

Information for Shareholders

Annual General Meeting

KONE Corporation's Annual General Meeting will be held at the Helsinki Fair Center in the Congress Wing: Messuaukio 1, 00520 Helsinki, on Wednesday, 18 May, 2005 at 10:00 a.m.

Shareholders wishing to attend the meeting must be registered on the KONE shareholder list at the Finnish Central Securities Depository no later than Friday, 6 May, 2005, and must register for attending the meeting by mail (KONE Corporation, P.O. Box 8, FIN-00331 Helsinki), by fax (+358 (0)204 75 4309), by telephone (+358 (0)204 75 4332/Ulla Silvonen) or over the Internet (www.konecorp.com/agm) no later than 4:00 p.m. on Friday, 13 May, 2005. Any proxies must be submitted at the same time.

Payment of Dividends

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

Demerger and Financial Reporting

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

The new companies will publish the following financial statements:

KONE Corporation

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

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

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

Cargotec Corporation

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

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

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

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Glossary

KONE in Brief



KONE's Demerger

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

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

KONE Elevators & Escalators

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

Market Position

- The global elevator and escalator market, worth approximately EUR 30 billion a year, consists of the sale and installation of new equipment and the maintenance, repair and modernization of existing systems. The market for the maintenance of automatic building doors is valued at EUR 5 billion a year.
- With a 9 percent market share, KONE is the world's fourth largest elevator company.

Customers

- Building owners, designers, builders and architects

Key Figures 1 January, 2004–31 March, 2005

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

Key Events

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

platform, KONE MaxiSpace™, that eliminates the need for counterweights. It also developed KONE Proximity, a real-time customer service concept that encompasses remote equipment monitoring, field terminals for service personnel, extranet-based maintenance services and customer care centers.

- Matti Alahuhta began serving as President of KONE Corporation on 1 January, 2005.
- In March 2005, KONE announced a development and restructuring program aimed at ensuring the long-term competitiveness and profitability of the elevator and escalator business, particularly new equipment. The aim of the related measures is to achieve an EBITA margin of over 10 percent by 2007.

Kone Cargotec

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

Market Position

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

Customers

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

Key Figures 1 January, 2004–31 March, 2005

- Sales: MEUR 2,046
- Orders: MEUR 2,423
- Order book at end of period: MEUR 1,312
- Number of employees at end of period: 7,335

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

Key Events

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

To Our Shareholders

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



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

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

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

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

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

objective of developing KONE and Cargotec as independent companies.

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

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

May 2005

Antti Herlin
CEO, Board Chairman,
KONE Corporation

President's Message

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



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

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

The disappointments we experienced have brought our business development needs to the surface. The current year is a transitional one. The objective of the change activities is to create the basis for improving profitability and achieving

faster growth than the industry, beginning in 2006.

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

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

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

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

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

May 2005

Matti Alahuhta
President, KONE Corporation

Business Review

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

Market Review

Growth in Eastern Europe and the Modernization Business

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

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

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

The European installed elevator base is particularly old; approximately two-thirds of the

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

North American Market on the Rebound

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

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

Continued Growth in the Asia-Pacific Region

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

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

Business Review



Ageing Elevators and Populations Create Demand

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

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

boosted demand, especially for low-cost product solutions.

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

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

KONE Strengthened its Position but Experienced Disappointments

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

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

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

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

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

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

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

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

Innovations

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

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

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

Cooperation with Toshiba

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

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

Business Review



Urbanization Increases Demand in Developing Markets

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

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

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

Environment

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

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

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

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

Responsibility for handling environmental issues in KONE lies with the business units, which determine the environmental impact of their operations and products through their environmental management systems. The ISO 14001

Environmental Management System is in use in two elevator and escalator production facilities and four country units. Five additional units plan to achieve ISO 14001 certification by 2006.



Environmentally Friendly Product Renovations

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

Personnel



Customer Focus Workshop

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

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

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

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

New Information from the Employee Survey

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

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

Competence Development

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

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

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

Talent and Performance Management

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

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

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

Regular Employee Information and Consultation Work

KONE complies with the EU directives on employee information and consultation and organizes the related annual international

employee meetings, to which employees from non-EU countries are also invited.

