

9 December, 2004

### **KONE Publishes Demerger Prospectus**

On 1 November, 2004, KONE Corporation's Board of Directors signed the demerger plan, and an extraordinary shareholders' meeting will on 17 December, 2004 decide on the demerger. The prospectus concerning the demerger will be published today, 9 December, 2004.

The prospectus contains some information that has not been disclosed previously and the most essential information according to the judgment of the company is separately disclosed in this release. Shareholders and investors are, however, instructed to acquaint themselves with the entire prospectus.

This release includes the following:

- pro forma financial information, calculation principles and key figures concerning the companies to be formed in the proposed demerger, new KONE and Cargotec, including the division of assets and liabilities of the demerging corporation between the companies to be formed in the demerger
- the long-term financial targets of new KONE and Cargotec
- a statement concerning events after the 1 January-30 September, 2004 interim financial statements that significantly affect the financial standing of the company, including an assessment of the impact of the acquisition of MacGREGOR Group on the net debt, goodwill, total equity/total assets ratio and gearing of Cargotec
- the outlook of the company for the rest of 2004, including the impact of the sale of Kone Corporation's treasury shares and Velsa Oy's shares to net debt and gearing

Other key sections of the prospectus include:

- the disclosed demerger plan signed by KONE's Board on 1 November, 2004
- descriptions of the operations, strategies and key strengths of new KONE and Cargotec

The Prospectus will be available on KONE's website [www.konecorp.com](http://www.konecorp.com) in the "Investors" section, at OMX way at the address Fabianinkatu 14, FIN-00130 Helsinki, and can be ordered from Ulla Silvonen, tel. +358 204 75 4332 and Minna Tappola, +358 204 75 4536.

# Kone Corporation

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Sender:

KONE Corporation  
Board of Directors

Tapio Hakakari  
Director  
Secretary to the Board of Directors

Minna Mars  
Senior Vice President,  
Corporate Communications & IR

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# Kone Corporation

## New KONE's pro forma financial information

*New KONE, Consolidated statement of income (pro forma)*

<b>MEUR</b>	<b>1-9/2004</b>	<b>2003</b>	<b>1-9/2003</b>	<b>2002</b>
	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
<b>Sales</b>	1,978.8	2,856.0	1,984.7	2,970.1
Costs and expenses	-1,794.3	-2,520.9	-1,759.5	-2,650.7
Depreciation	-43.2	-57.2	-42.8	-44.4
<b>Operating income before goodwill amortization</b>	141.3	277.9	182.4	275.0
Goodwill amortization				-42.5
<b>Operating income</b>	141.3	277.9	182.4	232.5
Share of associated companies' income	0.7	1.6	0.8	1.8
Financing income and expenses	-1.3	-0.9	-1.3	-6.8
<b>Income before taxes</b>	140.7	278.6	181.9	227.5
Taxes	-40.8	-75.2	-49.1	-84.2
Minority share	0.0	-1.1	-0.9	-1.0
<b>Net income</b>	99.9	202.3	131.9	142.3

*New KONE, Consolidated balance sheet (pro forma)*

<b>Assets</b>	<b>30.9.2004</b>	<b>31.12.2003</b>	<b>30.9.2003</b>	<b>31.12.2002</b>
<b>MEUR</b>	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
<b>Non-current assets</b>				
Intangible assets	477.1	444.5	451.5	422.0
Tangible assets	197.6	206.4	182.4	190.7
Loans receivable and other interest-bearing assets	41.4	66.5	53.9	14.4
Other non interest-bearing assets	104.1	107.8	104.0	79.4
Investments	143.0	139.9	156.9	188.6
<b>Total</b>	963.2	965.1	948.7	895.1
<b>Current assets</b>				
Inventories	126.6	113.8	114.6	95.2
Loans receivable and other interest-bearing assets	36.2	110.6	198.3	194.3
Accounts receivable and other non interest-bearing assets	684.4	587.5	577.6	579.2
Cash and cash equivalents	397.1	383.1	422.6	371.9
<b>Total</b>	1,244.3	1,195.0	1,313.1	1,240.6
<b>Total assets</b>	2,207.5	2,160.1	2,261.8	2,135.7

