

21 October, 2005

KONE Corporation Pro Forma Review: January–September 2005

Strong Order Intake Continued

- Kone Corporation demerged into two separately listed corporations, KONE Corporation and Cargotec Corporation, on 1 June 2005. This pro forma review presents KONE's January–September 2005 financial performance according to the business and corporate structure prevailing after the demerger. The official Interim Report for the period June–September is also released in conjunction with this report.
- Third quarter order intake continued strong both in new equipment and modernizations. Order book was at a record high level.
- Programs for improving customer focus, product portfolio, productivity and cost competitiveness are progressing as planned.
- The main actions of the Development and Restructuring Program will be completed by the end of 2005.
- KONE maintains its outlook for achieving at least last year's approximately 8 percent pro forma operating income margin for 2005, disregarding the EUR 89.2 million cost of the Development and Restructuring Program. Net sales for the calendar year are expected to reach EUR 3.1 billion.

Key Figures

		7-9/2005	7-9/2004	1-9/2005	1-9/2004
Order intake	MEUR	646.4	505.3	1,938.8	1,567.3
Order book	MEUR	2,371.7	1,938.6	2,371.7	1,938.6
Sales	MEUR	801.4	746.3	2,233.8	1,998.5
Operating income	MEUR	78.1	72.4	177.9*	142.3
Cash flow from operations (before financial items and taxes)	MEUR	90.3	68.1	218.0	165.8
Net income	MEUR	54.6	51.0	54.1	100.5
Net debt	MEUR	134.5	134.2	134.5	134.2
Total equity/total assets	%	29.5	23.6	29.5	23.6
Gearing	%	21.4	25.7	21.4	25.7

*Excluding a MEUR 89.2 provision for the development and restructuring program. Operating income in January–September 2005 including the provision was MEUR 88.7.



President of KONE, Matti Alahuhta, in conjunction with the review:

“We are pleased that our change programs have gained momentum. Our customer focus is improving, and we have responded quickly by developing our product offering to better meet customer requirements. Our programs to improve productivity have also progressed as planned.

“Global competition in the new equipment business, combined with production shifts to low-cost countries, has intensified competition. To enable profit growth, we must continuously improve our product offering and operations through our change programs and restructuring efforts.

“Business performance continued to be strong, and year-on-year third quarter order growth was over 20 percent in all market areas. Particularly pleasing is the strong development of the order intake in Asia.

“Based on our performance during the third quarter, we are confident that we will already achieve faster-than-market growth this year.”

Analyst and Media Conference and Conference Call

A meeting for the media and analysts will be held on 21 October, 2005 at 2:00 p.m. Finnish time at KONE Building, address Keilasatama 3, Espoo.

A telephone conference for analysts and investors, conducted in English, will begin at 4:00 p.m. Finnish time and will also be available as live audio web cast on the company website. Callers may access the conference directly at the following telephone numbers: +1-617-786-2962 (US callers) or +44-20-7365-8426 (Non-US callers), password: KONE Corporation. On demand copy of the conference will be available on the company website later the same day.

This pro forma review is unaudited.

In conjunction with this report, KONE has published the official Interim Report for the period 1 June–30 September, 2005. The Interim Report is divided into the periods June-September and July-September. The third quarter pro forma figures deviate from the official third quarter figures because the different accounting periods result in deviating average currency rates. KONE Corporation's first financial reporting period is 1 June, 2005–31 December, 2005.

Sender:

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KONE is the world's fourth largest elevator and escalator company and provides complete and innovative solutions for the installation, maintenance and modernization of elevators and escalators and the maintenance of automatic building doors. KONE provides safe and easy access to hundreds of millions of people daily in all parts of the world. KONE has annual net sales of approximately EUR three billion and about 27,000 employees. Its class B shares are listed on the Helsinki Exchanges.

www.kone.com

Review for January–September 2005

Market Development in the Third Quarter of 2005

In Europe, the Middle East and Africa (EMEA), the overall market for new equipment grew moderately in the third quarter of the year, but the development differed from one country to another. Demand for residential solutions was at a good level while the office-building segment remained weak. The high-rise market in the Middle East remained strong.

In North America, demand for new equipment continued to be at a good level, boosted by the apartment building, office and public transportation segments. The impact of higher oil prices and the natural catastrophes caused some market uncertainty in the U.S.

In the Asia-Pacific region, the market for new equipment continued to be strong, especially in China and India. Australia was stable with demand shifting from high-rise construction to low- and mid-rise buildings.