Safety First

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

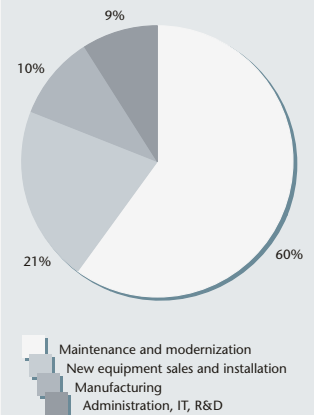
All KONE units are required to comply with the company's safety policy, which defines, for example, the general principles underlying safety operations and includes safety training and methods, as well as reporting information. A review system has been established for monitoring accidents in the workplace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

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

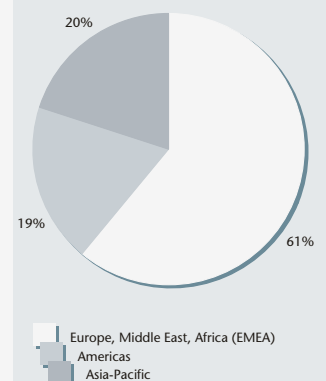
Human Resource Management Challenges

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

Employees by Job Category



Employees by Market



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

Executive Committee

Matti Alahuhta

b. 1952

D. Sc. (Eng.)

President, KONE as of 1 January 2005

Member of KONE Board, 2003–

Primary working experience:

Executive Vice President, Nokia Corporation, 2004

President, Nokia Mobile Phones, 1998–2003

President, Nokia Telecommunications, 1993–1998

Other current key positions of trust:

Chairman of Foundation Board: International Institute for Management Development (IMD), Switzerland

Chairman of Board: Finnish Technology Industries, the Centennial Foundation

Klaus Cawén

b. 1957

LL.M.

Executive Vice President, M & A and Strategic Alliances, Legal Affairs

Member of KONE Executive Committee as of 1991

Employed by KONE since 1983

Primary working experience:

General Counsel, KONE Corporation, 1991–2001

Other current key positions of trust:

Board member: Oy Karl Fazer Ab, Kyro Corporation, Toshiba Elevator and Building Systems Corporation, Japan

Michel Chartron

b. 1949

M.Sc. (Eng.), MBA

Executive Vice President, Automatic Building Door Business

Member of KONE Executive Committee as of 1996

Employed by KONE since 1983

Primary working experience:

Area Director, North America, 1999–2001

Executive Vice President, Service Business, 1996–2001

Managing Director, KONE France, 1995–1996

William Orchard

b. 1947

B.Sc. (Production Engineering)

Executive Vice President, Service Business and Purchasing

Member of KONE Executive Committee as of 2001

Employed by KONE since 1988

Primary working experience:

Executive Vice President, Service Business, 2001–2004

Managing Director, KONE Plc (UK), 1991–2001

Other current key positions of trust:

President, European Elevator Association (EEA), Board Member, European Lift Association (ELA)



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

Aimo Rajahalme

b. 1949

M.Sc. (Econ.)

Executive Vice President, Finance and Information Services

Member of KONE Executive Committee as of 1991

Employed by KONE since 1973

Primary working experience:

CFO, KONE Corporation, 1991–2001

Other current key positions of trust:

Board Member: Uponor Corporation

Kerttu Tuomas

b. 1957

B. Sc. (Econ.)

Executive Vice President, Human Resources and Communications

Member of KONE Executive Committee as of 2002

Employed by KONE since 2002

Primary working experience:

Group Vice President, Human Resources, Elcoteq Network Corporation, 2000–2002

Personnel & Organization Manager, Masterfoods Oy (Mars), 1994–1999



: Noud Veeger, Michel Chartron, Matti Alahuhta and

Noud Veeger

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

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

Area Directors

Pekka Kempainen

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

Eric Maziol

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

Heimo Mäkinen

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

Laurent Gielis

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



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

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

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

President's Message

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

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

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

Cargotec's profitability improved markedly. The operating profit for the year 2004 rose to EUR 112 million, which represents 7.1 percent of net sales. The continued weakening of the

U.S. dollar and the strongly risen steel price had a negative effect on our result.

