KONE Corporation
Board of Directors' Report and Financial Statements for the period January 1–December 31, 2007

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Board of Directors' Report

KONE's Operating Environment

The market situation was strong for new equipment and modernization in most markets and continued to create favorable conditions for KONE's growth. The overall demand for maintenance was good, but price competition was tough.

In the European, Middle East and African region (EMEA), the business environment was favorable in 2007. The new equipment market was strong in Central, Northern and Eastern Europe as well as in the Middle East. The biggest growth was seen in the Middle East and Russia. The Southern European new equipment market activity remained fairly stable due to the office market activity, despite that the residential market slowed down somewhat. Modernization demand continued to grow, mainly driven by the European Safety Norms (SNEL) and the need for upgrades, due to the aging of the equipment base.

In the Americas, market growth was good. The North American new equipment demand was driven mainly by high investment activity in office, hospital and commercial developments. The multi-family residential market weakened somewhat in the United States. The significant deterioration in the single-house market in the United States did not affect KONE's business in 2007.

In the Asia-Pacific region, market growth was strong in most markets. The new equipment market continued to grow fast, driven by strong urbanization and economic growth. The Chinese market continued to grow fast. The Indian and Australian markets continued to develop well. In Australia, both the volume and major project markets developed favorably.

Orders Received and Order Book

KONE's market position continued to strengthen in 2007. KONE's orders received increased by approximately 18 percent compared to 2006 and totaled EUR 3,675 (2006: 3,116) million. At comparable exchange rates, the growth was approximately 21 percent. Only new equipment and modernization orders are included in orders received. The growth in orders was strongest in the Asia-Pacific region. At the same time, orders received growth was very good in Europe and the Middle East, and also in the Americas during the second half of the year.

The order book increased from the end of 2006 by 19 percent and stood at EUR 3,282 (2,762) million at the end of December 2007. At comparable exchange rates, the growth was about 24 percent. As earlier, the margin of the order book continued to be at a good level.

In the EMEA region, most markets continued to contribute very positively to KONE's orders received in 2007. KONE received several major orders during the year, especially from the United Kingdom, Russia and the Middle East. During 2007, KONE was also able to further strengthen its position in the modernization market.

In the Americas, KONE experienced a strong order intake in the new equipment and modernization markets. KONE's advanced elevator and escalator modernization solutions increased customer demand.

In the Asia-Pacific region, KONE's new equipment order intake continued to develop very strongly in most markets. The company's success in strengthening its position in major projects was also encouraging. KONE was one of the fastest growing elevator and escalator companies in China and became the market leader in the machine-room-less (MRL) segment in 2007. In Australia and India, KONE also continued to perform very well.

Net Sales

KONE's net sales rose by approximately 13 percent, compared to last year, and totaled EUR 4,079 (3,601) million. Growth at comparable currency rates was approximately 16 percent. The increase was due to both the company's strengthened competitiveness and good conditions in almost all markets. Net sales growth was almost entirely organic. The amount of sales consolidated from the companies acquired in 2007 did not have a material impact on the Group sales of the financial period.

New equipment sales accounted for EUR 1,821 (1,491) million of the total and represented an approximate 22 percent growth over the comparison period. At comparable currency rates, the growth was approximately 25 percent.

Service sales increased by 7 percent and totaled EUR 2,258 (2,110) million. At comparable currency rates the growth was approximately 10 percent.

Of the sales, 65 (65) percent were generated from EMEA, 21 (22) percent by the Americas and 14 (13) percent by Asia-Pacific. The weakened US dollar had an impact on the geographical sales mix. The largest individual countries in terms of net sales in 2007 were the United States, France, the United Kingdom and Italy.

Financial Result

KONE's operating income was EUR 320.8 (360.1) million. Excluding the net cost of EUR 152.4 million (which includes the European Commission's fine, the Austrian Cartel Court fine and the profit from the sale of the KONE Building), operating income improved by approximately 31.4 percent in comparison to 2006 and was EUR 473.2 million or 11.6 (10.0) percent of net sales. The strong growth was the result of sales growth, healthy sales margins and improved productivity. The five development programs started in 2005 contributed significantly to the positive performance development. Net financing items were EUR -8.5 (-3.5) million.

KONE's income before taxes was EUR 314.0 (356.3) million. Taxes totaled EUR 133.7 (121.9) million. Excluding the result impact of the EUR -164.5 million fines, this represents a tax rate of 27.9 (2006: 34.2) percent. Net income for the financial period was EUR 180.3 (234.4) million.

The profit attributable to shareholders was EUR 180.1 (234.8) million, corresponding to earnings per share of EUR 1.44 (1.86). Equity per share was EUR 5.96 (5.55).

Cash Flow and Financing

Cash flow generated from operations (before financing items and taxes) was EUR 380.0 (371.7) million. Net working capital was negative at EUR -121.8 (December 31, 2006: -139.5) million, including financing items and taxes. The EUR 142.0 million fine for the European Commission's decisions was booked into interest-bearing debts in the balance sheet. The Austrian cartel court's fine of EUR 22.5 million was recognized as a provision.

Interest-bearing net debt totaled EUR 91.7 (December 31, 2006: 124.9) million. Gearing was 12.2 (17.9) percent. KONE's total equity/total assets ratio was 31.7 (30.5) percent.

Capital Expenditure, Acquisitions and Divestments

KONE's capital expenditure, including acquisitions, totaled EUR 116.9 (150.5) million. Capital expenditure, excluding acquisitions, was mainly related to new capacity and replacement investments. Acquisitions accounted for EUR 49.6 (90.1) million of this figure. Acquisitions made during the accounting period had no material effect on the 2007 full year figures.

In 2007, the most notable acquisitions was the acquisition of MIRO Elevators Limited, a Canadian service company. The ownership of the shares of MIRO Elevators Limited was transferred to KONE in January. In July, KONE signed an agreement to acquire UAB Elektros Pavara ir Ko, a Lithuanian elevator company. The ownership of the shares of Elektros Pavara was transferred to KONE immediately. The company installs, maintains and modernizes elevators and escalators. Furthermore, KONE acquired Cierma, a French service company. The ownership of the shares was transferred in July. Cierma is active mainly in the areas of Nice and Cannes. KONE also acquired the remaining 90 percent of a St. Petersburg based elevator service company called RSU5. Since 2006, KONE has had a holding of 10 percent in the company. KONE now has full ownership. At the end of the year, KONE acquired an American elevator company, Florida Coast Elevator, which operates in the areas of Fort Lauderdale, Miami and Dade County.

Organizational Development

KONE implemented an organizational change in the United States during the second half of the year. The objective is to improve customer focus, increase cross-functional synergies and raise productivity. In addition, as part of the development, KONE will establish its Americas headquarters in Chicago at the beginning of 2008.

Research and Development

Research and product development expenses totaled EUR 50.7 (50.3) million, representing 1.2 (1.4) percent of net sales. R&D expenses include development of new product concepts and further developments of existing products and services.

During 2007, new solutions to expand KONE's accessible markets and to strenghten its competitiveness in both volume and high-rise were released.

In Europe, a new release of the KONE MonoSpace® elevator was launched to improve the offering. This release added further flexibility to the product. The solution now complies with new regulations on fire fighting elevators. Renewed accessibility features have also been added. A radical visual restyling of the car's finishing, design, ceiling and accessories were undertaken. In addition, better space efficiency (pit reduction) for freight elevators was achieved.

In the North American market, product enhancements and installation improvements made KONE's products even more attractive for its customers. The KONE EcoSpace® elevator continued to experience strong growth and opened a good market opportunity for machine-room-less technology (MRL) in the modernization of hydraulic elevators.

In the Asia-Pacific region, new functional and cost effective solutions were introduced, especially for the residential market. Designed solutions for the hotel and high-end commercial segments were also launched. In addition, a collection of different designs and feature options were released to increase the flexibility in visual offerings and product enhancements.

To support customer service, new eBusiness tools such as a KONE Architect Toolbox on Internet and an electronic 3D Car Designer were launched. In addition, a number of service products were released. For example, an updated modernization package offering customers improved flexibility in electrification, space optimization, a new parallel signalization family and a new version of a hoisting modernization package.

Noteworthy Events During the Financial Period

In 2004, the European Commission started an investigation concerning anticompetitive practices in the elevator and escalator market in Europe. The outcome of the three-year process was announced on February 21, 2007. The Commission found KONE's subsidiaries in Belgium, Luxembourg, Germany and the Netherlands to have been involved in local anticompetitive practices prior to early 2004. The Commission imposed a EUR 142 million fine on KONE. The fine was imposed for anticompetitive practices in Germany and the Netherlands. KONE did not receive a fine in relation to Belgium and Luxembourg, as KONE was the first company to cooperate with the Commission regarding these countries.

In May, KONE appealed the European Commission's decision. EUR 142.0 million for the European Commission's decision was booked into interest-bearing debts in the balance sheet. The amount of the fine may change due to the appeal.

In February, KONE's Austrian subsidiary was notified by the Austrian cartel court of the initiation of proceedings for the imposition of fines against companies operating in the Austrian elevator and escalator market, including KONE's Austrian subsidiary. The case relates to alleged anticompetitive practices in the local market before mid-2004. KONE immediately initiated a thorough internal investigation.

In December, the Austrian cartel court announced its decision regarding the anticompetitive practices in the local elevator and escalator markets. It found KONE's Austrian subsidiary and four other companies operating in the elevator and escalator industry to have been involved in anticompetitive practices. Consequently, the cartel court imposed a fine of EUR 22.5 million on KONE's Austrian subsidiary. The Austrian cartel court's fine was recognized as a provision.

In November, KONE sold the KONE Building. The selling price was EUR 35 million. KONE will stay in the building as a tenant under a long-term lease agreement.

Personnel

The objective of KONE's personnel strategy is to help the company meet its business targets. The main goals of the strategy are to further increase the interest in KONE as an employer and to secure the availability, commitment and continuous development of its personnel. KONE's activities are also guided by ethical principles. The personnel's rights and responsibilities include the right to a safe and healthy working environment, personal wellbeing as well as the prohibitation of discrimination.

KONE had 32,544 (December 31, 2006: 29,321) employees at the end of 2007. The average number of employees was 30,796 (28,366). Also in 2007, most of the personnel growth was in the fastest growing markets, such as Asia-Pacific and the Middle East. Additional recruitment in other markets was carried out mainly in installation and modernization operations due to growing volumes.

The geographical distribution of KONE employees was 56 (58) percent in EMEA, 18 (18) percent in the Americas and 26 (24) percent in Asia-Pacific.

Environment

The biggest environmental impact of an elevator is generated by its use. Consequently, reducing the environmental impact of equipment is most effective when the product is being developed and the optimal solution for each building is being planned. Therefore, KONE continuously strives to improve the eco-efficiency of its solutions through effective research and development.

KONE takes care of the environment not only by its own proactive initiatives, but also by continously monitoring the changes made to laws and recommendations related to its business. Environmental issues are coordinated on a corporate level; however KONE's country organizations and production facilities are responsible for handling local environmental issues.

Capital and Risk Management

The ultimate goal of capital and risk management in the KONE Group is to contribute to the creation of shareholder value.

Capital is managed in order to maintain a strong financial position and to ensure that the Group's funding needs can be optimized at all times in a cost-effecient way. KONE's philosophy is to take an aggregated view of share price development, dividends and the possible purchase of own shares as components of the total shareholder return.

KONE's business activities are exposed to risks, of which the most significant are increases in personnel costs and raw material costs, fluctuations in currency and changes in the development of the world economy.

A rise in raw material prices is reflected directly in the production costs of components made by KONE, such as doors and cars, and indirectly in the prices of purchased components. The price of oil also affects maintenance costs.

As a global group, KONE is exposured to foreign currency fluctuations and currencies. The Group Treasury function manages currency and other financial risks centrally based on principles approved by the Board of Directors. As the expenses and income of the elevator and escalator business occur mainly in the same currency, exchange rate movements are reflected mostly in the translation of the achieved result into euros.

Appointment to the Executive Board

KONE appointed Vance Tang as the Executive Vice President and Area Director responsible for the Americas and member of the Executive Board as of February 19, 2007.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting in Helsinki on February 26, 2007 confirmed the number of members of the Board of Directors to be seven and it was decided to elect one deputy member. Re-elected as full members of the Board were Matti Alahuhta, Reino Hanhinen, Antti Herlin, Sirkka Hämäläinen-Lindfors, Sirpa Pietikäinen, Masayuki Shimono and Iiro Viinanen. Jussi Herlin was elected as deputy member.

The term of the Board ends at the next Annual General Meeting.

At its meeting held after the Annual General Meeting, the Board of Directors elected Antti Herlin as its Chairman and Sirkka Hämäläinen-Lindfors as Vice Chairman of the Board.

In addition, the Board of Directors' proposal that the Annual General Meeting authorize it to repurchase KONE's own shares with assets distributable as profit was approved. Altogether, no more than 12,785,000 shares may be repurchased, of which no more than 1,905,000 are to be class A shares and 10,880,000 class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of treasury shares the company is allowed to possess. The proposed amount corresponds to nearly 10 percent of the share capital of the company and the total voting rights.

In addition, the Board of Directors was authorized to decide on the distribution of any shares repurchased by the company. The authorization is limited to a maximum of 1,905,000 class A shares and 10,880,000 class B shares. The Board of Directors is authorized to decide to whom and in which order the repurchased shares are distributed. The Board of Directors may decide on the distribution of repurchased shares otherwise than in proportion to the existing pre-emptive right of shareholders to purchase the company's own shares.

The repurchased shares may be used as compensation in acquisitions and in other arrangements, as well as to implement the company's share-based incentive plans in the manner and to the extent decided by the Board of Directors. The Board of Directors also has the right to decide on the distribution of the shares in public trading on the OMX Nordic Exchange Helsinki in Finland for the purpose of financing possible acquisitions. The shares shall be distributed at least at the market price at the moment of their transfer determined on the basis of the trading price for class B shares determined in public trading on the OMX Nordic Exchange Helsinki.

These authorizations shall remain in effect for a period of one year from the date of decision of the Annual General Meeting.

In addition, the Board of Directors was authorized to grant options. On the basis of this authorization, the Board of Directors may decide to grant to key personnel of the group or to the company's wholly owned subsidiary, Kone Capital Oy, options which entitle them to subscribe for a maximum of 2,000,000 new class B shares. The company has a valid financial reason to grant options, because the options are intended to form a part of the group's incentive and commitment plan for key personnel. This authorization will remain in force for one year following the decision of the Annual General Meeting.

PricewaterhouseCoopers Oy, Authorized Public Accountants, was re-elected as the Company's auditor, with Heikki Lassila, APA, as the principally responsible auditor.

The Annual General Meeting decided to pay a dividend of EUR 0.99 per class A share and EUR 1.00 per class B share for the financial year which ended December 31, 2006. The date of the dividend payment was set for March 8, 2007.

Share Capital and Market Capitalization

The KONE 2005A and 2005B options based on the KONE Corporation option program 2005 were listed on the main list of the OMX Nordic Exchange Helsinki in Finland on June 1, 2005. Each option entitles its holder to subscribe for six (6) class B shares at a price of EUR 8.04 per share.

As of December 31, 2007, 843,084 shares have been subscribed for with the options, raising KONE's share capital to EUR 64,176,297.00, comprising 109,300,416 listed class B shares and 19,052,178 unlisted class A shares.

During 2007, 142,920 shares were subscribed for with the 2005A options and 143,046 with the 2005B options.

The remaining 2005A options entitle their holders to subscribe for 83,652 class B shares, while the remaining 2005B options entitle their holders to subscribe for 381,774 class B shares. The share subscription period for series A options and series B options ends on March 31, 2008 and March 31, 2009 respectively. The remaining number of shares that can be subscribed for is 465,426. The subscription price is EUR 8.04 per share.

