

30 January, 2004

## **KONE 2003 Audited Financial Statements**

### **Profitability and Order Intake Targets Achieved and Restructuring Completed**

- The restructuring of KONE Materials Handling was completed through the divestment of Forest Machines, non-core holdings, and, in January 2004, the Tractors business. The new Kone Cargotec consists of Kalmar (container handling) and Hiab (load handling).
- The value of orders received rose to MEUR 4,558 (2002: 3,261). KONE Elevators & Escalators accounted for MEUR 2,021 (2,129), which represents two percent growth at comparable exchange rates. Order intake in Kone Cargotec and other materials handling operations was MEUR 2,537. Kone Cargotec accounted for MEUR 1,482, reflecting growth of 18 percent at comparable exchange rates.
- Net sales totaled MEUR 5,344 (4,342). KONE Elevators & Escalators' sales amounted to MEUR 2,814 (2,970), which represents two percent growth at comparable exchange rates. Sales in Kone Cargotec and other materials handling operations totaled MEUR 2,530. Kone Cargotec accounted for MEUR 1,335 reflecting growth of six percent at comparable exchange rates.
- Operating income before goodwill amortization (EBITA) was MEUR 418.5 (340.2), or 7.8 (7.8) percent of net sales. In Elevators & Escalators, EBITA was MEUR 298.6 (287.0), or 10.6 (9.7) percent of net sales. The EBITA in Kone Cargotec and other materials handling operations was MEUR 133.4. Kone Cargotec accounted for MEUR 74.9 or 5.6 (3.4) percent of net sales.
- Cash flow from operating activities before financial items and taxes was MEUR 498.7 (615.6).
- Interest-bearing net debt decreased to MEUR 661.9 (end of 2002: 1,251.5).
- Net income rose 38 percent to MEUR 216.9 (157.1).
- Earnings per share rose to EUR 3.10 from EUR 2.54. The EUR 21.6 million capital gain from the sale of Forest Machines is included in extraordinary items and is not included earnings per share.
- The board of directors proposes that the dividend be raised to EUR 2.00 from EUR 1.50 per class B share.

The figures for Materials Handling were consolidated into KONE's figures as of 1 July, 2002, and the comparison figures for 2002 are, therefore, consolidated for the period July-December.

### **KONE Chairman of the Board Antti Herlin in conjunction with the 2003 Financial Statements:**

“Among the main achievements of 2003, we can count the success of KONE Elevators & Escalators in the continuing challenging market environment and the improved profitability in

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Kalmar and Hiab. The EBITA margin targets of 10 percent in the elevator and escalator business and five percent in Kone Cargotec were both exceeded.

“Three years ago we introduced an incentive system linked to our profit development for approximately 250 key employees. The goal of this option plan is motivate key employees to commit themselves to attaining KONE’s global growth and profitability goals.

“We achieved the cumulative net income target of EUR 470 million in 2001-2003, which means that the program will be implemented to the maximum amount. We can all be proud of our achievements.

“We completed the restructuring of the materials handling operations during the year. Kone Cargotec was born, consisting of the globally leading businesses Kalmar and Hiab.

“We have rapidly reduced debt through divestments. The sale of the Tractors business in the beginning of January 2004 reduced gearing almost to zero. Our leaner balance sheet gives us good opportunities to develop both the elevators and escalators business and Kone Cargotec.”

Sender:

KONE Corporation

Tapio Hakakari  
Secretary to the Board of Directors

Aimo Rajahalme  
Executive Vice President,  
Finance and Information Services

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KONE is a global service and engineering company that specializes in moving people and goods. It comprises two divisions: KONE Elevators & Escalators and Kone Cargotec. KONE Elevators & Escalators sells, manufactures, installs, maintains and modernizes elevators and escalators, and services automatic building doors. Kone Cargotec supplies products and services to facilitate moving and loading cargo. KONE's B shares are listed on the Helsinki Exchanges.

[www.konecorp.com](http://www.konecorp.com)

## Board of Directors' Report 2003

2003 was another year of significant structural changes for KONE. After acquiring the Finnish-based engineering group Partek in 2002, consolidating its operations as of 1 July, 2002, and renaming the operations KONE Materials Handling, KONE concluded the sale of businesses not related to materials handling – Nordkalk and Paroc – in 2003 in accordance with agreements signed in late 2002.

After realigning corporate strategy in June, agreements were also reached for the sale of the Tractors and Forest Machines businesses during the autumn. The sale of Forest Machines was closed on 31 December, 2003, and the sale of Tractors was finalized after the period under review on 5 January, 2004. After these divestments, KONE Materials Handling is focused exclusively on cargo-handling technology. The division has been renamed Kone Cargotec to reflect this change. It consists of Kalmar (container handling) and Hiab (load handling).

KONE's elevator, escalator and automatic door service operations continued to develop successfully despite challenging market conditions characterized by weak construction activity in both Europe and North America. KONE Elevators & Escalators' financial result improved yet again. The rapid growth of operations in China prompted the decision to expand the escalator plant in Kunshan, China. The door service business was another growth sector, boosted both by internal growth and acquisitions. Our cooperation with Toshiba Elevator and Building Systems Corporation also continued successfully.

