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# KONE Q2

INTERIM REPORT  
FOR JANUARY-JUNE 2009

## KONE's Q2: Continued good performance

### April-June

- In April-June 2009, orders received totaled EUR 953.9 (4–6/2008: 1,092) million. Orders received declined by 12.7%, or 13.6% at comparable exchange rates.
- Net sales increased by 2.3% to EUR 1,169 (1,142) million. At comparable exchange rates, the growth was 1.5%.
- Operating income excluding one-time costs was EUR 146.3 (136.7) million or 12.5% (12.0%) of net sales. The operating income, including the one-time cost of EUR 33.6 million related to the fixed cost adjustment program, was EUR 112.7 million.
- The plans for the fixed cost adjustment program have now been defined. The annual fixed cost reduction is expected to be at least EUR 40 million starting in 2010 and the total one-time cost relating to this program is EUR 33.6 million. The program is implemented in response to the weak new equipment market in order to be better prepared for 2010.
- KONE further specifies its full-year outlook for 2009. In net sales, the objective is to grow 2–5% as compared to net sales in 2008. In operating income (EBIT), the objective is EUR 570–595 million excluding the one-time cost of EUR 33.6 million.

### January-June

- In January-June 2009, orders received totaled EUR 1,852 (1–6/2008: 2,210) million. Orders received declined by 16.2%, or 17.1% at comparable exchange rates. At the end of June 2009, the order book was EUR 3,754 (Dec 31, 2008: 3,577) million.
- Net sales increased by 6.9% to EUR 2,190 (2,047) million. At comparable exchange rates, the growth was 6.4%.
- Operating income excluding one-time costs was EUR 237.5 (223.2) million or 10.8% (10.9%) of net sales. The operating income, including the one-time cost of EUR 33.6 million related to the fixed cost adjustment program, was EUR 203.9 million.

### Key Figures

		4–6/2009	4–6/2008	1–6/2009	1–6/2008	1–12/2008
Orders received	MEUR	953.9	1,092.4	1,852.4	2,209.9	3,947.5
Order book	MEUR	3,754.1	3,838.7	3,754.1	3,838.7	3,576.7
Sales	MEUR	1,168.6	1,142.1	2,189.6	2,047.4	4,602.8
Operating income	MEUR	146.3 <sup>1)</sup>	136.7	237.5 <sup>1)</sup>	223.2	558.4
Operating income	%	12.5 <sup>1)</sup>	12.0	10.8 <sup>1)</sup>	10.9	12.1
Cash flow from operations (before financing items and taxes)	MEUR	201.1	118.9	371.4	285.5	527.4
Net income	MEUR	86.5	98.8	165.2	162.7	418.1
Total comprehensive income	MEUR	79.4	99.9	159.6	152.6	436.7
Basic earnings per share	EUR	0.34	0.39	0.65	0.65	1.66
Interest-bearing net debt	MEUR	-167.1	87.0	-167.1	87.0	-58.3
Total equity/total assets	%	38.8	30.0	38.8	30.0	39.0
Gearing	%	-16.1	11.7	-16.1	11.7	-5.6

<sup>1)</sup> Excluding a EUR 33.6 million one-time cost related to the fixed cost adjustment program.

## KONE's Q2: Continued good performance

### **Matti Alahuhta, President and CEO, in conjunction with the review:**

"I am very pleased with our performance in the second quarter. Our Orders Received was higher than in the previous three quarters despite the weakened market environment. This is a result of an improved customer focus and strong actions to improve our solution competitiveness. Our record high cash flow exceeding EUR 200 million was another great achievement.

The new equipment markets continued to be weak. We communicated in April our intentions to adjust our fixed costs by EUR 40 million in order to be better prepared for 2010. We have now defined the plans for this program. Most of the efficiency improvements will be achieved by developing our organization globally to have flatter structures with wider spans of control. This will not only improve our efficiency, but it will also bring us closer to our customers, strengthen hands-on leadership at KONE, enable better internal learning transfer and increase the speed of continuous change.

As a result of the weaker market situation and this organizational development, the number of jobs at KONE is estimated to decrease globally by approximately 500 during the next nine months. The impact will be biggest in those country organizations where the new equipment market has weakened most. Simultaneously, we continue to recruit in those countries which provide growth opportunities.

Our business has developed well during the first half of this year. Our order book is strong and the Operating Income, excluding the one-time item related to the cost adjustment, has developed positively. Our competitiveness has improved in many market segments that provide the best growth opportunities in the current very challenging business environment. Based on this, I have good confidence also for the full-year development and the fixed costs adjustment program is an additional action in preparation for 2010."

# KONE's January-June 2009 review

## Accounting Principles

KONE Corporation's Interim Report for January 1–June 30, 2009 has been prepared in line with IAS 34, 'Interim Financial Reporting'. KONE has applied the same accounting principles in the preparation of the interim report as in its financial statements for 2008. The accounting principles for the financial statements have been presented in the KONE 2008 Financials report published on January 23, 2009. Additionally, the changes in the presentation of statement of comprehensive income and the statement of changes in equity according to the revised IAS1 have been applied in the Interim Report. The information presented in this Interim Report has not been audited.

## April-June 2009 review

### Operating environment in April-June

In the second quarter of 2009, overall demand for new equipment continued to be weak in most geographical areas. The overall rate of decline decreased, but the market situation differed substantially from market to market. The modernization market was stable and continued to provide growth opportunities. The global maintenance market, which by nature less cyclical, continued to grow.

In the Europe, Middle East and Africa region (EMEA), the business environment remained difficult. Most new equipment markets declined. The weakest markets were the Middle East, Russia, United Kingdom, Netherlands and Spain. The infrastructure and hospital segments showed growth in some countries. The demand for modernization was good in France in particular and it improved in several other countries. The maintenance markets continued to develop well.