In 2005, KONE also granted a conditional option program, 2005C, and a conditional share-based incentive plan. The share subscription period of the 2005C option program will begin April 1, 2008, only if the average net sales growth of the group for the 2006 and 2007 financial years exceeds market growth, the operating income (EBIT) of the 2006 financial year exceeds EBIT for the 2005 financial year, and EBIT for the 2007 financial year exceeds EBIT for the 2006 financial year. The achievement of these criteria shall be confirmed at the Annual Shareholder Meeting on February 25, 2008.

In April 2007, 129,000 class B shares assigned to the share-based incentive plan for the company's senior management were transferred to the participants due to achieved targets for the 2006 financial year.

In December, KONE Corporation's Board of Directors decided at its meeting to grant stock option rights to approximately 350 employees of its global organization. The decision was based on the authorization received from the Shareholders meeting on February 26, 2007. A maximum of 2,000,000 options in total will be granted. The share subscription period for stock option 2007 will be April 1, 2010–April 30, 2012. The share subscription period begins only if the average turnover growth of the KONE Group for 2008 and 2009 financial years exceeds market growth and if the earnings before interest and taxes (EBIT) of the KONE Group for the financial year 2008 exceeds the EBIT for the 2007 financial year, and the EBIT for the 2009 financial year exceeds the EBIT for the 2008 financial year.

At the end of the financial year, the Board of Directors had no valid authorization to increase the share capital or to issue stock options after the Board of Directors' decision made December 5, 2007 to grant new stock options.

KONE's market capitalization grew by approximately 12 percent during 2007 and was EUR 6,027 million on December 31, 2007, disregarding own shares in the group's possession.

Repurchase of KONE Shares

On the basis of the Annual General Meeting's authorization, KONE Corporation's Board of Directors decided to commence repurchasing shares at the earliest on March 8, 2007.

During the financial year, KONE used its authorization and bought back 6,000 of its own shares in February. In April 2007, 129,000 class B shares assigned to the share-based incentive plan for the company's senior management were transferred to the participants due to achieved targets for the financial year 2006. At the end of the reporting period, the group had 2,615,753 class B shares in its possession (at an average price of EUR 33.58). The shares in the group's possession represent 2.4 percent of the total number of class B shares. This corresponds to 0.9 percent of the total voting rights.

Shares Traded on the OMX Nordic Exchange Helsinki

The OMX Nordic Exchange Helsinki traded 95.9 million KONE Corporation's class B shares in 2007, equivalent to a turnover of EUR 4,487 million. The share price on December 31, 2007 was EUR 47.93. The highest quotation was EUR 59.80 and the lowest 39.52.

Flagging Notifications

On March 8, 2007 Morgan Stanley Investment Management Limited disclosed to KONE Corporation pursuant to the Securities Markets Act, chapter 2, section 9, that its holding in KONE Corporation had exceeded five (5) percent of the share capital. The date of change in the holdings was November 29, 2005.

On September 13, 2007 Morgan Stanley Investment Management Limited disclosed to KONE Corporation pursuant to the Securities Markets Act, chapter 2, section 9, that its holding in KONE Corporation was less than five (5) percent of the share capital. The date of change in the holdings was September 11, 2007.

Outlook

We estimate that the market will continue to create favorable opportunities for KONE to continue to grow in 2008 although market growth will not be equally strong in all markets this year as in 2007, due to the weakened economic outlook.

KONE's target for 2008 is to achieve, at comparable exchange rates, a growth of about 10 percent in net sales, compared to 2007. The operating income (EBIT) target is to achieve a growth close to 20 percent compared to the 2007 figure of EUR 473 million. This corresponds to an operating income (EBIT) margin of at least 12.0 percent.

The Board's Proposal for the Distribution of Profit

The parent company's non-restricted equity on December 31, 2007 is EUR 1,429,280,929.29 of which net profit from the financial year is EUR 283,670,898.83.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.29 be paid on the 19,052,178 class A shares and EUR 1.30 on the outstanding 106,955,663 class B shares.

The total amount of proposed dividends will be EUR 163,619,671.52. The Board of Directors further proposes that the rest, EUR 1,265,661,257.77 be retained and carried further.

The dividend record date for the proposed dividend is February 28, 2008 and the dividend will be paid on March 6, 2008. All the shares existing on the dividend record date are entitled to dividend for the year 2007, except for the own shares held by the parent company.

Annual General Meeting 2008

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Monday, February 25, 2008 at Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland

Helsinki, January 25, 2008

KONE Corporation's Board of Directors

Information required by the Companies' Act and the Decree of the Ministry of Finance on the Regular Duty of Disclosure of an Issuer of a Security, such as classes of shares, shareholders, related parties, terms of stock options and financial key figures, have been presented in the notes of the financial statements.

Consolidated Statement of Income

MEUR	Note	Jan 1–Dec 31, 2007	%	Jan 1–Dec 31, 2006	%
Sales	4	4,078.9		3,600.8	
Costs, expenses and depreciation	5, 6	-3,758.1		-3,240.7	
Operating Income		320.8	7.9	360.1	10.0
Share of associated companies' net income	13	1.7		-0.3	
Financing income	7	16.6		16.1	
Financing expenses	7	-25.1		-19.6	
Income before Taxes		314.0	7.7	356.3	9.9
Taxes	8	-133.7		-121.9	
Net Income		180.3	4.4	234.4	6.5
Net Income attributable to:					
Shareholders of the parent company		180.1		234.8	
Minority interests		0.2		-0.4	
Total		180.3		234.4	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	9				
Basic earnings per share, EUR		1.44		1.86	
Diluted earnings per share, EUR		1.42		1.85	

Consolidated Balance Sheet

Assets MEUR		Note	Dec 31, 2007	Dec 31, 2006
Non-Current Assets				
Goodwill		10	577.2	557.3
Other intangible assets		11	53.2	58.4
Property, plant and equipment		12	201.0	217.7
Investments in associated companies		13	10.9	7.7
Shares		14	114.5	116.5
Available-for-sale investments		15	5.9	5.4
Non-current loans and receivables	I	2, 16	1.7	5.1
Deferred tax assets		17	118.6	134.1
Total Non-Current Assets			1,083.0	1,102.2
Current Assets				
Inventories		18	773.2	668.8
Advance payments received		18	-694.6	-552.1
Accounts receivable		2	706.3	622.0
Deferred assets		2, 19	174.1	126.0
Income tax receivables			44.1	57.1
Current loans and receivables	I	2, 16	118.9	158.9
Cash and cash equivalents	I		154.9	109.5
Total Current Assets			1,276.9	1,190.2
Total Assets			2,359.9	2,292.4

Equity and Liabilities MEUR		Note	Dec 31, 2007	Dec 31, 2006
Capital and reserves attributable to the shareholders of the parent company				
Share capital		20	64.2	64.0
Share premium account			100.2	98.0
Fair value and other reserves			5.5	-0.5
Translation differences			-31.3	-14.0
Retained earnings			610.3	547.6
Total Shareholders' Equity			748.9	695.1
Minority interests			0.3	3.5
Total Equity			749.2	698.6
Non-Current Liabilities				
Loans	I	2	175.8	100.2
Deferred tax liabilities		17	25.9	30.3
Employee benefits		22	131.9	145.0
Total Non-Current Liabilities			333.6	275.5
Provisions		23	86.6	71.8
Current Liabilities				
Current portion of long-term loans	I	2	62.1	48.6
Other liabilities	I	2	129.3	249.6
Accounts payable			274.6	231.5
Accruals		2, 24	632.5	619.2
Income tax payables			92.0	97.6
Total Current Liabilities			1,190.5	1,246.5
Total Equity and Liabilities			2,359.9	2,292.4

Items designated “ I “ comprise interest-bearing net debt

Consolidated Statement of Changes in Equity

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Own shares	Retained earnings	Minority interests	Total equity
Jan 1, 2007	64.0	98.0	-0.5	-14.0	-91.2	638.8	3.5	698.6
Net income for the period						180.1	0.2	180.3
Items booked directly into equity:								
Transactions with shareholders and minority shareholders:								
Dividends paid						-125.1		-125.1
Issue of shares (option rights)	0.2	2.2						2.4
Purchase of own shares					-0.3			-0.3
Sale of own shares								-
Change in minority interests							-3.4	-3.4
Cash flow hedge			6.0					6.0
Translation differences				-18.4				-18.4
Hedging of foreign subsidiaries				1.5				1.5
Tax impact of hedging				-0.4				-0.4
Option and share-based compensation					3.7	4.3		8.0
Dec 31, 2007	64.2	100.2	5.5	-31.3	-87.8	698.1	0.3	749.2

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Own shares	Retained earnings	Minority interests	Total equity
Jan 1, 2006	63.9	96.4	-5.1	9.9	-21.9	523.2	2.8	669.2
Net income for the period						234.8	-0.4	234.4
Items booked directly into equity:								
Transactions with shareholders and minority shareholders:								
Dividends paid						-126.9		-126.9
Issue of shares (option rights)	0.1	1.6						1.7
Purchase of own shares					-69.3			-69.3
Sale of own shares								-
Change in minority interests							1.1	1.1
Cash flow hedge			4.6					4.6
Translation differences				-30.4				-30.4
Hedging of foreign subsidiaries				8.8				8.8
Tax impact of hedging				-2.3				-2.3
Option and share-based compensation						7.7		7.7
Dec 31, 2006	64.0	98.0	-0.5	-14.0	-91.2	638.8	3.5	698.6

Consolidated Statement of Cash Flow

MEUR	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Cash receipts from customers	4,168.1	3,656.1
Cash paid to suppliers and employees	-3,788.1	-3,284.4
Cash Flow from Operations	380.0	371.7
Interest received	13.9	12.5
Interest paid	-18.8	-15.6
Dividends received	3.3	2.2
Other financial items	-12.5	-4.7
Income taxes paid	-119.9	-100.3
Cash Flow from Operating Activities	246.0	265.8
Capital expenditure	-66.0	-62.2
Proceeds from sales of fixed assets	42.8	0.6
Acquisitions, net of cash	-71.4	-44.1
Proceeds from divested operations, net of cash	-	9.3
Cash Flow from Investing Activities	-94.6	-96.4
Cash Flow after Investing Activities	151.4	169.4
Change in loans receivable, net	42.0	-14.3
Change in current creditors, net	-113.9	47.7
Proceeds from long-term borrowings	149.0	-
Repayment of long-term borrowings	-59.1	-9.5
Purchase of own shares	-0.3	-69.3
Sale of own shares	-	-
Issue of shares	2.4	1.7
Dividends paid	-125.1	-126.8
Cash Flow from Financing Activities	-105.0	-170.5
Change in Cash and Cash Equivalents	46.4	-1.1
Cash and cash equivalents at end of period	154.9	109.5
Translation differences	1.0	2.9
Cash and cash equivalents at beginning of period	109.5	113.5
Change in Cash and Cash Equivalents	46.4	-1.1

Reconciliation of Net Income to Cash Flow from Operating Activities		
Net income	180.3	234.4
Depreciation and impairment	70.2	61.3
Income before Change in Working Capital	250.5	295.7
Change in receivables	-101.2	-102.4
Change in payables	58.8	70.5
Change in inventories	37.9	2.0
Cash Flow from Operating Activities	246.0	265.8

In drawing up the Statement of Cash Flow, 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.

Change in Interest-bearing Net Debt

MEUR	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Interest-bearing net debt at beginning of period	124.9	99.3
Interest-bearing net debt at end of period	91.7	124.9
Change in interest-bearing net debt	-33.2	25.6

The EUR 142.0 million fine for the European Commision's decision is included in the interest-bearing net debt of December 31, 2007. KONE has appealed the decision and therefore the amount of the fine may change.

Notes to the Consolidated Financial Statements

1. Accounting Principles

Basis of Presentation

KONE Corporation is a Finnish, public limited company domiciled in Helsinki, Finland. KONE Corporation and its subsidiaries together form the consolidated KONE Corporation ("KONE" or "the Group"). KONE provides its customers with elevators and escalators and solutions for their maintenance and modernization. KONE also provides maintenance for automatic building doors.

The Consolidated Financial Statements of KONE Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU observing the standards and interpretations effective on December 31, 2007. The Group has applied starting from January 1, 2007 the following new and amended standards: IFRS 7 Financial Instruments: Disclosures and Amendment to IAS 1 Presentation of Financial Statements, Capital Disclosures. The Group has not applied the following IFRS/IAS standards, which has been issued, but whose application was not compulsory: IAS 1 (revised) Presentation of Financial Statements, IFRS 3 (revised) Business combinations, IFRS 8 Operating Segments, IAS 27 (revised) Consolidated and separate financial statements, IFRIC 11 – IFRS 2 Group and Treasury Share Transactions, IFRIC 12 Service Concession Arrangements, IFRIC 13 Customer Loyalty Programmes, IFRIC 14 - IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, and Amendment to IAS 23 Borrowing Costs. These changes are estimated not to have a significant effect on the financial result or position of the Group.

The consolidated financial statements have been prepared for the accounting period of 12 months between January 1 and December 31, 2007. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on January 25, 2008.

KONE Corporation demerged into two separately listed corporations, KONE Corporation and Cargotec Corporation, on June 1, 2005. KONE Corporation's (the parent company's) first financial reporting period was June 1–December 31, 2005. After this KONE Corporation's reporting period will follow the calendar year. In 2005 the accounting period of the Finnish subsidiaries was April 1–December 31, 2005 and the accounting period of the foreign subsidiaries was the 2005 calendar year.

The Consolidated Financial Statements are presented in millions of euros and prepared under the historical cost convention except as disclosed below.

Settlement date accounting is applied to all financial assets and liabilities.

Consolidation Principles

The consolidated accounts include the parent company and those companies in which the parent company held, directly or indirectly, more than 50 percent of the voting power or controls through management agreements with majority shareholders at the end of the accounting period. In addition to these holdings, the consolidated accounts include possible holdings that are of a controlling-right nature (units/companies established for a specific reason). Subsidiaries acquired during the period were included in the Consolidated Financial Statements from the date of acquisition, and divested subsidiaries up to the date of sale. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. Acquisition costs are allocated as assets and liabilities on the basis of fair value. The excess cost of an acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see Goodwill and Other Intangible Assets).

An associated company is a company in which the Group holds 20–50 percent of the voting power and has a participating interest of at least 20 percent or in which the Group has considerable influence. Investments in associated companies were accounted for in the Consolidated Financial Statements under the equity method. KONE's share of the profit or loss of an associated company is shown in the Consolidated Statement of Income as a separate item and its investments in the associated companies upon the date of acquisition, adjusted for changes in the associated companies' equity after the date of acquisition, are shown in the Balance Sheet under "Investments in Associated Companies".

Net income for the period is disclosed in the Statement of Income as an allocation to the shareholders of the parent company and minority interests. Minority interests are disclosed separately under consolidated total equity.

All intra-corporate transactions, receivables, liabilities and unrealized profits, as well as distribution of profits within the Group have been eliminated in the Consolidated Financial Statements. Intra-corporate shareholdings have been eliminated by deducting the amount of each subsidiary's equity at the time of acquisition from the acquisition cost of its shares.

Foreign Currency Transactions and Translations

The items included in the financial statements are initially recognized in the functional currencies, which are defined for each group entity based on their primary economic environment. The presentation currency of financial statements is the euro, which is also the functional currency of the parent company.

The initial transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the individual transaction. Foreign-currency denominated receivables and liabilities are translated using period end exchange rates. Foreign exchange gains and losses related to business operations are treated as adjustments to sales or costs. Foreign exchange gains and losses associated with financing are included as a net amount under financial income and expenses.

The Statements of Income of foreign subsidiaries whose functional currency is not the euro, are translated into euros based on the average exchange rate of the accounting period. Balance Sheet items, with the exception of net income for the accounting period, are translated into euros at the Balance Sheet exchange rate. Translation differences are recorded under equity. Exchange rate differences resulting from derivatives and loans designated as hedges on assets and liabilities in foreign subsidiaries have been entered as translation differences under shareholders' equity. Exchange rate differences arising on the translation of the net investments in non-euro currency subsidiaries and associated companies are recorded in translation differences. When a foreign entity is sold, cumulative translation differences are recognized in the Statement of Income as part of the gain or loss on the sale.

Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are initially recognized in the Balance Sheet at cost and subsequently measured at their fair value on each Balance Sheet date. Hedge accounting for qualifying hedges is required in the companies that have a considerable volume of foreign exchange forward contracts. In other companies with relatively small volumes of derivative financial instruments for the hedging of sales and purchases, no hedge accounting is applied.

When derivative contracts are entered into, the Group designates them as either cash flow hedges under IFRS hedge accounting for forecast transactions or firm commitments of sales or purchases, other hedges for forecast transactions or firm commitments, fair value hedges for loans or deposits in foreign currencies or other Balance Sheet items or as hedges of investments in foreign entities.

Changes in the fair value of hedges qualifying as cash flow hedges that are effective are recognized in equity under the "Fair value and other reserves". Cumulative gain or loss of derivatives deferred to equity is transferred to the Statement of Income and classified as revenue or expense for the accounting period when the hedged item affected the Statement of Income. Changes in the fair value of cash flow hedges that no longer qualify for hedge accounting under IAS 39 are recognized as they are incurred in the Statement of Income.

When no hedge accounting is applied, changes in the fair value of the hedges of sales and purchases are recognized in other income or expense in the Statement of Income. Changes in fair value of commodity derivatives are regocnized in other income and expenses.

Changes in the fair value hedges for loans and deposits in foreign currencies or other Balance Sheet items are recognized in financing items in the Statement of Income, alongside the change in the valuation of the underlying exposure.

Changes in the fair values of hedges of investments in foreign entities have been booked under "Translation differences" in the Balance Sheet.

The fair values of FX forward contracts are calculated by discounting the future cash flows of the contracts with the interest rate yield curves of the currencies bought and sold, translating the discounted amounts into the reporting currency using the Balance Sheet date foreign exchange rate and calculating the difference between the discounted amounts. The fair values of foreign currency options are calculated with an option pricing model using exchange rates, interest rate yield curves and volatilities of foreign currencies quoted in the FX market on the Balance Sheet date. The fair values of interest rate swaps and cross currency swaps are determined by discounting the future cash flows of the contracts with the interest rate yield curves of the currencies concerned, translating the discounted amounts into the reporting currency using the Balance Sheet date foreign exchange rate and calculating the difference between the incoming and outgoing discounted amounts and by eliminating the accrued interests already booked as a net amount in deferred assets. The fair value of electricity derivatives is the period end value listed by Nord Pool (Scandinavian electricity pool).

Segment Reporting

The profitability of KONE Corporation is presented as a single entity. The KONE business idea is to serve its customers by providing solutions throughout the entire lifecycle of a product, beginning from the installation of a new products until it is replaced with new equipment, including maintenance and modernizations. KONE seeks extensive customerships, including deliveries of new products with a long-term maintenance contracts. KONE's operating business structure is also globally harmonized. Due to the reasons presented above and concerning the risk-return relationships, splitting the operating income between the new equipment business and the service business or between the market areas, is not relevant.

Revenue Recognition

Revenue from the sale of goods is recognized after KONE has transferred the risks and rewards of ownership of the goods to the customer, and KONE retains neither a continuing right to dispose of the goods, nor effective control of the goods.

Revenues from separately defined, long-term major projects are recorded as sales under the percentage of completion method. The percentage of completion is defined as the proportion of individual contract cost incurred to date from the total estimated contract costs.

Revenues from rendering of maintenance services and repairs are recognized when the services have been rendered or the work has been carried out.

Research and Development Costs

Research and development costs are expensed as they are incurred, since the future economic benefits of new products and development of existing products and services can only be proven after their successful introduction to the market.

Income Tax

The Group tax expense includes taxes of Group companies based on taxable income for the period, together with tax adjustments for previous periods and changes in deferred taxes. Deferred taxes are provided using the liability method for temporary differences arising between the tax basis of assets and liabilities and their book values in financial reporting, and measured with enacted tax rates. The principal temporary differences arise from defined benefit plans, provisions, inter-company inventory profits, untaxed reserves and tax losses carried forward. Tax losses carried forward are recognized only to the extent that it is probable that future taxable profits will be available, against which unused tax losses can be used. Only deferred tax assets that seem certain to be realized are recognized. Deferred taxes are not provided for goodwill that is not deductible for tax purposes.

Goodwill and Other Intangible Assets

Acquisitions of companies are accounted for using the purchase method of accounting. Goodwill represents the excess of purchase cost over the fair value of assets and liabilities of acquired companies in connection with major acquisitions. Goodwill represents the value of business and market share acquired. Goodwill is not amortized but impairment tested (see Impairment of Assets).

In connection with minor acquisitions, typically acquisitions of small elevator and door service companies, the excess of purchase cost over the fair value of the net identifiable assets is allocated to the acquired maintenance contracts and included in intangible assets with a definite lifetime. They are amortized on a straight-line basis over the expected useful lifetime, typically five years.

Expenditure on acquired patents, trademarks and licenses, including acquired software licenses, is included in other intangible assets and capitalized and amortized using the straight-line method over their useful lives, which does not usually exceed five years. Where an indication of impairment exists, the book value of any intangible asset is impairment tested (see Impairment of Assets).

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and less any impairment losses (see Impairment of Assets below). Depreciation is recorded on a straight-line basis over the economic useful lives of the assets as follows:

Buildings	5–40 years
Machinery and equipment	4–10 years

Land is not depreciated.

The expenditure on repairs and maintenance of property, plant and equipment are recognized as expense when incurred.

Impairment of Assets

The book values of non-current tangible assets and other intangible assets are reviewed upon each Balance Sheet date to determine whether there is any indication of impairment, or more frequently should any indication arise. If any such indication arises, the recoverable amount is estimated as the higher of the net selling price and the value in use. An impairment loss is recognized in the Statement of Income whenever the book value exceeds the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a significant change in the estimates used to determine the recoverable amount, but not, however, to an extent higher than the book value that would have been determined had no impairment loss been recognized in prior years.

The Group assesses the book value of goodwill annually or more frequently if any indication of impairment exists. Goodwill is allocated to the cash generating units (CGUs) of the Group, identified according to the country of operation and business unit at the level at which goodwill is monitored for internal management purposes. The recoverable amount of a CGU is determined by value-in-use calculations. In assessing the recoverable amount, estimated future cash flows are discounted to their present value. The discount interest is the weighted average cost of capital (WACC) for the main currency area in the location of the CGU (country or business area), which reflects the market assessment for the time-value of money and the for the risk specific in KONE business. An impairment loss of goodwill is never reversed.

Leases

KONE has entered into various operating leases under which payments are treated as rentals and charged to the Statement of Income on a straight-line basis over the leasing term. Leases of plant and equipment where KONE fundamentally bears all the rewards and risks of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased equipment and the estimated present value of the underlying lease payments. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. Plant and equipment acquired under finance leasing contracts are depreciated over either the useful life of the asset or the lease period, whichever is less.

Shares

Share investments are valued at fair values. Changes in fair values and exchange gains and losses of designated hedging instruments are recognized in the Statement of Income. Investments in shares are measured at cost when fair values are not available.

Available-for-Sale Investments

Available-for-sale investments are measured at fair values and recognized directly in equity through the statement of changes in equity until the items are sold, collected, otherwise disposed or impaired, at which time the cumulative gain or loss recognized in equity is included in the profit or loss for the period. However, when fair values are not available the investments are measured at cost.

Investments in commercial papers, bonds and other comparable financial assets are included in Available-for-sale investments. The fair values are based on market quotations or on net present value calculations of future cash flows of the assets.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first in first out (FIFO) basis. Raw materials and supplies, however, are valued at standard cost. Semi-manufactures have been valued at variable production costs. Work in progress includes direct labor and material costs as of the Balance Sheet date with a proportion of indirect costs related to manufacturing and installation costs of sales orders included in work in progress. Inventories are presented in the Balance Sheet as a gross amount, although the advance payments received from customers for the orders in work in progress are presented in current assets. An allowance is recorded for obsolete items.

Accounts Receivable

Accounts receivable are initially measured at cost. Subsequently, an estimate is made for doubtful accounts based on an analysis of potential credit loss risk. An impairment loss is recognized when identified

Derivative Assets

Derivative assets, excluding FX forward contracts under IAS 39 hedge accounting, are measured at fair values through profit or loss. The profits and losses from the fair valuations are included in the result for the period in which they arise.

Loans and Receivables

Loans and receivables with a fixed maturity are measured at amortized cost using the effective interest rate method and those that do not have a fixed maturity are measured at cost. Loans and receivables are impaired if the book value is greater than the estimated recoverable amount.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances and bank deposits with a maturity up to three months. Bank overdrafts are included in other current liabilities. Deposits at banks with a maturity longer than three months are included in current loans and receivables.

Post-employment Benefits

The Group operates various employee benefit plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The pension plans are generally funded by payments from employees and by the relevant KONE companies. The assets of these plans are generally held in separate insurance companies or trustee-administered funds. Pension costs and liabilities are based on calculations by the local authorities or independent qualified actuaries. Contributions to the defined contribution plans are charged directly to the Statement of Income in the year to which these contributions relate. For defined benefit plans, pension cost is determined based on the advice of qualified actuaries who carry out a full valuation of the plan on a regular basis using the projected unit credit method. Under this method, the costs of providing pensions are charged to the Statement of Income so as to spread the regular costs over the working lives of employees.

The liability of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets together with adjustments for unrecognized actuarial gains or losses. The discount rates used in actuarial calculations of employee benefits liabilities are adjusted to market rates. Actuarial gains and losses are recognized in the Statement of Income for the employees' average remaining working lives to the extent that they exceed the greater of 10 percent of the defined benefit obligation or 10 percent of the fair value of plan assets. Obligations to pay long-term disability benefit, whose level is dependent on the length of service of the employee, are measured to reflect the probability that payment will be required and the length of service for which it is expected to be made.

Provisions

Provisions are recognized when KONE has a current legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions for warranties cover the estimated liability to repair or replace products still under warranty on the Balance Sheet date. This provision is calculated based on historical experience of levels of repair and replacements.

A provision for business restructuring is recognized only when a detailed and formal plan has been established, when there is a valid expectation that such a plan will be carried out and the plan has been communicated.

Provisions for loss contracts are recognized when it is probable that the costs will exceed the estimated total revenue. The probable loss is recognized as an expense immediately.

Other provisions include various items, such as those related to severance, unemployment and other employment expenses, and the sale of divested operations.

Derivative Liabilities

Derivative liabilities, excluding FX forward contracts under IAS 39 hedge accounting, are measured at fair values through profit or loss. The profits and losses from the fair valuations are included in the result for the period in which they arise.

Loans Payable

Loans payable are classified in valuation category Other financial liabilities. They are measured at amortized cost using the effective interest rate method. Costs directly attributable to the issuing of the debt are deducted from the amount of loans payable and initially recognized.

Earnings per Share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held own shares. Diluted earnings per share has been computed by applying the "treasury stock" method, under which earnings per share data is computed as if the warrants and options were exercised at the beginning of the period, or if later, on issue and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options. If the criteria for options set in the terms and conditions of the option plan are not met, the options are not included in the calculated number of shares.

Equity

When the Group purchases KONE Corporation's own shares, the consideration paid and directly attributable costs are recognized as a deduction in equity. When such shares are sold, the consideration received, net of directly attributable transaction costs and income tax effect, is included in equity.

Dividend

The dividend proposed by the boardis not deducted from the equity prior to acceptance by a shareholders' meeting.

Share-based Compensation

The realization of the option plans 2005C and 2007 requires the fulfillment of the criteria set in the terms and conditions for the option plans. The fair value of the options granted to the key employees was determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the options that are expected to be vested by the end of the vesting period. The fair value of the options granted is determined by the Black-Scholes pricing model. The impact of any non-market vesting conditions (sales growth and profitability improvement) has been excluded, but they are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates in the income statement. When the options are exercised, the proceeds received (net of any transaction costs) are credited to share capital (nominal value) and share premium.

The Board has granted a share ownership plan to the Group's management. Pursuant to the share ownership plan, the reward to the management will be settled as a combination of KONE class B shares and cash when the criteria set in the terms and conditions for the plan are met. The fair value of the share-based payments settled with KONE class B shares was determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the shares that are expected to be vested by the end of the vesting period. The impact of any non-market vesting conditions (sales and EBIT development) has been excluded, but they are included in assumptions about the number of shares that are expected to be distributed. At each balance sheet date, the entity revises its estimates of the number of shares that are expected to be distributed. It recognizes the impact of the revision of original estimates in the income statement. The fair value of the share-based payments settled with cash has been determined so that it covers taxes and taxable benefit costs that are incurred. The liability shall be measured, initially and at each reporting date until settled, at the fair value of the shares expected to be distributed, by applying the option pricing model and the extent to which the employees have rendered service to date. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to the liability.

2. Financial Risks and Instruments

KONE business activities are exposed to financial risks such as currency risks, interest rate risks, refinancing and liquidity risks, commodity risks, counterparty risks and credit risks. These financial risks are managed as part of the total KONE risk portfolio (see section "Capital and risk management principles", page 24). KONE Group Treasury function manages financial risks centrally according to limits set in the Group Treasury Policy approved by the Board, which are based on the main principles for risk management determined by the Board.

Currency Risks

KONE operates internationally and is, thus, exposed to currency risks arising from exchange rate fluctuations related to currency flows from sales and purchases (transaction risk) and from translation of balance sheet items of foreign subsidiaries into euros (translation risk).

The policy of the Group is to fully hedge the initial transaction exposure. This means that the effect of foreign exchange rate changes on the margin of already contracted and highly probable business deals is eliminated while also giving the business time to react and adapt to changes in the exchange rate levels.

The initial exposure is managed in the business units by taking into account the foreign exchange risk considerations when deciding on the currencies used in export/import pricing and invoicing and by using currency clauses in tenders. The Group companies hedge their firm contracts and estimated quarterly cash flows of highly probable purchases or sales with internal forward contracts and report monthly their transaction risk position to the Group Treasury. Binding contracts are hedged for the whole contract period and estimated sales or purchases for the period of 6 to 9 months. Large tenders are hedged on basis of option strategies. The Group Treasury is responsible for managing the Group's currency risks externally.

Hedge accounting is applied in subsidiaries having large volume of foreign currency transactions. Other companies do not apply hedge accounting.

The instruments used for cash flow hedging are FX forward contracts. The majority of the hedged cash flows are denominated in SEK, USD, GBP, CNY, RUB, SGD and AUD and they are expected to be realized within one year. A few longer-term projects are estimated to be realized within two years.

The policy regarding translation risks is to hedge the balance sheet structure in such a way that changes in exchange rates have a neutral impact on KONE's gearing. Balance sheet structure in foreign entities is hedged by using cross-currency swaps, FX forward contracts and loans denominated in foreign currencies.

Financial instruments' foreign exchange risk sensitivity analysis according to IFRS 7

The foreign exchange rate sensivity analysis is based on foreign currency nominated items, other than each Group company's own functional currencies, in the balance sheet at the closing. The analysis includes only risks arising from financial instruments.

Foreign exchange exposures that are not financial instruments like the forecasted highly probable foreign currency denominated purchases or sales are not included, whereas the financial instruments, like FX forwards used the hedge these exposures, are included in the sensitivity analysis. The reasonable possible change in exchange rates has been estimated to +/- 10 percentage points in the value of the currency against EUR. The largest positions are disclosed in the table below.

The nominal and fair values of different type of derivative instruments are represented in section Derivatives.