Kone Cargotec's sales and order intake rose significantly as the market for container-handling equipment and services improved in 2003 and a stronger market position was achieved. Numerous restructuring measures were initiated, and projects already underway were concluded. These measures included managerial changes, restructuring of production and further development of the sales and distribution network. These actions contributed to Kone Cargotec's improved result. Raising this division's profitability was one of the key priorities for 2003.

On 4 April, 2003 the long-standing chairman of the Board of Directors of KONE Corporation, Pekka Herlin, passed away. Pekka Herlin became a member of KONE's Board of Directors in 1954. He was vice president of the company from 1962 to 1964, president from 1964 to 1986, and chairman of the Board from 1987 until his death. KONE's Board of Directors wishes to express its thanks and gratitude to Pekka Herlin for his significant contribution in developing KONE into a successful, large-scale, global company whose products and services are industry leaders.

## Consolidated Sales, Orders and Order Book

Consolidated net sales rose to EUR 5,344 (2002: 4,342) million.

The value of orders received amounted to EUR 4,558 (3,261) million. The value of orders in hand at the end of 2003 totaled EUR 2,254 (2,240) million, including a EUR 83.3 (121.5) million order book for Tractors. The elevator and escalator order book, including new equipment and modernization orders, represents over one year of deliveries. The order-to-

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delivery time in Kone Cargotec is typically 6–8 weeks; deliveries of larger Kalmar equipment can take from three to 12 months.

## **Financial Result, Balance Sheet and Cash Flow**

Consolidated operating income before goodwill amortization (EBITA) totaled EUR 418.5 (340.2) million, or 7.8 (7.8) percent of net sales.

The EBITA margin targets of 10 percent in the elevator and escalator business and five percent in Kone Cargotec were both achieved. Consolidated EBITA includes provisions for the employee option program and unallocated headquarters costs.

Consolidated net income, including EUR 21.6 million capital gain from the sale of Forest Machines, improved to EUR 216.9 (157.1) million. Earnings per share rose 22 percent to EUR 3.10 (2.54). The sale of Forest Machines is reported in extraordinary items.

Consolidated cash flow from operating activities before financial items and taxes totaled EUR 498.7 (615.6) million. Consolidated cash flow from operating activities was EUR 399.6 (496.9) million. The value of acquisitions and divestments amounted to EUR 109.7 (-1,494.4) million.

Year-end interest-bearing net debt was EUR 661.9 (1,251.5) million. Total equity as a share of total assets was 30.3 (24.2) percent. Gearing was 61 (125) percent. Total assets amounted to EUR 3,617 (4,160) million. Assets employed totaled EUR 1,750 (2,252) million, of which goodwill accounted for EUR 912.0 (1,063.1) million.

The sale of the Tractors business, which was closed after the end of the period under review, will reduce net debt to approximately zero.

Return on equity was 18.9 (18.4) percent.

## **Personnel**

KONE employed 33,305 (35,864) people at the end of 2003. The decrease is mainly due to the divestment of Nordkalk and Forest Machines and reductions in personnel at Kone Cargotec. The divestment of the Tractors business reduced the number of employees at the beginning of 2004 by approximately 2,600 people.

## **DIVISIONAL REVIEW AND OUTLOOK**

### **KONE Elevators & Escalators**

#### *Sales*

Net sales decreased by 5.3 percent to EUR 2,814 (2,970) million. At comparable exchange rates, sales rose approximately two percent.

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## Sales by market area (MEUR)

	1-12/2003	1-12/2002	10-12/2003	10-12/2002
Europe	1,833.5	1,798.1	556.6	573.9
North America	677.1	851.1	228.4	236.5
Asia Pacific	294.6	292.2	87.3	92.3
Others	8.9	28.7	2.9	8.4
<b>Total</b>	<b>2,814.1</b>	<b>2,970.1</b>	<b>875.2</b>	<b>911.1</b>

The value of new elevators and escalators delivered during 2003 was EUR 1,121 (1,277) million, or 40 (43) percent of KONE Elevators & Escalators' total revenue. At comparable exchange rates, new equipment sales almost achieved the 2002 level. Maintenance and modernization sales amounted to EUR 1,693 (1,693) million, or 60 (57) percent of total sales. At comparable exchange rates service revenue growth achieved the five percent target. The automatic building door business grew to EUR 128.8 (116.7) million. This revenue is included in the total service revenue figure.

In Europe, sales increased as low construction activity in Central Europe was counter-balanced by solid demand in modernizations and in the residential sector in Southern Europe.

In North America sales decreased clearly as a result of lower demand for new equipment in the office building sector and the weaker U.S. dollar.

Asia Pacific's share of total revenue rose above 10 percent on continued booming demand for machine-room-less elevators in China although currency exchange rates also had an adverse impact on sales in the region. The high proportion of new equipment sales and orders will rapidly increase the importance of the Asia-Pacific Area's underdeveloped service sector as these new installations are taken into KONE's service portfolio.

KONE continued its active search for acquisition targets and purchased nearly 30 elevator and automatic building door service companies.

## ***Orders Received and Order Book***

Despite the weak construction market in Europe and North America, KONE succeeded in reaching its 2003 target of matching the previous year's order intake level. Orders, excluding maintenance contracts, totaled EUR 2,021 (2,129) million. At comparable exchange rates, orders rose two percent.

