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KONE Annual Report 2002



Annual Report 2002





KONE began its international expansion in the 1960s by pursuing an aggressive acquisition strategy, combined with strong organic growth. In 2002 a major step was taken with the acquisition of the industrial engineering group Partek.

KONE is a global service and industrial engineering company that specializes in moving people and goods. It comprises two strong divisions: KONE Elevators & Escalators and KONE Materials Handling (Partek). The business of KONE Elevators & Escalators is the sale, manufacture, installation, service and modernization of elevators and escalators, and the service of automatic building doors. KONE Materials Handling comprises the four business areas Container Handling, Load Handling, Forest Machines and Tractors. The combined annual net sales total approximately EUR 5,5 billion, and KONE employs nearly 36,000 people.

KONE's financial result has improved markedly in the past few years, thanks to technologically advanced elevator and escalator solutions as well as innovative service offerings. Our experience and knowledge in improving profitability is currently being utilized in particular to KONE Materials Handling's businesses. Strong profitability remains our goal in the future.

Table of Contents

KONE 2002

- 1 Table of Contents
- 2 KONE in 2002
- 4 Message to Shareholders
- 5 Message to Stakeholders

KONE Elevators & Escalators

- 6 KONE Elevators & Escalators Business Review
- 7 Elevators & Escalators Operations
- 9 Deepening Our Toshiba Alliance
- 10 Review by Market Area
- 10 Europe
- 11 North America
- 12 Asia-Pacific

KONE Materials Handling

- 13 KONE Materials Handling Business Review
- 14 Materials Handling Operations
- 16 Container Handling
- 17 Load Handling
- 18 Forest Machines
- 19 Tractors

Financial Statements

- 20 Board of Directors' Report
- 27 Calculation of Key Figures
- 28 Principles of Consolidation
- 29 Consolidated Statement of Income
- 30 Consolidated Balance Sheet
- 32 Consolidated Statement of Cash Flows
- 33 Notes on the Consolidated Financial Statement
- 37 Parent Company Financial Statement
- 40 Notes on the Parent Company Financial Statement
- 43 Shares and Shareholders
- 47 Five-year Summary in Figures 1998-2002
- 48 Board of Directors' Proposal to the Annual General Meeting
- 49 Auditors' Report

Board of Directors and Management

- 50 Operating Principles
- 52 Corporate Governance
- 53 Board of Directors
- 54 KONE Elevators & Escalators Executive Committee
- 55 KONE Materials Handling Management

Information to Shareholders

- 56 Information to Shareholders

KONE in 2002



KONE Acquired Partek and Deepened Cooperation with Toshiba

KONE acquired ownership of the Finnish-based industrial engineering company Partek during the year. Partek was delisted from the Helsinki Exchanges in December. KONE is now grouped in two strong divisions: KONE Elevators & Escalators and KONE Materials Handling – which comprises the Partek businesses. KONE Materials Handling's figures have been consolidated into KONE's financial statement from July 1, 2002.

In December, KONE signed agreements to sell Nordkalk and the holding in Paroc. The transactions will be closed in the first quarter of 2003.

KONE deepened cooperation with Toshiba Elevator and Building Systems Corporation (TELC) by participating in a targeted share issue. KONE owns nearly 20 percent of TELC. KONE sold 829,580 of its previously repurchased class B shares to TELC. TELC owned nearly five percent of the shares in KONE at the end of the year.

Profits Improved for the Sixth Straight Year

KONE's net sales totaled MEUR 4,342. Elevators & Escalator's net sales rose by 5.5 percent to MEUR 2,970, and Materials Handling's sales in the second half of 2002 were stable at MEUR 1,372.

Elevator & Escalators' orders received were stable at MEUR 2,129. Materials Handling's orders received rose by seven percent to MEUR 1,132.

Operating income before goodwill amortization, EBITA, rose by a third to MEUR 340.2 which is 7.8 percent of net sales. Elevators & Escalators' EBITA rose by 12 percent to MEUR 287.0, and the EBITA margin improved to 9.7 percent from 9.1 percent. Materials

Handling's EBITA rose by 5.6 percent to MEUR 64.2, and the EBITA margin improved to 4.7 percent from 4.4 percent.

Net income improved by 11 percent to MEUR 157.1. Earnings per share rose to EUR 2.54 from EUR 2.42. Return on assets employed was 19.0 percent, and return on equity was 18.4 percent. Cash flow from operating activities before taxes and financial items rose by nearly 80 percent to MEUR 615.6. KONE Elevators & Escalators accounted for MEUR 460.7 and KONE Materials Handling for MEUR 154.9.

As a consequence of the Partek acquisition, gearing, which was negative in 2001, rose to 125 percent.

Increase in Share Price and Number of Shareholders

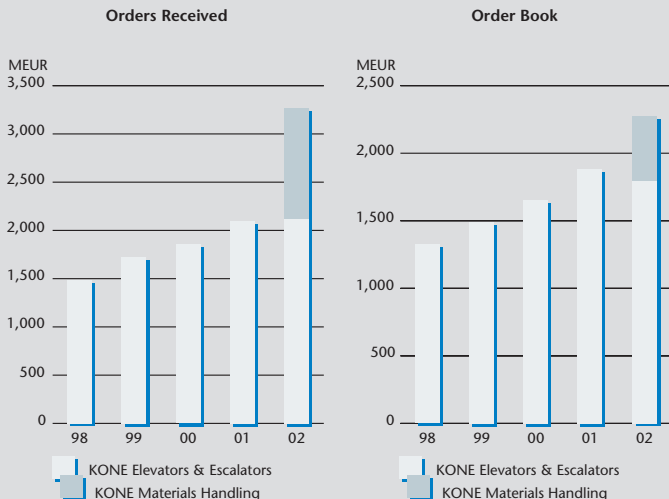
In May, the par value of KONE shares was split at a ratio of one to three, and the new par value is EUR 1.00. The figures in the financial statements have been adjusted accordingly.

KONE issued three million new shares, which the State of Finland subscribed at EUR 35.33 per share and received as part of the payment for Partek shares. During the year 928,734 class A shares were converted to class B shares at a ratio of one to one.

After the split, share issue and conversion, KONE's share capital consists of 9,526,089 A shares and 53,937,531 B shares.

The price of the B shares on the Helsinki Exchanges increased by five percent while the HEX General Index fell by 34 percent. Annual trade in B shares rose 163 percent to 33.8 million shares. The number of KONE shareholders increased by over 70 percent to nearly 8,000.

The Board of Directors has proposed raising the dividend per class B share to EUR 1.50 from EUR 0.73.



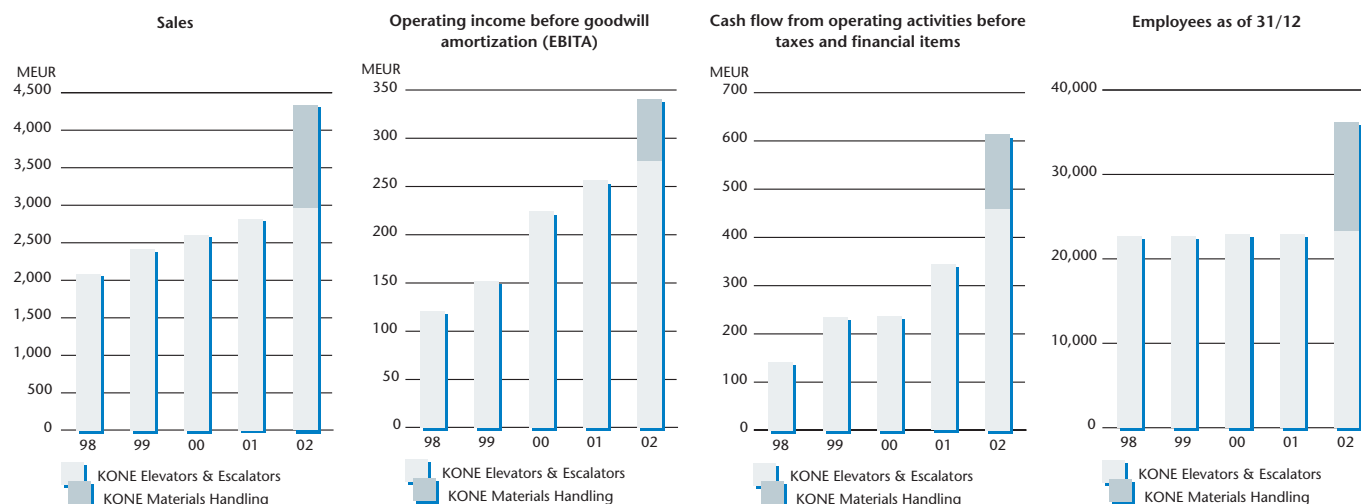
Highlights

| | | 2002 | 2001 | Change % |
|---|------|--------|--------------------|----------|
| Sales | MEUR | 4,342 | 2,816 | 54 |
| Orders received | " | 3,261 | 2,100 | 55 |
| Order book as of December 31 | " | 2,240 | 1,881 | 19 |
| Operating income before goodwill amortization (EBITA) | " | 340 | 256 | 33 |
| Operating income (EBIT) | " | 275 | 218 | 26 |
| Income before taxes | " | 256 | 219 | 17 |
| Net income | " | 157 | 141 | 11 |
| Total assets | " | 4,160 | 2,107 | |
| Earnings/share * | EUR | 2.54 | 2.42 ¹⁾ | 5 |
| Dividends per class B share | EUR | 1.50** | 0.73 ¹⁾ | 105 |
| Equity/share * | EUR | 16 | 13 ¹⁾ | |
| Return on equity * | % | 18.4 | 20.4 | |
| Return on capital employed * | % | 16.4 | 23.4 | |
| Return on assets employed * | % | 19.0 | 30.2 | |
| Total equity/total assets * | % | 24.2 | 36.6 | |
| Gearing * | % | 125 | neg. | |
| Number of employees as of December 31 | | 35,864 | 22,949 | |

* The principles of calculating key figures can be found on page 27. Capital loans are included in debt.

** Board's proposal

¹⁾ The shares were split at a ratio of one to three on May 28, 2002; the figures for 2001 have been restated for comparison



Message to Shareholders



Antti Herlin
CEO, Board Deputy Chairman

The past year will be remembered as a significant one in KONE's history. The efficiency of our elevator and escalator operations continued to improve, and we achieved a record result. The most noteworthy event of 2002, however, was the acquisition of Partek. The decision to make this purchase was based primarily on KONE's enduring strong cash flow and resulting debt-free status, the prospects for growth through the acquisition of Partek, and naturally the opportunity to purchase the shares held by Partek's principal shareholder. Through this acquisition, we were able to put our passive capital to more productive use.

The total purchase price for Partek, including the company's debt burden, was approximately EUR 1.5 billion. Of course, our gearing increased noticeably after the transaction. The divestiture process was successfully initiated during 2002, and the first deals, involving the sale of Nordkalk and KONE's holding in Paroc, will be closed during the first quarter of 2003. The sale of non-core businesses in conjunction with both divisions' strong cash flow will rapidly reduce gearing.

KONE acquired a company with a leading worldwide position in each of its primary business areas. The combination of KONE and Partek has given birth to the Nordic countries' largest industrial engineering and service company, which has excellent potential for profitable growth.

KONE's Partek strategy is focused on substantially improving the profitability of the acquired businesses. Partek has grown rapidly during recent years, mainly as a consequence of acquisitions. Like KONE several years earlier, Partek must now concentrate on turning increased sales into increased profits and cash flow. We

believe that KONE possesses the know-how and experience to accelerate this process.

As I mentioned above, the acquisition of Partek would not have been possible without our elevator and escalator operations' strong result and steady cash flow. In 2002 profitability and growth developed most favorably in Asia. Cooperation with our most important alliance partner, Toshiba Elevators and Building Systems Corporation, continues to develop to the benefit of both parties.

We will continue the forceful development of our elevator and escalator business operations. We will also continue our long-term pattern of investing vigorously in our product development and production functions as well as our worldwide customer service operations.

For KONE, 2002 was a year of change. Growth makes it possible for share value and earnings per share to increase. As a long-term investment, KONE stock has been one of the Helsinki Exchanges' best. It is especially gratifying that during 2002, the number of KONE shareholders grew by more than 70 percent to nearly 8,000. Interest in our shares also significantly improved their liquidity, and they are now among the 13 most traded on the Helsinki Exchanges. We will do our best to continue to be worthy of our shareholders' confidence in the future.

On the whole, we can consider 2002 to have been a successful year. KONE's personnel have done valuable work to achieve our shared goals. For this effort, I extend my personal thanks. Lastly, let us bear in mind that the future should be more interesting than the past.

January, 2003

Antti Herlin

Message to Stakeholders

KONE had a successful year in 2002. Our products and services have earned the approval of our customers. Our elevator and escalator operations' result improved once again.

KONE's acquisition of Partek presented a number of opportunities. In addition, it created challenges in the second half of 2002. The immediate challenge was to maintain the momentum of our highly successful elevator and escalator business while taking on additional operations with turnover almost as great as our existing organization's and personnel more than half as numerous. Our solution was to maintain KONE's elevator and escalator business operations and KONE Materials Handling as separate business units.

During 2002 we took advantage of the opportunity to merge several administrative functions and conduct a broad survey of the potential for joint purchasing activities. One goal for 2003 is to take advantage of KONE's know-how by finding ways to tap the potential for growth and improved profitability in KONE Materials Handling's service operations. Today, some 60 percent of KONE Elevator & Escalators' revenue comes from service business. An expanded service sector can provide KONE Materials Handling with a more stable cash flow, a stronger buffer against fluctuations in

the economy, and a head-start towards improving its return on capital employed

The new KONE is an important employer: our personnel total nearly 36,000 following the acquisition of Partek. KONE has a good base for being an attractive global employer in the future, too. I would like to take this opportunity to welcome those people who joined us during the year and thank the hard-working employees who have contributed to KONE's success and our efforts to make KONE an even faster-growing and more profitable company. The dedication and enthusiasm of each of you will be called on in the coming year as we move rapidly to adjust to tough competitive challenges.

Our world at the start of 2003 is characterized by greater political and economic uncertainty than we have seen in many years. KONE will continue to develop innovative technology in new products and processes to bring exceptional value to our customers. We need to increase the pace of value innovation in everything we do in order to differentiate ourselves further from the competition and ensure our growth and profitability in a demanding economic climate.

January, 2003

Manfred Eiden



Manfred Eiden
President
KONE Corporation

KONE Elevators & Escalators Business Review



Manfred Eiden
President
KONE Corporation

KONE Elevators & Escalators' profitability improved in 2002 for the sixth straight year, as we set new records for income and cash flow from operating activities. We also continued to achieve organic growth in our elevator, escalator and building door service operations, as well as growth through acquisition.

The value of net elevator and escalator sales was eight percent higher than a year ago despite the levelling off of market growth in Europe and a significant decline in North America. KONE acquired numerous companies during 2002. With the exception of Partek, these were mostly small companies devoted to elevator and escalator or building door service.

In the rapidly growing building door service sector we are already the market leader in France, Belgium and the U.K. We have been establishing a Europe-wide door service network and have inaugurated operations in Australia and the U.S.

The growth of our building door service business reinforces KONE's stature as a leading supplier of comprehensive services for building owners and managers. As we gain a clearer understanding of their business needs, we become better able to match our strengths with their specific requirements. One of our primary challenges in 2003 will be to speed this process of sharpening our customer focus and targeting our range of elevator, escalator and building door offerings, to provide greater value to our customers and create additional profitable growth opportunities for our company.

Two years ago we set out to increase our deliveries to major construction projects. Approximately 40 such orders were booked by KONE in 2002, including metros, airports, sports and entertainment facilities, high-rise office towers, shopping centers and large

residential complexes. We also strengthened and deepened the cooperation with our alliance partner Toshiba, including cross-ownership and expansion of our joint efforts into China.

We continued to streamline our supply chain in 2002, combining our new elevator and new escalator business lines into a single organization and our elevator and escalator service business lines into another. In addition, all major new equipment production and supply units are now integrated into KONE's Global Supply Lines and service support production and supply facilities into the Service Business Line's global Supply Business Unit, providing for maximum coordination and synergies among all manufacturing units. Similarly, all research and development units have been brought together into a Global R&D organization. These changes offer customers the full, coordinated benefit of KONE's global know-how and resources wherever they are needed and support delivery of the same KONE quality everywhere we operate.

The market penetration of products based on KONE's industry-leading technology has been deepest in Europe, but we have also achieved striking success in Asia. In China, KONE has been growing fast since opening our Kunshan Factory in October, 1998. In Japan, Toshiba Elevator & Building Systems Corporation has strengthened its position through the sale of elevators based on KONE MonoSpace® technology, which now account for some 80 percent of sales.

We will have to work even harder during 2003 to overcome unfavorable market conditions in many parts of the world, as construction activity remains weak and investment uncertain. Fortunately our strong cash flow, service base of half a million elevators and esca-

lators and over 180,000 building doors, and established position as the technological leader in our industry provide a solid platform from which to strive for further growth and improved profitability. The benefits of increasingly harmonized business processes and systems will also support ongoing efforts to improve performance throughout our organization.

During the past few years we have created a strong global KONE brand and set the standard in our industry for innovation in product technology and installation efficiency. We have introduced a significantly improved usage-based approach to maintenance and around-the-clock remote monitoring for elevator and escalator systems, enabling us to guarantee the availability of equipment entrusted to our care. As a consequence of these developments and our strong financial performance, KONE is well positioned to continue to grow and prosper in 2003.

January, 2003

Manfred Eiden

Elevators & Escalators Operations

KONE is a service company known worldwide as a technology leader with the most innovative products and services in the elevator and escalator industry. KONE sells, manufactures, installs, maintains and modernizes elevators and escalators, and services automatic building doors.

KONE Elevators & Escalators operates some 800 service centers in more than 40 countries. KONE delivers more than 26,000 new elevators and escalators annually. Its service base consists of 500,000 elevators and escalators and more than 180,000 automatic building doors.

KONE provides designers, architects, builders, developers and building owners with products and services that increase the value and usability of their buildings. The company is working in close cooperation with its customers at the design stage of buildings and is committed to long-term collaboration with them.

Global Business Environment

The global elevator and escalator market, which is worth approximately EUR 30 billion a year, consists of the sale and installation of new equipment and the maintenance and modernization of existing systems.

Demand for new elevators and escalators follows, with some delay, general economic trends and developments in the construction industry. The market for new elevators is hardly growing at all in many industrial countries, but exploiting the benefits of scale achievable in a rapidly growing market, such as China, offers growth opportunities. About half the 240,000 new elevators installed throughout the world annually are sold in Europe, 35 percent in the Asia-Pacific region and 10 percent in North America.

Of the more than six million

elevators in use worldwide, 60 percent are in Europe, 10 percent in North America and 20 percent in the Asia-Pacific region. The maintenance of the latest equipment is based on the transmission of real-time information about the condition and amount of usage of elevators and escalators via remote monitoring systems. This approach brings increased efficiency to maintenance operations. The maintenance market is increasing by approximately four percent annually.

Modernization operations are increasing at a rate of between five and 10 percent a year. This growth is expected to accelerate because the world's installed base of elevators and escalators is aging. More than a third of all existing units are more than 20 years old. At the same time, demand for improvement in the functioning and safety of buildings is increasing.

The market for the maintenance of automatic building doors is worth EUR five billion. The figure includes automatic doors covered by maintenance contracts. Customers' preference for concentrating the maintenance of their buildings with fewer partners will open up new opportunities.

Elevators and Escalators in Response to Customer Requirements

New elevators and escalators account for 43 percent of KONE's net sales for 2002, which totaled EUR 2,970 million. Orders received remained at the previous year's level of EUR 2,129 (2,100) million.

The needs and wishes of different customer groups gave a clearer direction to KONE's operations during the year under review. A new enhanced version of the KONE MonoSpace® elevator, which is designed mainly for low-rise residential and

office buildings, was brought to the market. The elevator is based on the machine-room-less KONE EcoDisc® technology, which has given KONE a clear leadership position in the industry for the past six years.

The KONE Alta™ elevator system, which is designed for skyscrapers and based on KONE EcoDisc® technology, offers top-class comfort, service and traffic capacity. Other elevators based on KONE EcoDisc® technology are KONE MiniSpace™, intended for mid-rise office buildings, and KONE TranSys™, the world's first machine-room-less freight elevator.

The worldwide escalator market contracted, but regional differences were significant. Most of the growth focused on Asia, particularly China, whereas the market in North America declined.

The KONE ECO3000™ escalator product family was developed to better meet customers' needs. The escalator, which offers improved performance and environmental advantages, is based on a global product concept that can be tailored to meet customers' needs on a regional basis. At the end of 2002, the KONE ECO3000™ escalator range was expanded to meet the requirements of the public access segment of the market.

KONE has expanded its role of carrying out major projects in line with the targets it set two years ago. Improving the efficiency of delivery processes and extending new product technology to the most demanding buildings have enhanced KONE's position in carrying out major projects.

During the year under review KONE obtained about 40 major projects. In Australia, KONE will deliver the fastest elevators in its history for the Q1 Tower, an 80-story residential building. One of the big orders in China is for elevators and escalators for the National Grand Theater, which will be built near the Tian'anmen



KONE is the only company that can offer elevator solutions based on the same technology for all sizes and types of buildings.



KONE has developed the KONE ECO3000™ product family which represents the escalator industry's most efficient and environmentally friendly technology.



Regular maintenance and the modernization of aging equipment to meet contemporary requirements ensure the reliable operation of elevators, escalators and building doors.



By including automatic building door service, KONE provides elevator and escalator customers with comprehensive service that ensures the uninterrupted flow of people and goods through their buildings.

Square in Beijing. In Taiwan, 83 KONE MonoSpace® elevators were ordered from KONE for the metro stations in Kaohsiung, the country's second-biggest city. In Sweden, KONE will supply elevators for the highest residential building in Europe, the 190-meter Turning Torso, which will be built in Malmö.

On the escalator market, more major projects were up for bid than in recent years. In Singapore, KONE will deliver 248 escalators and two autowalks to the Land Transport Authority for 28 new Circle Line rail transit stations. In Spain, KONE received a considerable order for escalators from the Madrid Metro. In Germany, Deutsche Bahn, the company that runs the country's railway, ordered escalators from KONE for the high-speed train station at Cologne Airport.