	Dec 31, 2007					Dec 31, 2006				
		Change in exchange rate -10%		Change in exchange rate +10%			Change in exchange rate -10%		Change in exchange rate +10%	
MEUR	Position	Impact on result	Impact on equity	Impact on result	Impact on equity	Position	Impact on result	Impact on equity	Impact on result	Impact on equity
USD/EUR	-136	4.7	6.4	-4.9	-7.3	-105	3.3	5.5	-4.0	-5.5
GBP/EUR	-36	-0.3	3.1	0.2	-3.8	-29	1.5	1.5	-1.5	-1.5
AUD/EUR	-49	2.5	2.7	-2.9	-2.7	-31	0.6	2.2	-0.7	-2.7
SEK/EUR	15	-1.0	0.0	1.0	0.0	-6	1.0	0.0	-1.0	0.0
CNY/EUR	-48	3.1	1.7	-3.1	-1.7	-45	2.7	1.8	-2.7	-1.8
	-254	9.0	13.9	-9.7	-15.5	-216	9.1	11.0	-9.9	-11.5

Interest-rate Risks

Changes in interest rates on interest-bearing receivables and debts in different currencies create interest-rate risks. These risks are managed by adjusting the duration of debt to the targeted level through different combinations of fixed and floating interest in the debt portfolio. No interest rate derivatives were in use at the end of December 2007.

Financial Instruments' Interest-rate Risk Sensitivity Analysis According to IFRS 7

The following assumptions have been used in the preparation of the sensitivity analysis. The sensitivity analysis for the interest rate risk represents the impact of a reasonably possible change in the interest rates (+/- 1 percentage point) to the net income before taxes. The impact of the change in the interest rate is calculated for the year end closing balance of the interest bearing floating rate net debt, ie. the level of interest bearing net debt is assumed to be on the same year end level during the whole financial year. The net floating rate debt would amount to EUR -51.6 million at the end of December 2007 (December 31, 2006: 111.2). At the end of 2007 the interest rate sensitivity amounted to +/- EUR 0.5 (December 31, 2006: 1.1). There is no effect on the balance sheet.

Commodity Price Risks

The Group does not use commodity derivatives except small volumes of electricity derivatives to hedge electricity price development.

Refinancing and Liquidity Risks

The effective use of advance and progress payments is the most important means of managing the liquidity risk. In addition, in order to minimize funding and liquidity risks and to cover estimated financing needs, KONE has committed 4–6 years bilateral credit facilities.

Maturity Analysis of Financial Liabilities

		Maturity Dec 31, 2007				Maturity Dec 31, 2006			
MEUR		**< 1 year**	**1–5 years**	**> 5 years**	**Total**	**< 1 year**	**1–5 years**	**> 5 years**	**Total**
Loans	Repayments outflow	61.8	162.5	13.3	237.6	48.5	85.2	14.4	148.1
	Interest outflow	2.3	25.5	1.1	28.9	5.0	4.7	1.6	11.3
Derivative liabilities/assets	Capital outflow	468.7	195.5	-	664.2	494.0	38.8	-	532.8
	Capital inflow	-471.9	-208.9	-	-680.8	-537.4	-39.4	-	-576.8
	Interest outflow	2.2	2.7	-	4.9	1.5	2.3	-	3.8
	Interest inflow	-5.5	-7.7	-	-13.2	-4.7	-1.8	-	-6.5
Other liabilities	Repayments outflow	130.0	-	-	130.0	251.5	-	-	251.5
	Interest outflow	1.7	-	-	1.7	0.9	-	-	0.9
Accounts payable	Outflow	274.6	-	-	274.6	231.5	-	-	231.5
Accruals	Outflow	362.9	-	-	362.9	343.1	-	-	343.0
Total	Total outflow	1,304.2	386.2	14.4	1,704.8	1,376.0	131.0	16.0	1,523.0
	Total inflow	-477.4	-216.6	-	-694.0	-542.1	-41.2	-	-583.3
	Net outflow	**826.8**	**169.6**	**14.4**	**1,010.8**	**833.9**	**89.8**	**16.0**	**939.7**

Interest-bearing Liabilities and Debt Structure

MEUR	Dec 31, 2007			Facility maturity						Dec 31, 2006		
Loan type	Drawn amount	Undrawn amount	Total	2008	2009	2010	2011	2012	Later	Drawn amount	Undrawn amount	Total
Committed lines	48.0	302.0	350.0	-	-	180.0	50.0	120.0	-	48.0	302.0	350.0
				Loan maturity								
				2008	2009	2010	2011	2012	Later			
Long-term loans	220.1	-	220.1	55.6	5.2	143.7	1.1	1.2	13.3	132.2	-	132.2
Finance lease liabilities	17.8	-	17.8	6.5	7.0	2.7	1.3	0.3	-	16.6	-	16.6
Short-term loans	49.4	-	49.4	49.4	-	-	-	-	-	50.8	-	50.8
Commercial papers	-	-	-	-	-	-	-	-	-	158.2	-	158.2
Overdrafts used	79.9	-	79.9	79.9	-	-	-	-	-	40.6	-	40.6
Total interest-bearing liabilities	367.2	-	367.2	191.4	12.2	146.4	2.4	1.5	13.3	398.4	-	398.4
Total loans and undrawn facilities	367.2	302.0	669.2							398.4	302.0	700.4

Counterparty Risks

KONE only approves counterparties with high creditworthiness when investing liquid assets. Derivative contracts are made exclusively with leading banks and credit institutions. KONE's Board of Directors has accepted the credit limits for the counterparties used.

Credit Risk Management

The credit risk related to payments from customers consists of the risk related to accounts receivable. The credit risk is managed by following KONE's tender to cash process. This process defines the rules for tendering, authorizations and credit control. Advance payments, documentary credits and guarantees are used in the payment terms to minimize the risks related to accounts receivable. The customer base of KONE consists of a large number of customers in all market areas. Management considers that no significant concentration of credit risk with any individual customer, counterparty or geographical region exists. The maximum exposure to the credit risk is the book value of the accounts receivable.

The credit quality of advance payment receivable and accounts receivable is evaluated according to KONE's credit policy. According to this policy the rules for credit quality evaluation are set separately for new equipment business and service business. The credit quality is evaluated both on the basis of the aging in general as the credit risk increases when receivables become older and also on the basis of individual case by case customer analysis in order to identify customers with a potential to lower credit worthiness due to individual customer specific reasons. The impairment loss for the accounts receivable is recognized on the basis of the credit quality evaluations.[1] The impairment loss recognized for the accounts receivable at the end of the financial period was EUR 61.8 (61.9) million.

Aging structure of the accounts receivable after recognition of impairment, MEUR	Dec 31, 2007	Dec 31, 2006
Not past due and less than one month due receivables [1]	488.8	441.2
Past due 1–3 months [1]	106.4	92.7
Past due 3–6 months	65.7	62.9
Past due > 6 months	45.4	25.2
Accounts receivable in the balance sheet	706.3	622.0

[1] There is no material impairment loss recognized related to these receivables.

Values of Financial Assets and Liabilities by Categories

2007 Balance Sheet item, MEUR		Note	Financial assets and liabilites at fair value through profit or loss	Loans and receivables	Held-to-maturity	Available-for-sale	Other financial liabilities	Total book value
Non-Current Assets								
Shares		14	114.5					114.5
Available-for-sale investments		15				5.9		5.9
Non-current loans and receivables	I	16		1.7				1.7
Current Assets								
Accounts receivable				706.3				706.3
Derivative assets			24.8 [1]					24.8
Deferred interests				1.5				1.5
Deferred income from service contracts				11.3				11.3
Unbilled contract revenue				39.7				39.7
Current loans and receivables	I	16		118.9				118.9
Cash and cash equivalents	I			154.9				154.9
Total Financial Assets			**139.3**	**1,034.3**	**-**	**5.9**	**-**	**1,179.5**
Non-Current Liabilities								
Loans	I	2					175.8	175.8
Current Liabilities								
Current portion of long-term loans	I	2					62.1	62.1
Other liabilities	I	2					129.3	129.3
Accounts payable							274.6	274.6
Derivative liabilities			6.1 [2]					6.1
Accrued interests							4.7	4.7
Late costs accruals							127.8	127.8
Accrued salaries, wages and employment costs							235.1	235.1
Total Financial Liabilities			**6,1**	**-**	**-**	**-**	**1,009.4**	**1,015.5**

The fair values of the financial assets and liabilities are not materially different form their book values.
Items designated "I" comprise interest-bearing net debt.

[1] Including cross-currency swaps EUR 5.5 million and FX forward contracts EUR 8.0 million under IAS 39 hedge accounting.
[2] Including FX forward contracts EUR 0.9 million under IAS 39 hedge accounting.

2006 Balance Sheet item, MEUR		Note	Financial assets and liabilites at fair value through profit or loss	Loans and receivables	Held-to-maturity	Available-for-sale	Other financial liabilities	Total book value
Non-Current Assets								
Shares		14	116.5					116.5
Available-for-sale investments		15				5.4		5.4
Non-current loans and receivables	I	16	2.1 [1]	3.0				5.1
Current Assets								
Accounts receivable				622.0				622.0
Derivative assets			5.1 [2]					5.1
Deferred interests				2.7				2.7
Deferred income from service contracts				16.3				16.3
Unbilled contract revenue				28.3				28.3
Current loans and receivables	I	16	43.2 [3]	115.7				158.9
Cash and cash equivalents	I			109.5				109.5
Total Financial Assets			**166.9**	**897.5**	**-**	**5.4**	**-**	**1,069.8**
Non-Current Liabilities								
Loans	I	2					100.2	100.2
Current Liabilities								
Current portion of long-term loans	I	2					48.6	48.6
Other liabilities	I	2					249.6	249.6
Accounts payable							231.5	231.5
Derivative liabilities			3.0 [4]					3.0
Accrued interests							1.5	1.5
Late costs accruals							143.9	143.9
Accrued salaries, wages and employment costs							199.2	199.2
Total Financial Liabilities			**3.0**	**-**	**-**	**-**	**974.5**	**977.5**

The fair values of the financial assets and liabilities are not materially different form their book values.
Items designated "I" comprise interest-bearing net debt.

[1] Non-current cross-currency swaps EUR 2.1 million included in interest-bearing non-current loans and receivables.
[2] Including FX forward contracts EUR 2.1 million and cross-currency swaps EUR 0.7 million under IAS 39 hedge accounting.
[3] Current cross-currency swaps (JPY/EUR) EUR 43.2 million included in interest-bearing current loans and receivables.
[4] Including FX forward contracts under IAS 39 hedge accounting EUR 1.2 million.

Derivatives

Fair values of derivative financial instruments, MEUR	Derivative assets Dec 31, 2007	Derivative liabilities Dec 31, 2007	Net fair value Dec 31, 2007	Net fair value Dec 31, 2006
FX Forward contracts				
Cash flow hedges under IAS 39 hedge accounting	7.1	0.4	6.7	0.4
Net investment hedges under IAS 39 hedge accounting	0.9	0.5	0.4	0.5
Other hedges	4.1	5.2	-1.1	0.3
Currency options	0.0	0.0	0.0	0.0
Cross-currency swaps, due under one year				
Under IAS 39 hedge accounting	2.9	-	2.9	-
Other net investment hedges	-	-	-	43.2
Cross-currency swaps, due in 1-3 years				
Under IAS 39 hedge accounting	2.6	-	2.6	2.8
Other net investment hedges	6.3	-	6.3	-
Electricity derivatives	0.9	-	0.9	0.3
Total	24.8	6.1	18.7	47.5

Nominal values of derivative financial instruments, MEUR	Dec 31, 2007	Dec 31, 2006
FX Forward contracts		
Cash flow hedges under IAS 39 hedge accounting	159.4	119.3
Net investment hedges under IAS 39 hedge accounting	47.4	68.9
Other hedges	320.5	204.6
Currency options	15.6	32.3
Cross-currency swaps, due under one year		
Under IAS 39 hedge accounting	20.0	-
Other net investment hedges	-	153.8
Cross-currency swaps, due in 1-3 years		
Under IAS 39 hedge accounting	23.6	43.6
Other net investment hedges	113.1	-
Electricity derivatives	2.5	2.9
Total	702.1	625.4

IAS 39 hedge accounting is not applied to currency options and electricity derivatives.

Derivatives are hedging transactions in line with KONE hedging policy.

In the balance sheet, derivative assets and liabilities are included in current assets' deferred assets and current liabilities' accruals according to their principal nature.

3. Acquisitions

KONE continued to pursue an aggressive acquisition policy during the financial period. Most of the acquisitions were companies specializing in elevator, escalator and automatic building door service. The acquisitions are individually immaterial to KONE's financial statements. The amount of sales consolidated from the companies acquired in 2007 did not have a material impact on the Group sales of the financial period. The fair values of the asset and liability items booked on the acquisitions did not differ materially from the book values prior to the business combinations.

3.1 Major Acquisitions

During the accounting period KONE made major acquisitions for a total consideration of EUR 37.5 (73.6) million and an increase in goodwill totaling EUR 34.7 (65.3) million. These major acquisitions were paid for in cash. Among the major acquisitions were UAB Elektros Pavara ir Ko (Lithuania), MIRO Elevators Limited (Canada), Cierma (France), RSU5 (Russia), Florida Coast Elevator Inc. (USA) and acquisitions in Spain. The above mentioned acquisitions have been summarized in the following table. The amount of sales consolidated from these acquisitions was EUR 16.5 (28.2) million. See note 10 for more details about goodwill.

Assets and liabilities of the acquired companies:	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Intangible assets	0.7	0.3
Tangible assets	0.7	4.6
Inventories	3.3	8.0
Accounts receivable	7.4	14.1
Cash and cash equivalents	2.1	7.8
Total assets	14.2	34.8
Pension liabilities	0.0	0.6
Interest-bearing loans	0.0	0.6
Provisions	0.1	0.5
Other liabilities	11.3	23.6
Total liabilities	11.4	25.3
Net assets	2.8	9.5
Cumulative acquisition cost	37.5	86.4
Goodwill	34.7	78.1
Minority interests	0.0	1.2

3.2 Minor Acquisitions

During the 2007 accounting period KONE made minor acquisitions for a total consideration of EUR 12.1 (16.5) million, of which EUR 10.0 (15.8) million was allocated to maintenance contracts in other intangible assets. Maintenance contracts are amortized in five years. See note 11 for more details about other intangible assets.

4. Percentage of Completion Method

The amount of sales recognized in the income statement for long-term projects under the percentage of completion method was EUR 150.5 (104.0) million. The effect of the percentage of completion method on the amount of sales was EUR 36.2 (-41.3) million for the period. The balance sheet includes EUR 39.7 (28.3) million in unbilled contract revenue due to the percentage of completion method for long-term contracts in progress on the balance sheet date.

5. Costs and Expenses

	Jan 1–Dec 31. 2007	Jan 1–Dec 31. 2006
Change of work in progress	-119.4	-92.4
Direct materials, supplies and external services	1,543.4	1,276.1
Other direct product costs	154.4	125.7
Wages and other salaries	1,002.9	947.6
Other statutory employer expenses	349.1	344.1
Pension costs	86.4	83.9
Operating lease expenses	44.7	37.1
Other expenses [1]	513.3	494.3
European Commission's and Austrian Cartel Court's fines	164.5	-
Costs and expenses, total	3,739.3	3,216.4
Other income	51.4 [2]	37.0
Depreciation and amortization (Note 6)	58.3	58.3
Impairment charges (Note 10)	11.9	3.0
Costs, expenses and depreciation, total	3,758.1	3,240.7

	Jan 1–Dec 31. 2007	Jun 1–Dec 31. 2006
R&D costs included in total costs	50.7	50.3
as percentage of sales %	1.2	1.4

[1] Includes other variable costs, consulting and external services, IT and other miscellaneous costs
[2] Includes the sales profit of EUR 12.1 million from the sale of the KONE Building

6. Depreciation and Amortization

	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Other intangible assets		
Maintenance contracts	13.1	12.4
Other	7.5	8.7
Buildings	6.6	6.9
Machinery and equipment	31.1	30.3
Total	58.3	58.3

7. Financing Income and Expenses

	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Dividend income	3.3	2.2
Interest income		
Net interest income on financial assets at fair value through profit or loss (cross-currency swaps)	4.5	7.2
On loans and receivables	8.3	6.0
Other financing income	0.1	0.6
Net exchange rate gains [1]	0.4	0.1
Financing income	16.6	16.1
Interest expenses		
Change in fair value of cross-currency swaps (interest rate related portion)	-2.1	-3.2
Net interest expense on financial liabilities at fair value through profit or loss (cross-currency swaps)	-0.2	-0.1
On other financial liabilities	-19.9 [2]	-13.3
Other financing expenses [3]	-2.9	-3.0
Financing expenses	-25.1	-19.6
Financing income and expenses	-8.5	-3.5

Exchange rate differences arising from the effective hedging of material purchases by FX derivatives are recognized in operating income as a correction to sales and material purchases. The net exchange rate gain from effective hedging of material purchases amounted to EUR 0.8 (-0.5) million.

