

*The heart of your building™*



## *Review for January–June 2005 (Pro forma)*

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# Quarterly comparison (Pro forma)



- Solid development continued during the second quarter of 2005

		Q2/2005	Q2/2004	Change
Orders	MEUR	688	544	26%
Order book	MEUR	2,265	1,960	16%
Sales	MEUR	783	695	13%
Operating income	MEUR	60.8	42.5	43%
Operating income	%	7.8	6.1	

# Review period January–June (Pro forma)



- First half 2005 strong performance: order and sales growth, improved profits

		1H/2005	1H/2004	Change
Orders	MEUR	1,292	1,062	22%
Order book	MEUR	2,265	1,960	16%
Sales	MEUR	1,432	1,252	14%
Operating income*	MEUR	99.8	69.9	43%
Operating income*	%	7.0	5.6	

\* excluding the MEUR 89.2 provision for the development and restructuring program

# Development by market area



- In EMEA, demand and prices remained unchanged
  - Residential demand good, office market weaker in Europe, high-rise market strong in the Middle East
  - EU safety norms boosting demand in modernizations
  - KONE's order intake showed strong growth in the 2<sup>nd</sup> quarter
- In North America, new equipment demand growth continued
  - New equipment prices improved, maintenance and modernization markets under price pressure
  - KONE's order intake continued strong in the new equipment and modernization businesses but did not reach the 1<sup>st</sup> quarter's exceptional levels
- In Asia-Pacific, market growth continued
  - China showed moderate growth; India continued strong growth; Australia was cooling off
  - Price pressure continues in China, Australia, Hong Kong
  - KONE's order intake very strong in the whole region, especially in China and India

- New equipment
  - Significant orders in China, India, the USA and the UK
  - In the USA, market share gains with MRL over hydraulic products
- Service business
  - Modernization revenue grew in both the USA and Europe
  - Maintenance , including automatic building door service, continued steady overall growth
- Major project business
  - Business reorganization and management location to Shanghai
  - Best ongoing opportunities in major projects in Middle East and Asia-Pacific

# Key developments to boost the change



- Customer focus
  - Several projects aiming at development of a customer-oriented culture
- Product portfolio
  - Competitiveness through increasing modularity
  - Product extensions for the Asian and North American markets
- New, increasingly customer-driven process architecture
  - Business benefits, best practices, productivity
- Global sourcing
  - Increasing purchasing power through centralization
  - Key vendor relationships
- Boosting growth in Asia
  - Increasing and relocating resources in China, new joint-ventures (KONE Giant, Toshiba j/v)
  - Production capacity, research and development extensions in India and China

# Development and restructuring program



- Escalator production in Hattingen, Germany
  - Supervisory board of KONE GmbH has approved the plan, and the process has progressed to employee negotiations
- Electrification component production in Bristol, UK
  - Negotiations completed, approximately 90 jobs, transfer of production to Slimpa in Italy and the KONE factory in Hyvinkää, Finland
  - Phasing down of manufacturing in Bristol by end of 2005
- Hoisting machine production relocated to Hyvinkää
  - Production from Hämeenlinna to Hyvinkää at the end of the summer
- Other restructuring actions
  - Standard doors transferred from Hyvinkää to Czech
  - Decision on elevator production capacity extension in Chennai, India
  - Growing engineering capability in India

# Outlook for 2005



- KONE reiterates its outlook for the calendar year 2005, maintaining the approximate 8 percent pro forma EBIT level achieved in 2004, when disregarding the EUR 89.2 million costs of the development and restructuring program.
- The financial performance in the first half of 2005 has been favorable compared to the exceptionally weak first six months of 2004. Sales in 2005 are anticipated to be concentrated less in the second half of the year than they were for 2004.
- The development and restructuring program is well underway, and most of it will be implemented during 2005. KONE will also continue implementing the initiated change programs to enable faster-than-market growth and improving profitability from 2006 onwards.