Preventive Maintenance

Service activities account for 57 percent of the net sales of KONE's elevator and escalator operations. Local service organizations and more than 13,000 field operatives ensure the safe and reliable performance of our customers' equipment. KONE's 24-hour service centers are open 365 days a year.

The maintenance and modernization market increased in Asia, where the increase in sales of new elevators fueled the demand for

maintenance contracts.

The objective of KONE's maintenance operations is to shift the focus to a service that integrates equipment maintenance through continuous surveillance of the equipment and provision of the correct preventative maintenance. The popularity of the KONE Optimum™ maintenance contract, which was developed to achieve this objective, increased during the year under review. Information about the usage and functioning of an elevator or escalator can be monitored by the KoneXion™ remote monitoring system. KONE's local service organization is thus able to analyze the data to determine the need for, and timing of, optimal service intervention, as determined by the customer's specific requirements.

In order to provide customers with an extra service, the KONE e-Optimum™ extranet solution was developed. It offers customers the opportunity to obtain real-time information about their elevators such as contract details, history of faults, billing information and repair needs. Furthermore, KONE developed its own modular maintenance process model, which has been rolled out globally for the maintenance of both elevators and escalators. Relations with key customers are continuously being strengthened and new long-term partnership contracts signed.

On the modernization market KONE continued to develop solutions that make it possible to modernize an elevator or escalator in stages. KONE has been able to meet the considerable increase in the demand for solutions that completely replace old equipment.

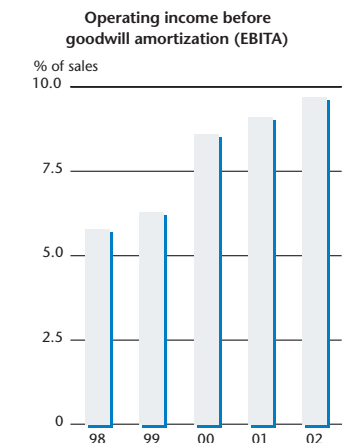
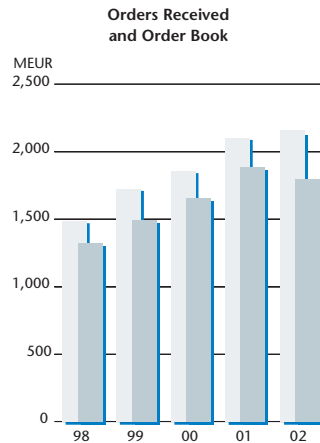
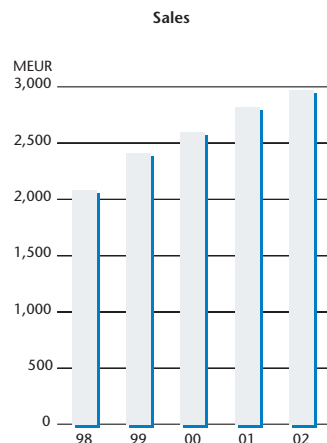
During the year several big modernization orders were obtained. In Singapore, KONE is modernizing the elevators of the 32-story Singapore Marriott Hotel. In the U.S., one of the most notable modernization orders during the year was for the upgrading of 27 elevators in the John C. Kluczynski office building in Chicago, Illinois.

Growth from Automatic Door Service Business

The automatic building door service business is KONE's latest growth area. Elevators & Escalator's customers can now enjoy diversified benefits by adding automatic door maintenance to the range of services ordered from KONE. At the same time, KONE can utilize its existing maintenance organization and know-how to improve its competitiveness.

In 2002, KONE extended its automatic door service market coverage as planned. Sales grew by approximately 20 percent as a result of organic growth and acquisitions.

In Europe, we cover all



Orders Received
Order Book

major markets. Thanks to the Waldoor acquisition, KONE has now added a leading position in the Netherlands to those it had already in France, the U.K, Belgium, Finland, Ireland and Luxembourg.

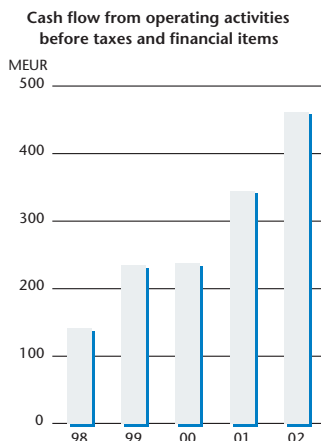
In North America, we opened eight branches. Australia and New Zealand are now also covered by our door service network.

KONE performed maintenance and repair services on over 250,000 units, more than 180,000 of which are under maintenance contract. Compared to the previous year, the number of units under maintenance contract increased by 35 percent.

A Culture of Innovative Product Development

One of KONE's greatest strengths is our commitment to aggressive and imaginative research and development. Global R&D teamwork is based on shared processes. Projects are carried out in close cooperation with customers, suppliers, strategic allies, research centers and KONE units. KONE R&D centers located in Finland, Germany, India, Italy and the U.S., are responsible for the development of maintenance and modernization solutions as well as the introduction of new elevator and escalator products.

Product development expenditure amounted to EUR 40.2 (40.8) million in 2002,



which represents 1.4 (1.4) percent of net sales.

Strategy of Growth through Acquisition

KONE Elevators & Escalators has consistently followed a growth strategy based on acquisitions, purchasing more than 20 companies with combined net sales of approximately EUR 50 million during the past year. The most notable acquisitions were France's CEMARI, which specializes in installing elevators in elevatorless buildings, L.Hopmann Maschinenfabrik GmbH of Germany, which sells, produces, installs and maintains elevators mainly in the Cologne area, and the Dutch Waldoor B.V., which specializes in the maintenance of automatic building doors. In the future, KONE will continue to carry out acquisitions, especially in those countries where we

already have substantial business operations.

Growth in Personnel

The number of personnel in KONE's elevator and escalator operations during the year under review averaged 23,133 (22,964); at the end of the year the figure was 23,317 (22,949). Personnel were deployed by function as follows: 58 percent in maintenance and modernization, 24 percent in selling and installing new equipment, nine percent in designing and production on an order-by-order basis, and nine percent in administration and product development.

By market area, the distribution of employees was as follows: Europe, 63 percent; North America, 20 percent; Asia and Australia, 15 percent and elsewhere, two percent.

Deepening Our Toshiba Alliance

KONE signed a strategic alliance with Toshiba of Japan in 1998. The agreement accorded Toshiba the right to manufacture and market in Japan machine-room-less elevators based on KONE MonoSpace® technology.

In December 2001, the companies reached an agreement concerning cross-ownership and an extension of Toshiba's licence to manufacture and market elevators based on KONE MonoSpace® technology for the Chinese market. Extending Toshiba's licence to China paves the way for increasing KONE MonoSpace® deliveries to this rapidly expanding market area.

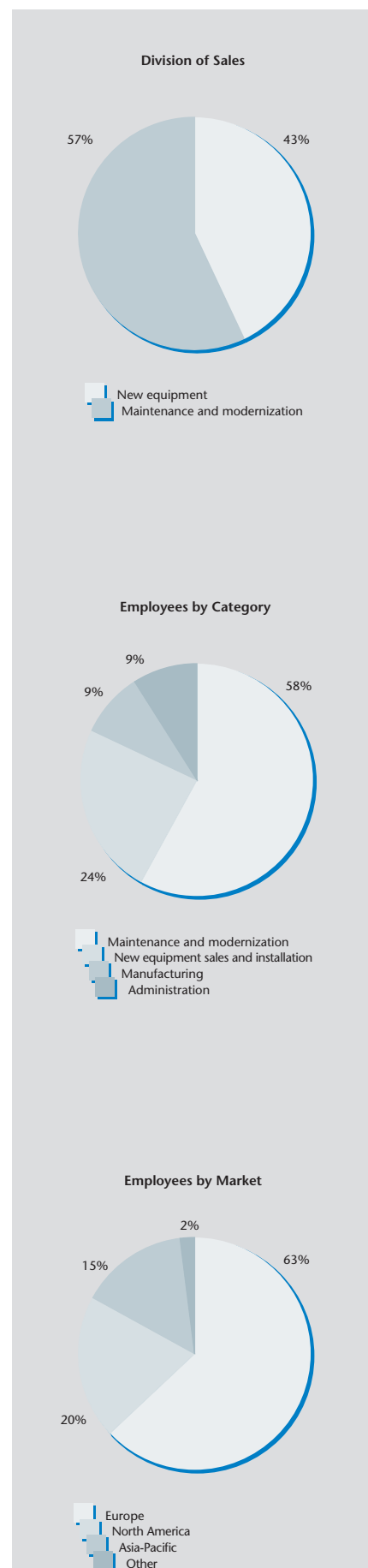
Advantages of the Alliance

New cooperation projects were started with Toshiba during the year under review. Good results were achieved from the reorganization of production in Asia and joint purchasing projects. KONE and Toshiba will start substantial cooperation on production when

Toshiba begins to deliver automatic elevator doors to KONE in China. The strengthening of the alliance will also promote the harmonization of product families. The standardization of products and the components and materials used in them will lead to savings in purchases.

KONE and Toshiba will increase their cooperation in research and development. The companies have already jointly developed an escalator for the global market. Toshiba's inverters are used in KONE Alta™ high-speed elevators.

Toshiba Elevators and Building Systems Corporation, which is Japan's third-largest elevator and escalator company, has a four percent global market share and a significant share of Japan's machine-room-less elevator market. When the partners' market shares are combined, the alliance is competing for the second spot in the elevator industry worldwide.



Review by Market Area



During the year under review, KONE strengthened relationships with key customers and signed several long-term partnership agreements.

Variations in Europe's National Markets

Economic growth slowed in Europe, which had a negative impact on construction volumes. There were differences, however, from country to country in the development of construction markets. In many countries interest in investing in real estate increased as stock prices fell.

KONE's order intake for new elevators and escalators in Europe remained at the previous year's level. Market enthusiasm for elevators based on machine-room-less KONE EcoDisc® technology remained strong. Already over 90 percent of KONE elevator orders consist of units based on this new technology.

In southern Europe, the value of orders received remained at the previous year's level in France and increased in Italy and Spain. Investment spurred construction activity in Italy, but office construction decreased in France during the second half of the year. Spain continued to record strong growth in orders received throughout the year under review.

Central European markets ranged from the U.K., where order intake remained at the previous year's high level despite a weaker economic environment, to Germany, where elevator and escalator order volume was clearly influenced by slowed economic growth. Nevertheless, KONE increased

its market share in Germany. Order volume remained at the previous year's level in Belgium and declined slightly in the Netherlands.

In Northern Europe, the value of orders received in Finland, Sweden, Norway and Denmark all declined. Orders from Russia, export markets and distributors increased.

In Greece, KONE established a company with its partner. In Cyprus, KONE agreed to buy a share of a local company. The agreement came into force on 1.1.2003.

Modernization order intake increased somewhat in 2002 compared with 2001, and greater use is being made of KONE EcoDisc® technology in modernizations. In France, KONE acquired CEMARI, a company which specializes in supplying elevators for existing elevator-less buildings. The average age of the installed elevator base in France is comparatively advanced: more than 60 percent of existing units are over 20 years old. The government has announced its intention, as a consequence of accidents that occurred in the country, to enact legislation requiring elevator upgrades to improve safety.

Competition in maintenance services grew tougher throughout Europe during 2002. Global customers increasingly sought to select a single supplier from

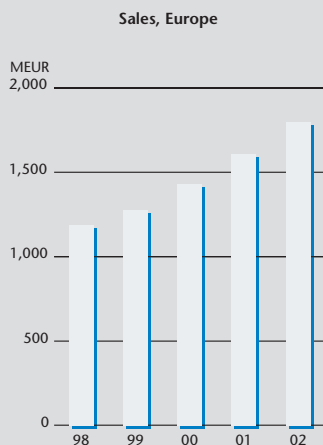
whom to purchase both new equipment and service.

KONE's elevator and escalator maintenance base grew in Europe by 10,000 units to nearly 390,000. KONE Optimum™ contracts and related service solutions have resulted in increased customer satisfaction in many European countries.

The growth of KONE's building door service business continued in Europe, where KONE is now the industry leader. Among the new service contracts signed during the year under review was the agreement to maintain the European Parliament's 2,500 doors for five years.

KONE strengthened its automatic building door service business in Central Europe with the acquisition of Waldoor B.V. of the Netherlands and Waldoor Nord GmbH of Germany. These companies added 9,000 doors to KONE's service base. KONE also purchased door service companies in Cologne, Germany; Sweden; Finland and Denmark during the year under review. KONE is already the leading building door service provider in France, Belgium and the U.K.

It is anticipated that the competitive environment will remain tight during 2003 because Europe's economy is not expected to pick up significantly. In South Europe, markets



Tor-Erik Sandelin
North Europe



Heiko Körnich
Central Europe

for new elevators will decline in France and Spain while modest growth will be recorded in Italy. In Central Europe, the German market situation is especially challenging. In the U.K, modernization and maintenance order volume is expected to grow somewhat. In North Europe the volume of residential construction should remain at the 2002 level or even expand slightly. Office construction will decline, however, especially in Sweden. Escalator demand is expected to remain at the 2002 level, but country-by-country variations will be great. Modernization and automatic building door service business will continue to offer opportunities for growth throughout Europe.

North American Markets Declined

In the U.S., fewer office buildings, hotels and shopping malls were built in 2002 than during the previous year because of volatility in the economy. A number of construction projects that were in the pipeline were also postponed as well. Vacancies in major city offices and apartments have increased noticeably.

Demand for new equipment followed the general economic trend. Compared to 2001 the market for elevators and escalators declined by around 15 percent. KONE, which introduced

a record number of new products, managed to achieve its targeted market share.

Demand for KONE MonoSpace® and KONE MiniSpace™ elevator solutions which utilize KONE EcoDisc® technology grew during the period under review. Products based on EcoDisc® technology now account for approximately 40 percent of orders received.

Customers particularly appreciated the environmental friendliness of KONE products and the economic benefits associated with our innovative solutions. The KONE ECO3000™ escalator was selected by Architectural Record magazine as one of the top product innovations of 2002.

Demand for modernizations grew in the U.S. despite the postponement of many investment decisions as a consequence of the uncertain economic situation. Modernization solutions such as KONE Renova™ doors and KONE Resolve™ controllers were well received by the market. In addition, the first order was received for a KONE ECOMOD™ escalator modernization, which introduces KONE's innovative escalator technology into aging units. Property managers can now upgrade existing escalators to obtain modern safety and performance standards without having to remove the units or

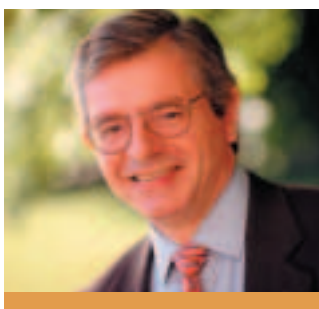


undertake construction work that disrupts their business.

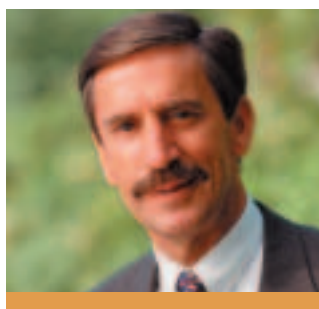
A trend for clients in some market segments to postpone discretionary expenditure on repairs impacted sales levels. Relationships with key customers were strengthened in both the U.S. and Canada as major real estate management companies and commercial customers sought to concentrate their maintenance contracts with single service providers. KONE was awarded a major partnering agreement with Simon Properties for the maintenance of the elevators and escalators at their shopping malls in the U.S.

During the final quarter of 2001 KONE launched its automatic building door service operations in the U.S. and Canada. During 2002 demand for this service grew rapidly, and a clear business model for North Amer-

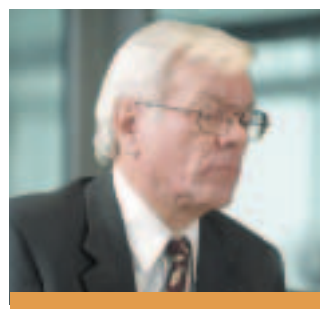
Products based on KONE EcoDisc® technology now account for approximately 40 percent of orders received in North America.



Eric Maziol
South Europe

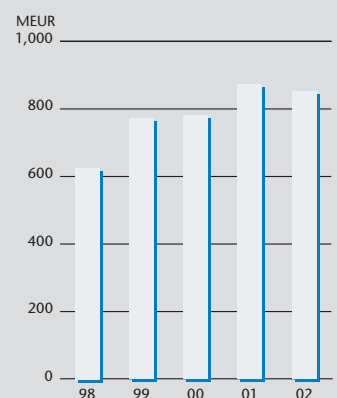


Trevor Nink
North America



Heimo Mäkinen
Asia-Pacific

Sales, North America





The year's most noteworthy escalator order totaled 248 escalators and two autowalks to be installed in 28 metro stations for Singapore's new Circle Line.

ica has now been established.

Canada was less affected than the U.S. by economic turbulence during the year under review. KONE MiniSpace™ solutions have begun to penetrate the market, and customers are reacting positively to their energy-saving and environmentally friendly attributes. The special customer relationships embodied in Premier Partnerships generated good business opportunities in maintenance and the installation of new equipment.

In Mexico, whose economy is tied closely to that of the U.S. through NAFTA, demand remained near the previous year's level, and sales were dominated by products featuring KONE EcoDisc® technology. The Government did not open up expenditures early in the year as had been anticipated. Exports to the Central America region continued to reach targeted levels.

It is anticipated that the decline in construction industry volumes in the U.S. will bottom out during 2003, which creates a challenging environment for our new elevator and escalator business. It is forecast that maintenance and modernization operations will grow although competition is likely to increase. Thanks to organizational restructuring and technologically advanced products, KONE is expected to improve its position in North American markets.

Strong Growth in Asia and Australia

The Asia-Pacific area's economy remained buoyant despite deceleration in the worldwide economy. The strongest growth was in Australia and China, the latter of which has acted as an engine for growth in Asia. Order intake increased in the Asia-Pacific area by more than 65 percent.

During the year under review several new projects were undertaken involving cooperation with our alliance partner Toshiba Elevator and Building Systems Corporation. Good results were obtained in joint purchasing as well as the production arrangements in Asia.

China's economy continued its powerful growth during 2002 with the value of orders received increasing by more than 35 percent over the previous year's figures. Residential construction remains the largest market segment, but China's membership in the WTO and the build-up to the 2008 Olympic Games in Beijing have begun to stimulate an increase in office construction. The environmental friendliness of KONE's products has been a strong contributor to their popularity in China.

The Kunshan factory, which manufactures global KONE products, continued the successful development of its operations. In the future, the factory will be able to supply products for all Asian markets and is, therefore, one of the keys to KONE's growth plans.

In the difficult Hong Kong market, KONE managed to maintain its market share. At the end of the year, KONE Taiwan received its biggest order ever, consisting of 83 KONE MonoSpace® elevators for the metro stations for Taiwan's second largest city, Kaohsiung.

Strong economic growth continued in Australia. Demand for KONE products was at record high levels. Elevators based on KONE EcoDisc® technology have made KONE the clear technology leader on the Australian market. Maintenance and modernization sales also increased despite tough competition. The increase in building door service business

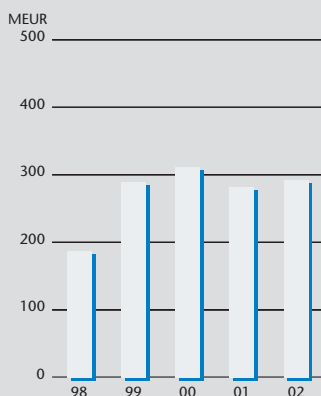
was fed by both organic growth and acquisitions.

The value of orders received in South Asia increased despite a decline in construction activity. In Singapore KONE won a significant order to supply 248 heavy-duty escalators and two autowalks for stations serving the rail system's new Circle Line.

KONE's business operations in India developed well, and the previous year's market position was maintained.

The rapidly developing Chinese market, increasing maintenance and modernization operations, and KONE's innovative products provide a solid basis for continued growth in 2003.

Sales, Asia-Pacific



KONE Materials Handling Business Review

The year under review involved major changes. The development of Partek into a focused engineering group was continued and completed during the year. An agreement for the sale of Nordkalk to a group of Finnish investors was signed in the beginning of December. Later in December Partek agreed to sell its holding in Paroc to Banc of America Equity Partners. These two transactions will be closed in the first quarter of 2003.

KONE's acquisition of Partek is reflected in operations from May 2002. The operations of KONE and Partek, especially the corporate functions, have quickly been coordinated after the acquisition was completed in the autumn. KONE Materials Handling, with the four business areas Container Handling, Load Handling, Forest Machines and Tractors, is now a division within KONE. Partek's shares were delisted from the Helsinki Exchanges on 18 December, 2002.

The markets were characterized by uncertainty during the year. Demand for tractors was good both in Europe and Brazil. Investments in ports and terminals were at a low level but showed signs of recovery in the fourth quarter. The market for forest machines clearly re-

covered in Europe after the summer but remained at a low level in North America. The market for on-road load-handling equipment contracted as a result of declining truck sales.

Under these uncertain market conditions, it is positive that order intake rose in the last three quarters, compared to the corresponding periods in 2001, and that orders received in the fourth quarter were higher than ever before.

We have kept, and in some cases even strengthened, our strong market positions during the year. We introduced several significant products especially during the second half of the year, which all are expected to improve our market position and strengthen sales in 2003. These include the Valtra T series tractor, as well as the Kalmar Orion forklift and Freja reachstacker, and new models of the HIAB XS cranes.

The financial result, which was at the 2001 level, improved in the second half of the year. A provision for the reorganization of operations was made in the last quarter. Tractors and Nordkalk significantly improved their financial results. During the autumn, we took steps to ensure further long-term improvement in our profitability and cash

flow. We will see results of the completed and planned measures in 2003, but their full impact is expected in 2004.

The year under review has been extraordinarily challenging for the entire personnel. Change always entails uncertainty as well as opportunities and new challenges. Let us seize the latter.

I warmly thank all our personnel, customers and our partners.