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

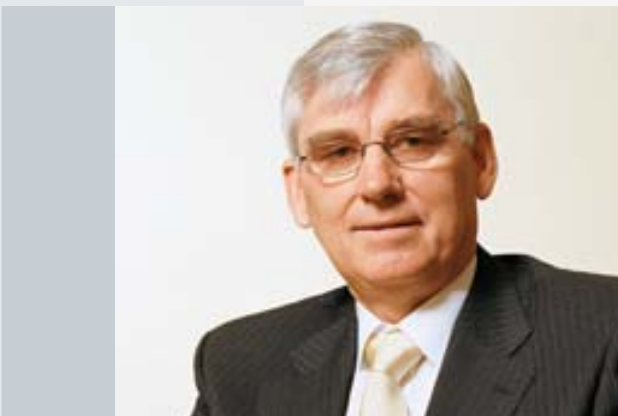
The decision to demerge KONE Corporation into two new listed companies, KONE Corporation and Cargotec Corporation, has meant and will also in the future mean new exciting challenges. For Cargotec's part it has meant, among other things, that we have gradually built up the necessary group level functions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

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

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

May 2005

Carl-Gustaf Bergström
President, Kone Cargotec



Business Review

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

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

Increasing Material Flows Fuel Demand

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

Customer-focused Operations and Strong Market Position Key Strengths

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

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

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

Kalmar



Container Traffic – Driver for Growth

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

Key figures 1.1.2004–31.3.2005

Sales: EUR 1,152 million

Orders: EUR 1,399 million

Order book: EUR 624 million

Employees: 2,899

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

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

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

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

Container Traffic Growth Increased Demand for Kalmar Products

Strong demand continued in all of Kalmar's market areas during the reporting period.

Demand was supported by the global growth in container traffic and transportation activity. The general improvement of the U.S. economy led to higher demand, in particular for terminal tractors in ports and distribution centers.

Demand for Kalmar's main products also remained strong in the Asian markets. Port maintenance and replacement investments increased considerably worldwide due to high port utilization rates.

Record Order Volumes

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

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

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

Flexibility of Operations Enhanced

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

the welding and provision of steel components for heavy equipment. Kalmar's welding operation in Ljungby, Sweden was also outsourced.

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

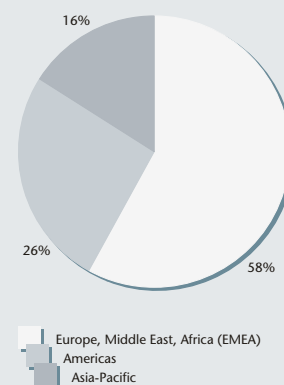
During the reporting period, Kalmar decided to fortify its position in Asia by investing in a new assembly plant in Shanghai. Opening at the beginning of 2006, the assembly plant will primarily serve the Asian container-handling equipment market, the fastest growing area for most Kalmar products.

New Products Support Customers' Business

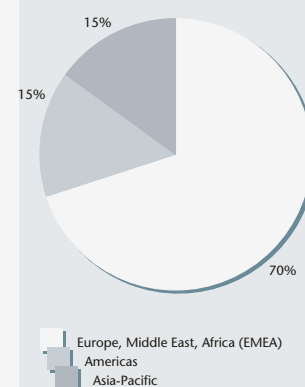
Kalmar continues to develop automated container-handling technology and extends its maintenance contracts to encompass new products. Kalmar's focus on increasing the automation and intelligence of its equipment offering was supported by a new simulation tool to assist customers in designing port operations.

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

Sales by Market



Employees by Market



Hiab



Short-haul Distribution Continues to Increase

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

Key figures 1.1.2004–31.3.2005

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

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

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

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

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

Growth in Heavy Truck Sales Increased Demand

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

Orders Grew Sizably

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

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

New Visual Identity Supporting Business

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

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

supports Hiab's integration of its sales outlets with the aim of offering customers the most productive load-handling equipment and services possible under the same roof.