[1] Net exchange rate gains include net exchange rate gains from loans and deposits EUR 7.8 (11.1) million and net exchnage rate losses from derivative instruments EUR 7.4 (11.0) million.
[2] Includes accrued interest of EUR 4.2 million on the European Commission's fine of EUR 142.0 million.
[3] Includes provisions on undrawn revolving credit facilities EUR 0.3 (0.3) million and banking charges EUR 2.5 (2.7) million.

8. Income Taxes

Taxes in statement of income	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Tax expense for current year	138.6	113.7
Change in deferred tax assets and liabilities	5.0	2.4
Tax expense for previous years	-9.9	5.8
Total	133.7	121.9

Reconciliation of income before taxes with total income taxes in the statement of income	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Income before taxes	314.0	356.3
Tax calculated at the domestic corporation tax rate	81.6	92.6
Effect of different tax rates in foreign subsidiaries	16.4	19.1
Permanent differences	2.9	4.4
Taxes from previous years	-9.9	5.8
Impact of the European Commission's and the Austrian Cartel Court's fine	42.7	-
Total	133.7	121.9
Effective tax rate	42.6%	34.2%
Effective tax rate	27.9% [1]	34.2%
Tax rate of parent company	26.0%	26.0%

[1] The effective tax rate excluding the European Commission's fine and the Austrian Cartel Court's fine of EUR 164.5 million.

9. Earnings per Share

The basic earnings per share figure is calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of shares for the effect of all potential diluting shares. The Group has only one category of potential diluting shares, i.e. share options.

	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Net income attributable to the shareholders of the parent company, MEUR	180.1	234.8
Weighted average number of shares (1,000 shares)	125,490	126,416
Basic earnings per share, EUR	1.44	1.86
Dilution effect of share options issued (1,000 shares)	1,790	681
Weighted average number of shares, dilution adjusted (1,000 shares)	127,280	127,097
Diluted earnings per share, EUR	1.42	1.85

10. Goodwill

10.1 Goodwill Allocation

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the country of operation at the level at which goodwill is monitored for internal management purposes. A market area summary of goodwill allocation is presented below (carrying amounts):

	Dec 31, 2007	Dec 31, 2006
EMEA	416.7	393.3
Americas	121.0	121.1
Asia Pacific	39.5	42.9
Total	577.2	557.3

10.2 Impairment Testing

The value-in-use calculations use cash flow projections based on financial estimates approved by the management covering a three-year period. Cash flows beyond the three-year period are extrapolated by using an estimated growth rate of zero. The average discount rates used in calculations are as follows:

EMEA	Americas	Asia-Pacific
10.48%	10.24%	12.86%

Impairment losses of EUR 11.9 (3.0) million were recognized in the statement of income during the accounting period.

Based on the sensitivity analysis, no significant potential future impairment losses have been foreseen.

10.3 Goodwill Reconciliation

Goodwill	Dec 31, 2007	Dec 31, 2006
Opening net book value	557.3	497.9
Translation differences	-14.6	-12.4
Increase	8.7	0.8
Decrease	-0.3	-4.1
Reclassifications	3.3	12.8
Companies acquired	34.7	65.3
Companies sold	-	-
Impairment charges	-11.9	-3.0
Closing net book value	577.2	557.3

11. Other Intangible Assets

Jan 1–Dec 31, 2007	Maintenance contracts	Other	Total
Jan 1, 2007:			
Acquisition cost	110.3	108.9	219.2
Accumulated amortization and impairment	-72.9	-87.9	-160.8
Net book value	37.4	21.0	58.4
Opening net book value	37.4	21.0	58.4
Translation differences	-0.4	-0.2	-0.6
Increase	3.3	6.2	9.5
Decrease	-0.7	-0.1	-0.8
Reclassifications	-	-2.7	-2.7
Companies acquired	10.0	-	10.0
Companies sold	-	-	-
Amortization	-13.1	-7.5	-20.6
Impairment charges	-	-	-
Closing net book value	36.5	16.7	53.2
Dec 31, 2007:	122.5		
Acquisition cost	-86.0	112.1	232.0
Accumulated amortization and impairment		-95.4	-178.8
Net book value	36.5	16.7	53.2

Jan 1–Dec 31, 2006	Maintenance contracts	Other	Total
Jan 1, 2006:			
Acquisition cost	94.1	99.3	193.4
Accumulated amortization and impairment	-60.5	-79.2	-139.7
Net book value	33.6	20.1	53.7
Opening net book value	33.6	20.1	53.7
Translation differences	-0.7	-0.1	-0.8
Increase	0.9	9.0	9.9
Decrease	-0.4	0.0	-0.4
Reclassifications	0.6	0.2	0.8
Companies acquired	15.8	0.5	16.3
Companies sold	-	-	-
Amortization	-12.4	-8.7	-21.1
Impairment charges	-	-	-
Closing net book value	37.4	21.0	58.4
Dec 31, 2006:			
Acquisition cost	110.3	108.9	219.2
Accumulated amortization and impairment	-72.9	-87.9	-160.8
Net book value	37.4	21.0	58.4

Maintenance contracts

Most of the minor acquisitions in KONE are small elevator, escalator and door service businesses. These businesses consist of firm contractual commitments with customers to service and maintain the said equipment. The value of these contracts is usually not included in the Balance Sheet of the acquired business prior to the acquisition. The maintenance contracts in other intangible assets represents the excess of purchase cost over the fair value of the net identifiable assets of the acquired companies in connection with these minor acquisitions.

12. Property, Plant and Equipment

Jan 1–Dec 31, 2007	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2007:							
Acquisition cost	19.2	222.7	569.3	44.9	4.9	2.5	863.5
Accumulated depreciation	-1.0	-124.5	-492.2	-28.1	-	-	-645.8
Net book value	18.2	98.2	77.1	16.8	4.9	2.5	217.7
Opening net book value	18.2	98.2	77.1	16.8	4.9	2.5	217.7
Translation differences	-0.2	-2.5	-2.2	-1.1	-0.2	0.0	-6.2
Increase	0.2	1.8	27.2	9.2	19.9	1.5	59.8
Decrease	-6.3	-24.4	-1.4	-0.5	0.0	-0.1	-32.7
Reclassifications	0.0	5.9	16.2	-	-19.6	-3.1	-0.6
Companies acquired	0.0	0.0	0.7	-	0.0	0.0	0.7
Companies sold	-	-	-	-	-	-	-
Depreciation	0.0	-6.6	-24.5	-6.6	-	-	-37.7
Impairment charges	-	-	-	-	-	-	-
Closing net book value	11.9	72.4	93.1	17.8	5.0	0.8	201.0
Dec 31, 2007:							
Acquisition cost	12.9	203.5	609.8	52.5	5.0	0.8	884.5
Accumulated depreciation	-1.0	-131.1	-516.7	-34.7	-	-	-683.5
Net book value	11.9	72.4	93.1	17.8	5.0	0.8	201.0

Jan 1–Dec 31, 2006	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2006:							
Acquisition cost	17.9	220.3	541.7	39.9	3.2	3.3	826.3
Accumulated depreciation	-1.0	-117.6	-467.4	-22.6	-	-	-608.6
Net book value	16.9	102.7	74.3	17.3	3.2	3.3	217.7
Opening net book value	16.9	102.7	74.3	17.3	3.2	3.3	217.7
Translation differences	-0.1	-2.6	-1.8	-1.6	0.0	0.0	-6.1
Increase	0.5	2.4	27.7	9.1	11.5	3.3	54.5
Decrease	-0.1	-3.6	-1.8	-2.5	0.0	-1.4	-9.4
Reclassifications	0.0	8.8	2.9	-	-9.8	-2.7	-0.8
Companies acquired	1.7	2.2	0.7	-	0.0	0.0	4.6
Companies sold	-0.7	-4.8	-0.1	-	-	-	-5.6
Depreciation	0.0	-6.9	-24.8	-5.5	-	-	-37.2
Impairment charges	-	-	-	-	-	-	-
Closing net book value	18.2	98.2	77.1	16.8	4.9	2.5	217.7
Dec 31, 2006:							
Acquisition cost	19.2	222.7	569.3	44.9	4.9	2.5	863.5
Accumulated depreciation	-1.0	-124.5	-492.2	-28.1	-	-	-645.8
Net book value	18.2	98.2	77.1	16.8	4.9	2.5	217.7

During the period of Jan 1–Dec 31, 2007, capital expenditure on production facilities, customer service of sales and maintenance operations and information systems including new finance leases, totaled EUR 67.3 (60.4) million.

13. Associated Companies and Related Party Transactions

Investments in associated companies	Dec 31, 2007	Dec 31, 2006
Total at beginning of period	7.7	22.2
Translation differences	-0.4	-0.5
Share of associated companies result after taxes	1.7	-0.3
Dividends received	-0.2	-0.1
Acquisitions	2.1	0.0
Disposals	0.0	-
Reclassifications	-	-13.6
Total at end of period	10.9	7.7

Investments in associated companies at the end of the period include goodwill of EUR 4.6 (2.8) million.

The balance sheets of KONE's associated companies showed total assets of EUR 42.3 million and total equity of EUR 14.5 million. The associated companies recorded total sales of EUR 52.0 million and net income of EUR 1.1 million.

The associated companies' financial information presented here is based on the latest official financial statements available. The calculation of the share of net income recognized in the KONE financial statements was based on the information those companies compiled for KONE.

Transactions with associated companies	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Sales of goods and services	8.4	1.1
Purchases of goods and services	10.5	1.3

Balances with associated companies

Receivables from associated companies	Dec 31, 2007	Dec 31, 2006
Long-term loans	1.6	1.4
Short-term loans	-	0.1
Accounts receivables	5.1	0.1
Deferred assets	0.0	0.4
Total	6.7	2.0

Liabilities to associated companies	Dec 31, 2007	Dec 31, 2006
Long-term loans	-	-
Short-term loans	-	-
Accounts payables	0.6	0.0
Accruals	0.0	-
Total	0.6	0.0

Transactions with key management

The key management of KONE consists of the Board of Directors and the Executive Board.

Compensation paid to the key management, MEUR	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Salaries and other remunerations	6.2	6.2
Share-based payments	4.1	2.5
Total	10.3	8.7

Compensation recognized as an expense for members of the Board of directors and the President & CEO, (EUR thousand)	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Herlin Antti, Chairman of the Board [1)]	523.5	511.3
Alahuhta Matti, President & CEO, member of the Board [1)]	749.7	667.3
Chauvarie Jean-Pierre	4.5	26.5
Hanhinen Reino	29.5	27.0
Herlin Jussi	13.0	0.0
Hämäläinen-Lindfors Sirkka	43.0	47.5
Pietikäinen Sirpa	27.5	23.0
Shimono Masayuki	26.0	25.5
Viinanen Iiro	29.0	27.0
Wendt Gerhard	0.0	4.0
Total	1,445.7	1,359.1

1) For the financial year 2007 in addition Antti Herlin's accrued bonus is EUR 468,488 and Matti Alahuhta's accrued bonus is EUR 686,090. These will be paid during 2008. In addition to Matti Alahuhta, in April 2007 paid share-based payments for financial year 2006 was EUR 1,363,417.

The compensation for the Chairman, Antti Herlin, consists of a basic salary and a yearly bonus, which is defined by the Board and based on the Corporation's financial result. This bonus may not exceed 100 percent of his annual salary. In 2007, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for the accounting period January 1-December 31, 2007 totaled EUR 468,488. He was also paid EUR 55,000 as remuneration for serving as Chairman of the Board. Herlin's holdings of shares and options are presented on page 29. The Chairman of the Board's pension and retirement age are determined in accordance with the retirement age legislation in force. No separate agreement has been made regarding early retirement.

The compensation for the President & CEO, Matti Alahuhta, consists of a basic salary and yearly bonus, defined by the Board on the basis of the Corporation's annual result and other key targets. This bonus may not exceed 100 percent of his annual salary. Matti Alahuhta's basic salary for 2007 was EUR 722,200. In addition, his accrued bonus for the accounting period January 1-December 31, 2007 totaled EUR 686,090. He was also paid EUR 27,500 as remuneration for serving on the Board. Alahuhta's holdings of shares and options are presented on page 29. He is also included in the share-based incentive plan for the company's senior management. The potential reward is based on the annual growth in KONE's sales and operating profit. In April 2007, on the basis of the incentive plan, he received a bonus of total value of EUR 1,363,417 including 15,000 KONE class B shares together with a cash bonus to cover the taxes and similar charges arising from the receipt of the shares.

The corresponding bonus accrued from 2007 and to paid in April 2008 is 18.000 KONE class B added with cash bonus to cover the taxes and similar charges arising from the receipt of the shares. As part of his service contract he has possibility to retire at the age of 60 with a retirement pension of 60 percent of his average monthly salary during his last seven earning years. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a 6-month term of notice.

Compensation for members of Executive Board comprises a fixed basic salary and bonus, based on annual result of the Group and the achievement of personal targets. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50 percent of the annual salary. The Executive Board members' holdings of shares and options are presented on page 48. The Executive Board members are included in the share-based incentive plan. In April 2007, on the basis of the incentive plan, the members of the Executive Board received a bonus of total 66,000 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares.

The corresponding bonus accrued from 2007 is 79.200 KONE class B shares and a cash bonus equal to the amount of taxes and similar charges. No separate agreement has been made regarding early retirement for members of the Executive Board. Compensation for termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a 6-month term of notice.

14. Shares

The shares held include a 19.9 percent holding in Toshiba Elevator and Building Systems Corporation (TELC) together with the advance payments made at the end of the period January 1-December 31, 2007 for acquisitions that were not finalized on the Balance Sheet date. The fair value of TELC shares is based on expected future earnings of the company.

15. Available-for-Sale Investments

Available-for-sale investments include smaller holdings in other companies without public quotation. They are measured at cost since the fair values cannot be readily measured.

16. Loans and Receivables

	Dec 31, 2007	Dec 31, 2006
Non-current loans receivable	1.7	3.0
Non-current cross-currency swaps	-	2.1
Current loans receivable	0.3	1.4
Current cross-currency swaps	-	43.2
Current short-term deposits	118.6	114.3
Total	120.6	164.0

The fair values of loans and receivables are not materially different from their carrying amounts.

Loans and receivables consist mainly of short-term deposits in Canada, India and China. All derivative assets including cross-currency swaps have been reported under derivative assets.

17. Deferred Tax Assets and Liabilities

Deferred tax assets	Dec 31, 2007	Dec 31, 2006
Tax losses carried forward	19.7	19.8
Provisions	48.4	57.9
Pensions	23.4	28.8
Consolidation entries	9.4	14.0
Other temporary differences for assets	17.7	13.6
Total	118.6	134.1
Total at beginning of period	134.1	130.1
Translation differences	-6.3	-3.3
Change in statement of income	-9.2	7.1
Acquisitions, divestments and other	-	0.2
Total at end of period	118.6	134.1

Deferred tax liabilities	Dec 31, 2007	Dec 31, 2006
Depreciation difference	1.8	0.6
Goodwill depreciation	8.8	19.1
Other temporary differences for liabilities	15.3	10.6
Total	25.9	30.3
Total at beginning of period	30.3	24.7
Translation differences	-0.2	-0.5
Change in statement of income	-4.2	9.5
Acquisitions, divestments and other	-	-3.4
Total at end of period	25.9	30.3
Net deferred tax assets and liabilities	92.7	103.8

As stated in the accounting principles, the deferred tax asset has not been recognized for all temporary differences.