In Europe, order intake for elevators rose despite weak construction activity. Escalator orders also increased despite lower overall demand. The modernization market was strong in European countries that are preparing for new safety standards. Demand in other markets remained unchanged.

In North America elevator and escalator orders rose from the low 2002 level, but pick-up in construction activity occurred too late to have more than a limited impact on demand. The number of escalators ordered rose, but the weaker U.S. dollar had an adverse effect on order intake value in euros. The share of elevators powered by EcoDisc® continued to increase.

China continued to boost Asia-Pacific elevator order intake, while demand on smaller markets decreased. Total order intake in the Asia-Pacific Area decreased as a consequence of currency effects and the lack of extensive infrastructure projects.

## ***Service Base Development***

The number of elevators and escalators under maintenance contract rose solidly above the 500,000 milestone during 2003 to 520,000 units. At the end of the year KONE's service base in Europe was approximately 400,000 units, in North America over 90,000 units and in Asia-Pacific Area more than 25,000 units.

Competition remained tight in the service business, and price increases were modest. The trend among larger international customers, such as hotel chains, continues to be toward contracts that cover all or many of their elevators and escalators. By increasing the share of performance-based maintenance contracts and the harmonization of processes through IT support systems, service business margins were maintained.

## ***Financial Result and Cash Flow***

KONE Elevators & Escalators' operating income before goodwill amortization (EBITA) improved four percent to EUR 298.6 (287.0) million or 10.6 (9.7) percent of net sales. Profitability continued to improve through savings in component costs, increased installation efficiency and the solid development of the service business.

KONE Elevators & Escalators targets a negative level of net working capital. At the end of 2003 working capital was EUR -79.7 (-84.5) million. Tangible fixed assets amounted to EUR 177.2 (186.6) million.

Cash flow from operating activities before financial items and taxes totaled EUR 324.5 (460.7) million.

## ***Capital Expenditure, Product Development and Development Programs***

Capital expenditure in production facilities, field operations and information systems totaled EUR 36.2 (51.1) million. In recent years, information systems have been the major investment target as production has been streamlined and harmonized, based on the KONE EcoDisc® platform.

In order to meet rapidly growing demand in China, KONE decided to expand its escalator plant in Kunshan. The intention is also to increase exports to other Asian countries as well as to Europe. A new elevator component supply unit will be built in the Czech Republic in order to ensure production capacity for new elevators in Central Europe. The total value of the investments will be below EUR 20 million, and production is planned to start by 2005 at both locations.

The KONE Model for defining common business practices within the elevators & escalators and automatic door service operations was rolled out to front-line units in the UK, Canada and

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Belgium and some supply units during the year under review. The integrated system will create opportunities for shared services and a more efficient IT structure.

Product development expenditure totaled EUR 40.5 (40.2) million or 1.4 (1.4) percent of net sales. As all elevator production is based on the KONE EcoDisc® platform, and most escalator production on ECO3000™ technology, KONE has been able to concentrate and clarify its R&D efforts. Product development expenditure is increasingly focused on improving service business offerings.

## ***KONE Elevators & Escalators Outlook for 2004***

The market for new elevators and escalators in most large European countries is anticipated to remain tight during 2004 as construction activity, which leads elevator demand by approximately a year, has shown only minor signs of improvement. KONE is, however, well represented in the fastest-growing sectors, namely the market for machine-room-less elevators and residential buildings. The recovery of the construction business in the U.S. is expected to result in the stabilization of elevator and escalator demand in North America. It is anticipated that demand in China will continue to improve while demand in other countries in the Asia-Pacific Area will stabilize.

At comparable exchange rates, new equipment order intake and sales in 2004 are anticipated to remain at approximately the same level as in the previous two years. Maintenance and modernization revenue is expected to continue to grow at a rate of approximately five percent per year while the growth target for automatic building door service is 20 percent.

In the competitive market situation anticipated for 2004, KONE Elevators & Escalators targets an EBITA margin at the level achieved in 2003. The focus for 2004 is to increase our knowledge of our customers and their businesses and better match our strengths with their needs. Improved IT tools and increased R&D efforts are aimed at improving KONE's competitive position in order to benefit fully from the expected improvement in market conditions in coming years.

Through efficiency improvements in supply and front-line units, and a stronger market position, KONE Elevators & Escalators aims to continue to improve profitability towards its 12 percent EBITA margin target in the years to come.

## **Kone Cargotec and Other Materials Handling Operations**

Partek's businesses were consolidated in KONE's annual accounts for the second half of 2002. Kone Cargotec comprises Kalmar and Hiab, while Tractors, Forest Machines and Nordkalk and other minor operations are included in Other Materials Handling Operations. For comparability reasons, the text refers to the development compared with 2002, even though the businesses have not been consolidated for all of 2002.

## ***Sales***

In 2003 the market for container-handling equipment and services benefited from the continued increase in container traffic. As latent demand was released, replacement

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investments, as well as port expansions and new port projects, increased. Demand for on-road load-handling equipment remained at approximately the same level as in 2002 as economic weakness in Europe, the main market, was offset by improved demand in North America and the Asia Pacific area.