In the Americas region, the new equipment market continued to decrease in the United States. Customers' difficulties to access financing remained an obstacle to decision making. The market in Canada slowed down. In Mexico, the market continued to be very weak. The modernization activity remained relatively stable. The maintenance market developed well, but was very competitive.

In the Asia-Pacific region, the new equipment markets weakened. In China however, the sequential market development was positive and provided good growth opportunities. Real estate investments increased due to improved lending activity for home buyers and land developers. The Indian market continued to decline further because of the

difficult funding environment for our customers. In Australia and Southeast Asia the construction market activity was on a very low level. The maintenance market in Asia-Pacific developed favorably.

### Financial performance in April-June

KONE's orders received in the second quarter of 2009 declined by 12.7% and totaled EUR 953.9 (4-6/2008: 1,092) million. At comparable exchange rates, the decline was 13.6%. The orders received in the second quarter was higher than in the previous three quarters. All geographical regions showed decline in orders received. In China, however, the development was very positive. KONE's progress was particularly good in modernization and in major projects. The level of orders received is good evidence of KONE's continuously improved competitiveness and that our actions have been effective. Maintenance contracts are not included in orders received.

The largest orders received in the April-June period included an order to supply and install all elevators and escalators for the new Tower 185 in Frankfurt, Germany and an order to supply escalators for China's national high-speed railway project, also known as the Beijing-Shanghai Express Railway. KONE was awarded a maintenance contract on all equipment for a period of two years for this project.

KONE won an order to supply elevators for the new Infinity Tower in Dubai, United Arab Emirates. The installation of the equipment will start in 2010 and is estimated to be completed in 2011. KONE also won a contract to design, supply and install all elevators on Celebrity Cruises' two new passenger cruise ships. In addition, KONE was awarded a contract to provide both new installations and modernization to all elevators and escalators at the Los Angeles International Airport (LAX) in the United States. The contract covers maintenance, new installation, equipment repairs and upgrades in each of the eight terminals at LAX.

KONE's net sales grew by 2.3% as compared to April-June 2008 and totaled EUR 1,169 (1,142) million. At comparable exchange rates, the growth was 1.5%. Growth was strongest in Asia-Pacific.

New equipment sales accounted for EUR 548.5 (549.1) million of the total which represented a decline of 0.1% over the comparison period. At comparable currency rates, the decline was 1.4%.

## KONE's January-June 2009 review

### Sales by geographical regions, MEUR

	4-6/2009	%	4-6/2008	%	1-6/2009	%	1-6/2008	%	1-12/2008	%
EMEA <sup>1)</sup>	736.1	63	747.3	65	1,374.9	63	1,365.0	67	3,001.5	65
Americas	222.3	19	214.0	19	456.4	21	375.7	18	888.3	19
Asia-Pacific	210.2	18	180.8	16	358.3	16	306.7	15	713.0	16
<b>Total</b>	<b>1,168.6</b>		<b>1,142.1</b>		<b>2,189.6</b>		<b>2,047.4</b>		<b>4,602.8</b>	

<sup>1)</sup> EMEA = Europe, Middle East, Africa

Service sales (maintenance and modernization) increased by 4.6% and totaled EUR 620.1 (593.0) million. At comparable currency rates, the growth was 4.2%.

The operating income excluding one-time costs for the April-June period totaled EUR 146.3 (136.7) or 12.5% (12.0%) of net sales. The operating income, including the one-time cost of EUR 33.6 million related to the fixed cost adjustment program, was EUR 112.7 million. The good operating income was primarily a result of the development programs that have led to improved productivity, favorable development in sourcing costs and tight cost control.

### The 2010 fixed cost adjustment program

In connection with the first quarter result, KONE announced that it intends to reduce the 2010 run-rate of fixed costs by EUR 40 million due to the weak new equipment market. The plans for the program have now been defined. The annual impact on this fixed cost reduction plan is expected to be at least EUR 40 million starting in 2010. The total one-time cost relating to this program is EUR 33.6 million, which cost has been booked in the second quarter 2009.

The majority of the fixed cost savings will be achieved through organizational development. This development will flatten the organizational structures to bring management closer to customers, broaden the span of control for managers to ensure better hands-on management and uniform structures globally to improve internal collaboration. The program, which will be implemented by the beginning of 2010, will improve the efficiency and speed of KONE. Selective actions will also be taken in the supply chain and outsourcing. In addition to these actions, an overall tighter cost control is targeted throughout the company.

The program is estimated to decrease jobs globally by approximately 500 during the next nine months. Simultaneously, KONE continues to recruit in certain markets that are providing growth opportunities, such as China.

### January-June 2009 review

#### KONE's Orders Received and Order Book in January-June

The overall market situation was very demanding in new equipment throughout the reporting period. The modernization markets remained quite stable compared to 2008, but became increasingly competitive in the different geographical areas. The global maintenance market, which is by nature less cyclical, continued to grow.

In January-June 2009, KONE's orders received declined by 16.2% and totaled EUR 1,852 (1-6/2008: 2,210) million. At comparable exchange rates, the decline was 17.1%. Maintenance contracts are not included in orders received.

The order book increased from the end of 2008 by 5.0% and stood at EUR 3,754 (Dec 31, 2008: 3,577) million at the end of June 2009. As earlier, the margin of the order book continued to be at a good level. Cancellations of orders have remained at a very low level.

In the EMEA region, orders received declined in the continuously weakening markets in January-June 2009. Despite this, KONE performed particularly well in Germany. KONE also had a good performance in the modernization market. KONE's orders received in modernization have been good in France, Italy and Sweden in particular.