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<b>Shareholders' equity and liabilities</b>	<b>30.9.2004</b>	<b>31.12.2003</b>	<b>30.9.2003</b>	<b>31.12.2002</b>
<b>MEUR</b>	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
<b>Equity</b>	519.0	622.5	568.3	589.8
<b>Long-term liabilities</b>				
Loans	235.6	213.8	201.0	165.2
Deferred tax liabilities	5.6	14.6	13.9	18.2
Pension benefit liabilities and other liabilities	155.5	148.4	148.7	0.0
<b>Total</b>	396.7	376.8	363.6	183.4
<b>Provisions</b>	162.7	162.8	171.0	212.1
<b>Current liabilities</b>				
Loans	368.2	321.8	489.9	461.7
Accounts payable and other liabilities	760.9	676.2	669.0	688.7
<b>Total</b>	1,129.1	998.0	1,158.9	1,150.4
<b>Total shareholders' equity and liabilities</b>	2,207.5	2,160.1	2,261.8	2,135.7

## *New KONE, Consolidated cash flow (pro forma)*

<b>MEUR</b>	<b>1-9/2004</b>	<b>2003</b>	<b>1-9/2003</b>	<b>2002</b>
	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
Operating income	141.3	277.9	182.4	232.5
Change in working capital	-25.3	-8.8	39.8	133.3
Depreciation	43.2	57.2	42.8	86.9
Cash flow from operating activities before financial items and taxes	159.2	326.3	265.0	452.7
Cash flow from financial items and taxes	-40.6	-56.1	-49.3	-91.6
Cash flow from operating activities	118.6	270.2	215.7	361.1
Cash flow from investing activities	-60.6	-83.4	-69.6	-231.6
Purchase and sales of own shares	-90.1	0.0	0.0	51.6
Share issue	3.5	0.0	0.0	106.0
Dividends paid	-125.1	-93.7	-93.7	-42.3
Change in net debt	-153.7	93.1	52.4	244.8
Net debt in the beginning of period	-24.6	68.5	68.5	293.2
Net debt in the end of period	129.1	-24.6	16.1	48.4
Change in net debt	-153.7	93.1	52.4	244.8

# Kone Corporation

## *New KONE Group, Key figures (pro forma)*

	<b>1-9/2004</b>	<b>2003</b>	<b>1-9/2003</b>	<b>2002</b>
	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
Interest bearing net debt. MEUR	129.1	-24.6	16.1	48.4
Basic earnings per share (EUR)	1.63	3.23	2.11	2.31
Total equity/total assets (%)	23.5	28.8	25.1	26.3
Gearing (%)	24.9	-4.0	2.8	8.6
Equity per share (EUR)	8.15	9.61	8.75	8.94
Return on equity (%)	23.3			
Return on capital employed (%)	20.7			

## *New KONE Group, Contingent liabilities and pledged assets (pro forma)*

<b>MEUR</b>	<b>30.9.2004</b>
Assets pledged to secure loans	0.7
Pledged assets	14.9
Guarantees	
Associated companies	16.6
Others	51.7
Leasing liabilities	88.9
Other contingent liabilities	0.0
<b>Total</b>	<b>172.8</b>

## **Cargotec's pro forma financial information**

### *Cargotec, Consolidated statement of income (pro forma)*

	<b>1-9/2004</b>	<b>2003</b>	<b>1-9/2003</b>	<b>2002</b>
<b>MEUR</b>	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
<b>Sales</b>	1,105.8	1,344.1	983.8	1,319.2
Costs and expenses	-1,010.2	-1,239.0	-905.0	-1,252.6
Depreciation	-23.0	-33.0	-26.6	-25.2
<b>Operating income before goodwill amortization</b>	72.6	72.1	52.2	41.4
Goodwill amortization				-29.2
<b>Operating income</b>	72.6	72.1	52.2	12.2
Share of associated companies' income	2.5	5.2	3.3	3.4
Financing income and expenses	-3.0	-9.3	-7.2	-9.9
<b>Income before taxes</b>	72.1	68.0	48.3	5.7
Taxes	-20.9	-18.4	-13.2	-2.1
Minority share	-0.9	-0.9	-0.7	-1.3
<b>Net income</b>	50.3	48.7	34.4	2.3

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*Cargotec, Consolidated balance sheet (pro forma)*