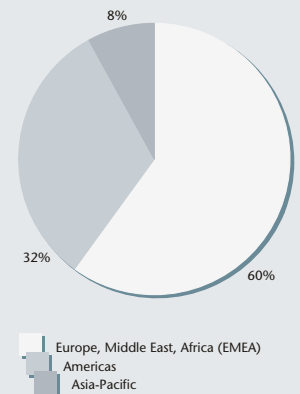
The transfer of JONSERED timber and recycling crane production from Hudiksvall, Sweden to the unit in Salo, Finland, which manufactures forestry cranes, was finalized during the reporting period. An agreement to sell the tipper and dumper bodies business, Zetterbergs from Sweden, to the company's operative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

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

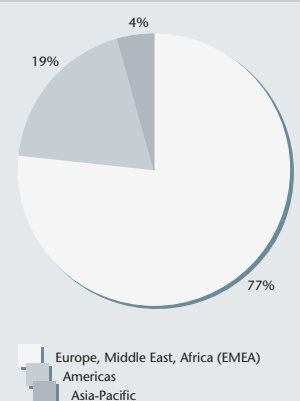
Several New Products Launched

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

Sales by Market



Employees by Market



MacGREGOR



Globalization Increases Maritime Transport

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

Key figures 1.1.2004–31.3.2005*

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

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

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

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

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

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

MacGREGOR's Markets

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

Although ship operators and ship owners are located around the world, shipbuilding is concentrated mainly in Europe and the Far East, dominated by Japan, Korea and China. While the current servicing market is global, ship operators and ship owners are nevertheless

expected to concentrate ship servicing to their main ports in line with the shifting of transportation routes used in global trade. Recently, China has strengthened its position in the ship servicing business. For this reason, MacGREGOR has concentrated on strengthening its existing position and developing new servicing activities, especially in China and the Middle East.

Flexible Business Model

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

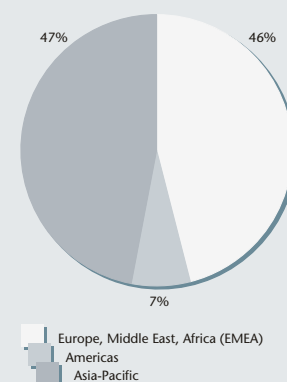
During the last two years, MacGREGOR has further enhanced the flexibility of its operations and focused on its core competencies. In order to streamline its operations and upgrade its supply chain management, the company has standardized parts and introduced a common design platform. It has established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

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

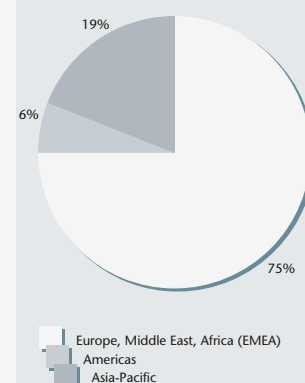
GOR takes full responsibility for the maintenance of all MacGREGOR equipment onboard the customer's ships.

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

Sales by Market



Employees by Market



Executive Committee

Carl-Gustaf Bergström

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

Kari Heinistö

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

Christer Granskog

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

Pekka Vartiainen

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



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

Hans Pettersson

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

Tor-Erik Sandelin

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



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

Lauri Björklund

b. 1953

M.Sc. (Eng.)

Senior Vice President, Production & Purchasing

Employed by Kone Cargotec since 2002

Primary working experience:

SVP, Manufacturing and Purchasing,
KONE Corporation (Brussels) 1996–2001,
(Helsinki) 2001–2002

Director, Manufacturing and Logistics,
KONE Elevators and Escalators (Brussels), 1993–1996

Other current key positions of trust:

Member of the Board: Suomen Laatu keskus Oy,
Suomen Laatu yhdistys ry, Suomen Konepajainsinööri-
yhdistys ry

Member of Delegate Council of Espoo Chamber of
Commerce

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



Member of Executive Committee as of 1 April, 2005

Eeva Mäkelä

b. 1973

M.Sc. (Econ.), CEFA

Senior Vice President, Investor Relations and Communica-
tions

Employed by Kone Cargotec as of 1 April, 2005

Primary working experience:

VP, Investor Relations, Metso Corporation, 2002–2005

Equity Analyst, Mandatum Stockbrokers Ltd

(Sampo Bank plc), 1999–2002

Board of Directors

Antti Herlin

b. 1956

D.Sc. (Econ.) H.C.