In the Americas region, KONE experienced a decline in orders received. In spite of the weak market, KONE has been able to strengthen its market position in many seg-

## KONE's January-June 2009 review

ments due to its advanced elevator and escalator solutions and improved competitiveness.

In the Asia-Pacific region, KONE's new equipment order intake declined year-on-year, however it continued to develop positively in China.

### Net Sales

In January-June 2009, KONE's net sales rose by 6.9%, compared to last year, and totaled EUR 2,190 (1-6/2008: 2,047) million. Growth at comparable currency rates was 6.4%.

New equipment sales accounted for EUR 993.6 (932.5) million of the total and represented growth of 6.6% over the comparison period. At comparable currency rates, the growth was 5.5%.

Service sales (maintenance and modernization) increased by 7.3% and totaled EUR 1,196 (1,115) million. At comparable currency rates, the growth was 7.2%.

Of the sales, 63% (67%) were generated from EMEA, 21% (18%) by the Americas and 16% (15%) by Asia-Pacific.

### Financial Result

KONE's operating income excluding one-time costs was EUR 237.5 million (1-6/2008: 223.2 million) or 10.8% (10.9%) of net sales. The operating income, including the one-time cost of EUR 33.6 million related to the fixed cost adjustment program, was EUR 203.9 million. The strong growth was primarily a result of the development programs that have led to improved productivity, favorable development in sourcing costs and tight cost control. Net financing items were EUR 15.6 (-3.3) million and include dividends received from Toshiba Elevator and Building Systems Corporation (TELCO).

KONE's income before taxes for January-June 2009 was EUR 221.1 (220.7) million. Taxes totaled EUR 55.9 (58.0) million, taking into account taxes proportionate to the amount estimated for the financial year. This represents an effective tax rate of 25.3%. In January-December 2008, the effective tax rate was 25.8%. Net income for the period under review was EUR 165.2 (162.7) million.

Earnings per share were EUR 0.65 (0.65). Equity per share was EUR 4.09 (2.96).

### Financial Position and Cash Flow

KONE's financial position remained strong and the company had a positive net cash position at the end of June.

In January-June 2009, cash flow generated from operations (before financing items and taxes) was EUR 371.4 (1-6/2008: 285.5) million. The strong cash flow is primarily a result of an improved operating income and continued good payment terms and hence increased advanced payments received. At the end of June, net working capital was negative at EUR -181.8 (Dec 31, 2008: -76.4) million, including financing items and taxes.

Interest-bearing assets exceeded interest-bearing net debt and the net cash position totaled EUR 167.1 (Dec 31, 2008: 58.3) million. Gearing was -16.1% (11.7%) and total equity/total assets ratio was 38.8% (30.0%).

### Capital expenditure, acquisitions and divestments

KONE's capital expenditure, including acquisitions, totaled EUR 48.4 (1-6/2008: 64.7) million. Capital expenditure, excluding acquisitions, was mainly related to facilities and equipment in R&D, IT and production. Acquisitions accounted for EUR 29.0 (37.6) million of this figure. Acquisitions made in January-June will have no material effect on the 2009 full-year figures.

In January-June, KONE completed the acquisition of FairWay Elevator Inc, an independent elevator service company in the Philadelphia area in the United States. Through this acquisition, KONE establishes itself as one of the largest elevator and escalator companies in the Philadelphia region. In addition, KONE acquired Excel Elevator Inc, an independent elevator service company based in Los Angeles. Excel has a great reputation in the Southern California market for its quality work in modernizing vertical transportation systems as well as its significant maintenance base.

### Research and development

Research and development expenses totaled EUR 30.9 (1-6/2008: 29.9) million, representing 1.4% (1.5%) of net sales. R&D expenses include the development of new concepts and further development of existing solutions and services. KONE's elevators and escalators are based on energy-efficient technology.

During the reporting period, KONE strengthened its offering to better meet the demands of the challenging market.

KONE released new solutions for the infrastructure, modernization and affordable housing segments. In addi-

## KONE's January-June 2009 review

tion, new solutions for the 2–3 landing machine-room-less segment in the United States were introduced. The focus has mainly been on solutions that deliver improved performance, fresh visual options and improved energy-efficiency. The KONE JumpLift™ is an example of the expanded elevator offering. This innovative offering puts the elevator into operation already as the building is under construction phase, enabling more efficient flow of workers, delivering improved safety and productivity to the job site.

In addition, KONE launched a new escalator release in response to the demand of the growing infrastructure segment. The cost structure has been improved and the application scope has been enlarged by adding a full outdoor solution package and higher vertical rise alternatives to the offering.

In January 2009, KONE Corporation was awarded a 2008 GOOD DESIGN award for its innovative elevator design concept. KONE is the first elevator and escalator company to ever receive such a prestigious award. Founded in 1950, GOOD DESIGN is renowned as one of the most recognized design awards program in the world. The awards are given by The Chicago Athenaeum and The European Centre for Architecture Art Design and Urban Studies to highlight the best new designs and design innovations for products and graphics made between 2006 and 2008.

### Personnel

The main goals of KONE's personnel strategy are to further increase the interest in KONE as an employer and to secure the availability, commitment and continuous development of its personnel. KONE's activities are also guided by ethical principles. The personnel's rights and responsibilities include the right to a safe and healthy working environment, personal wellbeing as well as the prohibition of any kind of discrimination.

KONE had 34,285 (Dec 31, 2008: 34,831) employees at the end of June 2009. The average number of employees was 34,461 (1–6/2008: 33,301).

The geographical distribution of KONE employees was 56% (56%) in EMEA, 17% (17%) in the Americas and 27% (27%) in Asia-Pacific.