<b>Assets</b>	<b>30.9.2004</b>	<b>31.12.2003</b>	<b>30.9.2003</b>	<b>31.12.2002</b>
<b>MEUR</b>	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
<b>Non-current assets</b>				
Intangible assets	332.7	330.0	338.2	340.4
Tangible assets	168.0	170.8	172.9	143.0
Loans receivable and other interest-bearing assets	8.3	7.6	9.4	8.3
Other non interest-bearing assets	27.4	23.1	21.2	14.6
Investments	53.5	52.0	50.4	31.1
<b>Total</b>	<b>589.9</b>	<b>583.5</b>	<b>592.1</b>	<b>537.4</b>
<b>Current assets</b>				
Inventories	268.6	225.2	232.5	214.0
Loans receivable and other interest-bearing assets	0.6	0.6	2.5	3.3
Accounts receivable and other non interest-bearing assets	298.9	296.5	270.3	283.0
Cash and cash equivalents	15.7	17.7	14.8	17.0
<b>Total</b>	<b>583.8</b>	<b>540.0</b>	<b>520.1</b>	<b>517.3</b>
<b>Total assets</b>	<b>1,173.7</b>	<b>1,123.5</b>	<b>1,112.2</b>	<b>1,054.7</b>
<b>Shareholders' equity and liabilities</b>				
<b>MEUR</b>	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
<b>Equity</b>	<b>626.6</b>	<b>583.4</b>	<b>577.5</b>	<b>565.3</b>
<b>Long-term liabilities</b>				
Loans	116.6	184.3	201.8	215.2
Deferred tax liabilities	7.1	9.9	14.1	12.6
Pension benefit liabilities and other liabilities	29.6	24.5	25.9	0.0
<b>Total</b>	<b>153.3</b>	<b>218.7</b>	<b>241.8</b>	<b>227.8</b>
<b>Provisions</b>	<b>10.3</b>	<b>12.0</b>	<b>17.3</b>	<b>17.4</b>
<b>Current liabilities</b>				
Loans	58.0	32.7	29.8	22.1
Accounts payable and other liabilities	325.5	276.7	245.8	222.1
<b>Total</b>	<b>383.5</b>	<b>309.4</b>	<b>275.6</b>	<b>244.2</b>
<b>Total shareholders' equity and liabilities</b>	<b>1,173.7</b>	<b>1,123.5</b>	<b>1,112.2</b>	<b>1,054.7</b>

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## *Cargotec, Consolidated cash flow (pro forma)*

	<b>1-9/2004</b>	<b>2003</b>	<b>1-9/2003</b>	<b>2002</b>
<b>MEUR</b>	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
Operating income	72.6	72.1	52.2	12.2
Change in working capital	-1.6	29.7	23.9	40.5
Depreciation	23.0	33.0	26.6	54.4
Cash flow from operating activities before financial items and taxes	94.0	134.8	102.7	107.1
Cash flow from financial items and taxes	-25.4	-19.4	-16.9	-10.6
Cash flow from operating activities	68.6	115.4	85.8	96.5
Cash flow from investing activities	-27.5	-30.5	-14.7	-20.0
Change in net debt	41.1	84.9	71.1	76.5
Net debt in the beginning of period	191.1	276.0	276.0	285.2
Net debt in the end of period	150.0	191.1	204.9	208.7
Change in net debt	41.1	84.9	71.1	76.5

## *Cargotec Group, Key figures (pro forma)*

	<b>1-9/2004</b>	<b>2003</b>	<b>1-9/2003</b>	<b>2002</b>
	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>FAS</b>
Interest bearing net debt, MEUR	150.0	191.1	204.9	208.7
Basic earnings per share (EUR)	0.83	0.80	0.56	0.04
Total equity/total assets (%)	53.4	51.9	51.9	53.6
Gearing (%)	23.9	32.8	35.5	36.9
Equity per share (EUR)	10.22	9.52	9.41	9.22
Return on equity (%)	11.3			
Return on capital employed (%)	12.6			

## *Cargotec Group, Contingent liabilities and pledged assets (pro forma)*

<b>MEUR</b>	<b>30.9.2004</b>
Assets pledged to secure loans	0.8
Pledged assets	0.0
Guarantees	
Associated companies	0.0
Others	13.0
Leasing liabilities	7.9
Other contingent liabilities	0.3
Total	22.0

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## *Kalmar key figures, pro forma*

	1-9/2004	1-9/2003	2003	2002
	IFRS	IFRS	IFRS	FAS
Sales, MEUR	602.1	526.8	728.3	697.7
Operating income, MEUR	47.6	38.0	52.0	31.9*
Operating income, %	7.9	7.2	7.1	4.6*

## *Hiab key figures, pro forma*

	1-9/2004	1-9/2003	2003	2002
	IFRS	IFRS	IFRS	FAS
Sales, MEUR	504.8	463.3	622.4	632.8
Operating income, MEUR	32.6	21.1	29.3	19.6*
Operating income, %	6.5	4.6	4.7	3.1*

\* Operating income before goodwill amortization

## **Principles used in calculating pro forma figures**

The pro forma information of the Recipient Corporations established in the Demerger is based on the financial statements of the subsidiaries consolidated in the financial statements of KONE. The pro forma information is based on Finnish Accounting Standards (FAS) for 2002 and on International Financial Reporting Standards (IFRS) for 2003 and 1 January - 1 September, 2004. The principles are equivalent to the accounting principles used by Demerging Corporation.