18. Inventories

	Dec 31, 2007	Dec 31, 2006
Raw materials, supplies and finished goods	162.0	164.2
Work in progress	602.4	497.6
Advance payments made	8.8	7.0
Inventories	773.2	668.8
Advance payments received	-694.6	-552.1
Total	78.6	116.7

Work in progress includes direct labour and material costs as of the Balance Sheet date with a proportion of indirect costs related to manufacturing and installation of firm customer orders. Firm customer orders are mainly fixed price contracts with customers for the sale of new equipment or for the modernization of old equipment. Advance payments received include customer payments for orders included in work in progress, according to the contractual payment terms.

19. Deferred Assets

	Dec 31, 2007	Dec 31, 2006
Deferred interests	1.5	2.7
Deferred income from service contracts	11.3	16.3
Unbilled contract revenue (Note 4)	39.7	28.3
Derivative assets	24.8	5.1
Pension surplus from defined benefit plans	1.9	1.3
Prepaid expenses and other receivables	94.9	72.3
Total	174.1	126.0

20. Shareholders Equity

Total shareholders' equity consists of the share capital, the share premium account, the fair value and other reserves, translation differences and retained earnings. When the 2005A and 2005B options are exercised, the impacts of changes in the share capital, which exceeds the accounting par value of the shares, are included in the share premium account. The fair value and other reserves include changes in the fair value of cash flow hedges. Translation differences arising from the application of the purchase method on the translation of the net investment in foreign subsidiaries and associated companies are recorded under translation differences. Exchange rate differences resulting from derivatives and loans intended as hedges on assets and liabilities in foreign subsidiaries are also entered in translation differences. The purchase price of own shares purchased by KONE Group companies is deducted from retained earnings. The net income for the accounting period is booked directly in retained earnings.

Shares and Share Capital

At the end of the 2007 financial year the number of shares outstanding was 128,352,594. The accounting par value of each share is EUR 0.50. The share capital was EUR 64.2 million and the total number of votes was 29,982,220. Each class A share is assigned one vote, as is each block of 10 class B shares, with the provision that each shareholder is entitled to at least one vote. According to the Articles of Association, the minimum share capital is EUR 60 million and the maximum share capital is EUR 260 million. The share capital can be raised or reduced within these limits without an amendment to the Articles of Association. At the end of the financial year, the Board of Directors of the company had no valid authorization to increase the share capital or to issue stock options after the Board of Directors decided at December 5, 2007 based on the authorization received from the Shareholders Meeting February 26, 2007 to grant new stock options which authorize to subscribe maximum 2,000,000 new class B shares.

In accordance with the Articles of Association, class B shares are preferred for a dividend, which is at least 1 percent and no more than 2.5 percent higher than the dividend paid to the holders of class A shares, calculated from the accounting par value of the share.

Changes in share capital	Class A	Class B	Total
Number of shares as of January 1, 2007	19,052,178	109,014,450	128,066,628
Share subscription with 2005A and 2005B options Mar 9, 2007		51,966	51,966
Share subscription with 2005A and 2005B options May 11, 2007		23,580	23,580
Share subscription with 2005A and 2005B options Aug 10, 2007		32,136	32,136
Share subscription with 2005A and 2005B options Nov 2, 2007		52,440	52,440
Share subscription with 2005A and 2005B options Dec 31, 2007		125,844	125,844
Number of shares, December 31, 2007	19,052,178	109,300,416	128,352,594
Number of votes, December 31, 2007	19,052,178	10,930,042	29,982,220
Share capital, December 31, 2007, MEUR	9.5	54.7	64.2

	Class A	Class B	Total
Number of shares as of January 1, 2006	19,052,178	108,803,262	127,855,440
Share subscription with 2005A and 2005B option rights Mar 28, 2006		83,040	83,040
Share subscription with 2005A and 2005B option rights May 3, 2006		8,640	8,640
Share subscription with 2005A and 2005B option rights Aug 9, 2006		10,740	10,740
Share subscription with 2005A and 2005B option rights Nov 3, 2006		36,150	36,150
Share subscription with 2005A and 2005B option rights Dec 29, 2006		72,618	72,618
Number of shares, December 31, 2006	19,052,178	109,014,450	128,066,628
Number of votes, December 31, 2006	19,052,178	10,900,751	29,952,929
Share capital, December 31, 2006, MEUR	9.5	54.5	64.0

Options

KONE Corporation had four stock option programmes at the end of the financial period 2007. The purpose of the stock options is to encourage long-term efforts by key personnel to increase shareholder value and their commitment to the company by offering them an internationally competitive incentive program. The company's Board Members, President & CEO and members of the executive board are not included in the stock option programs 2005C and 2007.

Stock options 2005A and 2005B were granted according to the decision of the Extraordinary Shareholders' Meeting of the demerged Kone Corporation on November 17, 2000 to approximately 250 key employees. A total of 145,130 A options and 165,340 B options were subscribed. Each stock option entitles its owner to subscribe for six (6) new class B shares of the company. The share subscription price is EUR 8.04. The annual subscription period during which the shares can be subscribed with the options lasts from January 2 to November 30. The shares acquired shall first qualify for dividend payment for the financial year during which the subscription has taken place. Other rights related to the shares shall commence on the date when the increase in the share capital is entered in the Trade Register.

Stock options 2005C were granted according to the decision of the Extraordinary Shareholders' Meeting on November 21, 2005 to approximately 300 key employees. A maximum total of 2,000,000 options were offered for subscription. Each option entitles its owner to subscribe for one (1) class B share. The share subscription price for the option was originally EUR 28.40. The amount of KONE Corporation's dividend paid after the determination of the subscription price shall be deducted from the subscription price up until the time of share subscription, as per the dividend record date. Therefore the effective subscription price as per December 31, 2007 was EUR 26.40. The share subscription period for options 2005C shall be April 1, 2008–April 30, 2010. However, the share subscription period will begin only if the following criteria have been attained: the average net sales growth of the KONE Group for financial years 2006 and 2007 exceeds market growth and the Earnings before Interest and Taxes (EBIT) of the KONE Group for the financial year 2006 exceeds the EBIT for the financial year 2005 and the EBIT for the financial year 2007 exceeds the EBIT for the financial year 2006. The achievement of these criteria shall be decided at the Annual Shareholder Meeting on February 25, 2008.

Stock options 2007 were granted according to the decision of the Board of Directors meeting on December 5, 2007 to approximately 350 key employees and the decision was based on the authorization received from the Shareholders Meeting in February 26, 2007. A maximum total of 2,000,000 options will be granted. The share subscription price for the option is 50.89 euros per share and further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. Each option entitles its holder to subscribe for one (1) new class B KONE share. The share subscription period for option 2007 will be April 1, 2010 - April 30, 2012. The share subscription period begins only if the average turnover growth of the KONE Group for financial years 2008 and 2009 exceeds market growth and if the earnings before interest and taxes (EBIT) of the KONE Group for the financial year 2008 exceeds the EBIT for the financial year 2007, and the EBIT for the financial year 2009 exceeds the EBIT for the financial year 2008. If the above-mentioned criteria have not been attained, stock options expire based on the consideration and in the manner and extent decided by the Board of Directors and the terms of the stock options.

Options	Options granted to employees	Unexcercised options	Options held by the subsidiary Dec 31, 2007	Number of class B shares that can be subscribed for with the options	Share subscription price EUR	Share subscription period
2005A	145,130	13,942	0	6	8.04	13.6.2005–31.3.2008
2005B	165,340	58,969	4,660	6	8.04	13.6.2005–31.3.2009
2005C	1,516,000	1,516,000	484,000	1	26.40	1.4.2008–30.4.2010
2007	0	0	2,000,000	1	50.89	1.4.2010–30.4.2012

Changes in the number of option rights outstanding	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Number of options outstanding at January 1	1,674,572	1,683,770
Granted options	12,000	83,000
Returned options	50,000	57,000
Exercised options	47,661	35,198
Number of options outstanding at December 31	1,588,911	1,674,572
Exercisable options at December 31	77,571	125,232

Share-based Incentive Plan

KONE has a share-based incentive plan for the company's senior management, consisting of approximately 40 individuals. The potential reward is based on the annual growth in both sales and earnings before interest and taxes (EBIT). The reward is to be paid as a combination of class B shares and the cash equivalent of the tax and taxable benefit costs that are incurred. The plan prevents participants from transferring the shares during the fifteen-month period following the termination of each earning period. In April 2007, 129,000 class B shares in total were granted to the management as reward due to the achievement of the targets for 2006. Respectively, 165,400 class B shares in total will be granted in April 2008 due to the achievement of the targets for 2007.

Authority to Purchase Own Shares

The Shareholders' Meeting held on February 26, 2007 authorized the Board of Directors to repurchase and redistribute the company's own shares.

The shares may be repurchased in order to develop the capital structure of the Company, finance or carry out possible acquisitions, implement the Company's share-based incentive plans, or to be transferred for other purposes or to be cancelled. Altogether no more than 12,785,000 shares may be repurchased, of which no more than 1,905,000 may be class A shares and 10,880,000 class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of its own shares that the Company is allowed to possess.

The class B shares can be purchased at public trading in the Helsinki Stock Exchange at the market price. The class A shares shall be purchased outside public trading at the price equivalent to the average price of class B shares paid in the Helsinki Stock Exchange at the time of purchase.

During the 2006 and 2007 financial years, the following KONE shares were repurchased:

Repurchased Own Shares

	Number of shares	Cost in MEUR
January 1, 2007	2,338,753	79.4
February 2007	6,000	0.3
December 31, 2007	2,344,753	79.7

	Number of shares	Cost in MEUR
January 1, 2006	374,840	10.2
May 2006	740,160	24.4
June 2006	155,000	5.3
July 2006	56,440	1.9
August 2006	138,320	4.9
October 2006	180,000	6.7
November 2006	693,993	26.0
December 31, 2006	2,338,753	79.4

In addition, relating to the share-based incentive plan, a company included in the consolidated financial statements owned 271,000 KONE class B shares in December 2007 after shares granted to the management during year 2007 were totally 129,000. Purchase price of the owned shares is EUR 8.1 million.

Share-based Payments

	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Share-based payments recognized as an expense in the statement of income, MEUR		
To be paid in shares	8.6	8.9
To be paid in cash	4.5	6.1

The share price at the date of issuing the share-based incentive plan was EUR 28.2. During the financial year the possibility for a total of 3,000 (34,000) more KONE class B shares was granted and the possibility for a total of 4,000 (12,000) class B shares was returned to the company. The outstanding amount of KONE class B shares included in the incentive plan was therefore 165,400 (268,000) class B shares at the end of the financial year.

The value of the option program is calculated using the Black-Scholes option pricing model. The parameters used in defining the fair value of the option program are:

	2005C
Share price at the date of issue, EUR	31.90
Original subscription price, EUR	28.40
Duration (years)	2.3
Expected volatility, %	25
Risk-free interest rate, %	3.5
Expected redundancy, %	0.0
Fair value of option at the date of issue, EUR	7.75

21. Finance Lease Liabilities

KONE has non-cancelable finance leases for machinery & equipment and buildings with varying terms and renewal rights.

	Dec 31, 2007	Dec 31, 2006
Minimum lease payments		
Less than 1 year	6.8	6.4
1–5 years	12.9	12.4
Over 5 years	-	-
	19.7	18.8
Future finance charges	-1.9	-2.2
Present value of finance lease liabilities	17.8	16.6

	Dec 31, 2007	Dec 31, 2006
Present value of finance lease liabilities		
Less than 1 year	6.5	6.2
1–5 years	11.3	10.4
Over 5 years	-	-
Total	17.8	16.6

22. Employee Benefits

The Group operates various employee benefit plans throughout the world. Pension arrangements are made in accordance with local regulations and practice, in line with the defined contribution or defined benefit pension plans. Under defined contribution plans the Group's contributions are recorded as an expense in the accounting period to which they relate. For defined benefit pension plans retirement, disability, death and termination income benefits are determined, with retirement benefits generally being a function of years worked and final salary.

In Finland, pension cover has been arranged through local insurance companies in accordance with defined contribution plans (Finnish Statutory Employment Pension Scheme "TEL"). In Sweden, pension cover is arranged through both insurance companies and book reserves in accordance with the Swedish "FPG/PRI System". The same type of book reserves for unfunded defined benefit pension plans are also used in Germany and in Italy, for example. Other post-employment unfunded obligations include book reserves for termination income benefits, which are made in some countries in accordance with local practice.

The main countries to have funded defined benefit plans are the United Kingdom, the United States, Canada and Australia. Defined benefit pension plans are funded by the relevant KONE companies to satisfy local statutory funding requirements. The discount rates used in actuarial calculations of employee benefit liabilities are adjusted to market rates. The Group funds also include certain other post-employment benefits in the United States relating to retirement, medical and life insurance programs.

Employee benefit liabilities recognized in the balance sheet

	Dec 31,2007	Dec 31, 2006
Employee benefits		
Defined benefit plans	112.3	122.2
Other post-employment benefits	19.6	22.8
Total	131.9	145.0

	Dec 31, 2007		Dec 31, 2006	
	Defined benefit plans	Other post-employment benefits	Defined benefit plans	Other post-employment benefits
Present value of unfunded obligations	56.8	10.9	57.1	4.3
Present value of funded obligations	239.2	14.4	270.7	25.9
Fair value of benefit plans' assets	-177.8	-1.1	-178.4	-2.2
Unrecognized actuarial gains (+)/losses (-)	-5.9	-4.6	-27.2	-5.2
Total	112.3	19.6	122.2	22.8

	Jan 1–Dec 31, 2007		Jan 1–Dec 31, 2006	
Net liability reconciliation	Defined benefit plans	Other post-employment benefits	Defined benefit plans	Other post-employment benefits
Net liability at beginning of period	122.2	22.8	125.2	23.7
Translation differences	-5.3	-1.1	-2.3	-1.1
Acquisitions of new companies	-	-	0.6	0.0
Disposals of companies	-	-	-	-
Costs recognized in statement of income	8.6	2.1	14.9	1.7
Paid contributions	-13.2	-4.2	-16.2	-1.5
Net liability at end of period	112.3	19.6	122.2	22.8

Amounts recognized in the statement of income

Total pensions	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Defined contribution pension plans	75.3	66.4
Defined benefit pension plans	9.0	15.8
Other post-employment benefits	2.1	1.7
Total	86.4	83.9

	Jan 1–Dec 31, 2007		Jan 1–Dec 31, 2006	
	Defined benefit plans	Other post-employment benefits	Defined benefit plans	Other post-employment benefits
Current service costs	11.0	1.1	11.6	0.9
Interest costs	16.1	0.9	16.3	0.9
Expected return on plans' assets	-14.8	-0.2	-12.8	-0.3
Net actuarial gains (-)/losses (+) recognized	-1.1	0.3	0.8	0.2
Past-service costs	0.0	-	-	-
Settlements	-2.4	-	-0.1	-
Loss curtailments	0.2	-	-	-
Total	9.0	2.1	15.8	1.7

The actual return on defined benefit plans' assets was EUR 15.9 (15.2) million.