In the European and the Asian-Pacific regions, new equipment pricing remained competitive. Price pressure was relatively unchanged in North America after easing somewhat during the first half of the year.

In modernizations, demand continued to improve both in Europe and North America. The maintenance market showed steady growth globally, but prices continued to be under pressure.

Order Intake and Order Book

In January-September 2005, order intake, excluding the value of maintenance contracts totaled EUR 1,939 (1-9/2004: 1,567) million. Growth was 24 percent. Currency rates did not significantly affect the growth rate. At the end of September, the order book was at a record high of EUR 2,372 (end of 2004: 1,796) million. The average order book margin was slightly lower than at the end of year 2004.

In the third quarter, KONE's order intake increased 28 percent. All geographical regions contributed to growth. Growth was strongest in new equipment, but modernization order growth was also significant.

New equipment order intake in EMEA grew substantially, buoyed by growth in the U.K., Italy and the Netherlands. KONE was successful especially in the solid residential market segment. In the U.K., KONE secured an order for 37 elevators for the New Street Square project in London, consisting of four buildings with retail, leisure and office space. In Moscow, Russia, KONE was chosen to provide 28 elevators and four escalators for the Neberezhnaya Tower C, which will be one of the tallest buildings in Europe.

Order intake in North America continued to show solid growth. KONE benefited from success in the growing machine-room-less elevator market. In the modernization business, KONE achieved strong growth.



In the Asia-Pacific region all major areas contributed to extraordinarily strong new equipment order-intake growth. KONE benefited from recent additions to its product portfolio targeted for the Asian markets as well as from strengthened sales efforts in China. Recent acquisitions in Thailand and South Korea contributed to the strong growth.

Sales

In January-September 2005, net sales totaled EUR 2,234 (1,999) million. Net sales increased 12 percent. Currency rates did not significantly affect the growth rate. New equipment sales accounted for EUR 868.6 (733.7) million and service for EUR 1,365 (1,265) million.

Third quarter new equipment sales amounted to EUR 328.4 (308.3) million, and service business sales totaled EUR 473.0 (438.0) million with modernizations posting solid growth. As communicated, new equipment sales in 2005 will be more evenly distributed than in 2004, when sales were concentrated to the second half of the year.

Net sales grew in all geographical regions.

Sales by geographical segments MEUR

	7-9/2005	%	7-9/2004	%	1-9/2005	%	1-9/2004	%	1-12/2004	%
EMEA*	521.2	65	475.8	64	1,479.3	66	1,298.6	65	1,904.0	66
Americas	174.9	22	172.2	23	481.0	22	448.8	22	628.9	22
Asia-Pacific	105.3	13	98.3	13	273.5	12	251.1	13	361.6	12
Total	801.4		746.3		2,233.8		1,998.5		2,894.5	

* EMEA = Europe, Middle East, Africa

Income, Balance Sheet and Cash Flow

In January-September 2005, KONE's operating income, excluding the EUR 89.2 million provision for the Development and Restructuring Program described below, was EUR 177.9 (142.3) million, representing 8.0 (7.1) percent of net sales. Operating income, including the EUR 89.2 million provision, was EUR 88.7 million. Net income amounted to EUR 54.1 (100.5) million.

Third-quarter operating income was EUR 78.1 (72.4) million or 9.7 percent of net sales, which is unchanged from the comparable period a year earlier.

In January-September 2005, cash flow from operations (before financial items and taxes) totaled EUR 218.0 (165.8) million. At the end of September, net working capital was negative at EUR -171.7 (end of 2004: -180.0) million.

At the end of September, net debt amounted to EUR 134.5 (end of 2004: -61.4) million. The total equity/total assets ratio was 29.5 (35.2) percent, and gearing was 21.4 (-8.4) percent. Net debt mainly increased due to the payment of Kone Corporation's dividend totaling EUR 127.3 million in the second quarter and the buy-back of own shares totaling EUR 8.7 million.



Development and Restructuring Program

In order to improve the productivity of its supply chain and the cost-competitiveness of its products, KONE disclosed a Development and Restructuring Program in March 2005.

The negotiations regarding production at the Hattingen escalator facility have been concluded. During the negotiations, different alternatives were evaluated, but no alternative solution was found to discontinuing production. Escalator production was closed down at the end of September, 2005. The closing affected 283 employees. Outplacement and training services is being provided to those affected. The Hattingen facility will carry on as KONE's Global Escalator Technology and Service Business Center.