Board Chairman 2003–

Primary working experience:

CEO, KONE Corporation, 1996–

Deputy Chairman, 1996–2003

Member of the Board, 1991–

Other current key positions of trust:

Chairman of Board: Technology Industries of Finland,

Security Trading Oy, Holding Manutas Oy

Deputy Chairman of the Board:

Confederation of Finnish Industries EK

Deputy Chairman of the Supervisory Board:

Ilmarinen Mutual Pension Insurance Company

Member of Board: YIT Corporation

Gerhard Wendt

b. 1934

Ph.D.

Primary working experience:

President, KONE Corporation, 1989–1994

Member of Board, 1979–

Other current key positions of trust:

Chairman of Board: Algol Oy

Member of Board: Oy Halton Group Ltd, Halton Oy,

Vaisala Oyj

Iiro Viinanen

b. 1944

M.Sc. (Tech.)

Member of the Board, 1997–

Primary working experience:

President and CEO, Pohjola Group, 1996–2000

Minister of Finance, 1991–1996

Member of Parliament, 1983–1996

Other current key positions of trust:

Member of Board: Polttimo Companies Ltd



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

Jean-Pierre Chauvarie

b. 1935

Industrial Engineer

Member of the Board, 2000–

Deputy Member of the Board, 1999–2000

Primary working experience:

President, KONE Corporation, 1999–2001

Area Director, KONE Corporation, 1995–1998

Managing Director, KONE France, 1980–1995



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

Matti Alahuhta

b. 1952

D. Sc. (Eng.)

President, KONE as of 1 January 2005

Member of the Board, 2003–

Primary working experience:

Executive Vice President, Nokia Corporation, 2004

President, Nokia Mobile Phones, 1998–2003

President, Nokia Telecommunications, 1993–1998

Other current key positions of trust:

Chairman of Foundation Board: International Institute for Management Development (IMD), Switzerland

Chairman of Board: Finnish Technology Industries, the Centennial Foundation

Sirkka Hämaläinen-Lindfors

b. 1939

D.Sc. (Econ.)

Member of the Board, 2004–

Primary working experience:

Member of the Executive Board of the European Central Bank, 1998–2003

Governor and Chairman of the Board of the Bank of Finland, 1992–1998

Member of the Board of the Bank of Finland, 1991–1992

Other current key positions of trust:

Member of Board: SanomaWSOY Corporation, Investor AB, Foundation for Economic Education

Masayuki Shimono

b. 1947

President & Chief Executive Officer, Toshiba Elevator and Building System Corporation

Member of the Board, 2004–

Primary working experience:

Employed by Toshiba Corporation since 1972

Executive Vice President, 2003–,

Associate Director 2001–2003

Vice President, Toshiba International Corp. USA, 1991–1996, CEO 1999–2001

Other current key positions of trust:

Member of Board: Shenyang Toshiba Elevator Co Ltd, Shanghai Toshiba Elevator Co Ltd

Tapio Hakakari

b. 1953

LL.M.

Secretary to the Board of Directors, 1998–

Primary working experience:

Managing Director, Holding Manutas Oy, 2002–

Managing Director, Security Trading Oy, 2000–

Director Administration, KCI Konecranes International Plc, 1994–1998

Employed by KONE Corporation 1983–1994

Other current key positions of trust:

Member of Board: Security Trading Oy, Holding Manutas Oy, Etteplan Oyj, Martela Oyj, Consolis Oy

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

Corporate Governance

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

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

KONE will be demerged into two listed corporations, KONE Corporation and Cargotec Corporation, on 31 May, 2005 in accordance

with the demerger plan. The corporate governance principles for both corporations will be more precisely defined in conjunction with the demerger.

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

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

Board of Directors

Duties and Responsibilities

The Board of Directors' duties and responsibilities are defined primarily by the articles of association and the Finnish Companies Act. Its duties include the approval and confirmation of strategic guidelines and principles of risk management, ratification of annual budgets and plans, decisions on corporate structure, and major acquisitions and investments. The Board appoints the Chief Executive Officer (CEO) of the Group, as well as

the presidents of the two divisions and determines the conditions of their employment. It has created rules of procedure stipulating the duties of the Board, its Chairman and its committees.