Defined benefit plans: Assumptions used in calculating benefit obligations

	Jan 1–Dec 31, 2007		Jan 1–Dec 31, 2006	
	Europe	USA	Europe	USA
Discount rate, %	4.25–6.00	5.70	3.75–5.00	5.70
Expected return on plans' assets, %	4.00–7.28	8.50-9.00	3.00–6.67	8.50–9.00
Future salary increase, %	2.5–4.8	4.0	2.5–4.6	4.0
Future pension increase, %	1.5–3.4	4.0	1.5–3.2	4.0
Expected average remaining working years	10–18	15	10–18	15

23. Provisions

Jan 1–Dec 31, 2007	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions [1]	Total
Total provisions at beginning of period	16.2	4.8	9.7	22.1	19.0	71.8
Translation differences	0.0	0.0	0.4	0.5	-0.4	0.5
Increase	5.6	1.7	5.9	9.0	29.8	52.0
Provisions used	-9.4	-1.5	-4.2	-8.5	-2.4	-26.0
Reversal of provisions	-2.2	-0.4	-3.0	-2.2	-4.0	-11.8
Companies acquired	-	-	-	-	0.1	0.1
Companies sold	-	-	-	-	-	-
Total provisions at end of period	10.2	4.6	8.8	20.9	42.1	86.6

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2007	11.7	74.9	86.6

Jan 1–Dec 31, 2006	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	18.6	6.9	28.2	35.9	22.4	112.0
Translation differences	-0.5	-0.2	0.3	-1.9	-3.5	-5.8
Increase	6.3	1.9	5.1	24.5	8.9	46.7
Provisions used	-5.1	-2.1	-23.0	-32.0	-3.9	-66.1
Reversal of provisions	-3.4	-1.7	-0.9	-4.5	-5.0	-15.5
Companies acquired	0.3	-	-	0.1	0.1	0.5
Companies sold	-	-	-	-	-	-
Total provisions at end of period	16.2	4.8	9.7	22.1	19.0	71.8

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2006	20.8	51.0	71.8

[1] A provision of EUR 22.5 million is recognized in other provisions for the Austrian Cartel Court's fine during the accounting period 2007.

24. Accruals

	Dec 31, 2007	Dec 31, 2006
Accrued interests	4.7	1.5
Accrued income of service contracts	33.1	33.2
Late costs accruals	127.8	143.9
Accrued salaries, wages and employment costs	235.1	199.2
Derivative liabilities	6.1	3.0
Other accrued expenses	225.7	238.4
Total	632.5	619.2

25. Commitments

	Dec 31, 2007	Dec 31, 2006
Mortgages		
Group and parent company	0.7	30.7
Pledged assets		
Group and parent company	4.8	5.4
Guarantees		
Associated companies	5.3	1.8
Others	6.3	3.4
Operating leases	148.9	115.8
Total	166.0	157.1

Possible unidentified debts and liabilities of the demerged Kone Corporation were transferred to the new KONE Corporation according to the demerger plan.

KONE leases cars, machinery & equipment and buildings under non-cancelable operating leases. The leases have varying terms and renewal rights.

The future minimum lease payments under non-cancelable operating leases	Dec 31, 2007	Dec 31, 2006
Less than 1 year	39.0	34.6
1–5 years	91.2	72.5
Over 5 years	18.7	8.7
Total	148.9	115.8

The aggregate operating lease expenses totaled EUR 44.7 (37.1) million.

26. Principal Subsidiaries

		Shareholding (%)	
Company	**Country**	**Parent company**	**Group**
KONE Inc.	United States		100
KONÉ S.A.	France		99.97
KONE plc	United Kingdom	100	100
KONE S.p.A.	Italy		100
KONE Elevators Co. Ltd	China		95
KONE GmbH	Germany		100
KONE Hissit Oy	Finland	100	100
KONE Elevators Pty Ltd	Australia		100
KONE B.V.	Netherlands		100
KONE Elevadores S.A.	Spain	0.02	100

Total number of subsidiaries is 189. A complete list of subsidiaries is included in the KONE Corporation's closing documents.

Market Area Information

Jan 1–Dec 31, 2007	Sales	Assets employed	Investments	Personnel at end of period
EMEA [1)]	2,675.3	625.1	39.1	18,359
Americas	840.8	104.3	15.6	5,713
Asia-Pacific	562.8	122.4	12.6	8,472
Non-allocated		-10.9		
Total	4,078.9	840.9	67.3	32,544

Jan 1–Dec 31, 2006	Sales	Assets employed	Investments	Personnel at end of period
EMEA [1)]	2,319.4	543.8	33.1	17,016
Americas	805.1	145.8	13.6	5,309
Asia-Pacific	476.3	129.4	13.7	6,996
Non-allocated		4.5		
Total	3,600.8	823.5	60.4	29,321

[1)] EMEA = Europe, Middle East, Africa

Calculation of Key Figures

Average Number of Employees = the average number of employees at the end of each calendar month during the accounting period

Return on Equity (%) $= 100 \times \dfrac{\text{net income}}{\text{total equity (average of the figures for the accounting period)}}$

Return on Capital Employed (%) $= 100 \times \dfrac{\text{income after financing items + interest + other financing costs}}{\text{total assets - non-interest-bearing-debt (average of the figures for the accounting period)}}$

Total Equity/Total Assets (%) $= 100 \times \dfrac{\text{total equity}}{\text{total assets}}$

Gearing (%) $= 100 \times \dfrac{\text{interest-bearing-debt - liquid assets - loans receivable}}{\text{total equity}}$

Basic Earnings/Share $= \dfrac{\text{net income attributable to the shareholders of the parent company}}{\text{issue and conversion-adjusted weighted average number of shares - repurchased own shares}}$

Equity/Share $= \dfrac{\text{total shareholders' equity}}{\text{number of shares (issue adjusted) - repurchased own shares}}$

Dividend/Share $= \dfrac{\text{dividend payable for the accounting period}}{\text{issue and conversion-adjusted weighted average number of shares - repurchased own shares}}$

Dividend/Earnings (%) $= 100 \times \dfrac{\text{dividend/share}}{\text{earnings/share}}$

Effective Dividend Yield (%) $= 100 \times \dfrac{\text{dividend/share}}{\text{price of class B shares at end of accounting period}}$

Price/Earnings $= \dfrac{\text{price of class B shares at end of accounting period}}{\text{earnings/share}}$

Average Price $= \dfrac{\text{total EUR value of all class B shares traded}}{\text{average number of class B shares traded during the accounting period}}$

Market Value of All Outstanding Shares = the number of shares (A + B) at end of accounting period times the price of class B shares at end of accounting period [1)]

Shares Traded = number of class B shares traded during the accounting period

Shares Traded (%) $= 100 \times \dfrac{\text{number of class B shares traded}}{\text{average weighted number of class B shares}}$

[1)] Excluding repurchased own shares.

Summary in Figures

Consolidated Statement of Income	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006	Jun 1–Dec 31, 2005
Sales, MEUR	4,079	3,601	2,101
- sales outside Finland, MEUR	3,959	3,502	2,034
Operating income, MEUR	321	360	195
- as percentage of sales, %	7.9	10.0	9.3
Income before taxes, MEUR	314	356	194
- as percentage of sales, %	7.7	9.9	9.2
Net income, MEUR	180	234	124

Consolidated Balance Sheet, MEUR	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Non-current assets	1,083	1,102	1,110
Inventories, net	79	117	121
Other current assets	1,198	1,074	914
Total equity	749	699	669
Non-current liabilities	334	276	318
Provisions	87	72	112
Current liabilities	1,191	1,247	1,046
Total assets	2,360	2,292	2,145
Interest-bearing net debt	92	125	99
Assets employed [1]	841	824	769
Net working capital [1]	-122	-140	-158

Other Data	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006	Jun 1–Dec 31, 2005
Orders received, MEUR	3,675	3,116	1,622
Order book, MEUR	3,282	2,762	2,327
Capital expenditure , MEUR	67	60	29
- as percentage of sales, %	1.6	1.7	1.4
Expenditure for research and development, MEUR	51	50	30
- as percentage of sales, %	1.2	1.4	1.4
Average number of employees	30,796	28,366	27,016
Number of employees at end of period	32,544	29,321	27,238

Key Ratios, %	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006	Jun 1–Dec 31, 2005
Return on equity	24.9	34.3	34.1 [2]
Return on capital employed	30.4	35.4	36.4 [2]
Total equity/total assets	31.7	30.5	31.2
Gearing	12.2	17.9	14.8

Key Figures per Share [3]	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006	Jun 1–Dec 31, 2005
Basic earnings per share, EUR	1.44	1.86	0.98
Diluted earnings per share, EUR	1.42	1.85	0.97
Basic earnings per share, EUR	1.44	1.86	1.68 [2]
Diluted earnings per share, EUR	1.42	1.85	1.67 [2]
Equity per share, EUR	5.96	5.55	5.24
Dividend per class B share, EUR	1.30 [4]	1.00	1.00
Dividend per class A share, EUR	1.29 [4]	0.99	0.99
Dividend per earnings, class B share, %	90.3 [4]	53.8	102.0
Dividend per earnings, class A share, %	89.6 [4]	53.2	101.0
Effective dividend yield, class B share, %	2.7 [4]	2.3	3.0
Price per earnings, class B share	33	23	34
Market value of class B share, average, EUR	47	35	27
- high, EUR	60	43	34
- low, EUR	40	28	22
- at end of period, EUR	48	43	34
Market capitalization at end of period, MEUR	6,027	5,382	4,261
Number of class B shares traded (1,000s)	95,882	75,514	43,202
Class B shares traded, %	87	69	40
Weighted average number of class A shares, (1000s)	19,052	19,052	19,052
Number of class A shares at end of period, (1000s)	19,052	19,052	19,052
Weighted average number of class B shares, (1000s) [6]	108,228	108,045	109,163
Number of class B shares at end of period, (1000s) [5]	106,685	106,276	108,028
Weighted average number of shares, (1000s) [6]	127,280	127,097	128,215

[1] Including tax receivables and liabilities, accrued interest and derivative items.
[2] Annualized.
[3] On November 28, 2005 the shares were split at a ratio of one to two.
[4] Board's proposal.
[5] Reduced by the number of repurchased own shares.
[6] Adjusted for share issue and option dilution, and reduced by the number of repurchased own shares.

Capital and Risk Management Principles

The ultimate goal of capital and risk management in the KONE Group is to contribute to the creation of shareholder value. In order to achieve this goal, KONE applies the following principles in managing its capital resources and position as well as in managing its risks.

Management of Capital

Capital is managed in order to maintain a strong financial position and ensure that the Group's funding needs can be optimized at all times in a cost-efficient way. KONE wants to be able to take advantage of opportunities to create major shareholder value when they are available.

Cash inflows from operating activities are the principal source of KONE's financing. External funding as well as cash and cash equivalents are managed centrally by the Group Treasury according to the Group Treasury Policy approved by the Board of Directors.

Assets employed in KONE 's business consists of net working capital and fixed assets funded by equity and net debt, as shown in the following table. Thanks to KONE's business model and processes, net working capital does not tie up capital and the level of fixed assets is relatively low.

In order to ensure good credit quality, KONE monitors and estimates its financial position with measurements such as equity ratio, gearing and their components. KONE has not acquired a credit rating.

KONE's philosophy is to take an aggregated view of share price trends and dividends as components of total shareholder return. The growth in share value can also be influenced by the purchase of own shares. Consequently, KONE does not define a separate dividend policy. Furthermore, no definite capital structure target has been defined.

This means that the level of net debt and financial gearing can be very low, even negative, over a given period of time. When value-creating business opportunities result in major investments, the borrowing capacity is used and the level of financial gearing will be higher over a period of time.

These principles also mean that annual dividends will be determined on the basis of overall business outlook and business opportunities as well as the present capital structure and the anticipated changes in it.*)

KONE ensures efficient allocation of its capital resources in its management system by measuring and monitoring financial results after the cost of capital tied up in assets employed by business activities. The cost of capital is weighted average of the cost of debt and equity, WACC. KONE estimates its WACC annually on the basis of the estimated return requirement based on its equity capital and on the estimated cost of its debt capital and budgeted gearing. Local interest rates are taken into account.

The cost of capital is also used as a hurdle rate when evaluating the shareholder value creation potential of new acquisitions, major capital expenditure and other investments. The valuation methods used are payback time and discounted cash flow.

	2007	2006	2005
Assets employed:			
Goodwill and shares	708.5	686.9	655.1
Other fixed assets [1]	254.2	276.1	271.4
Net working capital	-121.8	-139.5	-158.0
Total assets employed	840.9	823.5	768.5
Capital:			
Equity	749.2	698.6	669.2
Net debt	91.7	124.9	99.3
Total capital	840.9	823.5	768.5
Gearing	12.2	17.9	14.8
Equity ratio	31.7	30.5	31.2

1) Property, plant and equipment and acquired maintenance contracts.
*) In 2006–2007, the dividend payout ratio has been 53.8%–90.3% for class B shares (Board's proposal 2007).

Operational Risks

The overall target of KONE risk management is also to ensure business continuity and maximize shareholder value. In its business planning process, KONE continuously assesses the risks and opportunities of its business decisions in order to limit unnecessary or excessive risks.

Risk management is based on the KONE risk management process. In this process, the key risks of KONE are identified and assessed on the basis of their impact and probability. The KONE Board of Directors reviews the KONE risk portfolio periodically on the basis of the KONE Executive Board's assessment.

KONE's business activities are exposed to risks, the most significant of which are increases in personnel and raw material costs and fluctuations in exhange rates.

A significant part of KONE's sales consist of services which are very labor intensive. If the increases in labor costs cannot be transferred to prices or the productivity targets are not met, the profit development of the group will be affected adversely.

A rise in raw material prices is reflected directly in the production costs of components made by KONE, such as doors and cars, and indirectly in the prices of purchased components. The group consumes commodity metals such as stainless steel, copper, aluminum and steel, most of which are purchased indirectly via supplied components. Risks are minimized and prices optimized by 3 to 12-month fixed price supply agreements with preferred partners for these items and other materials and services. The maintenance business deploys a significant fleet of service cars. Therefore fluctuations in oil prices affect the costs of the maintenance business.

The business operations are exposed to the risks related to the reliability of the IT systems used. These risks are managed by modernizing the IT infrastructure and continuously improving the system management processes. The redundancy in critical IT systems and telecommunication connections has also been increased in order to improve the overall fault tolerance. The harmonization of the IT platforms as well as the security access management is further improving the IT systems's reliability and security.

As a global group, KONE is exposed to foreign exchange fluctuations and risks. The Group Treasury function manages exchange rates and other financial risks centrally on the basis of principles approved by the Board of Directors.

KONE's subsidiaries are assessed and managed in their local currencies. The expenses and income of subsidiaries occur mainly in the same currency. The main effect of exchange rate fluctuations is reflected in the consolidated financial statements of the KONE group resulting from the translation of financial statements of foreign subsidiaries into euros, the reporting currency of the KONE group. The following table shows this impact on the annual sales increase rates expressed both at reported and comparable exchange rates.

Annual sales, MEUR	**2007**	**2006**
Reported	4,079	3,601
Reported change (%)	13	
Change at comparable exchange rates (%)	16	

Corporate Governance

KONE's General Governance Principles

The duties and responsibilities of KONE Corporation's various governing bodies are determined by Finnish law and KONE's corporate governance principles.

KONE complies with the Recommendation for the Corporate Governance of Listed Companies, dated July 1, 2004, of the Helsinki Stock Exchange (currently OMX Nordic Exchange Helsinki), the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers, with the exception of recommendations 29 (Audit Committee members), 32 (Nomination Committee members) and 35 (Compensation Committee members). These exceptions are due to the company's ownership structure. The company's largest shareholder, Antti Herlin, controls 62 percent of the company's voting rights and 21 percent of its shares. The significant entrepreneurial risk associated with ownership justifies the main shareholder serving as Chairman of the Board of Directors and of its Committees and, in this capacity, overseeing the shareholders' interests.

KONE's administrative bodies and officers with the greatest decision-making power are the General Meeting of Shareholders, the Board of Directors of KONE Corporation, the Chairman of the Board and the President & CEO. At the Annual General Meeting of Shareholders, the shareholders approve the consolidated financial statements, decide on the distribution of profits, and select the members of the Board of Directors and the auditors and determine their compensation.