## Sales by Kone Cargotec and other material handling businesses (MEUR)

	1-12/2003	7-12/2002	1-12/2002	10-12/2003	10-12/2002
Kalmar	718.9	373.4	719.3	200.4	212.4
Hiab	623.1	308.3	632.8	159.0	163.4
Eliminations	(7.2)	(5.4)	(11.2)	(0.8)	(3.2)
<b>Kone Cargotec</b>	1,334.8	676.3	1,340.9	358.6	372.6
Other	1,195.5	695.4	1,363.6	327.2	377.6
<b>Total</b>	2,530.3	1,371.7	2,704.5	685.8	750.2

Net sales amounted to EUR 2,530 (2002: 2,705, H2/02: 1,372) million. Kone Cargotec accounted for EUR 1,335 (1,341, H2/02: 676.3) million thereby achieving the target of exceeding the 2002 level at comparable exchange rates with sales in Kalmar and Hiab rising 6 and almost 5 percent respectively. Revenue from services and spare parts in Kone Cargotec amounted to EUR 258.3 (257.6, H2/02: 128.7) million, or 19.4 (19.2, H2/02: 19.0) percent of sales.

## Orders Received and Order Book

Orders received rose seven percent to EUR 2,537 (2,374, H2/02: 1,132) million, of which Kone Cargotec accounted for EUR 1,482 (1,336, H2/02: 623.1) million. At comparable exchange rates, orders in Kalmar and Hiab rose 26 and 8 percent respectively. The year-end order book totaled EUR 507.7 (447.7) million, of which Kone Cargotec accounted for EUR 424.7 (301.8) million.

## Orders by Kone Cargotec and other material handling businesses (MEUR)

	1-12/2003	7-12/2002	1-12/2002	10-12/2003	10-12/2002
Kalmar	834.9	338.6	708.5	238.7	183.0
Hiab	653.2	290.0	639.2	177.4	161.4
Eliminations	(6.6)	(5.5)	(11.5)	(0.5)	(3.3)
<b>Kone Cargotec</b>	1,481.5	623.1	1,336.2	415.6	341.1
Other	1,055.9	509.3	1,038.3	271.3	290.4
<b>Total</b>	2,537.4	1,132.4	2,374.5	686.9	631.5

Kalmar won the largest European order ever for ship-to-shore cranes, consisting of 10 super post-Panamax cranes, with deliveries scheduled for late-2004 and 2005 to the port of Antwerp. This exceptional order boosted the order book to a record level, 60 percent higher than at the end of 2002 at comparable exchange rates. Hiab's orders also rose, especially for truck-mounted forklifts and large loader cranes.

## ***Financial Result and Cash Flow***

Operating income before goodwill depreciation (EBITA) was EUR 133.4 (120.4, H2/02: 64.2) million, which is 5.3 (4.5, H2/02: 4.7) percent of net sales. Kone Cargotec accounted for EUR 74.9 (45.0, H2/02: 20.2) million, which represents 5.6 (3.4, H2/02: 3.0) percent of net sales. This significant profitability improvement was made possible by the favorable reception of recently introduced Kalmar equipment, enabling Kalmar to benefit fully from the improved market situation and volume growth. Restructuring measures in Kalmar and Hiab also contributed to improved profitability.

Net working capital at the end of 2003 was EUR 298.4 (371.9) million, of which Kone Cargotec accounted for EUR 240.4 (262.2) million. Kone Cargotec released EUR 21.8 million of working capital in 2003. Tangible fixed assets amounted to EUR 202.2 (461.9) million, of which Kone Cargotec accounted for EUR 130.5 (148.4) million.

Cash flow from operating activities before financial items and taxes was EUR 187.7 (221.0, H2/02: 154.9) million, of which Kone Cargotec accounted for EUR 114.3 (88.3, H2/02: 56.8) million.

## ***Capital Expenditure and Development Programs***

Capital expenditure in production facilities, field operations and information systems totaled EUR 46.0 (60.9, H2/02: 41.7) million, of which Kone Cargotec accounted for EUR 21.9 (22.5, H2/02: 12.7) million.

Kalmar continued focusing its operations and outsourcing non-core activities such as welding operations and steel construction in Finland and the Netherlands.

Loader crane production was streamlined, and the number of production plants was decreased. The production of hydraulic cylinders was outsourced, and the production of demountables concentrated at one site.

## ***New Products***

Research and development expenditure was EUR 47.9 (48.7, H2/02: 23.1) million, which is 1.9 (1.8, H2/02: 1.7) percent of net sales. In Kone Cargotec, R&D expenditure totaled EUR 25.1 (27.8, H2/02: 13.3) million.

Kalmar introduced a new straddle carrier model. Its success was due to environmental considerations and higher overall performance. Bromma developed a new extendable full 50-ton capacity twin-lift spreader, designed especially for straddle carriers.

In Brisbane, Australia the world's first terminal operating Kalmar's unmanned straddle carrier was expanded.

Hiab expanded its Hiab XS loader crane family with the introduction of a new generation of smaller cranes aimed at better meeting worldwide demand. Two new models were also introduced in the popular 20–40 ton range. In addition to these, Hiab launched several other products.