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

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

Selection of Board Members

The Annual General Meeting nominates the Chairman, 3–6 members and no more than three deputy members of the Board of Directors for one year at a time in accordance with KONE Corporation's articles of association. In making the selection, attention is paid to the candidates' broad and mutually complementary experience, know-how, and the views of both KONE's and other businesses.

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

Permanent Committees

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

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

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

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

Corporate Governance

meeting during the financial period.

Tapio Hakakari is Secretary to all committees.

Operative Management

Chief Executive Officer and Presidents

KONE Corporation's Board of Directors appoints the Chief Executive Officer (CEO) and Presidents. The Board determines the CEO's conditions of employment, which are spelled out in a written contract. The CEO is responsible for ensuring that the targets, plans, strategies and goals set by the Board of Directors are carried out within the KONE organization. He/she prepares matters to be considered by the Board together with the division presidents and corporate staff. Antti Herlin has served as KONE's CEO since 1996.

The employment conditions of KONE's President and Kone Cargotec's President are defined in written employment contracts. The division presidents are responsible for the operative leadership of their respective divisions within the scope of the strategic and operative plans, budgets and action plans approved by KONE Corporation's Board of Directors. The division presidents present issues concerning their operations and are responsible for implementing the decisions of the Board within their divisions. Manfred Eiden served as KONE's President and KONE Elevators & Escalators' President until 31 December, 2004, followed by Matti Alahuhta as of 1 January, 2005. Carl-Gustaf Bergström has served as President of Kone Cargotec since 2002.

Executive Committees

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

Compensation Systems

Board Remuneration and Other Benefits

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

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

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

Compensation for KONE Corporation's President consists of a basic salary and yearly bonus, defined by the Board and based on the Corporation's annual result. Manfred Eiden served as President of KONE Corporation until 31 December, 2004. His basic salary for 2004 was EUR 432,000, in addition to which he was granted 2,850 KONE 2004 A-option rights and 7,000 KONE 2004 B-option rights. As of 1 January, 2005, Matti Alahuhta served as President of KONE Corporation. His basic salary for January–March 2005 was EUR 157,300, in addition to which he is entitled to a yearly bonus

defined by the Board of Directors on the basis of the Corporation's annual result and other key targets. This bonus may not exceed 100 percent of the recipient's annual salary. Alahuhta will also be included in future option incentive programs. His pension and retirement age are determined in accordance with the legislation in force. No separate agreement has been made regarding early retirement. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary.

Executive Committee Compensation

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

Control Systems

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

Internal Control System

The goal of KONE's internal control system is to ensure that its operations are efficient and profitable, its business risk management is adequate and appropriate, the information it produces is reliable, and that its instructions and operating principles are followed.

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

Risk Management

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

Audit

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

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

Corporate Governance

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

Insider Rules

KONE Corporation has applied the insider guidelines approved by the Helsinki Exchanges as of 1 January, 2000. Members of the Board of Directors, the President and the auditors are considered by KONE to be permanent insiders. In addition to these individuals, KONE's extended list of permanent insiders includes the secretary to the Board of Directors, the members of the divisions'

Executive Committees, the Senior Vice President, Corporate Controller, the Senior Vice President for Communications & Investor Relations and the Investor Relations Manager, and the President and Senior Executive Vice President of Kone Cargotec. Insiders may not trade in KONE shares for 21 days prior to the release of interim reports or financial bulletins.

