '000	127,385	123,199	125,260

1) Disregarding MEUR 15.3 non-recurring income due to a provision reversal regarding disability pensions
2) Excluding MEUR 89.2 provision for the development and restructuring program
3) Including tax receivables and liabilities, accrued interest and derivative items
4) On 28 November, 2005 the shares were split at a ratio of one to two
5) Adjusted for share issue and reduced by the number of repurchased own shares
6) Reduced by the number of repurchased own shares

Design Incognito Oy, printing F.G. Lönnberg

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