# Consolidated statement of income



MEUR	1-6/2005	%	1-6/2004	%	1-12/2004*	%
<b>Sales</b>	1,432.4		1,252.2		2,894.5	
Costs and expenses	-1,393.0		-1,153.6		-2,601.5	
Depreciation	-28.8		-28.7		-58.4	
<b>Operating income</b>	10.6	0.7	69.9	5.6	234.6	8.1
Share of associated companies' income	0.7		0.6		1.3	
Financing income and expenses	-5.6		-1.1		-2.7	
<b>Income before taxes</b>	5.7	0.4	69.4	5.5	233.2	8.1
Taxes	-6.2		-20.0		-69.2	
<b>Net income</b>	-0.5	0.0	49.4	3.9	164.0	5.7
<b>Net income attributable to:</b>						
Shareholders of the parent company	0.1		49.3		163.9	
Minority interests	-0.6		0.1		0.1	
<b>Total</b>	-0.5		49.4		164.0	

\*) disregarding EUR 15.3 million non-recurring income due to a provision reversal regarding disability pensions.

# Consolidated balance sheet



<b>Assets</b>			
<b>MEUR</b>	30.6.2005	30.6.2004	31.12.2004
<b>Non-current assets</b>			
Intangible assets	540.4	478.2	500.2
Tangible assets	222.9	196.0	186.8
Loans receivable and other interest-bearing assets	63.6	64.8	77.1
Other non interest-bearing assets	126.5	100.9	97.7
Investments	176.7	148.9	158.4
<b>Total</b>	<b>1,130.1</b>	<b>988.8</b>	<b>1,020.2</b>
<b>Current assets</b>			
Inventories	169.0	142.9	130.3
Loans receivable and other interest-bearing assets	8.8	0.7	0.8
Accounts receivable and other non interes-bearing assets	719.4	640.0	658.4
Cash and bank	169.7	328.9	255.1
<b>Total</b>	<b>1,066.9</b>	<b>1,112.5</b>	<b>1,044.6</b>
<b>Total assets</b>	<b>2,197.0</b>	<b>2,101.3</b>	<b>2,064.8</b>
<b>Shareholders' equity and liabilities</b>			
<b>MEUR</b>	30.6.2005	30.6.2004	31.12.2004
Equity	592.7	461.5	726.8
Non-current liabilities	310.3	387.8	296.9
Provisions	197.9	163.4	143.3
Current liabilities	1,096.1	1,088.6	897.8
<b>Total shareholders' equity and liabilities</b>	<b>2,197.0</b>	<b>2,101.3</b>	<b>2,064.8</b>

# Consolidated cash flow



MEUR	1-6/2005	1-6/2004	1-12/2004
Operating income	10.6	69.9	234.6
Change in working capital	88.3	-0.8	-4.0
Depreciation	28.8	28.7	58.4
<b>Cash flow from operations</b>	<b>127.7</b>	<b>97.8</b>	<b>289.0</b>
Cash flow from financial items and taxes	-49.2	-27.7	-55.3
<b>Cash flow from operating activities</b>	<b>78.5</b>	<b>70.1</b>	<b>233.7</b>
Cash flow from investing activities	-121.4	-39.4	-125.6
Purchase and sales of own shares	0.0	-90.1	60.0
Share issue	2.3	3.0	4.8
Dividends paid	-127.3	-125.1	-125.1
<b>Change in net debt</b>	<b>-167.9</b>	<b>-181.5</b>	<b>47.8</b>
Net debt in the beginning of period	-61.4	-13.6	-13.6
Net debt in the end of period	106.5	167.9	-61.4
<b>Change in net debt</b>	<b>-167.9</b>	<b>-181.5</b>	<b>47.8</b>

# Key figures



		1-6/2005	1-6/2004	1-12/2004
Basic earnings per share	EUR	0.00	0.79	2.66
Equity per share	EUR	8.94	7.26	11.06
Interest bearing net debt	MEUR	106.5	167.9	-61.4
Total equity/total assets	%	27.0	22.0	35.2
Gearing	%	18.0	36.4	-8.4
Return on equity	%	neg.	18.2	24.3
Return on capital employed	%	2.3	13.6	23.1

# Quarterly figures



		Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Orders received	MEUR	688.3	604.1	568.5	505.3	543.7	518.3
Order book	MEUR	2,264.7	2,023.1	1,796.1	1,938.6	1,959.5	1,907.5
Sales	MEUR	783.1	649.3	896.0	746.3	695.1	557.1
Operating income	MEUR	60.8	39,0*	92.3	72.4	42.5	27.4
Operating income	%	7.8	6.0*	10.3	9.7	6.1	4.9

\* excluding MEUR 89.2 provision for the development and restructuring program.



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