People Leadership is one of KONE's five development programs. KONE is increasingly investing in people development programs, personal coaching and change management.

### Environment

KONE published its first Corporate Responsibility Report during the reporting period.

The development of eco-efficient solutions focused on stand-by energy saving solutions and regenerative units for elevators. As a result of these improvement actions, a reduction of 30 percent in the newest release was accomplished. By next year, an additional 20 percent reduction will be achieved.

In the service business, eco-efficiency aspects have been included in the analysis, which provides customers with a comprehensive recommendation on how to maintain and modernize their equipment in a cost-effective way.

The most significant Green House Gas emission (CO<sub>2</sub>) impact of KONE's own operations relate to the company's vehicle car fleet, electricity consumption and logistics. As a consequence, projects relating to KONE's global car fleet and business travel are ongoing. KONE aims to reduce its operational carbon footprint by 5 percent per unit by 2010.

### Capital and Risk Management

The ultimate goal of capital and risk management in the KONE Group is to contribute to the creation of shareholder value.

Capital is managed in order to maintain a strong financial position and to ensure that the Group's funding needs can be optimized in a cost-efficient way even in a critical funding environment. In the present weak economic situation, having no net debt is a strength.

The financial turmoil has been extremely severe since mid-2008. KONE is focusing on two major issues regarding its capital and risk management. Firstly, the capability to adapt its cost structure to changing volumes in order to stay competitive, and secondly, to ensure that the Group's liquidity is guaranteed to cover both short-term and long-term funding needs.

To avoid an unnecessary cost burden in this market environment, overall cost control has been tightened and a program to decrease the run-rate of fixed costs has been initiated. In addition, the Group's cost structure is flexible because of outsourcing in different areas of the business.

The key area in guaranteeing good liquidity in the short run is to keep the present good working capital position. In a difficult economic situation, it is increasingly important to maintain a healthy order book without deteriora-

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tion in payment terms, and to improve credit control and collection activities. Long-term funding is guaranteed by existing committed lines.

KONE's business activities are exposed to risks, which may arise from changes in KONE's business environment or incidents resulting from operating activities. The most significant risks are increases in personnel costs and raw material costs, fluctuation in currency and changes in the development of the world economy.

The global economic slowdown and financial turmoil may bring about a decrease in the number of new equipment orders received by KONE, cancellations of agreed-on deliveries, or delays in the commencement of projects. A significant part of KONE's sales consist of services which are less susceptible to the effects of an economic recession. The economic recession may affect the liquidity and payment schedules of KONE's customers and lead to credit losses. Credit risks are managed by applying advance payments, actively monitoring the liquidity of customers and active receivable collection efforts.

As a global group, KONE is exposed to foreign exchange fluctuations. The Group Treasury function manages exchange rates and other financial risks centrally on the basis of principles approved by the Board of Directors. The main effect of exchange rate fluctuations is seen in the consolidated financial statements of the KONE Group resulting from the translation of financial statements of foreign subsidiaries into euros.

A significant part of KONE's sales consist of services which are very labor-intensive. If the increases in labor costs cannot be transferred to prices or the productivity targets are not met, the profit development of the Group will be adversely affected. A failure to efficiently reallocate personnel resources in response to reduced or changed business opportunities may also have a negative effect on the profit development.

Changes in raw material prices are reflected directly in the production costs of components made by KONE, such as doors and cars, and indirectly in the prices of purchased components. The maintenance business deploys a significant fleet of service vehicles, and oil price fluctuations can affect the cost of maintenance.

### Appointment to the Executive Board

KONE appointed Henrik Ehrnrooth M.Sc. (Econ) Executive Vice President, Finance (Chief Financial Officer) and a

Member of the Executive Board as of May 1, 2009. Henrik Ehrnrooth succeeded Aimo Rajahalme, who served as CFO since 1991.

### Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on February 23, 2009. The meeting approved the financial statements and discharged the responsible parties from liability for the January 1–December 31, 2008 financial period.

The number of Members of the Board of Directors was confirmed as eight and it was decided to elect one deputy Member. Re-elected as Members of the Board were Matti Alahuhta, Reino Hanhinen, Antti Herlin, Sirkka Hämäläinen-Lindfors and Sirpa Pietikäinen and as deputy Member Jussi Herlin. Anne Brunila, Juhani Kaskeala and Shunichi Kimura were elected as new Members of the Board of Directors.

At its meeting held after the Annual General Meeting, the Board of Directors elected, from among its members, Antti Herlin as its Chair and Sirkka Hämäläinen-Lindfors as Vice Chair.

Antti Herlin was elected as Chairman of the Audit Committee. Sirkka Hämäläinen-Lindfors and Anne Brunila were elected as independent Members of the Audit Committee.

Antti Herlin was elected as Chairman of the Nomination and Compensation Committee. Reino Hanhinen and Juhani Kaskeala were elected as independent Members of the Nomination and Compensation Committee.

The Annual General Meeting confirmed an annual compensation of EUR 54,000 for the Chairman of the Board, EUR 42,000 for the Vice Chairman, EUR 30,000 for Board Members and EUR 15,000 for the deputy Member. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings.

The Annual General Meeting approved the Board of Directors proposal to repurchase KONE's own shares. Altogether, no more than 25,570,000 shares may be repurchased, of which no more than 3,810,000 may be class A shares and 21,760,000 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 minimum and maximum consideration for the shares to be purchased is determined for both class A and class B shares on the basis of the trading

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price for class B shares determined on the NASDAQ OMX Helsinki Ltd. on the time of purchase.

In addition, the Annual General Meeting authorized the Board of Directors to decide on the distribution of any shares repurchased by the company. The authorization is limited to a maximum of 3,810,000 class A shares and 21,760,000 class B shares. The Board shall have the right to decide to whom to issue the shares, i.e. to issue shares in deviation from the pre-emptive rights of shareholders.