January, 2003

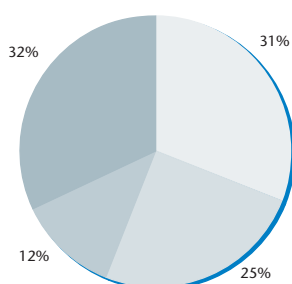
Carl-Gustaf Bergström



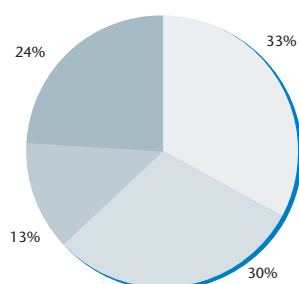
Carl-Gustaf Bergström
President
KONE Materials Handling

The texts and graphs on pages 13-19 in this report refer to the development of KONE Materials Handling during 2002. Partek has been consolidated in KONE's annual accounts for the second half of 2002, and comparison figures for the second half of 2001 have not been consolidated into KONE's report.

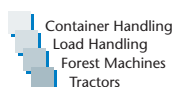
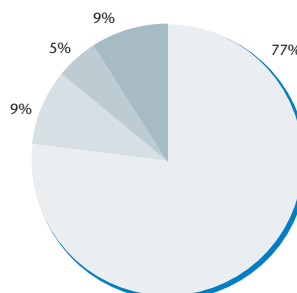
Division of Sales



Employees by Business Area



Employees by Market



Materials Handling Operations



The 15 meter high Kalmar straddle carrier can stack containers in 4 stories.



The successful HIAB XS loader crane family is expanding. The cranes are optimally tailored to the customer's demand according to application and working environment.

KONE Materials Handling is a worldwide engineering group that supplies products and services for professionals who move and load goods, harvest forests and cultivate fields.

KONE Materials Handling comprises four business areas: Container Handling, Load Handling, Forest Machines and Tractors.

Leading brands, customer-oriented production, similar product technology and a global network of customers who operate in transport, industry and primary production, tie together the KONE Materials Handling businesses.

KONE Materials Handling has production plants in 14 countries on four continents and its own sales and service companies in 30 countries. Local representatives and dealers ensure that products and services are available in more than 100 countries.

KONE Materials Handling's growth prospects are based on customers who operate in expanding businesses. Globalization is increasing the volume of long and short distance transportation. Container traffic is growing faster than world trade. The loading, unloading and movement of goods have to be accomplished faster than ever before. In agriculture and forestry, environmental and efficiency demands are increasing.

ciency demands are increasing.

KONE Materials Handling also seeks growth by moving closer to the customer in the value chain and by extending operations to new markets. Moving the focus in the value chain means that service operations share of net sales increases. Similar technologies and common components increase purchasing power, benefit product development and improve cost efficiency.

Development in 2002*

Markets

The container-handling equipment business suffered from a low level of investment in ports and terminals.

The market for on-road load-handling equipment declined as the uncertainty of the North American and European economies weighed on construction and truck markets, which are the main business drivers.

The forest machine market clearly recovered in Europe after the summer, but remained at a low level in North America.

Tractor demand was good in both of our main markets: Europe and Brazil.

Order Intake Increased

Orders received during the year rose by seven percent to EUR 2,374 (2,294) million. The order book totaled EUR 447.7 (424.8) million at the end of the year. Order intake surpassed the previous year's level, despite an uneven development of underlying markets. Orders received in the last quarter of 2002 were higher than ever before.

The order intake in Forest Machines rose sharply. Also, Tractors increased its order

intake, and both business areas are going into 2003 with stronger order books than a year ago. In Load Handling, orders remained at the level of a year-ago, when taking divested operations into consideration. Container Handling's order intake in the second half of the year increased in comparison with the corresponding period in the previous year, but the full-year figure did not reach the previous year's level.

Sales

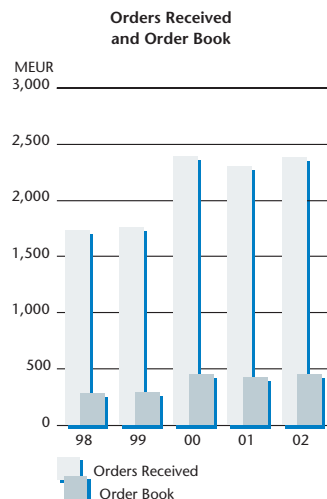
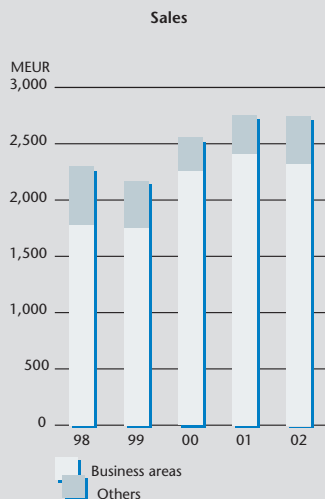
Net sales decreased slightly to EUR 2,705 (2,740) million, of which the business areas accounted for EUR 2,320 (2,410) million. Sales in Forest Machines and Tractors both rose by over 10 percent. Comparable sales in Load Handling eased slightly while sales in Container Handling decreased clearly due to the declining market.

Profitability

The operating income before goodwill amortization (EBITA) was EUR 120.4 (125.5) million, which is 4.5 (4.6) percent of net sales. The business areas accounted for EUR 101.6 (120.7) million, which represents 4.4 (5.0) percent of their combined net sales. Cash flow from operations before interest and taxes was EUR 221.2 (252.0) million.

Structural Improvement

The operating structure of both Container Handling and Load Handling was streamlined in order to increase competitiveness. As a result, terminal tractor production in Texas, U.S.A. ended, and loader crane production in Lem, Denmark will



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be moved to Meppel, the Netherlands.

Forest machine assembly in North America is being concentrated in one plant as assembly in Gladstone will cease during the spring of 2003.

Production capacity at the tractor plant in Suolahti, Finland was expanded twice during the year, and a major extension of the assembly plant is underway.

Forest Machines acquired the majority of its Swedish dealer SweLog, which clearly strengthens the service business.

Significant Product Launches

In Container Handling, several Kalmar products were launched, including a new 9–18 ton range of medium capacity forklift trucks and new reachstacker models. The Australian and the U.K. armies became the first non-U.S. military forces to employ the Kalmar Rough Terrain Container Handler. The world's first terminal operating Kalmar's unmanned straddle carrier was opened in Brisbane, Australia.

In Load Handling, six new models in the new generation loader crane family, the HIAB XS, were launched as well as two new Moffett truck-mounted forklift models and a new Multilift skiploader.

Forest Machines took the Valmet combimachine, which both harvests and transports wood, into serial production, and the new Valmet 901.2 harvester and Valmet 840.2 forwarder were well received.

Tractors conducted its most significant launch ever with the high-powered Valtra T series, and also introduced the F line for forest thinnings.

Services

Revenue from services and spare parts amounted to EUR 375 (363) million, which is 16 (15) percent of net sales.

Container Handling improved its spare parts logistics and took a step closer to its customers in Europe with the introduction of a distribution center for spare parts in Metz, France. These operations were implemented in cooperation with Load Handling, which further strengthened its local service network and improved efficiency in spare part logistics by fully utilizing the center.

The improved on-line parts ordering system in the distribution channel in Load Handling and Forest Machines considerably raised the level of customer service.

Agreement was reached on a customer-financing program with BNP Paribas Lease Group in the U.K., France and Germany. The agreement will offer the business areas, dealers and end-users comprehensive financing services from one source.

Coordinated Purchasing

Purchasing functions were reorganized to exploit purchasing synergies between KONE Elevators & Escalators and KONE Materials Handling. Lead buyers identified first synergies and several teams have implemented quick savings for both divisions based on benchmarking.

Personnel

During the year, KONE Materials Handling employed an average of 12,623 (13,085) people. The number of employees was 12,447 in the beginning of the year and 12,547 at the end.

The Bonshare employee incentive program was changed so that the bonus for 2000 is linked to the KONE B share instead of to the Partek share. No annual bonus for 2002 was achieved. Bonshare 2000 follows the KONE share until spring, 2004 after which it will be paid out. The decision to

change the program was made in co-operation with employee representatives.

Divestments

In December, agreements were signed for the sale of the major holdings in KONE Materials Handling's Other Businesses. The divestment of Nordkalk Corporation and the holding in Paroc Group Oy Ab will be closed in the first quarter of 2003.

The transaction price for Nordkalk after reduction of minority interests is EUR 270 million. Nordkalk's net sales in 2002 totaled EUR 252.0 (215.9) million and operating income was EUR 35.2 (24.1) million. Nordkalk publishes its own annual report.

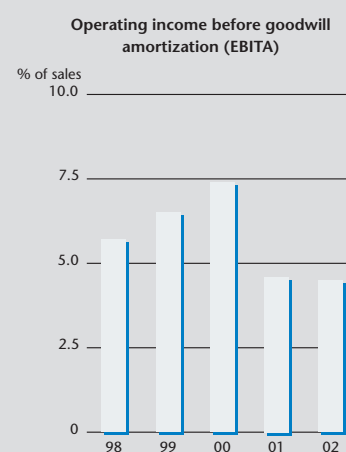
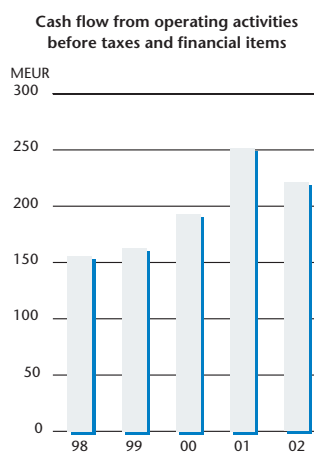
The debt-free price for the 38 percent holding in Paroc is approximately EUR 75 million, including the price for the shares and the repayment of loans.



The Valmet harvester fells, delimits and cuts trees to size for a pre-determined purpose in less than one minute.



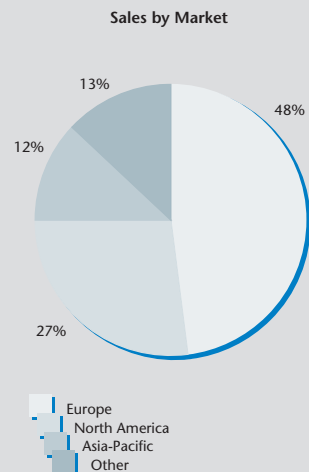
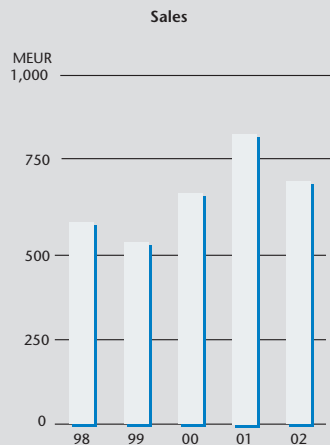
High-powered and versatile Valtra tractors are manufactured to customer order. This is unique in the industry and means that there is no stock of new tractors.



Container Handling



Kalmar launched new ContChamp and ContMaster reachstackers in 2002. These have been developed in response to requirements regarding the environment, performance, reliability and operating costs.



Kalmar is the leading brand and provider of heavy-duty material handling equipment and services to ports, intermodal traffic, terminals and demanding industrial customers.

The Container Handling business area supplies handling solutions that enable customers to operate with a high level of efficiency and reliability. Every fourth container or trailer transfer in ports and terminals around the world is handled by a Kalmar machine.

The product range includes ship-to-shore cranes, rubber tired gantry (RTG) cranes, rail mounted gantry (RMG) cranes, straddle carriers, shuttle carriers, reachstackers, terminal tractors and empty container lift trucks, as well as forklifts and log stackers for heavy industrial applications. The world's leading producer of container spreaders, Bromma Conquip, is part of Kalmar. Kalmar is shifting from being a machine supplier to a global solution provider with a large range of value-added services such as maintenance contracts and fleet management.

Kalmar has activities in more than 100 countries through 15 sales companies and an expanding dealer network. Manufacturing plants are situated in Sweden, Finland, the U.S., the Netherlands, Malaysia and Estonia.

Growth in Container Traffic but Decrease in Equipment Market

World container throughput increased by some seven percent in 2002 according to industry estimates. This is up approximately three percentage points on 2001, but clearly below the 12 percent growth level achieved in 2000.

Demand for container-handling equipment decreased due to the excess capacity created through investments in 2000–2001. The longer-term outlook for container traffic remains favor-

able, and a recovery in the equipment market over the medium term can be expected as current excess capacity is utilized.

The industrial market for handling equipment also weakened while the market for services remained stable.

Sales Decreased with the Declining Market

Orders received were EUR 708.5 (758.9) million, and the order book was EUR 210.6 (235.9) million. Net sales totaled EUR 719.3 (858.8) million. Kalmar is the leader in straddle carriers, terminal tractors and reachstackers and maintained its market share across all product lines.

Sales of container-handling equipment to ports decreased. The general uncertainty of the European economy affected sales of heavy industrial forklifts. In North America there was a clear upswing in terminal tractor orders after the first quarter, which resulted in increasing sales. The Asia-Pacific contribution to the business was also on an upward trend.

Despite the tough market, Kalmar managed to maintain its market position and implement key structural changes.

Structural Improvement

In May, a streamlining of the operating structure was undertaken in order to further increase competitiveness. Every product will have one Product Supply Center, which will be responsible for customer-driven product development, marketing and production. Production of reachstackers was concentrated in Lidhult, Sweden. Production of terminal tractors was ended in Texas, and continues in Ottawa, the U.S.; Tampere, Finland and Shanghai, China. These changes almost complete the implementation of the Product Supply Center concept.

New Products

The Container Handling business area continued to invest in product development despite weaker market conditions and restructuring measures.

Kalmar launched a new 9–18 ton range of forklift trucks. These advanced and efficient medium trucks replace machines that are already market leaders within their segment. Customer response was very positive. Kalmar also launched new ContChamp and ContMaster reachstackers.

The Australian and U.K. armies took delivery of 12 Kalmar rough terrain container handlers (RTCH). These were the first orders from other than the U.S. army under the multi-year contract between Kalmar RT Center of Texas, U.S. and TACOM (Tank Automotive and Armaments Command) that purchases materials for the U.S. army. In the last two years, Kalmar has supplied the U.S. army with over 160 rough terrain container handlers.

The world's first terminal equipped with Kalmar's unmanned straddle carrier was opened for commercial use in Brisbane, Australia.

Focus on Services

Service revenue was stable at EUR 168 (170) million. This represents 23 (20) percent of net sales. Several markets showed healthy growth, but total revenue was depressed by falling sales in the U.K., Germany and France, where the service provided industrial customers was moved to dealers, and in the Netherlands, which had an exceptionally high level of crane repairs in 2001.

Kalmar took a step closer to its customers in Europe with the introduction of a distribution center for spare parts in Metz, France. Over 12,000 spare parts and components in stock can be sent out overnight to reach most of Europe within a day.

Load Handling

The Load Handling business area is the global market leader in on-road load handling. Today the business area offers solutions that meet virtually all customer needs in on-road load-handling.

The Load Handling business area has a complete product offering for loading and delivering goods, comprising loader cranes, demountable systems, truck-mounted forklifts, tail lifts, hydraulics, tipping gears and vehicle bodies. Coupled with a profound knowledge of our customers' businesses and a widespread service network, this enables us to provide the customer with the optimal solution for his needs.

Customers range from one-truck owner operators to truck manufacturers, fleet operators and rental companies with operations in several countries. They mainly operate in building materials supply, local distribution and transportation of industrial products.

The business area supports its customers through the most comprehensive distribution and service network in the business, consisting of own sales companies in 24 countries and over 100 independent distribution partners with more than 1,500 service outlets.

Declining Market Demand

Demand for load-handling equipment mainly follows the economic growth trend and, in particular, developments in the construction and infrastructure business. Global demand is estimated to have decreased by nearly 10 percent in 2002. The construction machinery market fell by 10 percent in Europe. Demand also follows the sales of heavy trucks, which were down for the third consecutive year. The decrease was approximately 10 percent both in Europe and the U.S.

No major changes occurred in the competitive situation in the load handling industry

during the year. Due to decreasing demand there is overcapacity in the sector, and this led to slight price deterioration.

Stable Order Intake

Orders received totaled EUR 591.7 (614.2) million, which is approximately the same level as in the previous year when taking divested businesses into consideration. The year-end order book was EUR 87.4 (85.8) million. Net sales amounted to EUR 586.1 (647.4) million. Despite the contraction of the total market, the business area succeeded in achieving the 2001 sales level in loader cranes and truck-mounted forklifts. Sales in tail lifts and demountables fell with the global market as the main market areas Germany, the U.S. and the Nordic countries weakened noticeably.

Growing sales of large cranes and the introduction of new crane models boosted revenue. Reduced sales of truck-mounted forklifts to the home improvement customer segment in the U.S. were partly compensated by growing sales to other segments and customer groups.

Enhanced Competitiveness and Cost Efficiency

The integration of the sales and service network, which was initiated in 2001, proceeded as planned during 2002 and this process will continue. The multi-product approach has strengthened the market position of the business area.

A major re-engineering of loader crane and demountable operations started in 2001. This three-year project aims to improve customer focus, competitiveness and cost efficiency. One of the key actions is the implementation of a new production structure for loader cranes and demountables. As a consequence, loader crane production in Lem, Denmark, will be moved to Meppel, the Netherlands.

New Products

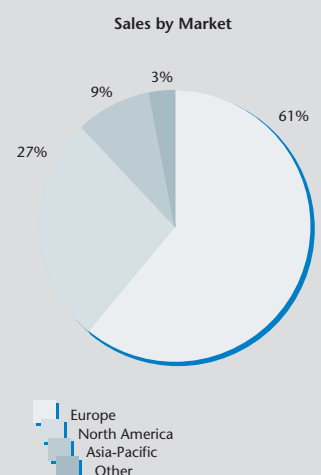
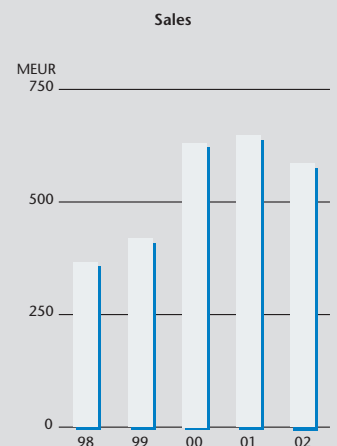
Six new models in the new generation loader crane family, the HIAB XS, were launched during the year. Two new Moffett truck-mounted forklift models were marketed, and a new Multilift Skiploader was launched. An ambitious R&D program will result in several new product launches in 2003.

Increasing Service Revenue

Revenue from services and spare parts increased to EUR 82 (79) million, which is 14 (12) percent of net sales. The business area further strengthened its local service network and improved efficiency in spare parts logistics by utilizing the central warehouse in Metz, France. The on-line parts ordering system in the distribution channel was further developed. The after-sales operations in loader cranes and demountables were reorganized.



Six new models in the new generation loader crane family, the HIAB XS, were launched during the year. The versatile HIAB XS is used in a wide range of applications by customers in many different businesses.



Forest Machines



The Valmet 801 Combi was developed together with Finnish and Swedish forestry entrepreneurs and forest industry companies, and has been very well received.

The Forest Machines business area is one of the world's leading manufacturers of forest machines and cranes and a pioneer in mechanized timber harvesting. The business area offers a broad range of machines and cranes for harvesting by both the cut-to-length method and the full-tree method. The cost-efficient Valmet forest machines are both environmentally friendly and ergonomically advanced.

The business area has manufacturing facilities in Sweden, Finland and the U.S. Twelve sales companies provide direct contact with customers, who mainly comprise forestry-machine contractors, forest companies, hauliers and transportation companies.

The business area develops and manufactures central components, such as harvester heads, cranes and control systems.

European Markets Recovered

Forest machine demand recovered during 2002 and stabilized at a good level. Demand improved especially in Europe, while demand in North America remained weak.

The forest crane market decreased slightly.

Valmet Strengthened Its Market Position

Net sales rose 13 percent to 291.5 EUR (258.9) million. Orders received rose sharply to EUR 302.8 (241.0) million. The order book increased to EUR 33.3 (25.2) million.

Forest Machines acquired the majority of its Swedish dealer, SweLog, in April. The SweLog network in Sweden, which is Europe's largest forest machine market, supports the strategy of being close to the end-customer and strengthening the service business. Valmet also improved its market position in the other Nordic countries, as well as in Central and Eastern Europe.

The market position and sales

in North America were strengthened through integration of the sales and service operations as well as through a new dealer network. Assembly in North America will be concentrated in the plant in Wisconsin; the operations in Gladstone will be limited to spare parts.

The leading European forest crane brands Loglift and Jonsered further strengthened their market positions, which are especially strong in Northern and Central Europe.

Continued Product Development

The Valmet 801Combi, which was launched in 2001 and can be seen as the most significant forest machine introduction in almost two decades, was taken into serial production in the beginning of the year. The combi-machine fells, delimbs, cuts, loads and transports wood. In other words, one machine performs all work phases. It has been proven to be especially efficient in thinning operations.

The new Valmet 901.2 harvester and Valmet 840.2 forwarder were very well received, which helped Valmet improve its market position for these important product segments. Sales of the Valmet 830 forwarder, which was introduced in 2001, also developed favourably.

The Loglift and Jonsered on-road forest cranes, taken into serial production in late 2001, were very successful.

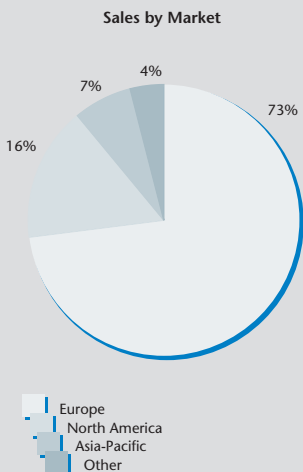
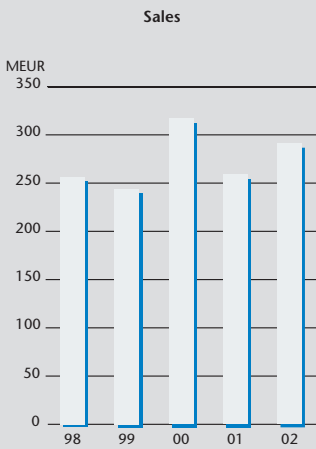
The Service and Spare Parts Operations Expanded

Revenue from service and spare parts rose 19 percent to EUR 56 (48) million, which represents 19 (18) percent of net sales. The aim is to grow the service sector's share of this business.