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

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

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









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

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





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

Kone Cargotec

Kalmar

	<p>Ship-to-shore cranes are designed for efficient loading and unloading of container ships. They are used in large ports and container terminals.</p>		<p>Shuttle carriers are used for the rapid and efficient transportation of containers from shipside to the stacking area.</p>
	<p>Rubber tired gantry (RTG) cranes are used in large and very large terminals for stacking containers higher and wider than other systems allow. They also load and unload trucks and terminal tractors.</p>		<p>Terminal tractors transport trailers and containers on trailers in ports and terminals. RoRo tractors are used to move trailers in and out of ships.</p>
	<p>Straddle carriers are used for all container-handling activities: stacking, loading, unloading and transportation. Straddle carriers are often used in medium-sized and large terminals.</p>		<p>Forklift trucks are used for material handling in heavy industry such as the concrete, wood/pulp/paper and steel industries as well as in stevedoring.</p>
	<p>Reachstackers combine strength with versatility. They are often used in small and medium-sized terminals and in multi-purpose terminals.</p>		<p>Log stackers are purpose-built machines designed to handle round wood in the forest industry.</p>

Hiab

	<p>Loader cranes are typically truck-mounted, and are used for handling many types of cargo. Demountable systems are usually mounted on trucks. They are used for loading and unloading platform and may also be used in combination with a loader crane to form a multi-purpose vehicle.</p>		<p>The truck-mounted forklift is mounted on the rear of a truck. At the destination it can transport the load to places unreachable by truck. It takes less than a minute to mount, or to dismount, the forklift.</p>
	<p>A tail lift makes the efficient use of a delivery truck possible where items are continuously loaded and unloaded. The driver does not have to lift objects because the elevator function of the tail lift makes the use of pallet cages and barrows possible.</p>		<p>Timber cranes include several models that are mounted on forest machines and timber trucks or are employed in industry or recycling. The product range also includes grapples.</p>

MacGREGOR



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



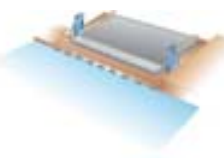
Cranes ensure quick and safe loading and unloading of general cargo, containers and project cargo in the harbor. Service cranes for all types of ships, hose-handling cranes for tankers and transloading cranes are also available.



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



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









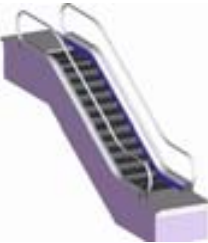
MacGREGOR offers expertise in designing, installing and supplying diverse **ship access systems for ports and terminals**. Products include linkspans, passenger gangways, mooring systems as well as floating car parks and floating terminals.



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

KONE Elevators & Escalators

New equipment

	<p>KONE EcoDisc® hoisting machine ensures a smooth ride, accurate stopping and reliable operation of the elevator. It is featured in both machine-room-less applications and elevators with small machine rooms.</p>		<p>KONE Alta™ elevators have been developed for next-generation skyscrapers reaching up to 500 meters. Their maximum speed rises to 17 m/s.</p>
	<p>The machine-room-less KONE MonoSpace® elevator requires less space and energy than other elevators. Its service life is long, and no oil is needed in maintenance. Since launching, the concept has won numerous innovation awards</p>		<p>KONE TranSys™ freight elevators use machine-room-less technology and are especially suited for low-rise buildings. The elevator stops accurately on landing (+/- 5mm), which facilitates the loading and unloading of heavy goods.</p>
	<p>KONE MiniSpace™ elevators feature the space-saving KONE EcoDisc® hoisting machine above the shaft. These elevators are particularly suitable for medium- to high-rise buildings.</p>		<p>KONE MaxiSpace™ eliminates the need for counterweights. Elevators using this technology can have cabins as much as one-third larger than traditional elevators designed for the same hoistway space.</p>
	<p>KONE ECO3000™ technology is used in escalators and autowalks. The technology works without a drive chain, making installations compact and the most environmentally friendly in the business.</p>		

Modernization

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

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

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

Maintenance

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

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

KONE Corporation
Head Office
Kartanontie 1
P.O. Box 8
FIN-00331 Helsinki
Finland
Tel. +358 (0)204 751
Fax +358 (0)204 75 4309

www.konecorp.com



KONE Elevators & Escalators
Keilasatama 3
P.O. Box 7
FIN-02151 Espoo
Finland
Tel. +358 (0)204 751
Fax +358 (0)204 75 4496



Cargotec
Sörnäisten rantatie 23
P.O. Box 61
FIN-00501 Helsinki
Finland
Tel. +358 (0)204 5511
Fax +358 (0)204 55 4222