KONE has gone through significant structural changes in 2002-2004. KONE acquired Partek Corporation in 2002, and has divested the Nordkalk, Paroc, Real Estate, Forest Machines, Tractors, Velsa, Mascus and Sisu Auto businesses that it received with the Partek acquisition.

The following principles have been used when calculating the pro forma figures:

- The companies included in the container and load-handling business (Kalmar and Hiab) have been consolidated in Cargotec in accordance with the Demerger Plan.
- The companies included in the elevators and escalators business have been consolidated in New KONE in accordance with the Demerger Plan.
- The consolidated Financial Statements have been prepared so that the equities of Recipient Corporations' in total equals to the equity of KONE prior to the Demerger as of 30 September, 2004.
- The impact of the divested businesses has been eliminated from the Pro Forma figures as if the businesses had been divested prior to the period under review.
- Pro Forma figures have been calculated based on the Financial Statements (Interim Financial Statements) of the subsidiaries that are included in the business.
- The parent company figures of the Recipient Corporations established in the Demerger have been included in accordance with the Demerger plan as assets and liabilities to be transferred to the new parent companies to be established in the Demerger.
- In addition, the adjustments and eliminations as specified below have been made.



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The transaction prices of the divestments have been eliminated from KONE's interest-bearing debt. After these eliminations the Recipient Corporations' financial structures correspond to the financial structures after the Demerger for the each presented year.

Cargotec's pro forma figures 2002 include the figures for the businesses that correspond with the current business operations of Kalmar and Hiab also for the period before Demerging Corporation acquired these businesses (1 January - 30 June, 2002) in the Partek acquisition. The figures consolidated for the period preceding the Partek acquisition are based on the actual financial statements of the corresponding business areas in Partek group.

Costs from fulfilling the requirements of a listed company have been estimated for the recipient parent company, and an equivalent amount has been added to the fixed costs of Cargotec's parent company. An estimated annual cost of EUR 1.2 million has been added to Cargotec, in addition to the allocated EUR 3.5 million cost of the unallocated cost of Demerging Corporation. The remaining expenses are estimated to represent the expenses required of New KONE as a separately listed company.

Interest expenses included in financial income and expenses have been adjusted with the calculated interest rate effect of the transaction prices of the divestments. The calculated interest rate effects have been made under the assumption that acquisitions and divestments of businesses and companies had been made before the beginning (1 January, 2001) of the period under review. An interest rate of 4.0 percent p.a. has been used in the calculations. In addition, the interest has been adjusted so that they correspond to the average financing cost for the average net debt.

Taxes have been calculated for the Recipient Corporations to correspond to the actual tax rate of the Demerging Corporation for the presented periods. In calculating the tax rate, the effects of divestments of businesses have been eliminated. The estimated items affecting income included in the pro forma calculations have been included accordingly in calculating the taxes for the period in question.

New KONE is assumed to have paid previous dividends of Demerging Corporation and repurchased treasury shares.

Internal eliminations have been made so that they correspond with the group structure after the Demerger. Group contributions and dividends issued between the Recipient Corporations established in the Demerger have been eliminated in the pro forma calculations.

The cash flow statement is based on the income statements and balance sheets prepared in accordance with principles used in calculating pro forma figures. Estimated adjustments, such as interests and taxes, have been taken into account.

**The long-term targets for New KONE are:**

- growth exceeding the industry average;
- 12 percent operating income margin; and
- sustaining negative working capital.

**Cargotec's long-term financial targets are:**

- growth exceeding the industry average;
- an operating income margin of eight percent; and
- increasing the turnover rate of assets employed.