The service product Valmet Proact, which includes regular condition inspection, maintenance and extended component warranties, continued to be

developed and grow in popularity. The servicing and maintenance agreement signed in 2001 with the forest industry companies Aracruz and Veracell in Brazil was also expanded. The business area maintains the companies' harvester heads and forwarders and has more than 100 servicemen stationed in four logging regions in Eastern Brazil. There are opportunities to expand this concept to other emerging markets in South America and Asia, where large forest industry companies are forest owners.

The online spare parts ordering system for dealers clearly raised the level of service.



Tractors

The Tractors business area, Valtra, caters for the needs of farmers, contractors and municipalities. The modular design of the tractors and the great number of available accessories, as well as our unique customer-order system enable us to fulfill the specific requirements of different production segments and types of contracts.

Valtra's key competitive advantage is its customer-order system, which enables production tailored to customer requirements. Consequently, the custom-built tractor is delivered directly from the factory to the customer.

Valtra's tractor plants are located in Finland and Brazil. The main markets are Europe and Latin America. Valtra is the market leader in the Nordic countries; in Latin America, Valtra is the third most sold brand. Valtra's newer markets in North America, Australia and China offer opportunities for growth.

The business area also includes Sisu Diesel, which specializes in the manufacture of diesel engines for tractors and construction machines.

Growing Markets in 2002

The tractor market in Europe increased moderately. The Latin American market rose sharply, mainly due to the buoyant Brazilian market. The North American market also increased slightly.

Record Sales

Valtra's net sales and order intake in 2002 increased with its strengthened sales network and improved demand. Net sales rose 11 percent to EUR 761.7 (685.5) million, and orders received amounted to EUR 810.8 (719.1) million. The order book stood at EUR 121.5 (82.6) million at the end of 2002.

Valtra improved its market position in Sweden and Norway through the change of the sales

process to direct sales. The establishment of our own sales companies in the U.S. and Australia in 2001 supported the growth in order intake. Valtra sold 140 high-powered tractors in China.

During the year approximately 9,700 tractors were manufactured in Finland and 8,300 in Brazil. This is record high production for Finland. The plant's production capacity was raised twice during the year due to the improving demand, and a decision was made to invest almost EUR 8 million in the expansion of the assembly facilities. The investment makes possible the additional production of 2,000 tractors in 2003.

Sisu Diesel broke last year's record sales by 13 percent with sales of 27,200 engines.

The Customer's Closest Partner

Valtra sharpened the focus of its objectives in 2002. The main goals are to clearly improve profitability, achieve faster growth than the competition, provide the best customer care and improve the motivation of personnel. The Valtra Academy personnel training program was renewed in order to support these objectives.

Valtra globalized its organizational structure. Management responsibilities for marketing, services, product development, production and administration are global in the new structure. Growing the share of the service business is one of the key goals of the renewal.

Significant Product Launches

The growing size of farms is increasing demand for high-powered tractors, which is the sector Valtra focuses on.

The new powerful Valtra T series was launched in September. It comprises seven six-cylinder models ranging in horsepower from 120 to 209.

Seamless interaction of the tractor with modern work implements was of special importance in the development of the T series. Cutting-edge engine technology is utilized in the largest models: the engine is controlled electronically, and fuel consumption is extraordinarily low. The T series also leads the way in design. It is, despite its large size, stylish and graceful. The T series was very well received by the market.

In September Valtra also introduced the new F line for forest thinning. When developing the F line, special emphasis was placed on higher efficiency in thinning operations, especially a higher utilization rate made possible by new technical solutions, and on driver ergonomics.

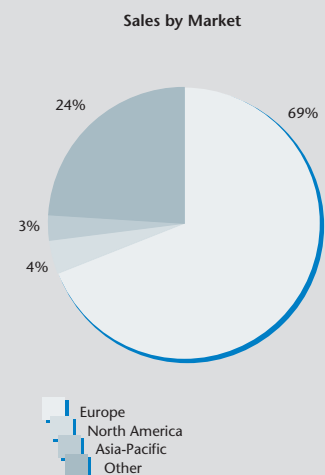
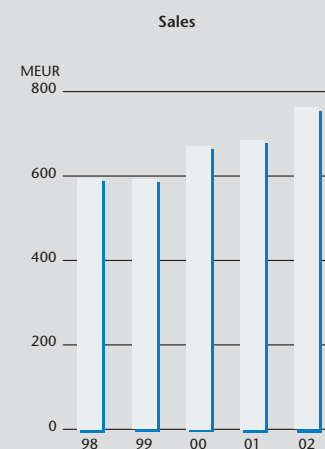
Sisu Diesel launched the new Fortius engine series. These low-emission engines fulfill the Tier Two emission requirements in the EU and the U.S.

Growing Service and Spare Parts Operations

Revenue from service and spare parts was EUR 69 (67) million, which is 9 (10) percent of net sales. The aim is to grow this share by broadening customer care. The versatile usage possibilities of Valtra tractors increase the potential for the service and spare parts business as service requirements rise with the higher utilization rate. The appeal of Valtra's services also increases as farming operations become increasingly professionally managed.

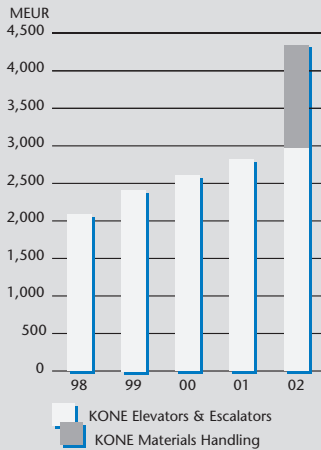


Valtra's tractor offering was broadened in 2002 with the new T series, which leads the way in technology and design. The Valtra T model can be used in a wider range of tasks than traditional tractors.

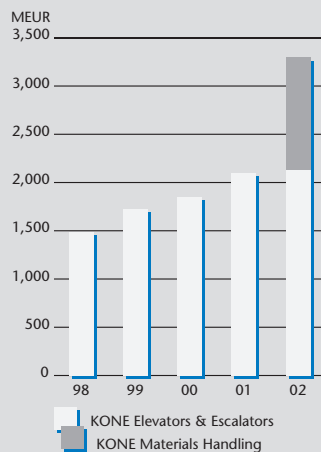


Board of Directors' Report*

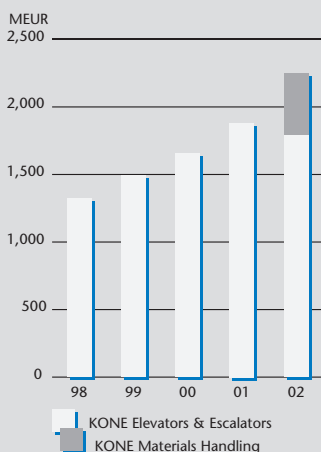
Sales



Orders Received



Order Book



The year under review, 2002, was a year of change for KONE. KONE acquired the Finnish-based engineering group Partek. KONE now consists of two strong divisions, KONE Elevators & Escalators and KONE Materials Handling, which comprises the businesses of Partek.

We also strengthened our cooperation with Toshiba. KONE participated in a targeted share issue organized by Toshiba Elevator and Building Systems Corporation (TELC) and owns 19.9 percent of TELC.

Alongside these major structural changes, operations continued to develop successfully. The financial result of the elevator and escalator business improved yet again. KONE Materials Handling also met its targets for the second half of the year.

Sales

KONE's consolidated net sales totaled EUR 4,342 (2001: 2,816) million.

KONE Elevators & Escalators' net sales grew 5.5 percent to EUR 2,970 (2,816) million. In Europe sales increased 12 percent to EUR 1,798 million. In North America and Asia-Pacific sales were approximately at the previous year's level.

KONE Materials Handling's net sales were EUR 1,372 (1,379) million. Sales of Forest Machines and Tractors both rose. Comparable sales in Load Handling eased slightly, while sales in Container Handling decreased due to weak order intake in the beginning of the year.

Orders Received and Order Book

The value of orders received during 2002 amounted to EUR

3,261 (2,100) million.

KONE Elevators & Escalators received orders valued at EUR 2,129 (2,100) million. In Europe, order intake for new elevators, escalators and modernizations was at last year's level. Order intake in North America declined by about 20 percent. In Asia-Pacific, order intake again reached record levels with growth of over 65 percent.

Order intake in KONE Materials Handling totaled EUR 1,132 (1,058) million. Despite non-uniform development of the underlying markets, total order intake surpassed the previous year's level.

The value of orders in hand at the end of 2002 totaled EUR 2,240 (1,881) million. KONE Elevators & Escalators' order book stood at EUR 1,792 (1,881) million and KONE Materials Handling's order book at EUR 447.7 (June 30, 2002: 424.8) million.

KONE Elevators & Escalators' new equipment order book represents over one year of deliveries. The time from order to delivery in KONE Materials Handling is on average 6–8 weeks.

Financial Result, Balance Sheet and Cash Flow

KONE's operating income before goodwill amortization (EBITA) totaled EUR 340.2 (256.4) million, or 7.8 (9.1) percent of net sales.

KONE Elevators & Escalators' EBITA was EUR 287.0 (256.4) million, and KONE Materials Handling's EBITA was EUR 64.2 (60.8) million. The total EBITA is lower than the combined figure of the divisions as it includes provisions for the KONE option program, unallocated corporate costs and provisions

for corporate-level restructuring.

Net income totaled EUR 157.1 (141.1) million. Earnings per share stood at EUR 2.54 (2.42).

KONE's cash flow from operations before interest and taxes on the corporate level was very strong, totaling EUR 615.6 (343.6) million. Cash flow in KONE Elevators & Escalators was EUR 460.7 million, and in KONE Materials Handling EUR 154.9 million. Consolidated cash flow from operating activities was EUR 496.9 (254.5) million. Investing activities, including strategic acquisitions, totaled EUR 1,494.4 (38.5) million.

KONE's year-end net debt was EUR 1,251.5 million including capital loans of EUR 102.1 million. Total equity as a share of total assets was 24.2 (36.6) percent. Gearing was 125 percent.

Return on assets employed was 19.0 (30.2) percent, and return on equity was 18.4 (20.4) percent.

Personnel

KONE employed 35,864 (22,949) people at the end of 2002. The increase is mainly due to the consolidation of Partek. KONE Elevators & Escalators employed 23,317 people and KONE Materials Handling 12,547 people at the end of the year.

KONE Elevators & Escalators

Markets

Demand for new elevators and escalators follows, with some delay, general economic trends and developments in the construction industry. The market situation varied from country to country in Europe, but total European demand decreased. Demand grew in Asia, especially in China, while the North American market declined.

*The reported figures cover the operations of KONE Materials Handling for the second half of 2002. Comparison figures for the second half of 2001 have not been consolidated into KONE's figures.

The development of the maintenance and modernization market was stable. Expanding sales of new elevators also increased demand for maintenance in Asia. The global modernization market did not grow and might even have declined.

KONE remained active in the acquisition market and purchased more than 20 companies, mainly in elevators and automatic building door service. Their annual sales total approximately EUR 50 million.

Sales

Net sales totaled EUR 2,970 (2,816) million, or 5.5 percent more than in the previous year. Europe, which is the world's largest elevator market, accounts for the major share of sales. North America's percentage fell slightly. Asia still represents only 10 percent of total revenue, but the growth in order intake is rapid and will have a visible impact on the geographical distribution of sales in the future.

The value of new equipment delivered during 2002 was EUR 1,277 (1,182) million, or 43 percent of KONE Elevators & Escalators' total

revenue. Maintenance and modernization sales accounted for EUR 1,693 (1,634) million, or 57 percent of the total. The proportion of new equipment and service revenue has remained relatively stable in recent years. The automatic building door business of approximately EUR 120 million is included in the service revenue figure.

Orders Received and Order Book

Orders received, excluding the value of maintenance contracts, totaled EUR 2,129 (2,100) million. KONE Elevators & Escalators succeeded in reaching the target for the year, which was to equal the previous year's volume. The global escalator market was in decline as some markets, including Germany, receded from the high levels of the previous year.

In Europe, order intake for new elevators, escalators and modernizations was approximately at last year's level. The European market was stable or weakened somewhat. Thanks to competitive products and acquisitions carried out during the year, KONE was able to maintain or increase its

market share in Europe without making concessions in price levels.

Order intake in North America declined by about 20 percent. Market demand fell by about 15 percent. Elevator orders in the office building sector showed the largest decrease. The escalator market was also under volume and price pressure. KONE managed to achieve its targeted market share under these difficult conditions. The price level was maintained, and, as a consequence, the profit margin level of orders in hand was maintained. Measures to adjust operations to the lower volume have already been implemented.

Asia-Pacific order intake again reached record levels with a growth of 65 percent. This trend has continued for several years. The Chinese market has grown strongly, and KONE has taken an increasing share of the total market. The importance of the Australian market to KONE Elevators & Escalators has been on the rise in recent years. The superiority of KONE's technology has won over Australian customers, making KONE the leading

elevator and escalator brand on the continent.

KONE's factory in Kunshan, China, which manufactures global products, began exporting to other Asian countries and Australia during 2002. The plant will be developed into a logistics center for the Asia-Pacific area.

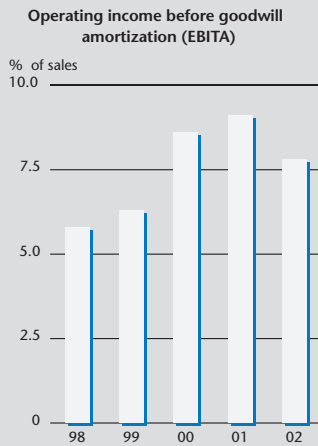
Development of the Service Base

In Europe, KONE had nearly 390,000 units in its service base. In North America, over 85,000 elevators and escalators were under KONE maintenance. Recognition of the importance of elevator and escalator maintenance has grown in China and elsewhere in Asia, and contributed to the steady growth of KONE's service base in the area. The year-end total of units under maintenance contract in Asia exceeded 20,000. The service business in China will form a new growth platform for KONE Elevators & Escalators in the years to come.

Automatic building door activities have been initiated in all major market areas. Automatic building door service grew by approximately 20 percent, and KONE has more than 180,000

Elevators & Escalators' Sales by Market Area

| | 2002 | | 2001 | |
|------------------|-------|-----|-------|-----|
| | MEUR | % | MEUR | % |
| Europe | 1,798 | 60 | 1,608 | 57 |
| North America | 851 | 29 | 866 | 31 |
| Asia & Australia | 292 | 10 | 291 | 10 |
| Other | 29 | 1 | 51 | 2 |
| Total | 2,970 | 100 | 2,816 | 100 |



doors under service contract. Net sales from building door service operations totaled approximately EUR 120 million. This is still a small share of total KONE Elevators & Escalators' revenue, but the growth rate is good. KONE is focusing on developing and growing these newly started activities and utilizing synergies with the elevator and escalator business.

Financial Result, Assets Employed and Cash Flow

Operating income before goodwill amortization (EBITA) in KONE Elevators and Escalators improved 12 percent to EUR 287.0 (256.4) million, or 9.7 (9.1) percent of net sales.

KONE Elevators & Escalators' profitability continued to improve through savings in component costs achieved through product development, and increased installation efficiency. During the year, the new elevator and new escalator business lines were combined into a single organization and the elevator and escalator service business lines into another. The increased penetration and market success of the technologically superior KONE EcoDisc® family also contributed to improved profitability.

The increased application of new technology to the service sector creates a platform for sustainable profit levels in the face of tough competition. In order to increase profitability in the challenging modernization sector, KONE is increasing the use of industrialized packaged solutions.

KONE Elevators & Escalators aims to maintain a negative level of working capital. At the end of 2002, working capital was negative at EUR -84.5 (+38.5) million. More than EUR 120 million of working capital was freed up in 2002. Tangi-

ble fixed assets were EUR 186.6 (206.9) million.

Cash flow from operating activities before interest and taxes was strong, totaling EUR 460.7 (343.6) million. Return on assets employed was 35.9 (30.2) percent.

Capital Expenditure, Product Development and Development Programs

Capital expenditure in production facilities, field operations and information systems totaled EUR 51.1 (45.7) million. Investments are increasingly focused on information systems that support business processes.

The harmonization of information systems progressed. The KONE Model, which is the set of global standardized policies, processes, systems and tools for defining the common business practices used by all KONE Elevators & Escalators companies, was successfully upgraded with the latest software. New functionalities were added with the roll-out of KONE Model II. In December, KONE Belgium was the first unit to implement the new model, and the roll-out will continue in 2003.

At the beginning of 2002, KONE launched a new Internet service in nine countries, thereby opening a new communication channel between customers and KONE Elevators & Escalators' sales and service organizations.

KONE Elevators & Escalators' product development expenditures totaled EUR 40.2 (40.8) million, or 1.4 (1.4) percent of net sales. Efforts to strengthen the competitiveness of KONE's new technology and new service offerings continued.

KONE and Toshiba started several joint projects during the year. Good results were achieved from the reorganization

of production in Asia and joint purchasing projects. A substantial deepening of cooperation on production will be realized when Toshiba begins supplying automatic elevator doors to KONE in China.

Outlook

The market for new elevators and escalators in Europe is anticipated to remain tight during 2003, as Europe's economy is not expected to pick up significantly. Construction industry volumes in North America are expected to bottom out during 2003. In Asia, the rapidly developing Chinese market provides a solid basis for continued growth in 2003.

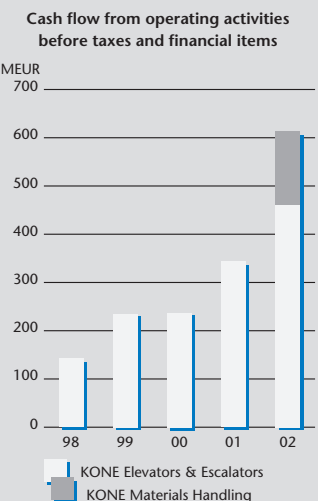
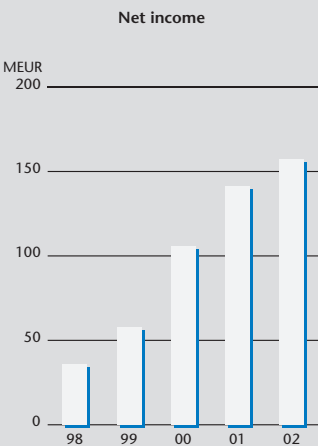
New equipment order intake and sales in elevators and escalators in 2003 are anticipated to be at approximately the 2002 level.

Modernization and automatic building door service business will continue to offer opportunities for growth throughout Europe. Thanks to organizational restructuring and technologically advanced products, KONE is expected to improve its position in North American service markets. China will also provide growth in maintenance and modernization operations.

Total maintenance and modernization revenue is expected to increase approximately five percent in 2003.

The growth target for automatic building door service is 20 percent, when both organic growth and acquisitions are included.

KONE's leading technology and unequalled seven-year experience in developing, installing and servicing machine-room-less elevators provide a solid base for exceeding an EBITA margin of 10 percent in the year 2003.



KONE Materials Handling

KONE Materials Handling consists of four business areas – Container Handling, Load Handling, Forest Machines and Tractors – and Other Business. The reported figures cover the operations of KONE Materials Handling for the second half of 2002.

Markets

Demand for container-handling equipment showed signs of recovery in the fourth quarter of the year.

The market for on-road load-handling equipment declined as the uncertainty of the North American and European economies weighed on construction and truck markets, which are the main business drivers.

The forest machine market clearly recovered in Europe after the summer, but remained at a low level in North America.

Tractor demand was good in both main markets, Europe and Brazil.

Sales

Net sales were at the previous year's level, amounting to EUR 1,372 (7-12/2001:1,379) million, of which the business areas accounted for EUR

1,175 (1,207) million. Sales in Forest Machines and Tractors rose. Comparable sales in Load Handling eased slightly, while sales in Container Handling decreased due to weak order intake in the beginning of the year.

Orders Received and Order Book

Orders received during the second half of the year rose seven percent to EUR 1,132 (1,058) million. The year-end order book totaled EUR 447.7 (424.8) million.

Despite the non-uniform development of underlying markets, order intake surpassed the 2001 level. The order intake of the business areas in the fourth quarter was at a record high level. Forest Machines' order intake and volume of orders in hand rose sharply. Also Tractors increased its order intake, and the year-end order book exceeded the previous record. Order intake in Container Handling rose, but the order book decreased slightly. In Load Handling, orders received and orders in hand remained at the previous year's level when divested operations are taken into consideration.

Financial Result, Return on Assets Employed and Cash Flow

Operating income before goodwill amortization (EBITA) was EUR 64.2 (60.8) million, which is 4.7 (4.4) percent of net sales. The business areas accounted for EUR 51.3 million, which represents 4.4 (4.4) percent of their combined net sales. A provision for the reorganization of operations was made in the last quarter.

Working capital at the end of 2002 was EUR 410.9 (30 June 2002: 466.3) million. During July–December 2002, EUR 55 million of working capital was freed up. Tangible fixed assets were EUR 461.9 (30 June 2002: 462.1) million.

Cash flow from operating activities before interest and taxes was EUR 154.9 million, and return on assets employed was 8.7 (8.0) percent.

Capital Expenditure and Development Programs

Capital expenditure in production facilities, field operations and information systems in the business areas accounted for EUR 24.8 million.

Container Handling improved its spare part logistics and took a step closer to its customers in Europe with the

introduction of a distribution center for spare parts in Metz, France. The logistics operations have been implemented in cooperation with Load Handling. Over 12,000 spare parts and components in stock can be sent out overnight to reach most of Europe within a day.

In Load Handling, Hiab's loader crane business is improving its competitiveness by renewing the production of light cranes. The number of production plants is being decreased, and production of light cranes will be consolidated at the plant in Meppel, the Netherlands. As a consequence, the Hiab plant in Lem, Denmark and the Denmark office in Humlebaek will be closed during 2003. In the future, loader cranes will be produced at three locations in Europe: Hudiksvall, Sweden; Meppel, the Netherlands, and Zaragoza, Spain.

Tractors expanded its assembly plant in Suolahti, Finland during 2002 and will continue the process in 2003. The expansion is motivated by the continuously growing international demand for Valtra tractors. The power and versatility of the tractors are increasing, which also influenced the investment decision. The investment, which will already make it possible to produce an additional 2,000 tractors in 2003, will amount to almost EUR 8 million.