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## *Kone Cargotec Outlook for 2004*

Container traffic is expected to grow faster than world trade, giving impetus to further increases in the market for container-handling equipment. It is estimated that the market for on-road load-handling equipment will remain at approximately the 2003 level.

At comparable exchange rates, Kone Cargotec's sales are expected to increase in 2004 while order intake is anticipated to achieve the 2003 level. The EBITA margin is anticipated to reach at least the 2003 level.

The completed and continuing restructuring measures and renewed product portfolios are expected to support profitability development in 2004 and reduce the strong negative impact of the weaker dollar.

By growing the service business, further streamlining processes and strengthening its market position, Kone Cargotec aims to improve its EBITA margin to eight percent in the longer term.

## **KONE Corporation**

### *Redemption of Partek Shares*

A court of arbitration confirmed on 2 April, 2003 that KONE Finance Oy has, in accordance with the Finnish Companies Act, Chapter 14, Paragraph 19, an undisputed right to redeem minority shareholders' shares in Partek Corporation at market price.

The redemption price of 15.30 euros per share, and an interest of five percent per annum on the redemption price from 18 December, 2002, up to the day of payment, was paid during the period under review.

### *Divestments*

The divestment of Nordkalk Corporation was closed in February. The transaction price, after reduction of minority interests, was EUR 270 million. After deducting Nordkalk's listed bond and the company's interest-bearing net debt, the final price for the shares was approximately EUR 140 million.

The divestment of KONE's 38 percent holding in Paroc Group Oy Ab was finalized in February. The debt-free price was approximately EUR 75 million, including the price for the shares and the repayment of loans.

KONE also sold all of its holdings in Polar Kiinteistöt Oyj and the real estate company Cellit Oy Ab.

In September, KONE entered into a conditional agreement for the sale of its tractor operations, Valtra, to AGCO Corporation for EUR 600 million.

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In November an agreement was signed for the sale of the Forest Machines operations, Partek Forest, to Komatsu Ltd. of Japan. The enterprise value of the transaction, which was closed on 31 December, 2003, was EUR 120 million.

## *Events After the Review Period*

The agreement for the sale of the Tractors business was closed after the review period, on 5 January, 2004, after competition authority approval was received and other terms were fulfilled.

## *Shares and Shareholder Meetings*

In February, the Annual General Meeting (AGM) of KONE Corporation confirmed the number of members of the Board of Directors at seven. Pekka Herlin was re-elected as chairman of the Board. Re-elected as full members of the Board were KONE CEO Antti Herlin, Gerhard Wendt, Iiro Viinanen, Jean-Pierre Chauvarie, and President and CEO of Toshiba Elevator and Building Systems Corporation, Hiroshi Nishioka. The President of Nokia Mobile Phones, Matti Alahuhta, was elected as a new member of the Board.

On 18 June, following the passing away of Board chairman Pekka Herlin, an Extraordinary Meeting of Shareholders elected CEO and deputy chairman of the Board of Directors Antti Herlin chairman of the Board. The number of Board members was ratified at six, and no new Board members were elected.

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

In addition, the Board of Directors' proposal that the Annual General Meeting authorize the Board of Directors to decide on the distribution of any shares repurchased by the company was approved. The authorizations are in effect for a period of one year from the date of decision of the AGM.

As the result of share transactions during the period, the share of votes in KONE Corporation controlled by Antti Herlin has decreased to below two thirds.

## *Repurchase of KONE Corporation's Shares*

During the year under review, KONE Corporation did not repurchase any of its own shares.

On the basis of the AGM's authorization, KONE Corporation's Board of Directors decided on 23 April to commence repurchasing shares at the earliest on 30 April, 2003. The repurchased shares are to be used as compensation in possible acquisitions and in other arrangements as well as to develop the company's capital structure. As of 29 January, 2004 no shares had been repurchased.

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At the end of the reporting period, the Board of Directors had no current authorization to raise the share capital or to issue convertible or warrant loans.

## *Annual General Meeting and Distribution of Profits*

KONE Corporation's distributable equity stands at EUR 783.6 million. The parent company's non-restricted equity from previous years totaled EUR 868.6 million, and net income from the year under review was EUR 107.8 million. The Board of Directors proposes to the Annual General Meeting (AGM) that a dividend of EUR 1.98 (1.48) be paid for each class A share and EUR 2.00 (1.50) for each class B share from retained earnings. The date of record for dividend distribution is 3 March, 2004, and it is proposed that dividends be paid on 10 March, 2004. If the AGM of 27 February, 2004 approves the Board of Directors' proposal on profit distribution, the dividends will total EUR 125.1 (2002: 93.7) million.

The Board of Directors also proposes that the AGM extend the Board of Directors' authority to use funds available for profit distribution to repurchase KONE Corporation's 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 the capital structure. This authorization is valid for one year, including the day of the AGM's decision.

## *Employee Option Program*

The Board of Directors proposes that the option incentive program introduced to approximately 250 key employees in year 2000, and which is tied to KONE's cumulative net income (after taxes) in 2001–2003, be confirmed by the AGM.