These authorizations shall remain in effect for a period of one year from the date of the decision of the Annual General Meeting.

Authorized public accountants Heikki Lassila and PricewaterhouseCoopers Oy were re-nominated as the Company's auditors.

### Dividend for 2008

The Annual General Meeting approved the Board's proposal for dividends of EUR 0.645 for each of the 38,104,356 class A shares and EUR 0.65 for the 214,643,060 outstanding class B shares. The date of record for dividend distribution was February 26, 2009, and dividends were paid on March 5, 2009.

### Share Capital and Market Capitalization

The KONE 2005B options based on the KONE Corporation 2005 option program were listed on the main list of the NASDAQ OMX Helsinki Ltd. on June 1, 2005. Each option entitled its holder to subscribe for twelve (12) class B shares at a price of EUR 4.02 per share. As the 2005B options subscription period ended on March 31, 2009, 4,660 remaining series B options held by the subsidiary expired. The remaining 12,034 options had been used and the shares were entered in the Finnish Trade Register in April.

In 2005, KONE also granted a conditional option program, 2005C. The 2005C stock options were listed on the NASDAQ OMX Helsinki in Finland as of April 1, 2008. The total number of 2005C stock options is 2,000,000 of which 522,000 are owned by a subsidiary of KONE Corporation. Each option right entitles its owner to subscribe for two (2) KONE Corporation class B shares at a price of EUR 11.90 per share. At the end of June 2009, the remaining 2005C options entitled their holders to subscribe for 3,909,150 class B shares. The subscription period for series C options will end on April 30, 2010.

In December 2007, KONE Corporation's Board of Directors decided to grant stock option rights to approximately 350 employees of KONE's global organization. The share subscription period for 2007 stock option will be April 1, 2010–April 30, 2012. The share subscription period begins only if the average turnover growth of the KONE Group for the 2008 and 2009 financial years exceeds the market growth and if the earnings before interest and taxes (EBIT) of the KONE Group for the financial year 2008 exceeds the EBIT for the 2007 financial year, and the EBIT for the 2009 financial year exceeds the EBIT for the 2008 financial year.

As of June 30, 2009, KONE's share capital was EUR 64,417,742.50, comprising 219,566,614 listed class B shares and 38,104,356 unlisted class A shares.

KONE's market capitalization was EUR 5,522 million on June 30, 2009, disregarding own shares in the Group's possession.

### Repurchase of KONE shares

On the basis of the Annual General Meeting's authorization, KONE Corporation's Board of Directors decided to commence repurchasing shares at the earliest on March 3, 2009.

During January 1–June 30, 2009, KONE did not use its authorization to repurchase its own shares. In April 2009, 195,264 KONE class B shares assigned to the share-based incentive plan for the company's senior management were transferred from KNEBV Incentive Oy to the participants due to achieved targets for the financial year 2008. At the end of June, the Group had 4,710,242 class B shares in its possession. The shares in the Group's possession represent 2.1% of the total number of class B shares. This corresponds to 0.8% of the total voting rights.

### Shares traded on the NASDAQ OMX Helsinki Ltd.

The NASDAQ OMX Helsinki traded 92.6 million of KONE Corporation's class B shares in January-June, equivalent to a turnover of EUR 1,677 million. The daily average trading volume was 759,261 (1–6/2008: 778,000; the numbers of shares have been adjusted to the increase in the number of shares due to the share issue without payment). The share price on June 30, 2009 was EUR 21.83. The volume weighted average share price during the period was EUR 18.14. The highest quotation during the period under review was EUR 22.67 and the lowest 13.80.

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The number of registered shareholders at the beginning of the review period was 16,354 and 19,263 at its end. The number of private households holding shares totaled 17,394 at the end of the period, which corresponds to approximately 12% of the listed B-shares.

According to the nominee registers, 44.3% of the listed class B shares were owned by foreigners as of June 30, 2009. Other foreign ownership at the end of the period totaled 7.7%; thus a total of 52.0% of the company's listed class B shares were owned by international investors, corresponding to approximately 19% of the total votes in the company.

### Market outlook

In 2009, the maintenance market will continue to develop well. The modernization market will be at about last year's level. The rate of decline will decrease in the new equipment market.

### Outlook

KONE further specifies its outlook for 2009.

KONE's objective in net sales is to grow 2–5% as compared to net sales in 2008.

In operating income (EBIT), the objective is EUR 570–595 million excluding the one-time cost of EUR 33.6 million.

### Previous outlook

*In 2009, KONE's objective in net sales is to reach a growth of 5 percent or at least approximately the net sales level of 2008.*

*In operating income (EBIT), the objective is to reach a growth of 5 percent or at least approximately the operating income level of 2008.*

Helsinki, July 21, 2009

KONE Corporation

Board of Directors

## Consolidated statement of income

MEUR	4-6/2009	%	4-6/2008	%	1-6/2009	%	1-6/2008	%	1-12/2008	%
<b>Sales</b>	1,168.6		1,142.1		2,189.6		2,047.4		4,602.8	
Costs and expenses	-1,040.4		-990.4		-1,954.7		-1,794.5		-3,979.6	
Depreciation	-15.5		-15.0		-31.0		-29.7		-64.8	
<b>Operating income</b>	112.7	9.6	136.7	12.0	203.9	9.3	223.2	10.9	558.4	12.1
Share of associated companies' net income	1.5		0.4		1.6		0.8		2.6	
Financing income	3.0		1.9		21.7		7.5		24.4	
Financing expenses	-1.7		-5.3		-6.1		-10.8		-21.6	
<b>Income before taxes</b>	115.5	9.9	133.7	11.7	221.1	10.1	220.7	10.8	563.8	12.2
Taxes	-29.0		-34.9		-55.9		-58.0		-145.7	
<b>Net income</b>	86.5	7.4	98.8	8.7	165.2	7.5	162.7	7.9	418.1	9.1
<b>Net income attributable to:</b>										
Shareholders of the parent company	86.1		98.7		164.7		162.3		417.3	
Minority interests	0.4		0.1		0.5		0.4		0.8	
<b>Total</b>	86.5		98.8		165.2		162.7		418.1	
<b>Earnings per share for profit attributable to the shareholders of the parent company, EUR</b>										
Basic earnings per share	0.34		0.39		0.65		0.65		1.66	
Diluted earnings per share	0.34		0.39		0.65		0.64		1.65	