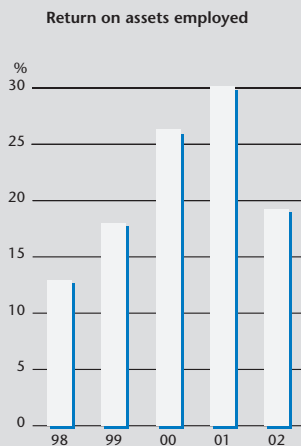
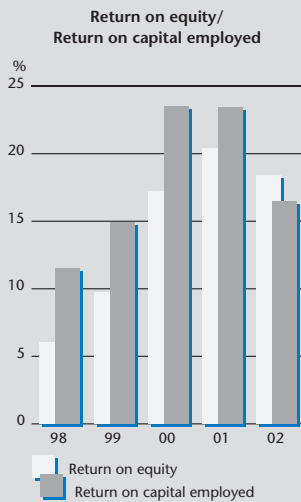
New Products

Product development expenditure was EUR 23.1 (23.7) million, which is 1.7 (1.7) percent of net sales.

In Container Handling, several Kalmar products were launched, including a new 9–18 ton range of medium-capacity forklift trucks and new reachstacker models. The Australian and U.K.

Materials Handling Net Sales by Business Area

| MEUR | 7-12/2002 | 7-12/2001 | Change % |
|--------------------|-----------|-----------|----------|
| Container Handling | 373.4 | 446.0 | -16 |
| Load Handling | 282.6 | 302.4 | -7 |
| Forest Machines | 159.1 | 118.5 | 34 |
| Tractors | 379.4 | 359.0 | 6 |
| Eliminations | -20.0 | -18.9 | |
| Total | 1,174.5 | 1,206.9 | -3 |
| Nordkalk | 132.7 | 111.2 | 19 |
| Other | 64.5 | 61.3 | |
| Total | 1,371.7 | 1,379.5 | -1 |



armies became the first non-U.S. military forces to employ the Kalmar Rough Terrain Container Handler. The world's first container terminal, operating Kalmar's unmanned straddle carrier, was opened in Brisbane, Australia.

In Load Handling, six new models in the new generation loader crane family, the HIAB XS, were launched. Also, two new Moffett truck-mounted forklift models and a new Multilift skiploader were introduced.

Forest Machines took into serial production the Valmet combimachine, which both harvests and transports wood. The new Valmet 901.2 harvester and 840.2 forwarder were well received.

Tractors conducted its most significant launch ever with the high-powered Valtra T series, and also introduced the F line for forest thinnings.

Services

Revenue from services and spare parts amounted to EUR 185 million, which is approximately 16 percent of net sales.

The further developed on-line parts ordering system, serving the distribution channels for Load Handling and Forest Machines, considerably improved customer service.

Agreement was reached on a customer-financing program with BNP Paribas Lease Group for the U.K., France and Germany. The arrangement will offer the business areas, dealers and end-customers comprehensive financing services from one source.

Outlook

Container traffic is expected to increase annually by approximately 6–7 percent over the next two years, leading to a slight increase in the market for container-handling equipment.

It is estimated that the market for on-road load-handling equipment will remain at approximately the 2002 level, as there are no clear signs of recovery in truck sales and construction activities. The market for forest machines and cranes is anticipated to grow moderately in 2003. After a strong year in 2002 for both the European and Brazilian tractor markets, the outlook for 2003 is for somewhat weaker demand.

The 2003 combined order intake and sales of the business areas are expected to reach at least the 2002 level. Profits are anticipated to exceed an EBITA margin of five percent.

Key measures in raising profitability include: increasing the service business, exploiting opportunities in purchasing on a wide scale, increasing outsourcing to improve flexibility, devoting special attention to underperforming units, and developing lean and capital-effective processes.

The longer-term profitability target in KONE Materials Handling is an eight percent EBITA margin. This target will be reached as longer-term synergies are realized.

Acquisition of Partek

In June, KONE acquired the State of Finland's 30.2 percent shareholding in Partek Corporation. The deal was financed by a EUR 106 million targeted share offering to the State of Finland and a EUR 119 million cash payment. Later in June, KONE launched a public offer to purchase all outstanding Partek shares for EUR 15.30 per share. More than 90 percent of Partek's shares were transferred to KONE in the public offer.

After the offer expired, a redemption claim was launched for the remaining shares. The redemption period

ended on October 11, 2002, after which KONE had received ownership of 99.5 percent of the share capital in Partek. The ownership right to the minority shareholdings was transferred to KONE's fully-owned subsidiary, Kone Finance, on December 18, 2002, and Partek was delisted from the Helsinki Exchanges.

Cooperation with Toshiba

KONE strengthened its marketing and sales cooperation with Toshiba during the year.

In March, KONE participated in a targeted share issue organized by Toshiba Elevator and Building Systems Corporation (TELC), after which KONE's holding in TELC amounted to 19.9 percent. The value of the investment was EUR 158 million. At the same time, KONE Corporation sold 829,580 of its previously repurchased class B shares to TELC for a total price of EUR 86.3 million. The profit from this sale has been entered directly into the balance sheet as shareholders' equity instead of into the statement of income. The President and CEO of TELC, Hiroshi Nishioka, was elected to the KONE Board at the 2002 general meeting.

At the end of 2002, TELC's holding in KONE amounted to nearly five percent.

Divestments

In December, agreements were signed for the sale of the major holdings in KONE Materials Handling's Other Businesses. The divestment of Nordkalk Corporation and the holding in Paroc Group Oy Ab will be closed in the first quarter of 2003.

The transaction price for Nordkalk, after reduction of minority interests, is EUR 270 million. Nordkalk's EUR 100 million listed bond and the company's interest-bearing net debt will

be deducted from this price. The final price for the shares is estimated at EUR 140 million.

The debt-free price for the 38 percent holding in Paroc is approximately EUR 75 million, including the price for the shares and the repayment of loans.

Shares and Shareholder Meetings

KONE's annual general meeting in February ratified the financial statements for 2001, approved the board of director's proposal for the distribution of profit, and discharged the responsible parties for liability for the 2001 financial year. Pekka Herlin was re-elected chairman of the Board for the 2002 financial year, and Antti Herlin, Gerhard Wendt, Iiro Viinanen and Jean-Pierre Chauvarie were re-elected as full board members. Furthermore, Toshiba Elevator and Building Systems Corporation's President and CEO Hiroshi Nishioka was elected to the board for a term beginning April 1, 2002.

In addition, the annual general meeting approved the board of directors' proposal to authorize the reacquisition of a maximum of 1,007,726 KONE shares, consisting of a maximum of 174,247 class A shares and 833,479 class B shares, while respecting the provisions of the Companies Act regarding the maximum number of own shares to be held by the company. During the year under review, 833,479 class B shares - the maximum authorized by the AGM - were repurchased at a total price of EUR 26.3 million, or EUR 31.56 per share. The repurchased shares represent 1.3 percent of the share capital and 0.6 percent of the voting rights in KONE.

A May 24, 2002 extraordinary shareholders' meeting

approved a three-way split in KONE shares. The share par value was decreased from EUR 3.00 to EUR 1.00.

A second extraordinary shareholders' meeting on June 14, 2002 approved a transaction between KONE and the State of Finland. This involved an increase in KONE share capital by EUR 3,000,000, through the issuance of 3,000,000 new class B shares to be offered for subscription to the State of Finland at EUR 35.33 per share, representing a total price of EUR 105,990,000. The State of Finland paid the subscription price with 6,927,451 Partek shares at a value of EUR 15.30 per share.

In accordance with a decision of the Board of Directors on December 22, 2000, holders of unlisted class A shares have the right to exchange them for class B shares at a ratio of one to one. The offer is valid until December 31, 2003. On December 20, 2002 the chairman of the KONE Board of Directors, Pekka Herlin, requested the conversion of 928,734 class A shares to class B shares, and KONE's board of directors approved the request.

Annual General Meeting and Distribution of Profits

KONE's distributable equity stands at EUR 661.2 million. The parent company's non-restricted equity from previous years totaled EUR 819.0 million, and net income from the year under review was EUR 35.6 million. The board of directors proposes to the annual general meeting that a dividend of EUR 1.48 (0.71) be paid for each class A share and EUR 1.50 (0.73) for each outstanding class B share from retained earnings. The date of record for dividend distribution is February 26, 2003, and it is proposed that dividends be

paid on March 5, 2003. If the annual general meeting of February 21, 2003 approves the board of directors' proposal on profit distribution, the dividends will total EUR 93.8 (42.3) million.

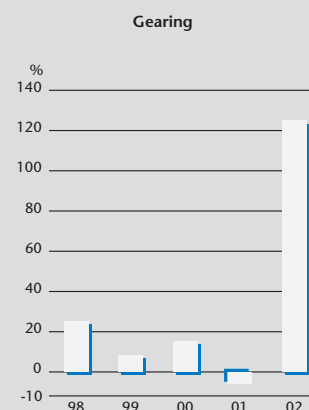
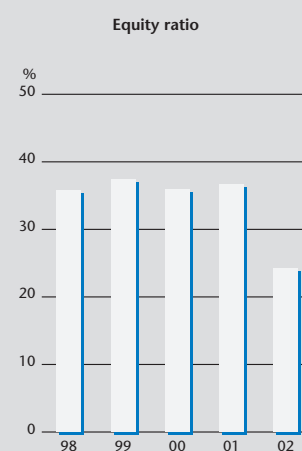
The board of directors also proposes that the annual general meeting extend the board of directors' authority to use funds available for profit distribution to repurchase KONE shares with the provision that repurchased shares shall not exceed five percent of the corporation's total number of shares and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

Outlook

At the time of writing this report, both economic and political uncertainty has increased, which makes predicting market development extraordinarily difficult. Estimating KONE's future sales and profits is also more challenging than it was prior to the acquisition of Partek, due to the different nature of the businesses.

In 2003, KONE Elevators & Escalators' new equipment order intake and sales are anticipated to remain at approximately the level of 2002. Maintenance and modernization revenue is expected to increase approximately five percent in 2003. Our service base, combined with the year-end order book figures, support these assumptions.

We are confident that we will reach KONE Elevators and Escalators' target of exceeding



an EBITA margin of 10 percent as our products and processes continue to improve.

The combined order intake and sales of KONE Materials Handling's business areas in 2003 are expected to reach at least the 2002 level. Profits are anticipated to exceed an

EBITA margin of five percent. The impact of completed and initiated actions to improve profitability and cash flow support the view that this profitability level will be reached.

By integrating headquarters functions of KONE and Partek,

and through improved tax planning and coordinated financial management, we will achieve savings in both the divisions and in the corporation as a whole. These savings will already largely be achieved in 2003 and provide a solid base for improving KONE's

profitability during the year.

The expected strong cash flow of both divisions, coupled with divestments, will considerably strengthen KONE's balance sheet in 2003.

Calculation of Key Figures

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

*) Equity without capital loans and repurchased own shares

**) Fixed assets and other long-term investments (without repurchased own shares) and working capital

***) Capital loans included

Principles of Consolidation

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

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

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

Intracorporate transactions have been eliminated in the consolidated financial statements.

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

KONE's share of the profit or loss of an associated company is shown in the Consolidated Statement of Income as a separate item. KONE's share of the associated companies' shareholders' equity at the date of acquisition, adjusted by changes in the associated companies' equity after the date of acquisition, is shown in the Balance Sheet under "Shares and Participating Interests".

In certain countries, tax legislation allows allocations to be made

to untaxed reserves. These allocations are not subject to taxation on condition that the corresponding deductions have also been made in the accounts.

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

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

The income statements of foreign subsidiaries are translated at the average exchange rate for the accounting period and the balance sheets at the closing rate on the balance sheet date.

Foreign Currency Items

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

Revenue Recognition Principle

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

Research and Development Costs

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

Pension Settlements and Costs

Pensions are generally handled for KONE companies by outside pension insurance companies. Pension costs and changes in deficits are charged to the Statement of Income taken into consideration local legislation in different countries and prudent accounting.

Leasing

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

Extraordinary Items

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

Taxes

The provision for income taxes includes current income taxes payable according to local tax regulations as well as changes in deferred taxes using current tax rates.

All potential deferred tax liabilities are reported, but as a prudent measure only those deferred tax assets which seem certain to be realized are stated. Taxes also include dividend-related taxes and taxes from previous years.

Valuation and Depreciation of Fixed Assets

Fixed assets are stated at cost. In addition, certain land and build-

ings can be stated at revalued amounts. These values are regularly reviewed. A predetermined plan is used in carrying out depreciation of fixed assets. Depreciation is based on the estimated useful economic life of various assets as follows:

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

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

Inventories

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

Provision for Liabilities and Charges

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

Consolidated Statement of Income

| MEUR | | 2002 | % | 2001 | % |
|---|--------|-----------|-----|-----------|-----|
| Sales | Note 1 | 4,341.8 | | 2,816.3 | |
| Costs and expenses | Note 2 | (3,926.0) | | (2,516.1) | |
| Depreciation | Note 3 | (140.6) | | (82.4) | |
| Operating Income | Note 1 | 275.2 | 6.3 | 217.8 | 7.7 |
| Share of associated companies' net income | | 5.9 | | 1.3 | |
| Financing income and expenses | Note 4 | (24.9) | | (0.4) | |
| Income before Taxes | | 256.2 | 5.9 | 218.7 | 7.8 |
| Taxes | Note 5 | (95.5) | | (76.5) | |
| Minority share | | (3.6) | | (1.1) | |
| Net Income | | 157.1 | 3.6 | 141.1 | 5.0 |

Consolidated Balance Sheet

| Assets MEUR | | 31/12/2002 | 31/12/2001 |
|---|---------|----------------|----------------|
| Fixed Assets and Other Long-term Investments | | | |
| Intangible assets | | | |
| Goodwill | Note 6 | 1,063.1 | 417.3 |
| Other long-term expenditures | Note 7 | 57.1 | 25.6 |
| | | 1,120.2 | 442.9 |
| Tangible assets | | | |
| Land | Note 8 | 101.4 | 12.2 |
| Buildings | Note 9 | 240.7 | 107.4 |
| Machinery and equipment | Note 10 | 284.5 | 83.6 |
| Advance payments | | 22.1 | 3.7 |
| | | 648.7 | 206.9 |
| Investments | | | |
| Shares and participating interests | Note 11 | 207.7 | 14.0 |
| Own shares | | 26.3 | 57.3 |
| | | 234.0 | 71.3 |
| Total Fixed Assets and Other Long-term Investments | | 2,002.9 | 721.1 |
| Current Assets | | | |
| Inventories | | | |
| Raw materials, supplies and finished goods | | 476.9 | 85.7 |
| Work in progress | | 454.3 | 498.9 |
| Advance payments | | 5.3 | 3.8 |
| Advance payments received | | (406.1) | (476.4) |
| | | 530.4 | 112.0 |
| Receivables | | | |
| Accounts receivable | | 842.9 | 611.9 |
| Loans receivable | | 60.8 | 4.1 |
| Other receivables | | 7.6 | 10.6 |
| Deferred assets | | 295.9 | 194.4 |
| | Note 12 | 1,207.2 | 821.0 |
| Current investments | Note 13 | 293.8 | 384.3 |
| Cash and bank | | 125.9 | 68.9 |
| | | 419.7 | 453.2 |
| Total Current Assets | | 2,157.3 | 1,386.2 |
| Total Assets | | 4,160.2 | 2,107.3 |

| Shareholders' Equity and Liabilities MEUR | | 31/12/2002 | 31/12/2001 |
|---|-------------|------------|------------|
| Shareholders' Equity | | | |
| Share capital | | 63.5 | 60.5 |
| Share premium account | | 219.6 | 95.9 |
| Reserve for own shares | | 26.3 | 57.3 |
| Translation differences | | 20.9 | 61.0 |
| Retained earnings | | 519.8 | 390.0 |
| Net income | | 157.1 | 141.1 |
| Capital loans | | 102.1 | 0.0 |
| Total Shareholders' Equity | Notes 14,15 | 1,109.3 | 805.8 |
| Minority Shares | | 20.1 | 1.4 |
| Provision for Liabilities and Charges | Note 16 | 247.0 | 220.5 |
| Debt | | | |
| Deferred tax liability | Note 17 | 49.6 | 25.9 |
| Long-term debt | | | |
| Loans | Note 18 | 975.8 | 350.3 |
| Current liabilities | | | |
| Loans | | 596.2 | 7.3 |
| Accounts payable | | 385.7 | 151.8 |
| Accruals | | 718.6 | 492.2 |
| Other current liabilities | | 57.9 | 52.1 |
| | Note 19 | 1,758.4 | 703.4 |
| Total Debt | | 2,783.8 | 1,079.6 |
| Total Shareholders' Equity and Liabilities | | 4,160.2 | 2,107.3 |

Consolidated Statement of Cash Flows

| MEUR | 2002 | 2001 |
|--|------------------|----------------|
| Cash receipt from customers | 4,363.0 | 2 892.2 |
| Cash paid to suppliers and employees | (3,747.4) | (2 548.6) |
| Cash flow from financial items | (21.5) | 1.3 |
| Cash flow from taxes and other items | (97.2) | (90.4) |
| Cash Flow from Operating Activities | 496.9 | 254.5 |
| Capital expenditure | (225.3) | (46.7) |
| Proceeds from sales of fixed assets | 10.5 | 41.9 |
| Fixed assets of new subsidiaries | (1,279.6) | (37.0) |
| Fixed assets of sold subsidiaries | 0.0 | 3.3 |
| Cash Flow from Investing Activities | (1,494.4) | (38.5) |
| Cash Flow after Investing Activities | (997.5) | 216.0 |
| Change in current creditors, net | 1,793.3 | (170.4) |
| Change in long-term debt, net | 757.7 | 278.6 |
| Purchase of own shares | (26.3) | (25.6) |
| Sales of own shares | 77.9 | 0.0 |
| Share issue | 106.0 | 0.0 |
| Dividends paid | (42.3) | (29.0) |
| Other financing activities | (1,637.3) | (248.3) |
| Cash Flow from Financing Activities | 1,029.0 | (194.7) |
| Change in Net Cash | 31.5 | 21.3 |
| Cash and banks as of 31 December | 125.9 | 68.9 |
| Exchange difference | 7.8 | (0,2) |
| Cash and banks as of 1 January | 102.2 | 47.4 |
| Change in Net Cash | 31.5 | 21.3 |
| Reconciliation of Net Income to Cash Flow from Operating Activities | | |
| Net Income | 157.1 | 141.1 |
| Depreciation | 140.6 | 82.4 |
| Minority interest | 3.6 | 1.1 |
| Income before Change in Working Capital | 301.3 | 224.6 |
| Change in receivables | 69.9 | (30.7) |
| Change in payables | 98.2 | 15.7 |
| Change in inventories | 27.5 | 44.9 |
| Cash Flow from Operating Activities | 496.9 | 254.5 |

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

Notes on the Consolidated Financial Statement

Consolidated Statement of Income MEUR

1. Notes by Division

| Sales | 2002 | 2001 | | |
|--|----------------|----------------|--------------|------------|
| Elevators & Escalators | 2,970.1 | 2,816.3 | | |
| Materials Handling: | | | | |
| Business areas | 1,174.5 | | | |
| Nordkalk | 132.7 | | | |
| Others | 64.5 | | | |
| Materials Handling total | 1,371.7 | | | |
| Total sales | 4,341.8 | 2,816.3 | | |
| Operating income | 2002 | % | 2001 | % |
| Operating income before goodwill amortization: | | | | |
| Elevators & Escalators | 287.0 | 9.7 | 256.4 | 9.1 |
| Materials Handling: | | | | |
| Business areas | 51.3 | 4.4 | | |
| Nordkalk | 20.8 | 15.7 | | |
| Others and eliminations | (7.9) | | | |
| Materials Handling total | 64.2 | 4.7 | | |
| Unallocated corporate expenses | (11.0) | | | |
| Goodwill amortization | (65.0) | | (38.6) | |
| Total operating income | 275.2 | 6.3 | 217.8 | 7.7 |

2. Cost and Expenses

| | 2002 | 2001 |
|--|----------------|----------------|
| Change of work in progress | 93.6 | (44.2) |
| Materials and supplies | 1,385.2 | 824.1 |
| External services | 134.7 | 107.4 |
| Salaries of boards of directors and managing directors | 18.5 | 11.5 |
| Wages and other salaries | 941.8 | 792.0 |
| Pension costs | 158.6 | 118.5 |
| Other personnel expenses | 319.3 | 241.5 |
| Other expenses | 909.0 | 503.9 |
| Other business income | (34.7) | (38.6) |
| Total | 3,926.0 | 2,516.1 |

3. Depreciation

| | 2002 | 2001 |
|------------------------------|--------------|-------------|
| Goodwill | 65.0 | 38.6 |
| Other long-term expenditures | 9.9 | 5.4 |
| Buildings | 13.1 | 6.8 |
| Machinery and equipment | 52.6 | 31.6 |
| Total | 140.6 | 82.4 |

4. Financing Income and Expenses

| | 2002 | 2001 |
|--------------------------|---------------|--------------|
| Dividends received | 0.4 | 0.4 |
| Interest received | 35.1 | 25.5 |
| Other financing income | 3.5 | 4.1 |
| Interest paid | (60.2) | (28.3) |
| Other financing expenses | (3.7) | (2.1) |
| Total | (24.9) | (0.4) |

5. Taxes

| | 2002 | 2001 |
|---|-------------|-------------|
| Revenue based taxes | 99.8 | 82.2 |
| Change in deferred tax liabilities and assets | 0.8 | (2.6) |
| Tax credit on dividends and previous year taxes | (5.1) | (3.1) |
| Total | 95.5 | 76.5 |

Consolidated Balance Sheet MEUR

6. Goodwill

| | 2002 | 2001 |
|----------------------------------|----------------|--------------|
| Acquisition cost as of January 1 | 758.5 | 748.8 |
| Increase | 734.9 | 33.8 |
| Accumulated depreciation | (430.3) | (365.3) |
| Total as of December 31 | 1,063.1 | 417.3 |

7. Other Long-term Expenditures

| | 2002 | 2001 |
|----------------------------------|-------------|-------------|
| Acquisition cost as of January 1 | 83.0 | 68.5 |
| Increase | 34.0 | 7.0 |
| Decrease | (0.1) | 0.0 |
| Accumulated depreciation | (59.8) | (49.9) |
| Total as of December 31 | 57.1 | 25.6 |

8. Land

| | 2002 | 2001 |
|----------------------------------|--------------|-------------|
| Acquisition cost as of January 1 | 11.1 | 14.6 |
| Accumulated revaluation | 0.8 | 0.8 |
| Increase | 94.3 | 0.3 |
| Decrease | (4.8) | (3.5) |
| Total as of December 31 | 101.4 | 12.2 |

9. Buildings

| | 2002 | 2001 |
|----------------------------------|--------------|--------------|
| Acquisition cost as of January 1 | 179.6 | 187.0 |
| Accumulated revaluation | 12.7 | 12.7 |
| Increase | 157.2 | 5.3 |
| Decrease | (2.0) | (3.9) |
| Accumulated depreciation | (106.8) | (93.7) |
| Total as of December 31 | 240.7 | 107.4 |

10. Machinery and Equipment

| | 2002 | 2001 |
|----------------------------------|--------------|-------------|
| Acquisition cost as of January 1 | 428.3 | 406.4 |
| Increase | 266.7 | 33.1 |
| Decrease | (3.7) | (1.7) |
| Accumulated depreciation | (406.8) | (354.2) |
| Total as of December 31 | 284.5 | 83.6 |

11. Shares and Participating Interests

| | 2002 | 2001 |
|---|-------|------|
| Total as of January 1 | 13.6 | 11.7 |
| Change in the share in associated companies | 5.1 | 2.3 |
| Increase | 196.6 | 0.0 |
| Decrease | (7.6) | 0.0 |
| Total as of December 31 | 207.7 | 14.0 |

12. Receivables

| Receivables falling due after one year: | 2002 | 2001 |
|---|------|------|
| Accounts receivable | 3.7 | 3.2 |
| Loans receivable | 27.4 | 2.2 |
| Total | 31.1 | 5.4 |

| Receivables from associated companies: | 2002 | 2001 |
|--|------|------|
| Accounts receivable | 4.6 | 0.6 |
| Deferred assets | 4.5 | 0.0 |
| Loans receivable | 43.3 | 2.0 |
| Total | 52.4 | 2.6 |

| Deferred assets: | 2002 | 2001 |
|----------------------|-------|-------|
| Income taxes and VAT | 51.0 | 27.6 |
| Deferred tax assets | 108.5 | 85.7 |
| Other | 136.4 | 81.1 |
| Total | 295.9 | 194.4 |

13. Current Investments

| | 2002 | 2001 |
|-----------|-------|-------|
| Deposits* | 293.8 | 296.6 |
| Bonds | 0.0 | 26.3 |
| Other | 0.0 | 61.4 |
| Total | 293.8 | 384.3 |

*Including deposits which are financed by Euro Medium Term Note program.