According to the terms of the program, the maximum number of option rights, 350,000, will be issued, entitling the holders to subscription of 1,050,000 class B shares, and a cash bonus of EUR 7.2 million, as the minimum net income requirement of EUR 470 million for the maximum number of option rights to be issued was exceeded. The meeting of the net income targets and the right to the option rights become evident subsequent to the AGM's approval of the 2003 financial statements, and the option rights will come to effect on 1 April, 2004.

The option rights comprise 180,000 A option rights, entitling the holders to subscription to 540,000 class B shares starting 1 April, 2004 and a cash bonus of EUR 40 per option right to be paid in April 2004, and 170,000 B option rights, entitling to subscription to 510,000 class B shares starting 1 April, 2005. The subscription price is EUR 24.67. The option rights will be given free of charge and shall be issued in the book-entry system. The increase in shares represents 1.65 percent of the shares and 0.70 percent of the voting rights.

## *Group Outlook for 2004*

As presented in the outlooks for the divisions, challenging market conditions are anticipated to continue.

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KONE Elevators & Escalators will focus on developing operations while maintaining approximately the same profitability level achieved in 2003. This will result in opportunities to strive for the 12 percent EBITA margin target by utilizing a stronger market position and more efficient operations in coming years.

Kone Cargotec's aim is to continue improving its profitability in 2004. By developing its service business in the long term and reducing the level of working capital, Kone Cargotec will endeavor to raise profitability and progress toward its long-term EBITA margin target of eight percent.

KONE's capital expenditure will, apart from the investment in one new elevator supply facility and the expansion of the escalator supply line in China, remain at the level set in recent years.

The sale of Tractors will reduce net debt and gearing to nearly zero. The balance sheet will strengthen, and the equity-to-total-assets ratio will improve significantly by the end of 2004.

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## CONSOLIDATED STATEMENT OF INCOME (MEUR)

<b>MEUR</b>	1-12/2003	%	1-12/2002	%
<b>Sales</b>	5,344.4		4,341.8	
Costs and expenses	(4,845.0)		(3,926.0)	
Depreciation without goodwill amortization	(80.9)		(75.6)	
<b>Operating income before goodwill amortization (EBITA)</b>	418.5	7.8	340.2	7.8
Goodwill amortization	(89.1)		(65.0)	
<b>Operating income</b>	329.4	6.2	275.2	6.3
Share of associated companies' net income	4.9		5.9	
Financing income and expenses	(27.3)		(24.9)	
<b>Income after financing items</b>	307.0	5.7	256.2	5.9
Extraordinary items	21.6		0.0	
<b>Income before taxes</b>	328.6	6.1	256.2	5.9
Taxes	(109.2)		(95.5)	
Minority share	(2.5)		(3.6)	
<b>Net income</b>	216.9	4.1	157.1	3.6

# Kone Corporation

## CONSOLIDATED BALANCE SHEET (MEUR)

Assets (MEUR )	31/12/2003	31/12/2002
<b>Fixed assets and other long-term investments</b>		
Intangible assets		
Goodwill	912.0	1,063.1
Other long-term expenditures	35.0	57.1
	947.0	1,120.2
Tangible assets		
Land	28.1	101.4
Buildings	170.6	240.7
Machinery and equipment	166.0	284.5
Advance payments	36.7	22.1
	401.4	648.7
Investments		
Shares and participating interests	182.7	207.7
Own shares	26.3	26.3
	209.0	234.0
<b>Total fixed assets and other long-term investments</b>	<b>1,557.4</b>	<b>2,002.9</b>
<b>Current assets</b>		
Inventories		
Raw materials, supplies and finished goods	405.6	476.9
Work in progress	465.3	454.3
Advance payments	3.2	5.3
Advance payments received	(416.1)	(406.1)
	458.0	530.4
Receivables		
Accounts receivable	764.6	842.9
Loans receivable	65.7	60.8
Other receivables	13.5	7.6
Deferred assets	340.6	295.9
	1,184.4	1,207.2
Current investments		
Cash and bank	313.6	293.8
	103.5	125.9
	417.1	419.7
<b>Total current assets</b>	<b>2,059.5</b>	<b>2,157.3</b>
<b>Total assets</b>	<b>3,616.9</b>	<b>4,160.2</b>

# Kone Corporation

<b>Shareholders' equity and liabilities (MEUR)</b>	31/12/2003	31/12/2002
<b>Shareholders' equity</b>		
Share capital	63.5	63.5
Share premium account	219.6	219.6
Reserve for own shares	26.3	26.3
Translation differences	(19.2)	20.9
Retained earnings	583.1	519.8
Net income	216.9	157.1
Capital loans	0.0	102.1
<b>Total shareholders' equity</b>	1,090.2	1,109.3
<b>Minority shares</b>	24.1	20.1
<b>Provision for liabilities and charges</b>	195.5	247.0
<b>Debt</b>		
Deferred tax liability	24.5	49.6
Long-term debt		
Loans	683.9	975.8
<b>Current liabilities</b>		
Loans	119.7	596.2
Accounts payable	380.0	385.7
Accruals	757.9	718.6
Other current liabilities	341.1	57.9
	1,598.7	1,758.4
<b>Total debt</b>	2,307.1	2,783.8
<b>Total shareholders' equity and liabilities</b>	3,616.9	4,160.2

The reported comparison figures for 2002 cover the operation of Kone Cargotec and other materials handling businesses only for the second half of the year.