The negotiations in the electrification component unit in Bristol have also been concluded, and the production unit will be closed down by the end of 2005, resulting in redundancy of approximately 90 persons.

Construction of a Mexican facility for the manufacture of elevator doors for the North American market got underway in the third quarter. Production will begin in the second quarter of 2006.

The measures presented in the program target an annual positive impact on operating income of almost EUR 30 million with much of this effect already being felt in 2006. The total one-time operating income impact of the program is estimated to be EUR 89.2 million, which was provided for in the first quarter.

Capital Expenditure and Product Development

In January-September 2005, capital expenditure totaled EUR 53.4 (21.4) million, including the completion of full ownership of the KONE Building in Espoo, Finland. In addition, acquisitions accounted for EUR 106.8 (39.2) million. Product development expenditures totaled EUR 29.9 (30.4) million or 1.4 (1.5) percent of net sales.

In 2005, KONE has focused on developing its product portfolio in order to maximize accessible markets. During the third quarter, measures to broaden the product range to meet differing regional demand and to improve competitiveness continued successfully. In addition, KONE is building up the supply chain for its counterweight-less KONE MaxiSpace™ solutions in order to support increased order and installation volumes across Europe in 2006.

Personnel

KONE had 27,190 (end-2004: 25,262) employees at the end of September 2005. The average number of employees during the period January-September 2005 was 26,175 (2004: 24,315). The increases are mainly due to acquisitions in India and Thailand and expanded operations in China.



Growth by Acquisition

KONE continued its acquisition activity in order to strengthen its position in growth markets and increase the density of its maintenance base. Most of the acquired companies have been local elevator or door service companies.

In April, KONE and Toshiba Elevator and Building Systems Corporation (TELC) agreed to strengthen their alliance by establishing an independent joint-venture company for escalator production in China. The joint-venture will be the main source of escalators for both parties and will make it possible to increase volumes and improve productivity. During the third quarter, the joint-venture began its operations and launched its first escalator product for Chinese markets. KONE owns 70 percent of the new company, and TELC owns 30 percent.

In addition, KONE signed a joint-venture agreement in April with Russia's premier elevator company, Karacharovo Mechanical Factory (KMZ). KONE will own 40 percent of the new company and hold an option to increase its shareholding to a majority stake. Finalization of the joint-venture agreement will follow approval by the appropriate authorities.

The independent joint-venture company Giant-Kone Elevator Company Ltd continued its successful operations in China. KONE owns 40 percent of Giant-Kone.

UK Lift Company, which was acquired in February 2005, was consolidated into KONE's figures as of 1 January. Thai Lift Industries, which was acquired in March, was consolidated into KONE's figures as of 1 June, and the company has been de-listed from the stock exchange.

Significant Events after the Period under Review

On 10 October 2005 KONE received a Statement of Objections from the European Commission concerning its investigation of localized anticompetitive practices in the elevator and escalator industry in Belgium, Germany, Luxemburg and the Netherlands. KONE has fully cooperated with the European Commission since the initiation of the investigation in January 2004. The company is now analyzing the Statement of Objections and will submit its reply to the Commission in due course.

Outlook for the calendar year 2005

KONE maintains its outlook for achieving at least last year's approximately 8 percent pro forma operating income margin for the calendar year 2005, disregarding the EUR 89.2 million cost of the development and restructuring program.

Net sales for 2005 are expected to reach EUR 3.1 billion.



Consolidated statement of income

MEUR	7-9/2005	%	7-9/2004	%	1-9/2005	%	1-9/2004	%	1-12/2004 *	%
Sales	801.4		746.3		2,233.8		1,998.5		2,894.5	
Costs and expenses	-707.5		-659.4		-2 100.5		-1,813.0		-2,601.5	
Depreciation	-15.8		-14.5		-44.6		-43.2		-58.4	
Operating income	78.1	9.7	72.4	9.7	88.7	4.0	142.3	7.1	234.6	8.1
Share of associated companies' income	0.5		0.1		1.2		0.7		1.3	
Financing income and expenses	0.8		-0.4		-4.8		-1.5		-2.7	
Income before taxes	79.4	9.9	72.1	9.7	85.1	3.8	141.5	7.1	233.2	8.1
Taxes	-24.8		-21.1		-31.0		-41.0		-69.2	
Net income	54.6	6.8	51.0	6.8	54.1	2.4	100.5	5.0	164.0	5.7

Net income attributable to:

Shareholders of the parent company	54.9		51.1		55.0		100.4		163.9	
Minority interests	-0.3		-0.1		-0.9		0.1		0.1	
Total	54.6		51.0		54.1		100.5		164.0	

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

Basic earnings per share

for profit attributable to the shareholders of the parent company, EUR

0.86	0.84	0.86	1.63	2.66
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Consolidated balance sheet

Assets

MEUR	30.9.2005	30.9.2004	31.12.2004
Non-current assets			
Intangible assets	548.5	483.2	500.2
Tangible assets	221.3	197.6	186.8
Loans receivable and other interest-bearing assets	63.8	76.9	77.1
Other non interest-bearing assets	125.7	99.7	97.7
Investments	165.4	143.0	158.4
Total	1,124.7	1,000.4	1,020.2
Current assets			
Inventories	152.7	126.7	130.3
Loans receivable and other interest-bearing assets	0.2	0.7	0.8
Accounts receivable and other non interest-bearing assets	725.0	686.8	658.4
Cash and bank	126.2	397.1	255.1
Total	1,004.1	1,211.3	1,044.6
Total assets	2,128.8	2,211.7	2,064.8

Equity and liabilities

MEUR	30.9.2005	30.9.2004	31.12.2004
Equity	629.0	522.7	726.8
Non-current liabilities			
Loans	133.9	240.7	139.1
Deferred tax liabilities	23.9	5.6	10.6
Employee benefits and other liabilities	153.9	140.2	147.2
Total	311.7	386.5	296.9
Provisions	190.3	159.8	143.3
Current liabilities			
Loans	190.8	368.2	132.5
Accounts payable and other liabilities	807.0	774.5	765.3
Total	997.8	1,142.7	897.8
Total equity and liabilities	2,128.8	2,211.7	2,064.8

Consolidated statement of changes in equity

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Retained earnings	Minority interests	Total equity
1 January, 2005	63.7	91.6	11.0	-1.7	539.6	22.6	726.8
Dividends paid					-127.3		-127.3
Issue of shares	0.2	3.3					3.5
Purchase of own shares					-8.7		-8.7
Sales of own shares							0.0
Cash flow hedge			-13.9				-13.9
Change in translation differences				12.1			12.1
Change in minority interests						-17.6	-17.6
Net income for the period					55.0	-0.9	54.1
30 September, 2005	63.9	94.9	-2.9	10.4	458.6	4.1	629.0

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Retained earnings	Minority interests	Total equity
1 January, 2004	63.5	62.1	0.6	0.7	474.5	20.5	621.9
Dividends paid					-125.1		-125.1
Issue of shares	0.2	4.6					4.8
Purchase of own shares					-90.1		-90.1
Sales of own shares		24.9			116.4		141.3
Cash flow hedge			10.4				10.4
Change in translation differences				-2.4			-2.4
Change in minority interests						2.0	2.0
Net income for the period					163.9	0.1	164.0
31 December, 2004	63.7	91.6	11.0	-1.7	539.6	22.6	726.8

Consolidated cash flow

MEUR	1-9/2005	1-9/2004	1-12/2004
Operating income	88.7	142.3	234.6
Change in working capital	84.7	-19.7	-4.0
Depreciation	44.6	43.2	58.4
Cash flow from operations	218.0	165.8	289.0
Cash flow from financial items and taxes	-121.2	-41.3	-55.3
Cash flow from operating activities	96.8	124.5	233.7
Cash flow from investing activities	-160.2	-60.6	-125.6
Purchase and sales of own shares	-8.7	-90.1	60.0
Share issue	3.5	3.5	4.8
Dividends paid	-127.3	-125.1	-125.1
Change in net debt	-195.9	-147.8	47.8
Net debt in the beginning of period	-61.4	-13.6	-13.6
Net debt in the end of period	134.5	134.2	-61.4
Change in net debt	-195.9	-147.8	47.8

Key figures

		1-9/2005	1-9/2004	1-12/2004
Basic earnings per share	EUR	0.86	1.63	2.66
Equity per share	EUR	9.82	8.26	11.06
Interest bearing net debt	MEUR	134.5	134.2	-61.4
Total equity/total assets	%	29.5	23.6	35.2
Gearing	%	21.4	25.7	-8.4
Return on equity	%	10.6	23.4	24.3
Return on capital employed	%	12.3	17.6	23.1
Total assets	MEUR	2,128.8	2,211.7	2,064.8
Assets employed	MEUR	763.5	656.9	665.4
Working capital (including financing and tax items)	MEUR	-171.7	-166.9	-180.0