14. Shareholders' Equity and Its Changes

| | Share capital | Share premium account | Reserves for own shares | Translation differences | Retained earnings | Net income for the year | Capital loans | Total equity |
|-------------------------|---------------|-----------------------|-------------------------|-------------------------|-------------------|-------------------------|---------------|--------------|
| As of 1 January | 60.5 | 95.9 | 57.3 | 61.0 | 531.1 | | | 805.8 |
| Issue of shares | 3.0 | 103.0 | | | | | | 106.0 |
| Purchase of own shares | | | 26.3 | | (26.3) | | | 0.0 |
| Sales of own shares | | 20.6 | (57.3) | | 57.3 | | | 20.6 |
| Translation differences | | | | (40.1) | | | | (40.1) |
| Dividend | | | | | (42.3) | | | (42.3) |
| Net income for the year | | | | | | 157.1 | | 157.1 |
| Capital loans | | | | | | | 102.1 | 102.1 |
| As of 31 December | 63.5 | 219.6 | 26.3 | 20.9 | 519.8 | 157.1 | 102.1 | 1,109.3 |

The accumulation of untaxed reserves, excluding the calculative deferred tax liability, is included in retained earnings totaled EUR 16.2 million (EUR 15.6 million). Accumulated untaxed reserves are not distributable equity.

15. Capital Loans

| | 2002 | 2001 |
|-------------------------------|-------|------|
| Convertible subordinated bond | | |
| Partek Corporation | 1.6 | 0.0 |
| Convertible capital loan | | |
| Partek Corporation | 0.5 | 0.0 |
| Convertible capital loan | | |
| Nordkalk Corporation | 100.0 | 0.0 |
| Total | 102.1 | 0.0 |

16. Provision for Liabilities and Charges

| | 2002 | 2001 |
|--|-------|-------|
| Provision for guarantees | 23.5 | 23.7 |
| Provision for general and product liability claims | 39.3 | 69.1 |
| Provision for business reorganizing | 38.2 | 15.4 |
| Provision for loss contracts | 23.9 | 21.2 |
| Other provisions | 122.1 | 91.1 |
| Total | 247.0 | 220.5 |

17. Deferred Tax Assets and Liabilities

| Deferred tax assets | 2002 | 2001 |
|----------------------------|-------|------|
| Consolidation adjustments | 15.4 | 15.9 |
| Timing differences | 93.1 | 69.8 |
| Deferred tax assets, total | 108.5 | 85.7 |

| Deferred tax liabilities | 2002 | 2001 |
|--------------------------------|------|------|
| Consolidation adjustments | 4.0 | 6.2 |
| Timing differences | 45.6 | 19.7 |
| Total deferred tax liabilities | 49.6 | 25.9 |

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

18. Long-term Debt

Long-term debt falls due as follows:

| | MEUR | % |
|--------------|--------------|--------------|
| 2004 | 154.4 | 15.8 |
| 2005 | 173.2 | 17.8 |
| 2006 | 356.4 | 36.5 |
| 2007 | 181.2 | 18.6 |
| Later | 110.6 | 11.3 |
| Total | 975.8 | 100.0 |

19. Current Liabilities

| Liabilities owed to associated companies | 2002 | 2001 |
|--|------------|------------|
| Accounts payable | 1.0 | 2.2 |
| Other current liabilities | 1.3 | 1.2 |
| Total | 2.3 | 3.4 |

| Deferred liabilities | 2002 | 2001 |
|--|--------------|--------------|
| Accrued income taxes and VAT | 103.9 | 81.1 |
| Accrued salaries, wages and employment costs | 251.1 | 204.0 |
| Other deferred liabilities | 363.6 | 207.1 |
| Total | 718.6 | 492.2 |

20. Contingent Liabilities and Pledged Assets

| | Group | | Parent company | |
|--|--------------|--------------|----------------|----------------|
| | 2002 | 2001 | 2002 | 2001 |
| Assets pledged to secure loans | | | | |
| Group and parent company | 26.4 | 1.4 | 16.7 | 0.8 |
| Pledged assets | | | | |
| Group and parent company | 22.7 | 21.6 | 0.0 | 0.0 |
| Guarantees | | | | |
| Subsidiaries | 0.0 | 0.0 | 1,199.4 | 1,203.5 |
| Associated companies | 4.1 | 2.9 | 1.9 | 2.9 |
| Others ¹⁾ | 19.6 | 2.4 | 0.9 | 1.5 |
| Leasing liabilities | | | | |
| Falling due in the next year | 50.4 | 34.1 | 2.9 | 2.4 |
| Falling due after one year | 127.8 | 83.2 | 2.7 | 2.8 |
| Other contingent liabilities ¹⁾ | 111.4 | 0.0 | 0.0 | 0.0 |
| Total | 362.4 | 145.6 | 1,224.5 | 1,213.9 |
| Value of guaranteed debt | 83.7 | 46.3 | 77.5 | 43.5 |
| Book value of assets pledged | 30.1 | 15.5 | 16.7 | 0.8 |

¹⁾ Guarantees for others include EUR 10.3 million customer finance arrangements where the sold machines form security and other contingent liabilities include repurchase commitments for sold products to a value of EUR 71.7 million.

21. Derivatives

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

| | Book value | Market value | Book value | Market value |
|---------------------|----------------|--------------|--------------|--------------|
| | 2002 | 2002 | 2001 | 2001 |
| Forward contracts | 983.9 | 24.7 | 225.4 | (1.2) |
| Currency options | 83.2 | 0.4 | 192.8 | 0.9 |
| Currency swaps | 153.8 | 1.1 | 0.0 | 0.0 |
| Interest rate swaps | 276.6 | (8.8) | 0.0 | 0.0 |
| Total | 1,497.5 | 17.4 | 418.2 | (0.3) |

22. Financial Risk Management

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

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

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

Currency Risks

KONE operates internationally and is, thus, exposed to currency risks arising from exchange rate fluctuations related to currency flows from sales and purchases (transaction

risk) and net equity in foreign subsidiaries (translation risk).

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

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

Interest-rate Risks

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

combinations of fixed and floating interest in the debt portfolio and various interest-rate derivatives.

Open interest-rate derivative contracts at the end of 2002 are shown in note 21.

Refinancing and Liquidity Risks

In minimizing funding and liquidity risks, KONE ensures that short-term debt does not exceed a defined level in relation to total interest-bearing debt and that liquid assets and existing credit facilities cover estimated financing needs.

Due to the acquisition of Partek, interest-bearing net debt rose to EUR 1,252 million. Capital loans are included in interest-bearing net debt. Total interest-bearing debt excluding convertible capital loans amounted to EUR 1,630 million, of which short-term

interest-bearing debt (including repayment of loans within one year), adjusted for committed long-term facilities, was 24 percent. The long-term loan repayment schedule can be found in note 18.

At year-end, unused long-term committed credit facilities totaled EUR 166 million. KONE also has substantial unused short-term committed and uncommitted credit facilities. In addition to a strong cash flow from operations, the divestment of Nordkalk and the shareholding in Paroc will reduce net debt during 2003.

Counterpart Risks

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

Parent Company: Statement of Income

| MEUR | | 2002 | % | 2001 | % |
|--|--------|---------|------|---------|------|
| Sales | Note 1 | 414.5 | | 353.8 | |
| Change of work in progresss | | (14.4) | | (0.8) | |
| Cost and expenses | Note 2 | (338.2) | | (315.4) | |
| Depreciation | Note 3 | (3.7) | | (7.4) | |
| Operating Income | | 58.2 | 14.0 | 30.2 | 8.5 |
| Financing income and expenses | Note 4 | 43.5 | | 65.3 | |
| Income After Financial Items | | 101.7 | 24.5 | 95.5 | 27.0 |
| Extraordinary items | Note 5 | (54.5) | | 13.7 | |
| Income Before Taxes and Allocations | | 47.2 | 11.4 | 109.2 | 30.9 |
| Depreciation difference | Note 6 | 0.9 | | 0.7 | |
| Taxes | | (12.5) | | (27.3) | |
| Net Income | | 35.6 | 8.6 | 82.6 | 23.3 |

Parent Company: Balance Sheet

| Assets MEUR | | 31/12/2002 | 31/12/2001 |
|---|-------------|------------|------------|
| Fixed Assets and Other Long-term Investments | | | |
| Intangible assets | | | |
| Other long-term expenditures | Note 7 | 0.8 | 1.7 |
| Advances paid | | - | 0.4 |
| | | 0.8 | 2.1 |
| Tangible assets | | | |
| Land | Note 8 | 1.4 | 1.5 |
| Buildings | Note 9 | 18.2 | 18.2 |
| Machinery and equipment | Note 10 | 6.7 | 9.4 |
| | | 26.3 | 29.1 |
| Investments | | | |
| Shares in subsidiaries | Note 11 | 417.9 | 421.2 |
| Other stocks and shares | Note 12, 21 | 4.5 | 3.4 |
| Own shares | Note 13 | 26.3 | 57.3 |
| | | 448.7 | 481.9 |
| Total Fixed Assets and Other Long-term Investments | | | |
| | | 475.8 | 513.1 |
| Current Assets | | | |
| Inventories | | | |
| Raw materials and supplies | | 16.2 | 15.9 |
| Work in progress | | 22.0 | 36.4 |
| | | 38.2 | 52.3 |
| Receivables | | | |
| | Note 14 | | |
| Accounts receivable | | 56.2 | 49.6 |
| Loans receivable | | 1,965.0 | 565.6 |
| Deferred assets | | 115.9 | 70.2 |
| | | 2,137.1 | 685.4 |
| Current Investments | | | |
| | Note 15 | 250.7 | 370.8 |
| Cash and bank | | | |
| | | 2.6 | 6.5 |
| | | 253.3 | 377.3 |
| Total Current Assets | | | |
| | | 2,428.6 | 1,115.0 |
| Total Assets | | | |
| | | 2,904.4 | 1,628.1 |

| Shareholders' Equity and Liabilities MEUR | | 31/12/2002 | 31/12/2001 |
|---|---------|------------|------------|
| Shareholders' Equity | | | |
| Share capital | | 63.5 | 60.5 |
| Share premium account | | 219.6 | 95.9 |
| Reserve for own shares | | 26.3 | 57.3 |
| Retained earnings | | 818.9 | 747.7 |
| Net income | | 35.6 | 82.6 |
| Total Shareholders' Equity | | | |
| | Note 16 | 1,163.9 | 1,044.0 |
| Untaxed Reserves | | | |
| | Note 17 | 1.8 | 2.7 |
| Provision for Liabilities and Charges | | | |
| | Note 18 | 11.3 | 11.8 |
| Liabilities | | | |
| | Note 19 | | |
| Long-term debt | | | |
| | Note 20 | | |
| Loans from financial institutions | | 366.3 | 37.6 |
| Current liabilities | | | |
| Loans from financial institutions | | 36.1 | 5.9 |
| Advances received | | 27.0 | 26.0 |
| Accounts payable | | 28.6 | 26.5 |
| Other current liabilities | | 1,180.0 | 433.2 |
| Accruals | | 89.4 | 40.4 |
| | | 1,361.1 | 532.0 |
| Total Debt | | | |
| | | 1,727.4 | 569.6 |
| Total shareholders' Equity and Liabilities | | | |
| | | 2,904.4 | 1,628.1 |

Parent Company: Statement of Cash Flows

| MEUR | 2002 | 2001 |
|--|---------------|---------------|
| Cash receipt from customers | 416.5 | 354.1 |
| Cash paid to suppliers and employees | (332.2) | (301.1) |
| Cash flow from financial items | 27.1 | 48.9 |
| Cash flow from taxes and other items | (57.0) | (23.1) |
| Cash Flow from Operating Activities | 54.4 | 78.8 |
| Capital expenditure | (3.9) | (6.0) |
| Proceeds from sale of fixed assets | 3.0 | 21.4 |
| Purchase of shares in subsidiaries | (120.0) | 0.0 |
| Proceeds from sale of shares in subsidiaries | 123.3 | 0.0 |
| Cash Flow from Investing Activities | 2.4 | 15.4 |
| Cash Flow After Investing Activities | 56.8 | 94.2 |
| Purchase of own shares | (26.3) | (25.6) |
| Proceeds from sale of own shares | 77.9 | 0.0 |
| Share issue | 106.0 | 0.0 |
| Change in current creditors (net) | 777.0 | 255.7 |
| Change in long-term debt (net) | 328.6 | (5.5) |
| Dividends paid | (42.3) | (29.0) |
| Other financing activities | (1,281.6) | (284.0) |
| Cash Flow from Financing Activities | (60.7) | (88.4) |
| Change in Net Cash | (3.9) | 5.8 |
| Cash and bank as of 31 December | 2.6 | 6.5 |
| Cash and bank as of 1 January | 6.5 | 0.7 |
| Change in Net Cash | (3.9) | 5.8 |
| Reconciliation of Net Income to Cash Flow from Operating Activities | | |
| Net Income | 35.6 | 82.6 |
| Depreciation | 3.7 | 7.4 |
| Other adjustments | (0.6) | 2.8 |
| Income Before Change in Working Capital | 38.7 | 92.8 |
| Change in receivables | (55.0) | (13.7) |
| Change in payables | 56.7 | (0.3) |
| Change in inventories | 14.0 | - |
| Cash Flow from Operating Activities | 54.4 | 78.8 |

Notes on the Parent Company Financial Statement

Statement of Income MEUR

1. Sales

Sales to subsidiaries totaled EUR 247.2 million (2001: EUR 195.4 million) corresponding to a share of about 60% (2001: 55%) of net sales.

2. Costs and Expenses

| Cost and expenses were spread as follows | 2002 | 2001 |
|---|--------------|--------------|
| Materials and supplies | 139.3 | 116.1 |
| External services | 57.2 | 51.1 |
| Salaries of boards of directors and managing director | 0.5 | 1.3 |
| Wages and other salaries | 50.8 | 46.8 |
| Pension expenses | 11.5 | 8.9 |
| Other personnel expenses including vacation pay | 15.6 | 15.5 |
| Other expenses | 75.7 | 82.2 |
| Other business income | (12.4) | (6.5) |
| Total | 338.2 | 315.4 |

The average number of employees was 1,508 (2001: 1,494).

3. Depreciation

| | 2002 | 2001 |
|------------------------------|------------|------------|
| Intangible assets | - | 2.6 |
| Other long-term expenditures | 0.6 | 0.6 |
| Buildings | 0.4 | 0.5 |
| Machinery and equipment | 2.7 | 3.7 |
| Total | 3.7 | 7.4 |

4. Financing Income and Expenses

| | 2002 | 2001 |
|--------------------------------------|-------------|-------------|
| Dividends received from subsidiaries | 3.2 | 27.4 |
| Other interest received | 0.4 | 5.0 |
| Interest paid to subsidiaries | 44.5 | 29.8 |
| Other interest received | 23.6 | 16.9 |
| Interest paid to subsidiaries | (16.4) | (12.8) |
| Other interest paid | (14.1) | (4.9) |
| Other financing income and expenses | 2.3 | 3.9 |
| Total | 43.5 | 65.3 |

5. Extraordinary Items

| | 2002 | 2001 |
|------------------------------|---------------|-------------|
| Group contributions received | 0.4 | 13.7 |
| Group contributions granted | (54.9) | - |
| Total | (54.5) | 13.7 |

6. Depreciation Difference

| | 2002 | 2001 |
|------------------------------|------------|------------|
| Intangible assets | - | (2.7) |
| Other long-term expenditures | 0.2 | (0.1) |
| Buildings | 0.1 | 0.2 |
| Machinery and equipment | 0.6 | 3.3 |
| Total | 0.9 | 0.7 |

Balance Sheet MEUR

7. Other Long-term Expenditures

| | 2002 | 2001 |
|----------------------------------|------------|------------|
| Acquisition cost as of January 1 | 4.0 | 3.5 |
| Increase | 0.1 | 1.0 |
| Decrease | (1.4) | - |
| Accumulated depreciation | (1.9) | (2.8) |
| Total as of December 31 | 0.8 | 1.7 |

8. Land

| | 2002 | 2001 |
|----------------------------------|------------|------------|
| Acquisition cost as of January 1 | 0.6 | 0.7 |
| Accumulated revaluation | 0.8 | 0.8 |
| Total as of December 31 | 1.4 | 1.5 |

9. Buildings

| | 2002 | 2001 |
|----------------------------------|-------------|-------------|
| Acquisition cost as of January 1 | 14.1 | 14.2 |
| Accumulated revaluation | 11.7 | 11.7 |
| Increase | 0.4 | 0.8 |
| Accumulated depreciation | (8.0) | (8.5) |
| Total as of December 31 | 18.2 | 18.2 |

10. Machinery and Equipment

| | 2002 | 2001 |
|----------------------------------|------------|------------|
| Acquisition cost as of January 1 | 43.1 | 50.5 |
| Increase | 2.5 | 3.7 |
| Decrease | (2.6) | (0.3) |
| Accumulated depreciation | (36.3) | (44.5) |
| Total as of December 31 | 6.7 | 9.4 |

11. Shares in Subsidiaries

| | 2002 | 2001 |
|--------------------------------|--------------|--------------|
| Total as of January 1 | 421.2 | 424.5 |
| Increase | 14.0 | - |
| Decrease | (17.3) | (3.3) |
| Total as of December 31 | 417.9 | 421.2 |

12. Other Stocks and Shares

| | 2002 | 2001 |
|--------------------------------|------------|------------|
| Total as of January 1 | 3.4 | 4.1 |
| Increase | 1.1 | 0.0 |
| Decrease | - | (0.7) |
| Total as of December 31 | 4.5 | 3.4 |

13. Own shares

During 2002, KONE repurchased 833,479 class B shares for EUR 26.3 million (average price per share of EUR 31.56). A complete list of daily acquisitions can be found in the KONE Corporation balance sheet book as of December 31, 2002.

14. Receivables

| | | |
|---|------|------|
| Receivables falling due after one year: | 2002 | 2001 |
| Loans receivable | 1.6 | 1.7 |

| | | |
|-----------------------------------|---------|-------|
| Receivables from group companies: | 2002 | 2001 |
| Accounts receivable | 36.0 | 29.5 |
| Loans receivable | 1,963.3 | 562.7 |
| Deferred assets | 16.7 | 25.8 |
| Total | 2,016.0 | 618.0 |

| | | |
|--|------|------|
| Receivables from associated companies: | 2002 | 2001 |
| Accounts receivable | 2.1 | 2.2 |
| Loans receivable | 1.5 | 1.6 |
| Total | 3.6 | 3.8 |

| | | |
|-------------------------------|-------|------|
| Deferred assets: | 2002 | 2001 |
| Interest receivable | 25.6 | 13.3 |
| Receivables from subsidiaries | 16.7 | 25.8 |
| Exchange rate gains | 62.9 | 13.3 |
| Other deferred assets | 10.7 | 17.8 |
| Total | 115.9 | 70.2 |

15. Current Investments

| | | |
|------------------------|-------|-------|
| | 2002 | 2001 |
| Deposits ¹⁾ | 250.7 | 284.7 |
| Other investments | - | 86.1 |
| Total | 250.7 | 370.8 |

¹⁾ Including deposits, which are financed by Euro Medium Term Note program.