## Consolidated statement of comprehensive income

MEUR	4-6/2009	4-6/2008	1-6/2009	1-6/2008	1-12/2008
<b>Net income</b>	86.5	98.8	165.2	162.7	418.1
<b>Other comprehensive income, net of tax:</b>					
Translation differences	-7.1	6.6	1.5	-14.3	38.0
Hedging of foreign subsidiaries	0.9	-1.6	-1.0	2.5	-22.9
Cash flow hedges	-0.9	-3.9	-6.1	1.7	3.5
<b>Other comprehensive income, net of tax</b>	-7.1	1.1	-5.6	-10.1	18.6
<b>Total comprehensive income</b>	79.4	99.9	159.6	152.6	436.7
<b>Total comprehensive income attributable to:</b>					
Shareholders of the parent company	79.0	99.8	159.1	152.2	435.9
Minority interests	0.4	0.1	0.5	0.4	0.8
<b>Total</b>	79.4	99.9	159.6	152.6	436.7

# Condensed consolidated statement of financial position

Assets MEUR	Jun 30, 2009	Jun 30, 2008	Dec 31, 2008
<b>Non-current assets</b>			
Intangible assets	699.0	644.2	670.2
Tangible assets	209.5	203.7	214.7
Loans receivable and other interest-bearing assets	1.8	1.7	2.3
Deferred tax assets	126.7	110.5	122.1
Investments	142.8	135.2	169.1
<b>Total non-current assets</b>	<b>1,179.8</b>	<b>1,095.3</b>	<b>1,178.4</b>
<b>Current assets</b>			
Inventories	936.9	896.6	885.5
Advance payments received	-926.9	-842.5	-805.4
Accounts receivable and other non interest-bearing assets	1,134.6	1,049.2	1,046.5
Current loans and receivables	177.0	121.5	204.0
Cash and cash equivalents	170.3	162.0	147.8
<b>Total current assets</b>	<b>1,491.9</b>	<b>1,386.8</b>	<b>1,478.4</b>
<b>Total assets</b>	<b>2,671.7</b>	<b>2,482.1</b>	<b>2,656.8</b>

Equity and liabilities MEUR	Jun 30, 2009	Jun 30, 2008	Dec 31, 2008
<b>Equity</b>	<b>1,036.6</b>	<b>745.3</b>	<b>1,035.9</b>
<b>Non-current liabilities</b>			
Loans	28.9	219.6	172.4
Deferred tax liabilities	39.5	28.3	39.7
Employee benefits	119.0	124.9	115.8
<b>Total non-current liabilities</b>	<b>187.4</b>	<b>372.8</b>	<b>327.9</b>
<b>Provisions</b>	<b>79.4</b>	<b>76.9</b>	<b>49.9</b>
<b>Current liabilities</b>			
Loans	153.1	152.6	123.4
Accounts payable and other liabilities	1,215.2	1,134.5	1,119.7
<b>Total current liabilities</b>	<b>1,368.3</b>	<b>1,287.1</b>	<b>1,243.1</b>
<b>Total equity and liabilities</b>	<b>2,671.7</b>	<b>2,482.1</b>	<b>2,656.8</b>

## Consolidated statement of changes in equity

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Own shares	Retained earnings	Net income for the period	Minority interests	Total equity
<b>Jan 1, 2009</b>	64.4	100.4	3.3	9.0	-16.2	-83.1	957.2		0.9	1,035.9
Total comprehensive income for the period				-6.1	0.5			164.7	0.5	159.6
Transactions with shareholders and minority shareholders:										
Dividends paid							-164.1			-164.1
Issue of shares (option rights)	0.0		0.9							0.9
Purchase of own shares										-
Sale of own shares										-
Change in minority interests										-
Option and share-based compensation						3.0	1.3			4.3
<b>Jun 30, 2009</b>	64.4	100.4	4.2	2.9	-15.7	-80.1	794.4	164.7	1.4	1,036.6

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Own shares	Retained earnings	Net income for the period	Minority interests	Total equity
<b>Jan 1, 2008</b>	64.2	100.2	-	5.5	-31.3	-87.8	698.1		0.3	749.2
Total comprehensive income for the period				1.7	-11.8			162.3	0.4	152.6
Transactions with shareholders and minority shareholders:										
Dividends paid							-163.6			-163.6
Issue of shares (option rights)	0.0	0.2	0.7							0.9
Purchase of own shares										-
Sale of own shares										-
Change in minority interests									0.5	0.5
Option and share-based compensation						4.7	1.0			5.7
<b>Jun 30, 2008</b>	64.2	100.4	0.7	7.2	-43.1	-83.1	535.5	162.3	1.2	745.3