# Kone Corporation

## CONSOLIDATED STATEMENT OF CASH FLOWS

MEUR	1-12/2003	1-12/2002
Cash receipt from customers	5,364.8	4,363.0
Cash paid to suppliers and employees	(4,866.1)	(3,747.4)
Cash flow from financial items	(17.5)	(21.5)
Cash flow from taxes and other items	(81.6)	(97.2)
<b>Cash Flow from Operating Activities</b>	<b>399.6</b>	<b>496.9</b>
Capital expenditure	(82.2)	(225.3)
Proceeds from sales of fixed assets	18.2	10.5
Fixed assets of new subsidiaries	(89.0)	(1,279.6)
Fixed assets of sold subsidiaries	262.7	0.0
<b>Cash Flow from Investing Activities</b>	<b>109.7</b>	<b>(1,494.4)</b>
<b>Cash Flow after Investing Activities</b>	<b>509.3</b>	<b>(997.5)</b>
Change in current creditors, net	(164.6)	1,793.3
Change in long-term debt, net	(392.9)	757.7
Purchase of own shares	0.0	(26.3)
Sales of own shares	0.0	77.9
Share issue	0.0	106.0
Dividends paid	(93.7)	(42.3)
Other financing activities	129.5	(1,637.3)
<b>Cash Flow from Financing Activities</b>	<b>(521.7)</b>	<b>1,029.0</b>
<b>Change in Net Cash</b>	<b>(12.4)</b>	<b>31.5</b>
Cash and banks as of 31 December	103.5	125.9
Exchange difference	10.0	7.8
Cash and banks as of 1 January	125.9	102.2
<b>Change in Net Cash</b>	<b>(12.4)</b>	<b>31.5</b>
<b>Reconciliation of Net Income to Cash Flow from Operating Activities</b>		
Net Income	216.9	157.1
Depreciation	170.0	140.6
Minority interest	2.5	3.6
<b>Income before Change in Working Capital</b>	<b>389.4</b>	<b>301.3</b>
Change in receivables	(99.1)	69.9
Change in payables	141.8	98.2
Change in inventories	(32.5)	27.5
<b>Cash Flow from Operating Activities</b>	<b>399.6</b>	<b>496.9</b>

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.

# Kone Corporation

## KEY FIGURES

		1-12/2003	1-12/2002
Earnings/share	EUR	3.10	2.54
Equity/share	EUR	16.99	15.66
Return on equity	%	18.9	18.4
Return on capital employed	%	15.2	16.4
Total equity/total assets	%	30.3	24.2
Gearing*	%	61	125
Interest bearing net debt*	MEUR	662	1,252

\* Capital loans are included in debt

## ORDERS RECEIVED (MEUR)

	1-12/2003	1-12/2002
KONE Elevators & Escalators	2,021.0	2,128.6
Kone Cargotec		
Kalmar	834.9	338.6
Hiab	653.2	289.9
Eliminations	(6.6)	(5.4)
	1,481.5	623.1
Others	1,055.9	509.3
<b>Total</b>	<b>4,558.4</b>	<b>3,261.0</b>

## ORDER BOOK (MEUR)

	31/12/2003	31/12/2002
KONE Elevators & Escalators	1,746.1	1,791.8
Kone Cargotec		
Kalmar	310.9	210.6
Hiab	114.1	93.0
Eliminations	(0.3)	(1.8)
	424.7	301.8
Others	83.0	145.9
<b>Total</b>	<b>2,253.8</b>	<b>2,239.5</b>

## SALES (MEUR)

	1-12/2003	1-12/2002
KONE Elevators & Escalators	2,814.1	2,970.1
Kone Cargotec		
Kalmar	718.9	373.4
Hiab	623.1	308.3
Eliminations	(7.2)	(5.4)
	1,334.8	676.3
Others	1,195.5	695.4
<b>Total</b>	<b>5,344.4</b>	<b>4,341.8</b>

# Kone Corporation

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## CAPITAL EXPENDITURE (MEUR)

	1-12/2003	1-12/2002
KONE Elevators & Escalators	36.2	51.1
Kone Cargotec	21.9	12.7
Others	24.1	29.0
<b>Total</b>	<b>82.2</b>	<b>92.8</b>
as percentage of sales %	1.5	2.1

## EXPENDITURE FOR R&D (MEUR)

	1-12/2003	1-12/2002
KONE Elevators & Escalators	40.5	40.2
Kone Cargotec	25.1	13.3
Others	22.8	9.8
<b>Total</b>	<b>88.4</b>	<b>63.3</b>
as percentage of sales %	1.7	1.5

## AVERAGE NUMBER OF EMPLOYEES

	1-12/2003	1-12/2002
	34,489	29,407

## NUMBER OF EMPLOYEES

	31/12/2003	31/12/2002
KONE Elevators & Escalators	23,751	23,317
Kone Cargotec	6,377	7,122
Others	3,177	5,425
<b>Total</b>	<b>33,305</b>	<b>35,864</b>

# Kone Corporation

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## SALES BY MARKET AREA (MEUR)