**Issues having an effect on the company after the Interim Statements for the period January 1 - September 30, 2004**

KONE Elevators & Escalators increased the transparency of its group structure in Finland by transferring the operative business from the parent company to two fully owned Finnish subsidiaries on October 1, 2004. The Finnish operative business unit as well as the units responsible for exports and major projects were transferred to KONE Elevators Ltd. The production units located in Hyvinkää and Hämeenlinna were transferred to KONE Industrial Ltd. Shared functions such as corporate administration and research and development, which provide services to all subsidiaries, remained in the parent company, Kone Corporation. This structural change will have no effect on KONE's personnel or its operations.

On 1 November 2004, Kone Corporation completed the agreement signed on 11 October, 2004 for the sale of the entire share capital of Velsa Inc. to Finnish Rautaruukki Corporation. Velsa is the leading Nordic manufacturer of mobile cabins for machines used in forestry, construction, harbors and mining. The company was a subsidiary of Kone Cargotec's Kalmar business area and had sales of EUR 42 million (2003) and 396 employees as of September 2004.

Kone Corporation's Board of Directors decided in its meeting on 19 October, 2004 to initiate preparations for a development and restructuring program in order to secure the long-term competitiveness and profitability of its elevator and escalator business. The aim of the program is, in particular, to improve the profitability of the new equipment business, which has weakened in 2004. In the interim report for the first quarter of 2004, KONE reported that delays in completions of construction projects was one reason for weaker profitability. In the second quarter, profitability in the new equipment business did not improve as expected, and KONE told of undertaking actions to increase profitability. Detailed plans of the program are expected to be completed by the end of March. The total one-time after-tax cost of the program, including possible impairment losses on fixed assets and goodwill, is estimated to be approximately EUR 70 million.

The Board of Directors has proposed to the Extraordinary General Meeting that the accounting period be extended from 12 to 15 months and end on 31 March, 2005. This will allow for as extensive and up-dated financial statements as possible to be available at the time of listing. In addition, the resources in corporate administration can be focused on preparing and completing the Demerger. The corporate structures and administrations and their processes will be organized by the end of the extended accounting period. The extension of the accounting period will postpone possible distribution of dividends by Kone Corporation to May 2005.

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The Demerger process and extended accounting period affect the publication timetable of Kone Corporation's financial information as follows: a 12 month annual review will be published on 28 January, 2005, and the financial statements for the extended period 1 January, 2004 - 30 March, 2005 will be published on 2 May, 2005.

Kone Corporation's Board of Directors decided on 11 November, 2004 to appoint Matti Alahuhta, D.Sc (Eng) as President, effective 1 January, 2005.

At the beginning of December 2004, Kone Cargotec made an agreement to acquire the entire share capital in global marine cargo-flow solution and service provider MacGREGOR International AB ("MacGREGOR"). The debt-free transaction price is EUR 186 million and Kone Corporation will finance the purchase primarily with proceeds from the sale of its own shares. The completion of the acquisition is subject to competition authority approval. When concluded, the acquisition will increase the net debt of Cargotec by approximately EUR 165 million, goodwill by over EUR 160 million and will reduce the total equity/total assets ratio by approximately 10 percentage points and increase gearing by approximately 20 percentage points. The previous estimates are based on the MacGREGOR Groups's 2003 financial statements available in the Swedish Trade Register.\* Investors are requested to consider that the bookkeeping and accounting practices applied by MacGREGOR Group, on which previous estimates are based, may differ from those applied by KONE as described in more detail in the Prospectus. Kone Corporation has not been able to confirm the accuracy of MacGREGOR Group's financial information. For further information, please refer to the stock exchange releases regarding the MacGREGOR acquisition in Appendix 15 of the Prospectus.

\* The 2003 annual accounts of MacGREGOR will be available at the Extraordinary General Meeting of Kone Corporation on December 17, 2004 and can be ordered from Kone Corporation.

## **2004 Outlook**

Net sales for the elevator and escalator operations in 2004 are anticipated to approach EUR 2.9 billion and order intake to total EUR 2 billion. Operating income is expected to approach EUR 250 million.

Net sales for Kone Cargotec in 2004 are anticipated to grow beyond EUR 1.5 billion and order intake to be close to EUR 1.8 billion. Operating income is expected to be slightly over EUR 100 million.

The previous estimates are based on the company's forecasts of the existing order intake and maintenance base information.

Consolidated net debt will fall below EUR 300 million at the end of year 2004, provided no major acquisitions occur. This will decrease gearing\* to below 25 percent. The total equity/total assets ratio will exceed 35 percent.

\* The sale of Velsa Oy's shares and Kone Corporation's treasury shares as a part of the financing of the acquisition of MacGREGOR Group may affect KONE's net debt and gearing.