## Consolidated statement of changes in equity

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Own shares	Retained earnings	Net income for the period	Minority interests	Total equity
<b>Jan 1, 2008</b>	64.2	100.2	-	5.5	-31.3	-87.8	698.1		0.3	749.2
Total comprehensive income for the period				3.5	15.1			417.3	0.8	436.7
Transactions with shareholders and minority shareholders:										
Dividends paid							-163.6			-163.6
Issue of shares (option rights)	0.2	0.2	3.3							3.7
Purchase of own shares										-
Sale of own shares										-
Change in minority interests									-0.2	-0.2
Option and share-based compensation						4.7	5.4			10.1
<b>Dec 31, 2008</b>	64.4	100.4	3.3	9.0	-16.2	-83.1	539.9	417.3	0.9	1,035.9

# Condensed consolidated statement of cash flows

MEUR	4-6/2009	4-6/2008	1-6/2009	1-6/2008	1-12/2008
Operating income	112.7	136.7	203.9	223.2	558.4
Change in working capital	72.9	-32.8	136.5	32.6	-95.8
Depreciation	15.5	15.0	31.0	29.7	64.8
<b>Cash flow from operations</b>	<b>201.1</b>	<b>118.9</b>	<b>371.4</b>	<b>285.5</b>	<b>527.4</b>
Cash flow from financing items and taxes	-49.9	-35.2	-65.6	-50.6	-99.5
<b>Cash flow from operating activities</b>	<b>151.2</b>	<b>83.7</b>	<b>305.8</b>	<b>234.9</b>	<b>427.9</b>
Cash flow from investing activities	-10.2	-25.5	-32.5	-61.3	-128.6
<b>Cash flow after investing activities</b>	<b>141.0</b>	<b>58.2</b>	<b>273.3</b>	<b>173.6</b>	<b>299.3</b>
Purchase and sale of own shares	-	-	-	-	-
Issue of shares	0.6	0.7	0.9	0.9	3.7
Dividends paid	-12.1	-12.2	-164.0	-163.3	-163.3
Change in loans receivable	-1.5	-10.4	26.2	-5.6	-82.7
Change in loans payable	-133.1	-75.6	-114.2	1.5	-62.7
<b>Cash flow from financing activities</b>	<b>-146.1</b>	<b>-97.5</b>	<b>-251.1</b>	<b>-166.5</b>	<b>-305.0</b>
<b>Change in cash and cash equivalents</b>	<b>-5.1</b>	<b>-39.3</b>	<b>22.2</b>	<b>7.1</b>	<b>-5.7</b>
Cash and cash equivalents at end of period	170.3	162.0	170.3	162.0	147.8
Translation difference	-2.1	-0.9	-0.3	0.0	1.4
Cash and cash equivalents at beginning of period	173.3	200.4	147.8	154.9	154.9
<b>Change in cash and cash equivalents</b>	<b>-5.1</b>	<b>-39.3</b>	<b>22.2</b>	<b>7.1</b>	<b>-5.7</b>

## Change in interest-bearing net debt

MEUR	4-6/2009	4-6/2008	1-6/2009	1-6/2008	1-12/2008
Interest-bearing net debt at beginning of period	-40.3	137.8	-58.3	91.7	91.7
Interest-bearing net debt at end of period	-167.1	87.0	-167.1	87.0	-58.3
<b>Change in interest-bearing net debt</b>	<b>-126.8</b>	<b>-50.8</b>	<b>-108.8</b>	<b>-4.7</b>	<b>-150.0</b>

# Notes for the interim report

## Key figures

		1-6/2009	1-6/2008	1-12/2008
Basic earnings per share	EUR	0.65	0.65	1.66
Diluted earnings per share	EUR	0.65	0.64	1.65
Equity per share	EUR	4.09	2.96	4.10
Interest-bearing net debt	MEUR	-167.1	87.0	-58.3
Total equity/total assets	%	38.8	30.0	39.0
Gearing	%	-16.1	11.7	-5.6
Return on equity	%	31.9	43.5	46.8
Return on capital employed	%	26.9	31.1	35.9
Total assets	MEUR	2,671.7	2,482.1	2,656.8
Assets employed	MEUR	869.5	832.3	977.6
Working capital (including financing and tax items)	MEUR	-181.8	-150.8	-76.4

## Sales by geographical regions

MEUR	1-6/2009	%	1-6/2008	%	1-12/2008	%
EMEA <sup>1)</sup>	1,374.9	63	1,365.0	67	3,001.5	65
Americas	456.4	21	375.7	18	888.3	19
Asia-Pacific	358.3	16	306.7	15	713.0	16
<b>Total</b>	<b>2,189.6</b>		<b>2,047.4</b>		<b>4,602.8</b>	

<sup>1)</sup> EMEA = Europe, Middle East, Africa

## Quarterly figures

		Q2/2009	Q1/2009	Q4/2008	Q3/2008	Q2/2008	Q1/2008
Orders received	MEUR	953.9	898.5	845.2	892.4	1,092.4	1,117.5
Order book	MEUR	3,754.1	3,753.1	3,576.7	4,002.8	3,838.7	3,617.4
Sales	MEUR	1,168.6	1,021.0	1,431.6	1,123.8	1,142.1	905.3
Operating income	MEUR	146.3 <sup>1)</sup>	91.2	189.2	146.0	136.7	86.5
Operating income	%	12.5 <sup>1)</sup>	8.9	13.2	13.0	12.0	9.6

		Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
Orders received	MEUR	901.9	926.3	944.4	902.1	712.1	742.0	821.9	840.3
Order book	MEUR	3,282.3	3,473.6	3,318.0	3,105.7	2,762.1	2,951.0	2,818.0	2,654.0
Sales	MEUR	1,294.2	971.6	1,001.9	811.2	1,145.6	879.8	840.4	735.0
Operating income	MEUR	160.8 <sup>2)</sup>	126.7	116.4	69.3 <sup>3)</sup>	123.4	101.1	83.9	51.7
Operating income	%	12.4 <sup>2)</sup>	13.0	11.6	8.5 <sup>3)</sup>	10.8	11.5	10.0	7.0

<sup>1)</sup> Excluding a MEUR 33.6 one-time cost related to the fixed cost adjustment program.