Sales by geographical segments MEUR	1-9/2005	%	1-9/2004	%	1-12/2004	%
EMEA*	1,479.3	66	1,298.6	65	1,904.0	66
Americas	481.0	22	448.8	22	628.9	22
Asia Pacific	273.5	12	251.1	13	361.6	12
Total	2,233.8		1,998.5		2,894.5	

* EMEA = Europe, Middle East, Africa

Orders received MEUR	1-9/2005	1-9/2004	1-12/2004
	1,938.8	1,567.3	2,135.8

Order book MEUR	30.9.2005	30.9.2004	31.12.2004
	2,371.7	1,938.6	1,796.1

Capital expenditure MEUR	1-9/2005	1-9/2004	1-12/2004
In fixed assets	23.0	18.1	41.9
In leasing agreements	9.0	3.3	4.7
Total	32.0	21.4	46.6

Expenditure for R&D MEUR	1-9/2005	1-9/2004	1-12/2004
	29.9	30.4	41.0
Expenditure for R&D as percentage of sales	1.4	1.5	1.4

Number of employees	1-9/2005	1-9/2004	1-12/2004
Average	26,175	24,152	24,315
In the end of the period	27,190	24,511	25,262

Notes on the consolidated financial statements

Commitments

MEUR	30.9.2005	30.9.2004	31.12.2004
Mortgages			
Group and parent company	30.7	0.7	0.7
Pledged assets			
Group and parent company	12.5	14.9	11.4
Guarantees			
Associated companies	5.8	16.6	18.4
Others	50.6	51.7	18.8
Operating leases	102.6	88.9	89.5
Other contingent liabilities	0.0	0.0	-
Total	202.2	172.8	138.8

The future minimum lease payments under non-cancellable operating leases

	30.9.2005	30.9.2004	31.12.2004
Less than 1 year	26.1	24.7	23.1
1-5 years	63.1	50.7	53.4
Over 5 years	13.4	13.5	13.0
Total	102.6	88.9	89.5

Derivatives	Positive fair value	Negative fair value	Net fair value	Net fair value	Net fair value
Fair values of derivative financial instruments MEUR	30.9.2005	30.9.2005	30.9.2005	30.9.2004	31.12.2004
FX Forward contracts	16.7	22.1	-5.4	11.3	22.6
Currency options	0.1	0.3	-0.2	0.2	0.2
Cross-currency swaps	32.7	0.0	32.7	34.9	39.1
Interest rate swaps	0.0	0.0	0.0	-1.2	-0.8
Electricity derivatives	0.7	0.0	0.7	0.3	0.0
Total	50.2	22.4	27.8	45.5	61.1

Nominal values of derivative financial instruments MEUR

	30.9.2005	30.9.2004	31.12.2004
FX Forward contracts	1,219.4	1,293.7	1,608.4
Currency options	65.7	94.2	86.3
Cross-currency swaps	173.8	173.8	173.8
Interest rate swaps, due under 1 year	0.0	95.0	75.0
Interest rate swaps, due in 1-3 years	0.0	0.0	0.0
Electricity derivatives	2.7	3.0	2.6
Total	1,461.6	1,659.7	1,946.1



Quarterly figures

		Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Order intake	MEUR	646.4	688.3	604.1	568.5	505.3	543.7	518.3
Order book	MEUR	2,371.7	2,264.7	2,023.1	1,796.1	1,938.6	1,959.5	1,907.5
Sales	MEUR	801.4	783.1	649.3	896.0	746.3	695.1	557.1
Operating income	MEUR	78.1	60.8	39.0*	92.3	72.4	42.5	27.4
Operating income	%	9.7	7.8	6.0*	10.3	9.7	6.1	4.9

* excluding MEUR 89.2 provision for the development and restructuring program

Shares and shareholders

30 September, 2005	A shares	B shares	Total
Number of shares	9,526,089	54,299,196	63,825,285
Own shares in possession		160,840	160,840
Share capital, EUR			63,825,285
Market capitalization, MEUR			3,606
Number of shares traded, 6-9/2005*		13,479,507	
Value of shares traded, MEUR, 6-9/2005*		642.6	
Number of shareholders	3	13,759	13,759
	Close	High	Low
Class B share price, € 6-9/2005*	56.50	57.99	43.10

* Because of the demerger of Kone Corporation the information is available only for June-September, 2005.