### KONE Corporation

	1-12/2003	%	1-12/2002	%
Europe	3,426.0	64	2,715.4	63
North America	1,108.2	21	1,059.3	24
Asia Pacific	488.5	9	391.7	9
Others	321.7	6	175.4	4
<b>Total</b>	<b>5,344.4</b>		<b>4,341.8</b>	

### KONE Elevators & Escalators

	1-12/2003	%	1-12/2002	%
Europe	1,833.5	65	1,798.1	60
North America	677.1	24	851.1	29
Asia Pacific	294.6	11	292.2	10
Others	8.9	0	28.7	1
<b>Total</b>	<b>2,814.1</b>		<b>2,970.1</b>	

### Kone Cargotec

	1-12/2003	%	7-12/2002	%
Europe	737.4	55	375.6	55
North America	359.8	27	174.6	26
Asia Pacific	146.3	11	94.8	14
Others	91.3	7	31.3	5
<b>Total</b>	<b>1,334.8</b>		<b>676.3</b>	

# Kone Corporation

## NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT (MEUR)

<b>Contingent liabilities and pledged assets</b>	31/12/2003	31/12/2002
Assets pledged to secure loans		
Group and parent company	18.6	26.4
Pledged assets		
Group and parent company	14.7	22.7
Guarantees		
Subsidiaries	0.0	0.0
Associated companies	10.1	4.1
Others <sup>1)</sup>	47.7	19.6
Leasing liabilities		
Falling due in the next year	45.7	50.4
Falling due after one year	105.2	127.8
Other contingent liabilities <sup>1)</sup>	88.7	111.4
<b>Total</b>	<b>330.7</b>	<b>362.4</b>
Value of guaranteed debt	72.6	83.7
Book value of assets pledged	19.4	30.1

<sup>1)</sup> Guarantees for others include MEUR 11.0 (Dec. 31, 2002 MEUR 10.3) customer finance arrangements where the sold machines form security, and other contingent liabilities include repurchase commitments for sold products to a value of MEUR 54.3 (Dec. 31, 2002 MEUR 71.7).

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

<b>Derivatives</b>	Book value	Market value	Book value	Market value
	31.12.2003	31.12.2003	31.12.2002	31.12.2002
Forward contracts	958.3	41.3	983.9	24.7
Currency options	94.1	0.5	83.2	0.4
Currency swaps	173.8	6.0	153.8	1.1
Interest rate swaps	140.0	(4.6)	276.6	(8.8)
<b>Total</b>	<b>1,366.2</b>	<b>43.2</b>	<b>1,497.5</b>	<b>17.4</b>

# Kone Corporation

## QUARTERLY FIGURES

### KONE Corporation

		Q4/2003	Q3/2003	Q2/2003	Q1/2003	Q4/2002	Q3/2002
Orders received	MEUR	1,203.2	1,038.6	1,161.3	1,155.3	1,161.7	991.5
Order book	MEUR	2,253.8	2,454.3	2,472.1	2,416.5	2,239.5	2,454.1
Sales	MEUR	1,561.1	1,279.7	1,356.9	1,146.7	1,661.3	1,302.9
Operating income before goodwill amortization ( EBITA )	MEUR	133.7	107.2	108.3	69.3	115.8	107.1
Operating income before goodwill amortization ( EBITA )	%	8.6	8.4	8.0	6.0	7.0	8.2

### KONE Elevators & Escalators

		Q4/2003	Q3/2003	Q2/2003	Q1/2003	Q4/2002	Q3/2002
Orders received	MEUR	516.3	486.4	515.5	502.8	530.2	490.6
Order book	MEUR	1,746.1	1,931.9	1,950.9	1,890.2	1,791.8	1,983.9
Sales	MEUR	875.2	701.1	674.7	563.1	911.1	681.4
Operating income before goodwill amortization ( EBITA )	MEUR	100.9	80.2	69.9	47.6	92.0	77.7
Operating income before goodwill amortization ( EBITA )	%	11.5	11.4	10.4	8.5	10.1	11.4

### Kone Cargotec

		Q4/2003	Q3/2003	Q2/2003	Q1/2003	Q4/2002	Q3/2002
Orders received	MEUR	415.6	318.7	356.9	390.3	341.1	282.0
Order book	MEUR	424.7	380.3	363.2	367.9	301.8	338.9
Sales	MEUR	358.6	302.5	358.2	315.5	372.6	303.7
Operating income before goodwill amortization ( EBITA )	MEUR	21.4	13.9	24.2	15.4	11.8	8.2
Operating income before goodwill amortization ( EBITA )	%	6.0	4.6	6.8	4.9	3.2	2.7

## SHARES AND SHAREHOLDERS

31 December, 2003	A shares	B shares	Total
Number of shares	9,526,089	53,937,531	63,463,620
Share capital, MEUR			63.5
Market capitalization, MEUR			2,850
Number of shares traded, 1-12/2003			34,985,572
Value of shares traded, MEUR, 1-12/2003			1,307
Number of shareholders			10,249
	Close	High	Low
Share price, EUR, 1-12/2003	45.50	47.44	26.70

The price of the KONE class B share rose 58 percent during 2003.