<sup>2)</sup> Excluding a MEUR 22.5 provision for the Austrian cartel court's fine decision and a MEUR 12,1 sales profit from the sale of KONE Building.

<sup>3)</sup> Excluding a MEUR 142.0 fine for the European Commission's decision.

## Notes for the interim report

### Orders received

MEUR	1-6/2009	1-6/2008	1-12/2008
	1,852.4	2,209.9	3,947.5

### Order book

MEUR	Jun 30, 2009	Jun 30, 2008	Dec 31, 2008
	3,754.1	3,838.7	3,576.7

### Capital expenditure

MEUR	1-6/2009	1-6/2008	1-12/2008
In fixed assets	16.3	23.6	65.1
In leasing agreements	3.1	3.5	9.3
In acquisitions	29.0	37.6	60.0
<b>Total</b>	<b>48.4</b>	<b>64.7</b>	<b>134.4</b>

### R&D Expenditure

MEUR	1-6/2009	1-6/2008	1-12/2008
	30.9	29.9	58.3
R&D expenditure as percentage of sales	1.4	1.5	1.3

### Number of employees

	1-6/2009	1-6/2008	1-12/2008
Average	34,461	33,301	33,935
At the end of the period	34,285	34,013	34,831

## Notes for the interim report

### Commitments

MEUR	Jun 30, 2009	Jun 30, 2008	Dec 31, 2008
Mortgages			
Group and parent company	0.7	0.7	0.7
Pledged assets			
Group and parent company	1.9	4.8	2.0
Guarantees			
Associated companies	3.6	3.7	4.1
Others	6.7	6.1	7.2
Operating leases	172.7	149.0	171.7
<b>Total</b>	<b>185.6</b>	<b>164.3</b>	<b>185.7</b>

#### The future minimum lease payments under non-cancellable operating leases

MEUR	Jun 30, 2009	Jun 30, 2008	Dec 31, 2008
Less than 1 year	41.6	39.2	43.3
1–5 years	98.7	90.6	96.9
Over 5 years	32.4	19.2	31.5
<b>Total</b>	<b>172.7</b>	<b>149.0</b>	<b>171.7</b>

### Derivatives

Fair values of derivative financial instruments	positive	negative	net	net	net
	fair value	fair value	fair value	fair value	fair value
MEUR	Jun 30, 2009	Jun 30, 2009	Jun 30, 2009	Jun 30, 2008	Dec 31, 2008
FX Forward contracts	8.7	10.2	-1.5	12.6	10.9
Currency options	1.6	1.0	0.6	0.0	0.4
Cross-currency swaps, due under one year	2.3	13.5	-11.2	-	1.8
Cross-currency swaps, due in 1–3 years	-	-	-	10.4	-22.7
Electricity derivatives	0.0	0.8	-0.8	1.7	-1.0
<b>Total</b>	<b>12.6</b>	<b>25.5</b>	<b>-12.9</b>	<b>24.7</b>	<b>-10.6</b>

#### Nominal values of derivative financial instruments

MEUR	Jun 30, 2009	Jun 30, 2008	Dec 31, 2008
FX Forward contracts	472.8	603.8	615.7
Currency options	99.8	46.0	90.4
Cross-currency swaps, due under one year	136.7	-	23.6
Cross-currency swaps, due under 1–3 years	-	136.7	113.1
Electricity derivatives	4.3	3.0	4.7
<b>Total</b>	<b>713.6</b>	<b>789.5</b>	<b>847.5</b>

## Shares and shareholders

Jun 30, 2009	Class A shares	Class B shares	Total
Number of shares	38,104,356	219,566,614	257,670,970
Own shares in possession <sup>1)</sup>		4,710,242	
Share capital, EUR			64,417,743
Market capitalization, MEUR			5,522
Number of shares traded (millions), 1–6/2009		92.6	
Value of shares traded, MEUR, 1–6/2009		1,677	
Number of shareholders	3	19,263	19,263
	<b>Close</b>	<b>High</b>	<b>Low</b>
Class B share price, EUR, Jan-Jun 2009	21.83	22.67	13.80

<sup>1)</sup> During January-June 2009, the authorization to repurchase shares was not used. In April 2009, 195,264 KONE class B shares assigned to the share-based incentive plan for the company's senior management were transferred from KNEBV Incentive Oy to the participants due to achieved targets for the financial year 2008. During 2008, the authorization to repurchase shares was not used. In April 2008, 326,000 class B shares assigned to the share-based incentive plan for the company's senior management were transferred from KNEBV Incentive Ky to the participants due to achieved targets for the financial year 2007. Due to the share issue without payment (registered on February 28, 2008) the number of shares in the company was increased by issuing new shares to the shareholders without payment in proportion to their holdings so that one class A share was given for each class A share and one class B share for each class B share.

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*KONE's objective is to offer the best people flow experience by developing and delivering solutions that enable people to move smoothly, safely, comfortably and without waiting in buildings in an increasingly urbanizing environment. KONE provides its customers with industry-leading elevators, escalators and innovative solutions for modernization and maintenance, and is one of the global leaders in its industry. In 2008, KONE had annual net sales of EUR 4.6 billion and over 34,800 employees. KONE class B shares are listed on the NASDAQ OMX Helsinki in Finland.*

This Interim Report contains forward-looking statements that are based on the current expectations, known factors, decisions and plans of the management of KONE. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions and fluctuations in exchange rates.