16. Shareholders' Equity and Its Changes

| | Share capital | Share premium account | Reserve for own shares | Retained earnings | Net income for the year | Total equity |
|-------------------------|---------------|-----------------------|------------------------|-------------------|-------------------------|--------------|
| As of 1 January | 60.5 | 95.9 | 57.3 | 830.3 | | 1,044.0 |
| Issue of shares | 3.0 | 103.0 | | | | 106.0 |
| Dividend | | | | (42.3) | | (42.3) |
| Purchases of own shares | | | 26.3 | (26.3) | | 0.0 |
| Sales of own shares | | 20.6 | (57.3) | 57.3 | | 20.6 |
| Net income for the year | | | | | 35.6 | 35.6 |
| As of 31 December | 63.5 | 219.6 | 26.3 | 818.9 | 35.6 | 1,163.9 |

17. Untaxed Reserves

| | | |
|--------------------------------------|------|------|
| Cumulative depreciation differences: | 2002 | 2001 |
| Other long-term expenditures | 0.3 | 0.5 |
| Buildings | 1.4 | 1.5 |
| Machinery and equipment | 0.1 | 0.7 |
| Total | 1.8 | 2.7 |

18. Provision for Liabilities and Charges

| | | |
|--------------------------|------|------|
| | 2002 | 2001 |
| Provision for quarantees | 1.9 | 2.0 |
| Other provisions | 9.4 | 9.8 |
| Total | 11.3 | 11.8 |

19. Liabilities Owed to Group and Associated Companies

| | | |
|--------------------------------------|-------|-------|
| Liabilities owed to group companies: | 2002 | 2001 |
| Other long-term debt | 892.1 | 424.5 |
| Advances received | 4.2 | 0.8 |
| Accounts payable | 9.7 | 7.8 |
| Accruals | 60.4 | 0.6 |
| Total | 966.4 | 433.7 |

| | | |
|---|------|------|
| Liabilities owed to associated companies: | 2002 | 2001 |
| Advances received | 0.4 | 0.1 |
| Accounts payable | 0.8 | 3.3 |
| Total | 1.2 | 3.4 |

| | | |
|--|------|------|
| Accruals: | 2002 | 2001 |
| Accrued income taxes | 0.1 | 6.0 |
| Accrued salaries, wages and employment costs | 15.3 | 15.6 |
| Accruals to subsidiaries | 60.4 | 0.6 |
| Other accruals | 13.6 | 18.2 |
| Total | 89.4 | 40.4 |

20. Long-term Debt

| | | |
|--|------|------|
| Long-term debt falling due after five years: | 2002 | 2001 |
| Loans from financial institutions | 63.5 | 14.3 |

21. Group Shares and Participations as of 31 December, 2002

Subsidiaries

| KONE Elevators & Escalators Company | Country | Shareholding (%) | |
|--|-------------|------------------|-------|
| | | Parent company | Group |
| KONE Finance Oy | Finland | 100 | 100 |
| KONE Inc. | U.S. | | 100 |
| Société Française des Ascenseurs KONÉ S.A. | France | | 99.97 |
| KONE S.p.A. | Italy | | 100 |
| KONE plc | UK | | 100 |
| KONE GmbH | Germany | | 100 |
| KONE B.V. Liften en Roltrappen | Netherlands | | 100 |
| KONE Elevators Pty Ltd | Australia | 30 | 100 |
| KONE Elevators Co. Ltd | China | | 95 |
| KONE Hissar AB | Sweden | | 100 |
| Other subsidiaries (154 companies) | | | |

| KONE Materials Handling Company | Country | Shareholding (%) | |
|------------------------------------|---------|------------------|-------|
| | | Parent company | Group |
| Partek Corporation | Finland | | 100 |
| Valtra Inc. | Finland | | 100 |
| Kalmar Industries Sverige AB | Sweden | | 100 |
| Kalmar Industries Oy Ab | Finland | | 100 |
| Valtra do Brasil S.A. | Brazil | | 100 |
| Sisu Diesel Oy | Finland | | 100 |
| Nordkalk Corporation | Finland | | 100 |
| Kalmar Industries Corp. | U.S. | | 100 |
| Partek Forest AB | Sweden | | 100 |
| Oy Sisu Auto Ab | Finland | | 100 |
| Hiab AB | Sweden | | 100 |
| Other subsidiaries (171 companies) | | | |

Associated Companies

| KONE Elevators & Escalators Company | Country | Shareholding (%) | |
|--|---------|------------------|-------|
| | | Parent company | Group |
| Ternitz Druckguss GmbH | Germany | | 20 |
| Shan On Engineering Company Limited | China | | 30 |
| Konette Design Center Oy | Finland | 40 | 40 |
| Industrial Logistics Limited | Ireland | | 20 |
| Marryat & Scott Egypt - S.A.E. | Egypt | 49 | 49 |
| Other associated companies (7 companies) | | | |

| KONE Materials Handling Company | Country | Shareholding (%) | |
|---|---------|------------------|-------|
| | | Parent company | Group |
| Consolis Oy Ab | Finland | | 26 |
| Paroc Group Oy Ab | Finland | | 38 |
| Valtra Traktor AB | Sweden | | 40 |
| Sisu Akselit Oy | Finland | | 32 |
| Cervuctum Oy | Finland | | 25 |
| Other associated companies (15 companies) | | | |

Other Stocks and Shares

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

A list of shares and participation can be found in the financial statements of KONE Corporation.

Shares and Shareholders

Market Value

An extraordinary shareholders' meeting held on May 24, 2002 approved a three-way split in the par value of KONE shares from EUR 3.00 to EUR 1.00. The split was registered on May 28, 2002, and public trading of split shares commenced on May 29, 2002.

The price of the KONE class B share rose 5.3 percent during 2002 from (split adjusted) EUR 27.39 to EUR 28.85. During the same period the Helsinki Exchanges HEX General Index fell 34.4 percent and the HEX Portfolio Index fell 16.7 percent. The Metal and Engineering Sector Index fell by 4.1 percent. The highest KONE class B share price during the year was EUR 37.00 and the lowest EUR 24.18. The company's market capitalization, in which the unlisted class A shares are valued at the closing price of the class B shares on the last trading day of the year, was EUR 1,792 (end-2001: 1,604) million. During 2002, KONE purchased 833,479 (split adjusted) own shares at a total cost of EUR 26.3 million, representing an average share price of EUR 31.56. Shares in the company's possession represent 1.3 percent of the total. The shares have been entered as investments in the corporation's balance sheet and are not included in the market capitalization figure.

During the year under review 33,784,550 (split-adjusted 2001: 12,839,325) KONE Corporation class B shares were traded on the Helsinki Exchanges, which represents an increase of 163 percent. The value of shares traded was EUR 1,034 (327) million. The average daily turnover was 135,681 shares and the relative turnover 65 percent.

Trading codes:

| | |
|--------------------|--------------|
| Helsinki Exchanges | KONBS |
| Reuters | KONBS.HE |
| Bloomberg | KONBS |
| ISIN code | FI0009000566 |

| | |
|-----------------------------|-----------|
| Trading lot | 20 |
| Par value, | EUR 1.00 |
| Taxation value (in Finland) | EUR 20.23 |

Shares and Share Capital

KONE Corporation's Articles of Association state that the minimum share capital is EUR 54 million and the maximum share capital EUR 216 million. At the end of 2002 the share capital was EUR 63.5 million. The share capital can be raised or reduced within these limits without an amendment to the Articles of Association.

Each class A share is assigned one vote, as is each block of 10 class B shares, with the proviso that each shareholder is entitled to at least one vote. At the end of 2002 the total number of votes was 14,919,049.

In accordance with a decision made by the Board of Directors on December 22, 2000, holders of class A shares have the right to exchange the class A shares they own into class B shares at a ratio of one to one. This offer is valid until December 31, 2003. During 2002, 928,734 class A shares were converted to class B shares.

Dividend

In accordance with the Articles of Association, class B shares are preferred for a dividend, which is at least two percent and no more than five percent higher than the dividend paid to the holders of class A shares, calculated from the par value of the share. The Board of Directors proposes that dividends for 2002 be EUR 1.48 (split adjusted 0.71) per each class A share and EUR 1.50 (0.73 split adjusted) per each class B share.

KONE Corporation's share capital consists of the following:

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

Authority to Raise Share Capital

At the end of the financial year, the Board of Directors of KONE Corporation had no valid authority to increase the share capital or to issue convertible or warrant loans, nor were any convertible or warrant loans issued during 2002.

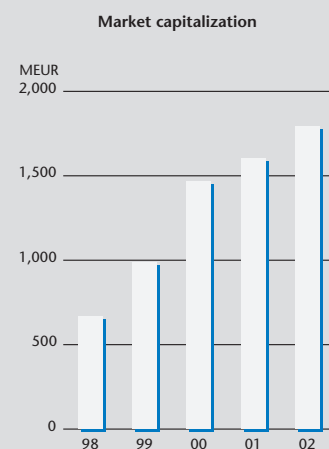
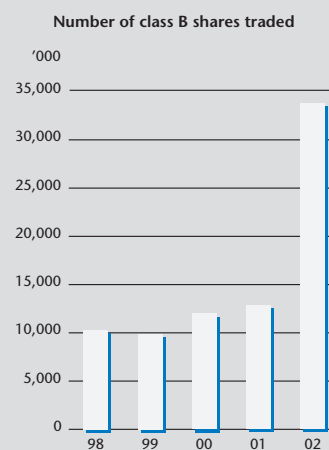
Authority to Purchase and Surrender Own Shares

In February, 2002 the Annual General Meeting authorized the Board of Directors to purchase the company's own shares, using funds available for profit distribution. The shares were to be acquired for use as compensation in possible company acquisitions or other arrangements as well as for the development of the company's capital structure. In addition, the Annual General Meeting authorized the Board of Directors to decide to whom and in what order the shares were to be surrendered.

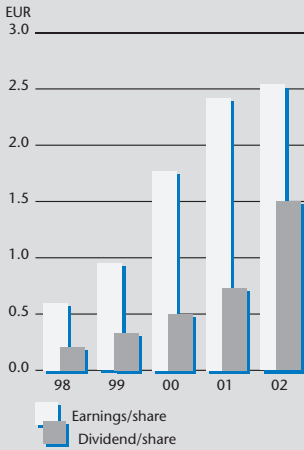
The total amount of the KONE shares to be acquired were to be at most five percent of the company's total number of shares and votes, namely 174,247 class A shares and 833,479 class B shares. During 2002 the company purchased 833,479 class B shares. The shares in the company's possession represent 1.3 percent of the total number of shares and 0.6 percent of the total number of votes attached to the shares. The Board of Directors has proposed to the 2003 Annual General Meeting that the authorization be extended.

Increase in Share Capital

An extraordinary shareholders'



Earnings and Dividend/Share



meeting on 14 June, 2002 approved a transaction between KONE and the State of Finland involving an increase in KONE share capital by EUR 3,000,000 through the issuance of 3,000,000 new class B shares to be offered for subscription to the State of Finland at EUR 35.33 per share, representing a total price of EUR 105,990,000. The State of Finland paid the subscription price with 6,927,451 Partek Corporation shares at a value of EUR 15.30 per share.

Option Program

In 2000 an option incentive program tied to the achievement of global earnings targets was introduced to approximately 250 key employees. This option plan is part of a long-range incentive system, which motivates key employees to commit themselves to attaining KONE's global growth and profitability goals. An extraordinary shareholders' meeting held on 24 May, 2002 approved the change in the option program due to the share split so that the number of shares to be subscribed was tripled and the subscription price was divided by three.

KONE will issue a maximum of 1,050,000 option rights

entitling the holders to subscribe for a maximum of 1,050,000 KONE class B shares to the price EUR 24.67 per share. The number of option rights is based on KONE's cumulative net income (after taxes) as shown in the Consolidated Statement of Income over the three-year period 2001-2003. The maximum increase in the share capital of the company as a result of subscriptions shall be EUR 1,050,000 corresponding to 1,050,000 new shares when the cumulative result exceeds EUR 470 million. This represents 1.65 percent of the shares of the company and 0.70 percent of the voting rights.

The option rights are divided in A and B option rights. Each A option right entitles the holder to a separate cash bonus of 40 euros when the income targets have been reached. The cash bonus will be made in April 2004. A provision was made for for the cash bonus in the 2002 accounts.

Holders of A option rights can subscribe for KONE B shares starting on April 1, 2004 and ending on March 31, 2008. Holders of B option rights can subscribe for KONE B shares starting on April 1, 2005 and ending on March 31, 2009. The annual subscrip-

tion period will fall between January 2 and November 30 on dates to be determined by the company.

Shareholders

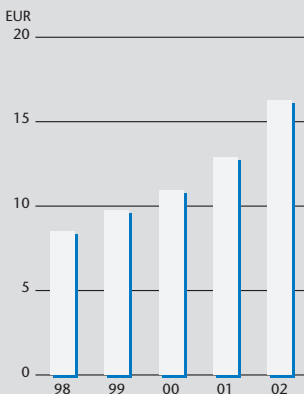
At the end of 2002 KONE had 7,969 (4,570) shareholders. A breakdown of shareholders is given in the enclosed table.

At the end of 2002 the ownership of approximately 33.8 percent of KONE shares was in non-Finnish hands, corresponding to around 12 percent of the votes in the company. Foreign-owned shares can be registered in the name of Finnish nominees. Only shares registered in shareholders' own names entitle the holder to a vote in shareholders' meetings. There were 18,196,236 (16,357,938) foreign-owned shares – representing 28.7 percent of the shares – registered in the name of Finnish nominees at the end of 2002.

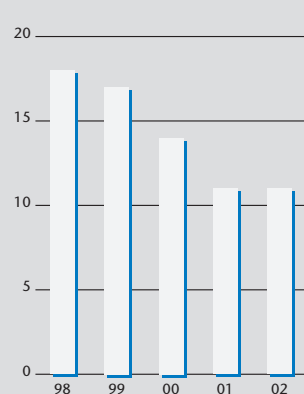
Shareholdings of the President and Members of the Board of Directors

KONE Corporation's president and members of the Board of Directors directly owned a total of 1,269,245 class B shares on December 31, 2002, representing 2.0 percent of shares and 0.9 percent of votes.

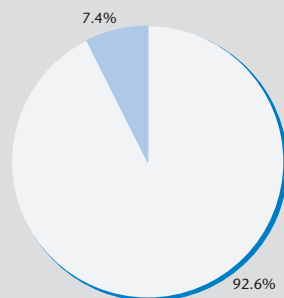
Equity/Share



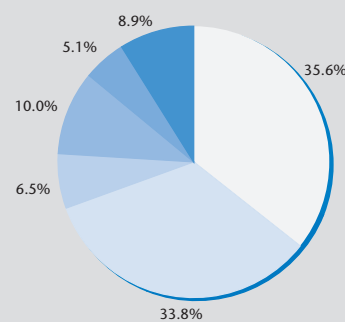
Price/Earnings



Class A shares



Class B shares



Companies
Non-profit organizations

Companies
Foreign shareholders *
Financial institutions and insurance companies
Individuals
Non-profit organizations
Public institutions

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

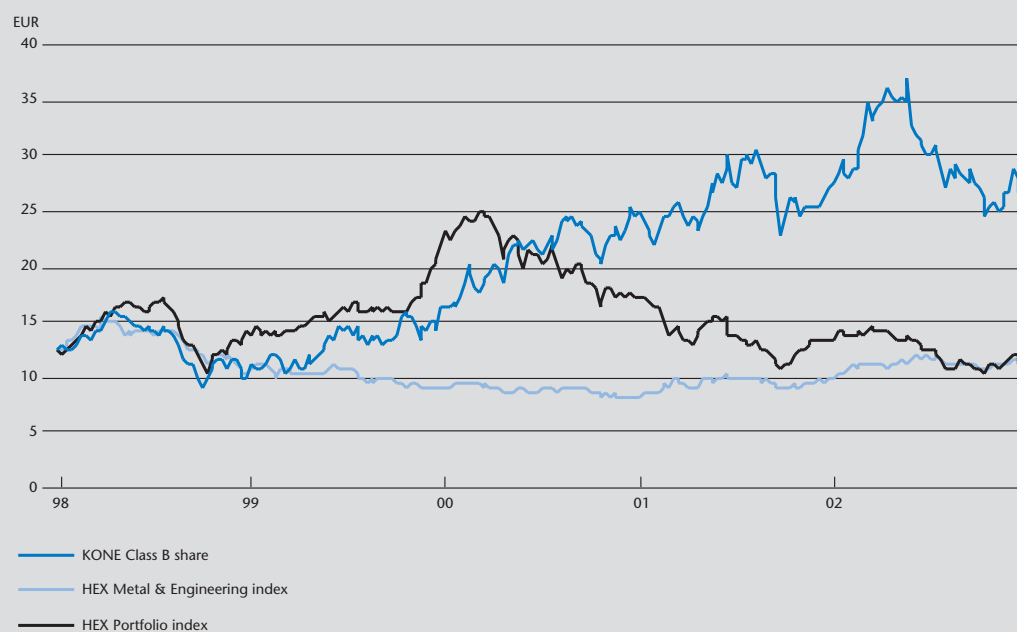
| Minimum accumulated net income level for exercising the option rights and bonuses | Cumulative number of option rights in use (A and B options) | Cumulative separate cash bonus to A option holders |
|---|---|--|
| EUR 330 million | 210,000 | EUR 1,440,000 |
| EUR 350 million | 420,000 | EUR 2,880,000 |
| EUR 380 million | 630,000 | EUR 4,320,000 |
| EUR 420 million | 840,000 | EUR 5,760,000 |
| EUR 470 million | 1,050,000 | EUR 7,200,000 |

Shareholdings in KONE Corporation on 31 December 2002

By number of shares

| Shares | Number of owners | Percentage of owners | Number of shares | Percentage of shares |
|---|------------------|----------------------|------------------|----------------------|
| 1 - 10 | 107 | 1.34 | 852 | 0.00 |
| 11 - 100 | 2,308 | 28.96 | 145,588 | 0.23 |
| 101 - 1,000 | 4,347 | 54.55 | 1,630,221 | 2.57 |
| 1,001 - 10,000 | 1,043 | 13.09 | 2,985,152 | 4.70 |
| 10,001 - 100,000 | 131 | 1.64 | 3,739,849 | 5.89 |
| 100,001 - | 33 | 0.41 | 54,955,667 | 86.59 |
| Total | 7,969 | 100.00 | 63,457,329 | 99.99 |
| Shares which have not been transferred to the paperless book entry system | | | 6,291 | 0.01 |
| Total | | | 63,463,620 | 100.00 |

KONE Class B Share Price Development 1998-2002



Largest Shareholders on 31 December 2002

| | Number of Class A shares | Number of Class B shares | Total number of shares | % of shares | % of votes |
|---|-----------------------------|-----------------------------|---------------------------|----------------|---------------|
| 1. Ownership of Antti and Pekka Herlin | | | | | |
| Holding Manutas* | 6,785,574 | 145,890 | 6,931,464 | 10.92 | 45.58 |
| Security Trading** | 2,034,627 | 11,262,659 | 13,297,286 | 20.95 | 21.19 |
| The KONE Foundation | 705,888 | 1,232,454 | 1,938,342 | 3.05 | 5.56 |
| Pekka Herlin | | 1,170,111 | 1,170,111 | 1.84 | 0.78 |
| Antti Herlin | | 67,434 | 67,434 | 0.11 | 0.05 |
| Total | 9,526,089 | 13,878,548 | 23,404,637 | 36.87 | 73.16 |
| 2. Toshiba Elevator and Building Systems Corporation | | 3,023,340 | 3,023,340 | 4.76 | 2.03 |
| 3. The State of Finland | | 3,000,000 | 3,000,000 | 4.73 | 2.01 |
| 4. Suomi Mutual | | | | | |
| Suomi Mutual Life Assurance Company | | 930,000 | 930,000 | 1.47 | 0.62 |
| Insurance Company Suomi | | 90,000 | 90,000 | 0.01 | 0.06 |
| Total | | 1,020,000 | 1,020,000 | 1.61 | 0.68 |
| 5. Pohjola Group | | | | | |
| Pohjola Group Insurance Corporation | | 552,000 | 552,000 | 0.87 | 0.37 |
| Pohjola Non-Life Insurance Company Ltd | | 435,000 | 435,000 | 0.69 | 0.29 |
| Total | | 987,000 | 987,000 | 1.55 | 0.66 |
| 6. Ilmarinen Mutual Pension Insurance Company | | 860,960 | 860,960 | 1.36 | 0.58 |
| 7. KONE Corporation*** | | 833,479 | 833,479 | 1.31 | 0.56 |
| 8. Federation of Finnish Metal Engineering and Electrotechnical Industries MET | | 550,200 | 550,200 | 0.87 | 0.37 |
| 9. Finnish State Pension Fund | | 370,000 | 370,000 | 0.58 | 0.25 |
| 10. Henki-Sampo Insurance Company | | 252,182 | 252,182 | 0.40 | 0.17 |
| 10 major shareholders total | 9,526,089 | 24,775,709 | 34,301,798 | 55.78 | 81.21 |
| Nominee registered**** | | 18,196,236 | 18,196,236 | 28.67 | 12.18 |
| Other shareholders | | 10,965,586 | 10,965,586 | 15.55 | 6.61 |
| Total | 9,526,089 | 53,937,531 | 63,463,620 | 100.00 | 100.00 |

*Antti and Pekka Herlin's ownership in Holding Manutas Oy represents 56% of shares and 91% of voting rights.

**Antti ja Pekka Herlin's ownership in Security Trading Oy represents 21% of shares and 54% of voting rights.

***According to the Companies Act of Finland, shares owned by KONE Corporation do not carry voting rights.

****The American investment fund company Tweedy Browne Company LLC notified KONE Corporation on 1 April, 1999 that its holdings of KONE Corporation was over 5% of the shares.

Five-year Summary in Figures 1998-2002

| Consolidated Statement of Income | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|--------|--------|--------|--------|--------|
| Sales, MEUR | 4,342 | 2,816 | 2,602 | 2,412 | 2,082 |
| - sales outside Finland, MEUR | 3,959 | 2,725 | 2,509 | 2,324 | 2,019 |
| Depreciation, MEUR | 141 | 82 | 81 | 78 | 78 |
| Operating income before goodwill amortization, MEUR | 340 | 256 | 224 | 152 | 121 |
| - as percentage of sales, % | 7.8 | 9.1 | 8.6 | 6.3 | 5.8 |
| Operating income, MEUR | 275 | 218 | 186 | 118 | 83 |
| - as percentage of sales, % | 6.3 | 7.7 | 7.2 | 4.9 | 4.0 |
| Income before taxes, MEUR | 256 | 219 | 183 | 111 | 72 |
| - as percentage of sales, % | 5.9 | 7.8 | 7.0 | 4.6 | 3.5 |
| Net income, MEUR | 157 | 141 | 106 | 58 | 36 |
| Consolidated Balance Sheet | 2002 | 2001 | 2000 | 1999 | 1998 |
| Fixed assets, MEUR | 2,003 | 721 | 699 | 600 | 596 |
| Inventories, MEUR | 530 | 112 | 154 | 160 | 156 |
| Receivables, cash and cash equivalents, MEUR | 1,627 | 1,274 | 976 | 820 | 701 |
| Shareholders' equity + minority shares, MEUR | 1,129 | 807 | 677 | 591 | 519 |
| Long-term debt, MEUR | 976 | 350 | 70 | 102 | 78 |
| Provisions and tax liability, MEUR | 297 | 246 | 212 | 218 | 191 |
| Current liabilities, MEUR | 1,758 | 703 | 870 | 669 | 665 |
| Total assets, MEUR | 4,160 | 2,107 | 1,829 | 1,580 | 1,453 |
| Assets employed, MEUR | 2,252 | 703 | 746 | 679 | 648 |
| Other Data | 2002 | 2001 | 2000 | 1999 | 1998 |
| Orders received, MEUR | 3,261 | 2,100 | 1,854 | 1,723 | 1,483 |
| Order book, MEUR | 2,240 | 1,881 | 1,656 | 1,492 | 1,325 |
| Capital expenditure, MEUR | 93 | 46 | 46 | 55 | 54 |
| - as percentage of sales, % | 2.1 | 1.6 | 1.8 | 2.3 | 2.6 |
| Expenditure for research and development, MEUR | 63 | 41 | 37 | 36 | 30 |
| - as percentage of sales, % | 1.5 | 1.4 | 1.4 | 1.5 | 1.5 |
| Average number of employees | 29,407 | 22,964 | 22,804 | 22,661 | 22,596 |
| Number of employees as of 31 December | 35,864 | 22,949 | 22,978 | 22,630 | 22,692 |
| Key Ratios | 2002 | 2001 | 2000 | 1999 | 1998 |
| Return on equity, % | 18.4 | 20.4 | 17.2 | 9.7 | 6.0 |
| Return on capital employed, % | 16.4 | 23.4 | 23.5 | 14.9 | 11.5 |
| Return on assets employed, % | 19.0 | 30.2 | 26.3 | 18.0 | 12.9 |
| Total equity/total assets, % | 24.2 | 36.6 | 35.9 | 37.4 | 35.7 |
| Gearing, % | 125 | neg. | 15 | 8 | 25 |
| Key Figures per Share** | 2002 | 2001 | 2000 | 1999 | 1998 |
| Earnings per share, EUR | 2.54 | 2.42 | 1.77 | 0.95 | 0.60 |
| Equity per share, EUR | 15.66 | 12.91 | 10.91 | 9.74 | 8.48 |
| Dividend per class B share, EUR | 1.50* | 0.73 | 0.50 | 0.33 | 0.21 |
| Dividend per class A share, EUR | 1.48* | 0.71 | 0.48 | 0.31 | 0.19 |
| Dividend per earnings, class B share, % | 59.0* | 30.4 | 28.2 | 35.0 | 34.1 |
| Dividend per earnings, class A share, % | 58.2* | 29.5 | 27.1 | 32.9 | 31.0 |
| Effective dividend yield, class B share, % | 5.2* | 2.7 | 2.0 | 2.0 | 1.9 |
| Price per earnings, class B share | 11 | 11 | 14 | 17 | 18 |
| Market value of class B share, average, EUR | 31 | 25 | 21 | 13 | 13 |
| - high, EUR | 37 | 31 | 26 | 16 | 16 |
| - low, EUR | 24 | 22 | 16 | 10 | 9 |
| - as of 31/12, EUR | 29 | 28 | 25 | 16 | 11 |
| Market capitalization as of 31/12, MEUR | 1,792 | 1,604 | 1,466 | 986 | 667 |
| Number of class B shares traded, '000 | 33,785 | 12,840 | 11,991 | 9,873 | 10,011 |
| Class B share traded, % | 65.4 | 26.4 | 24.0 | 19.7 | 20.0 |
| Weighted average number of class A shares, '000 | 10,442 | 10,455 | 10,455 | 10,455 | 10,455 |
| Number of class A shares as of 31/12, '000 | 9,526 | 10,455 | 10,455 | 10,455 | 10,455 |
| Weighted average number of class B shares, '000 | 51,665 | 50,009 | 50,009 | 50,009 | 50,009 |
| Number of class B shares as of 31/12, '000 | 53,938 | 50,009 | 50,009 | 50,009 | 50,009 |
| Weighted average number of shares ***, '000 | 61,809 | 58,406 | 60,464 | 60,464 | 60,464 |

* Board's proposal

** On 28 May 2002 the shares were split at a ratio of one to three

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

Board of Directors' Proposal to the Annual General Meeting

KONE's distributable equity as of December 31, 2002 is EUR 661.2 million. The parent company's distributable equity on December 31, 2002 is EUR 854,592,518.82 of which net profit from the accounting period under review is EUR 35,610,766.65.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.48 be paid on the 9,526,089 class A shares and EUR 1.50 on the outstanding 53,104,052 class B shares, for a total of EUR 93,754,689.72. The Board of Directors further proposes that the rest, EUR 760,837,829.10 be retained and carried forward.

The Board proposes that the dividends be payable from March 5, 2003.

Helsinki, January 30, 2003

Pekka Herlin

Antti Herlin

Gerhard Wendt

Jari Viinanen

Jean-Pierre Chauvarie

Hiroshi Nishioka

Manfred Eiden
President

Auditors' Report

To the shareholders of KONE Corporation

We have audited the accounting, the financial statements and the corporate governance of KONE Corporation for the financial year 2002. The financial statements prepared by the Board of Directors and the Managing Director include, both for the group and the parent company, a report on operations, an income statement, a balance sheet and notes to the financial statements. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations relevant to the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the financial year audited by us. The proposal by the Board of Directors regarding the distributable profits is in compliance with the Companies' Act.

Helsinki, January 30, 2003

PricewaterhouseCoopers Oy
Authorized Public Accountants

Jukka Ala-Mello
Authorized Public Accountant

Mauno Tervo
Authorized Public Accountant

Operating Principles



KONE's approach to corporate social responsibility is based on four principles. The starting point for responsible operations is a profitable business base. Next, we believe in the importance of developing the know-how and capabilities of our employees. Third, we strive to operate in ways that are as friendly as possible to the environment. In addition, we provide our employees and customers with a safe working environment and the end-users of our equipment with safe products and services.

Continuous development is a goal of KONE's operating units. KONE Elevators & Escalators has launched a social responsibility project that is aimed at organizing the work done so far into a coherent approach. KONE Material Handling's operations have been based for a long time on quality, environmental, occupational health and safety systems in addition to policies and codes of practice.

Employee Know-how: a Decisive Competitive Edge

KONE's success is based on its employees' know-how, enthusiasm and commitment to achieving collective goals. People are given the opportunity to learn and develop in both their daily work and through train-

ing and job rotation. An international operating environment and participation in organization-wide projects offer diverse career opportunities. The aim of our systematic succession planning for key employees is to ensure appropriate resourcing for our organization in the future.

Employee know-how is developed according to each person's needs. Various learning paths and programs help participants meet present and future development requirements. In addition to global training programs, local training opportunities based on the needs of business units are also available.

KONE's Technical Training Centers around the world provide technical training for elevator and escalator customer service personnel. Management training programs are developed in association with the world's leading universities and educational establishments such as the London Business School and the Columbia Business School.

The development of fresh talent is also supported. An international training program offers placement of business and technical students in KONE units all over the world. KONE is also one of the partner companies in the Community of Eu-

ropean Management Schools network, which consists of 17 top European business schools and universities and more than 50 major companies.

Improvement in Quality and Environmental Systems

Innovations such as the KONE EcoDisco® hoisting machine, the machine-room-less KONE MonoSpace® elevator and the KONE ECO3000™ escalator have made KONE a technological leader in its field and at the same time an environmentally friendly supplier.

Five KONE Elevators & Escalators units have been awarded ISO14001 environmental management system certification. Environmentally friendly elevator technology has strengthened KONE's position in China's rapidly expanding elevator and escalator market.

ISO quality certification covers about 90 percent of KONE Materials Handling's business operations, measured in terms of net sales. Fourteen units, accounting for about 50 percent of the division's turnover, also have environmental certification. The environmental certification process is underway in most of the remaining units. All of the tractor business area's production units have environmental certification.

Responsibility for Products' Entire Life Cycle

KONE's aim is to develop products, production processes and operating methods in a way that takes into consideration the environmental impact of the products during their entire life cycle. KONE's products have the advantage of being long-lasting, and their maintainability is good.

During the life cycle of KONE products, most of the environmental consequences appear when the products are

used, not when they are produced. Design plays a central role in reducing their environmental impact. Through design, for example, it is possible to affect more than 80 percent of the energy consumption that will occur during the life cycle of elevators and escalators.

Most of the environmental impact caused by KONE Materials Handling products come from their use of fuel and oil, working in fields and forests, engine emissions, and the noise they make. It has been possible to reduce these effects considerably through product development. Often a product that is environmentally advanced is also more economical for the customer.

The recyclability of KONE's products is extremely good. Between 90 and 95 percent of the raw materials in our elevators and escalators are easily recycled metals. The degree of recyclability in most of KONE Materials Handling's products is also extremely high because of the big proportion of steel. Pre-Machines are often resold, which prolongs their working career.

Safety a Priority

KONE provides a safe working environment as well as reliable and safe products and services.

The commitment to safety has made elevators and escalators one of the safest forms of travel. They are subjected to numerous tests as well as inspections by independent experts before being considered ready for market. The safety of the escalators and elevators that are already in use is also monitored regularly.

KONE actively cooperates with many organizations responsible for elevator and escalator safety regulations such as the European Elevator

Association and the National Elevator Industry in the U.S. as well as CEN, ASME and ISO, where KONE participates in preparing elevator and escalator standards.

Much of the equipment produced by KONE Materials Handling is large and heavy, which makes operating it safely a challenge. The risks to safety in handling big machines and loads have been reduced through product development. KONE Materials Handling also cooperates with many high-level research institutes. A design project for environmentally friendly work machines is also underway with the Finland's National Technology Agency and Technical Research Center.

Safe working procedures are a fundamental part of a safe working environment. Since 1998 KONE has been running an occupational safety program aimed at reducing the number of occupational accidents to zero. Thanks to resolute action, the number of work-related accidents has been reduced by half during the past six years. In KONE Materials Handling units, systematic work-place risk assessment has been carried out in order to create the system required for OHSAS 18001 occupational health and safety certification and earn the certificate.

Unimpeded Movement is an Important Goal

Modern urban planning encourages optimal land use and high-rise construction. Elevators and escalators make buildings functional and unite them with their surroundings. KONE enables the efficient flow of goods and people in tall buildings and metros as well as other places where access would be difficult without reliable internal transportation systems.

The importance of elevators,

escalators and automatic doors, which facilitate unimpeded movement, will increase as the population ages. About 15 percent of the multi-story buildings in the European Union region are still without elevators. With the aging of the population, authorities have stressed the importance of improving people's living environment and enabling them to live longer in their own homes by subsidizing the installation of elevators in buildings that do not have them.

The European Union has declared 2003 the Year of People with Disabilities. The European Lift Association, which operates within the European Union, has designed a program called "Create a Momentum for a Better Life Environment" to make movement easier for the physically handicapped. The program's aim is to move away from thinking in terms of charity and instead give the physically handicapped the right to access. KONE's products and services will play a crucial role in the practical implementation of these objectives.



Local service organizations and more than 13,000 field operatives ensure the reliable performance of elevators, escalators and automatic building doors.



Safe work procedures are an essential part of a safe working environment.

Corporate Governance

Duties and Responsibilities of the Board of Directors

The Board of Directors' duties and responsibilities are laid down in accordance with the company's Articles of Association and the Companies Act of Finland. All matters of far-reaching importance in terms of the group's operations are handled by the company's Board of Directors. These include, among other things, the approval and confirmation of strategic guidelines, ratification of budgets and action plans, decisions about the corporate structure, and significant company acquisitions and investments. The Board of Directors appoints the company's President and decides on his/her terms of employment. The Board convenes regularly six times a year and when necessary. The Board of Directors held ten meetings during 2002.

Election of Members of the Board of Directors

The Annual General Meeting elects four to seven members of KONE Corporation's Board of Directors for one year at a time. The Annual General Meeting also elects the Chairman of the Board of Directors. Of the Board of Directors' current five members, Antti Herlin is employed by the group.

Remuneration of Members of the Board

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

Permanent Committees

The Board of Directors has created two permanent committees to assist its work, the Au-

dit Committee and Executive Resources Committee.

The Audit Committee directs and supervises KONE's internal auditing. Director of Internal Auditing Urpo Paasovaara reports on audit results to the committee. The members of the committee are Committee Chairman Antti Herlin, Committee Secretary Tapio Hakakari and KONE Corporation's auditor, Mauno Tervo.

The Executive Resources Committee's responsibilities include making decisions about senior management appointments and remuneration. The members of the committee are Committee Chairman Antti Herlin, Committee Secretary Tapio Hakakari and Jean-Pierre Chauvarie.

Insider Rules

KONE Corporation has enforced the insider guidelines approved by the Helsinki Exchanges as of January 1, 2000. The members

of the Board of Directors, the President and the auditors belong to KONE's permanent insiders. In addition to these individuals, KONE's extended list of permanent insiders includes the Board Secretary, the members of the Corporate Executive Committee, the Chief Financial Officer, the SVP Communications & Investor Relations and the Investor Relations Manager, President and Vice President of KONE Materials Handling. The shareholdings of the permanent insiders are disclosed in the enclosed table. The company maintains its insider register in the Sire system of the Finnish Central Securities Depository.

KONE Corporation has not granted loans to the members of the Board or to members of the executive committees, nor has it given guarantees on their behalf.

Shareholdings of KONE Corporation's Permanent Insiders as of December 30, 2002

| Insider | Position in KONE Corporation | A shares | B shares |
|-------------------------|---|----------|-----------|
| Herlin Pekka* | Chairman of the Board | | 1,170,111 |
| Herlin Antti* | Deputy Chairman of the Board | | 67,434 |
| Chauvarie Jean-Pierre | Member of the Board | | 31,700 |
| Hakakari Tapio | Secretary to the Board | | 65,000 |
| Cawén Klaus | Member of the Executive Committee | | 2,000 |
| Kemppainen Pekka Juhani | Member of the Executive Committee | | 1,170 |
| Mäkinen Heimo | Member of the Executive Committee | | 10,080 |
| Heinistö Kari | Senior Executive Vice President, KONE Materials Handling | | 2,000 |

*Indirect holdings of Pekka and Antti Herlin can be found on page 46 in the table Largest Shareholders. The other insiders do not own shares in KONE Corporation.

Board of Directors



Pekka Herlin

b. 1932
D.Sc (Econ) H.C.
Chairman, July 1996-
Chairman & CEO of KONE,
1987-June 1996
President & CEO of KONE,
1964-1986
Member of the Board, 1954-



Antti Herlin

b. 1956
Deputy Chairman and CEO
of KONE, July 1996-
Member of the Board, 1991-



Gerhard Wendt

b. 1934
Ph.D.
President of KONE, 1989-1994
Member of the Board, 1979 -



Iiro Viinanen

b. 1944
M.Sc. (Tech)
Member of the Board, 1997-



Jean-Pierre Chauvarie

b. 1935
President of KONE, 1999-
August 2001
Member of the Board, 2000-
Deputy Member of the Board,
1999-2000



Hiroshi Nishioka

b. 1941
President & Chief Executive
Officer,
Toshiba Elevator and Building
Systems Corporation
Member of the Board
as of April 1, 2002



Tapio Hakakari

b. 1953
LL.M.
Secretary to the Board of
Directors, 1998-

Auditors

Mauno Tervo,
Authorized Public Accountant
PricewaterhouseCoopers Oy,
Authorized Public Accountants

Deputies

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

KONE Elevators & Escalators Executive Committee



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



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



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



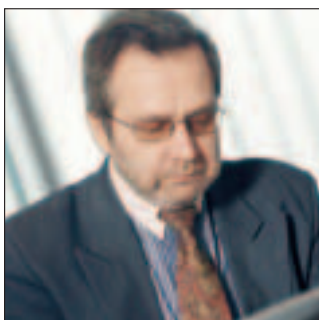
Pekka Kempainen
b. 1954
Licentiate in Technology
Executive Vice President, New
Elevator & Escalator Business
Employed by KONE since 1984



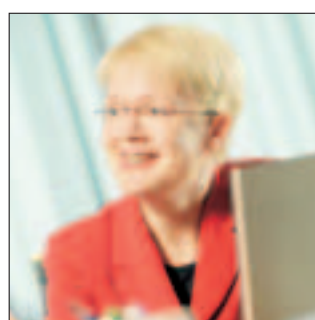
Heimo Mäkinen
b. 1944
M.Sc. (Eng.)
Executive Vice President,
Technology & Purchasing
Employed by KONE since 1968



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



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



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

KONE Materials Handling Management



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



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



Christer Granskog
b. 1947
M.Sc. (Eng.)
President, Kalmar Industries AB
Employed at Partek since 1997



Olof Elenius
b. 1951
M.Sc. (Econ.)
President,
Partek Cargotec Oy Ab
Employed at Partek since 1983



Hans Eliasson
b. 1945
Engineer
President, Partek Forest AB
Employed at Partek Forest
since 1991



Ilkka Hakala
b. 1955
Lic.Sc. (Eng.)
President, Valtra Inc.
Employed at Valtra since 2002



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



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



Harri Hytönen
b. 1965
B.Sc., MBA
Senior Vice President,
Global Sourcing
Employed by Partek since 1989

Partek Corporation (KONE Materials Handling) Board of Directors

Antti Herlin, Chairman of the board,
Carl-Gustaf Bergström, Klaus Cawén,
Jean-Pierre Chauvarie, Manfred Eiden,
Tapio Hakakari and Aimo Rajahalme

Information to Shareholders

Annual General Meeting

The Annual General Meeting of KONE Corporation will be held at the Kalastajatorppa Hotel: Kalastajatorpantie 2-4, 00330 Helsinki, on Friday, February 21, 2003 at 11:00 a.m. Shareholders wishing to attend the meeting must have their KONE shareholdings registered on the KONE shareholder list at the Finnish Central Securities Depository no later than Tuesday, February 11, 2003, and must notify the company's head office by mail (KONE Corporation, P.O. Box 8, FIN-00331 Helsinki), by telefax (+358 (0)204 75 4309), by e-mail (ulla.silvonon@kone.com) or by telephone (+358 (0)204 75 4332) no later than Monday, February 17, 2003. Possible proxies must be notified at the same time.

Payment of Dividends

The Board of Directors' proposal for distribution of profits can be found on page 48. Only those who have been registered as shareholders at the Finnish Central Securities Depository by Wednesday, February 26, 2003, the date of record of dividend distribution, are entitled to dividends. The date proposed by the Board of Directors for payment of dividends is Wednesday, March 5, 2003.

Announcements to Shareholders

In accordance with the decision of the Board of Directors, announcements to shareholders are published in the following daily Helsinki newspapers: Helsingin Sanomat, Kauppalehti and Hufvudstadsbladet.

Financial Reporting

KONE Corporation will publish the following financial reports during 2003:

- Financial Statement 2002 on Friday, January 31, 2003
- Annual Report 2002 in February, 2003
- Interim Report, covering the period January-March, 2003, on Wednesday, April 23, 2003
- Interim Report, covering the period January-June, 2003, on Tuesday, July 22, 2003
- Interim Report, covering the period January-September, 2003, on Tuesday, October 21, 2003

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

Annual reports are mailed to all shareholders and those who are on the company's mailing list. The company sends interim reports in paper form only to those who have requested them. Shareholders are requested to inform the bank that holds their book-entry account of any change of address. Changes of address relating to the company's mailing list should be sent to the company.

Financial reports may be ordered from

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

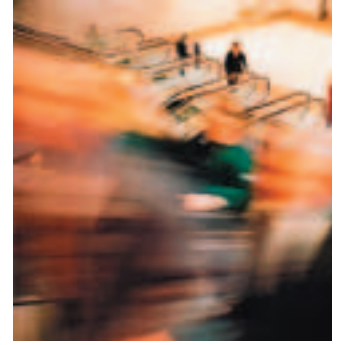
Elevators

KONE provides its customers with innovative elevator solutions for buildings of all sizes, from low-rise housing to the world's tallest skyscrapers. The machine-room-less KONE MonoSpace® elevator and other products based on KONE's EcoDisc® technology have made KONE the industry's technological leader.



Escalators

Escalators and autowalks transport hundreds of millions of people on a daily basis through shopping centers, airports and metros. The KONE ECO3000™ escalator product family is based on the industry's most efficient and environmentally friendly technology.



Maintenance and Modernization

Maintenance and modernization represent more than half of KONE Elevators & Escalators' revenue. KONE Optimum™ maintenance contracts, KONE Remote Monitoring Services, 24-hour service centers and modular modernization solutions all utilize advanced technology to create added value for customers.



Automatic Building Doors

KONE has extended its service know-how to cover automatic building doors. The existing service organization and long-term customer relationships create the foundation for the success of the building door service.



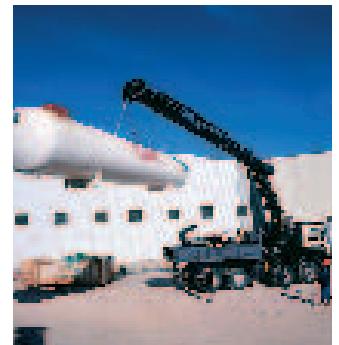
Container Handling

Kalmar is the leading supplier of heavy-duty material handling equipment and services to ports, intermodal traffic, terminals and demanding industrial customers. Every fourth container or trailer transfer in ports and terminals around the world is handled by a Kalmar machine.



Load Handling

Load Handling offers solutions that meet virtually all customer needs in on-road load handling. HIAB loader cranes are designed to lift and move the heaviest of loads safely with extreme precision.



Forest Machines

Forest Machines offers a broad range of machines and cranes for harvesting by both the cut-to-length method and the full-tree method. The cost-efficient Valmet forest machines are both environmentally friendly and take ergonomic issues into consideration.



Tractors

Valtra is Europe's fastest growing tractor brand and third largest supplier in Latin America. The customer-order system, which is unique in the industry, enables customization of the tractor to the specific need of the customer.