KONE Corporation's Annual General Meeting is convened by the Board of Directors. According to the Articles of Association, the Annual General Meeting of Shareholders shall be held within three months of the closing of the financial year on a date decided by the Board of Directors.

Board of Directors

Duties and Responsibilities

The Board of Directors' duties and responsibilities are defined primarily by the Articles of Association and the Finnish Companies' Act. The Board's duties include:

- the approval and confirmation of strategic guidelines and the principles of risk management
- the ratification of annual budgets and plans
- the appointment of a full-time Chairman of the Board and a President & CEO, and decisions on the terms and conditions of their employment
- decisions on the company's corporate structure
- decisions on major acquisitions and investments

The Board has created rules of procedure stipulating the duties of the Board, its Chairman and its Committees. The Board of Directors holds six regular meetings a year and additional meetings as required. The Board of Directors reviews its own performance and procedures once a year.

Members of the Board

The Annual General Meeting elects five to eight members and no more than three deputy members of the Board of Directors for one year at a time in accordance with KONE Corporation's Articles of Association. The Board of Directors elects a Chairman and Vice Chairman among its members. In electing the members of the Board, attention is paid to the candidates' broad and mutually complementary experience, expertise and views of both KONE's business and other businesses.

Committees

The Board of Directors has appointed two committees consisting of its members: the Audit Committee and the Nomination and Compensation Committee. The Board has confirmed rules of procedure for both Committees. The Secretary to the Board acts as the Secretary of both Committees.

The Audit Committee monitors the Group's financial situation and supervises reporting related to the financial statements and interim reports. The Committee assesses the adequacy and appropriateness of KONE's internal control and risk management as well as the adherence to rules and regulations. It also deals with the Corporation's internal audit plans and reports. The Director of Internal Auditing reports the internal audit results to the Committee. The Audit Committee evaluates the auditing of the Group's companies and the appropriateness of the related arrangements and auditing services, and considers the auditors' reports. Furthermore, the Committee formulates a proposal to the Annual General Meeting regarding the auditors to be selected for the Corporation.

The Nomination and Compensation Committee prepares proposals to be made to the Annual General Meeting regarding the nomination of Board members and their compensation and makes decisions regarding senior management appointments and compensation. The committee also decides on the compensation systems to be used.

Operational Management

Full-time Chairman of the Board and the President & CEO

KONE Corporation's Board of Directors appoints the full-time Chairman of the Board and the President & CEO. The Board determines the terms and conditions of employment of the full-time Chairman of the Board and the President & CEO, and these are defined in their respective written contracts.

The Chairman of the Board prepares matters to be considered by the Board together with the President & CEO and corporate staff. The Chairman of the Board and the President & CEO are responsible for the execution of the targets, plans, strategies and goals set by the Board of Directors within the KONE Group. The President & CEO is also responsible for operational leadership within the scope of the strategic plans, budgets, operational plans, guidelines and orders approved by KONE Corporation's Board of Directors. The President & CEO presents operational issues to the Board, and is responsible for implementing the decisions of the Board.

Executive Board

The Executive Board supports the President & CEO in executing the corporate strategy. The Executive Board follows business developments, initiates actions and defines operating principles and methods in accordance with guidelines handed down by the Board of Directors and the President & CEO. The Executive Board holds regular monthly meetings and additional meetings as required.

Control Systems

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

Internal Control

The goal of KONE's internal control system is to ensure that the Group's operations are efficient and profitable, that its business risk management is adequate and appropriate, and that the information created is reliable. The control system also makes it possible to oversee that the instructions given and operating principles determined are followed.

The Board's Audit Committee monitors the functioning of the internal control process. The Corporation has an Internal Auditing Department, which is separated from the operational management and whose head reports to the Chairman of the Board. The Internal Audit Department is responsible for auditing internal control and the management of business risks. It reports its findings to the Audit Committee.

Risk Management

The purpose of risk management is to recognize, analyze and control potential risks and threats to KONE's operations. With respect to certain risks, the principles and main content of risk management are defined by KONE's policies and guidelines. While the monitoring, coordination and management of certain risks take place at the Group level, each unit is responsible for carrying out risk management related to its own operations. Senior management regularly identifies and evaluates strategic and operational risks. As part of its efforts to manage risks of damage or loss, KONE has extensive insurance coverage.

Auditing

The task of statutory auditing is to verify that the financial statements and Board of Directors' report provide accurate and adequate information on KONE's result and financial position. In addition, auditing includes an audit of the Corporation's accounting and administration.

According to the Articles of Association, the company must have a minimum of one and a maximum of three Auditors. The Auditors must be public accountants or public accounting firms authorized by Finland's Central Chamber of Commerce. The Auditor is elected at the Annual General meeting for a term which expires at the end of the following Annual General Meeting.

Insiders

KONE Corporation adheres to the insider guidelines of the OMX Nordic Exchange Helsinki, which have been supplemented with internal insider guidelines approved by the Board of Directors. The company maintains its public and company-specific insider registers in the Finnish Central Securities Depository's SIRE system.

In compliance with the Finnish Securities Markets Act, KONE's public insiders include the members and deputy member of the Board of Directors, the President & CEO and the Auditors. In addition to these individuals, KONE's public insiders include members of the Executive Board defined by the company. In addition to the public insiders, KONE's permanent insiders include company-specific insiders defined by the company who regularly receive insider information due to their jobs. Permanent insiders are permitted to trade in KONE shares and securities entitling to KONE shares during a six-week period after the release of interim reports and financial statements releases.

The company also maintains a project-specific insider register when necessary. Project-specific insiders are prohibited from trading in KONE securities until termination of the project.

The person in charge of KONE's insider issues is the Secretary to the Board of Directors.

Corporate Governance in 2007

General Meeting of Shareholders
The Annual General Meeting was held in Helsinki on February 26, 2007.

Board of Directors and Committees
The Annual General Meeting elected seven members and one deputy member to KONE's Board of Directors. The full-time Chairman of the Board of Directors of KONE Corporation is Antti Herlin. Sirkka Hämäläinen-Lindfors is the Vice Chairman of the Board. The other members of the Board are Matti Alahuhta, Reino Hanhinen, Sirpa Pietikäinen, Masayuki Shimono and Iiro Viinanen. The deputy member of the Board is Jussi Herlin.

Of the Board members, Sirkka Hämäläinen-Lindfors, Reino Hanhinen, Sirpa Pietikäinen and Iiro Viinanen are independent of the Corporation. With the exception of Antti Herlin and Jussi Herlin, the Board members are independent of the Corporation's significant shareholders.

In 2007, the Board of Directors convened 11 times, with an average attendance rate of 97 percent.

Jukka Ala-Mello serves as Secretary to the Board.

Audit Committee
The Board of Directors' Audit Committee comprises Antti Herlin (Chairman), Sirkka Hämäläinen-Lindfors and Iiro Viinanen (independent members). The Audit Committee held three meetings in 2007.

Urpo Paasovaara serves as Head of Internal Control.

Nomination and Compensation Committee
The Nomination and Compensation Committee comprises Antti Herlin (Chairman), Reino Hanhinen and Sirkka Hämäläinen-Lindfors (independent members). The Nomination and Compensation Committee held four meetings in 2007.

Compensation and Other Benefits of the Board of Directors
The Annual General Meeting of KONE Corporation in February 2007 confirmed the monthly fees of the members of the Board as follows:

Monthly fees	EUR
Chairman of the Board	4,000
Vice Chairman	3,000
Ordinary member	2,000
Deputy member	1,000

Additionally, a meeting fee of EUR 500 was confirmed for each meeting of the Board and its committees. Board members' travel expenses and daily allowances are compensated in accordance with the company's travel expense policy.

Compensation and Other Benefits of the Chairman
The compensation for Antti Herlin, full-time Chairman of the Board, consists of a basic salary and a yearly bonus decided by the Board on the basis of the Corporation's financial result. The yearly bonus may not exceed 100 percent of the recipient's annual salary.

In 2007, Antti Herlin's basic salary was EUR 468,488. In addition, his bonus accrued for the financial year January 1–December 31, 2007 totaled EUR 468,488. He was also paid EUR 55,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares and options are presented in the table on page 48.

The full-time Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. No separate agreement has been made regarding early retirement.

President & CEO
Matti Alahuhta serves as KONE Corporation's President & CEO.

Compensation and Other Benefits of the President & CEO
The President & CEO's compensation consists of a basic salary and a yearly bonus decided annually by the Board on the basis of the Corporation's financial result and other key targets. The yearly bonus may not exceed 100 percent of the recipient's annual salary.

In 2007, Matti Alahuhta's basic salary was EUR 722,200. In addition, his bonus accrued for the financial year January 1–December 31, 2007 totaled EUR 686,090. He was also paid EUR 27,500 as compensation for serving on the Board. Matti Alahuhta's holdings of shares and options are presented in the table on page 48.

Matti Alahuhta is included in the share-based incentive plan for the Corporation's senior management. The potential bonus is based on the growth in KONE's net sales and operating profit. In April 2007, on the basis of the incentive plan, Matti Alahuhta received a bonus of EUR 1,363,417, which consisted of 15,000 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2007 and due for payment in April 2008 is 18,000 KONE class B shares together with an estimated cash bonus to cover taxes and similar charges arising from the receipt of shares.

As part of Matti Alahuhta's contract, he has the possibility to retire at the age of 60 with a retirement pension of 60 percent of his average monthly salary during his last seven earning years. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a six-month term of notice.

Executive Board
In addition to the President & CEO Matti Alahuhta, the members of KONE's Executive Board are Klaus Cawén, Pekka Kemppainen, Heikki Leppänen, Juho Malmberg, Eric Maziol, Peter de Neef, William Orchard, Aimo Rajahalme, Vance Tang, Kerttu Tuomas and Noud Veeger.

Shareholdings and options of KONE Corporation's Public Insiders on December 31, 2007 and Changes in Shareholding during the Period January 1–December 31, 2007

	Class A share	Change	Class B share	Change	Series 2005A option right	Change	Series 2005B option right	Change
Alahuhta Matti			65,000	+15,000			5,000	
Cawén Klaus			20,000	+6,000			2,200	-2,000
De Neef Peter			16,000	+6,000			2,200	
Hanhinen Reino			1,000					
Herlin Antti	17,640,402		9,168,460	+103,510		-2,850	7,000	
Herlin Jussi			26,590					
Hämäläinen-Lindfors Sirkka			400	+400				
Kemppainen Pekka			21,340	+9,000		-1,700	5,800	
Leppänen Heikki			12,000	+2,000			200	-800
Malmberg Juho			8,920	+6,000				
Maziol Eric			45,400	+35,400		-1,700	1,000	-3,200
Orchard William			12,979	+2,979		-500	1,000	
Rajahalme Aimo			7,000	-3,000				-1,000
Tuomas Kerttu			16,000	+6,000			1,250	-500
Veeger Noud			18,855	+4,835				-1,000

No other public insiders had share or option holdings in KONE on December 31, 2007. The shares owned by companies in which the public insider exercises controlling power are also included in these shareholdings

MORE INFORMATION

- *A regularly updated table reporting the holdings of public insiders is available on the Corporation's Internet pages at www.kone.com.*

Compensation and Other Benefits of the Executive Board

Compensation for members of the Executive Board comprises a basic salary and a yearly bonus, based on the Group's annual result and the achievement of personal targets. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50 percent of the annual salary. The Executive Board members' holdings of shares and options are presented in the table above.

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2007, on the basis of the incentive plan, the members of the Executive Board received a bonus of 66,000 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2007 and due for payment in April 2008 is 79,200 KONE class B shares together with a cash bonus equal to the amount of taxes and similar charges.

No separate agreement has been made regarding early retirement for members of the Executive Board. Compensation for termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a six-month term of notice.

Auditing

KONE Corporation's Auditors are Heikki Lassila, Authorized Public Accountant, and PricewaterhouseCoopers, Authorized Public Accountants. The fees paid to companies in the PricewaterhouseCoopers chain for 2007 were EUR 2.0 million for auditing and EUR 1.8 million for other consulting services.

Insiders

The holdings of persons belonging to KONE's public insiders on December 31, 2007 and the changes occurring in them during the financial year are presented in the table above.

Shares and Shareholders

Market Capitalization

During the 2007 financial year the price of the KONE Corporation class B share rose by approximately 12 percent, from EUR 42.94 to EUR 47.93, on the OMX Nordic Exchange Helsinki in Finland (formally called the Helsinki Stock Exchange). During the same period, the OMX Helsinki Cap Index rose by approximately 4.0 percent and the OMX Helsinki Industrials Index ended at the same level as a year before. During the financial year the price of the KONE Corporation class B share peaked at EUR 59.80 and was EUR 39.52 at its lowest. The company's market capitalization, in which the unlisted class A shares are valued at the closing price of the class B shares on the last trading day of the financial year, was EUR 6,027 million. At the end of December 2007, the company held 2,615,753 class B shares as treasury shares.

During the financial year, 95.9 million KONE Corporation class B shares were traded on the OMX Nordic Exchange Helsinki. The value of the shares traded was EUR 4,487 million. The average daily turnover of class B shares was 383,528, representing EUR 17,949,403. The relative turnover was 87 percent.

MORE INFORMATION

- *Market capitalization is calculated based on both the listed class B shares and the unlisted class A shares excluding repurchased own shares.*

Shares and Share Capital

KONE Corporation's Articles of Association state that the minimum share capital is EUR 60 million and the maximum share capital is EUR 260 million. The share capital can be raised or reduced within these limits without amending the Articles of Association. At the end of December 2007, the share capital was EUR 64,176,297 million. During the financial year the share capital was increased by EUR 142,983 due to subscriptions of shares with KONE 2005A and 2005B options.

Each class A share is assigned one vote, as is each block of 10 class B shares, with the proviso that each shareholder is entitled to at least one vote. At the end of December 2007, the total number of shares was 128,352,594, comprising 109,300,416 class B shares and 19,052,178 class A shares, with the accounting par value being EUR 0.50 per share. The total number of votes was 29,982,220.

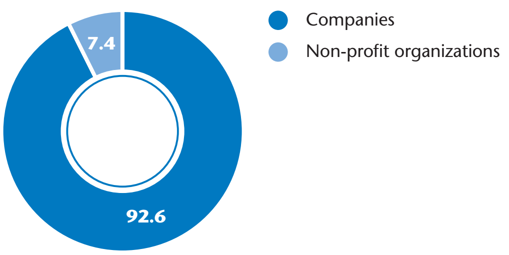
Dividends

In accordance with the Articles of Association, class B shares have the right to a dividend that is at least one percent, but no more than 2.5 percent, higher than the dividend paid to the holders of class A shares, calculated from the accounting par value of the share. The Board of Directors proposes that the dividend for the financial year, January 1–December 31, 2007, be EUR 1.29 per class A share and EUR 1.30 per class B share.

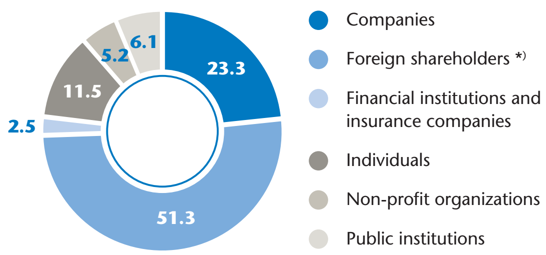
Authorization to Raise the Share Capital

At the end of the financial year, KONE Corporation's Board of Directors had no valid authorization to increase the share capital. The Annual General Meeting held on February 26, 2007 authorized the Board of Directors to issue options, in deviation from the pre-emptive subscription rights of the shareholders, to key personnel and to the company's wholly-owned subsidiary, KONE Capital Oy. Based on the authorization, the Board can decide on the issue of options entitling their holders to subscribe for a maximum of 2,000,000 new class B shares. The Board of Directors have used the authorization to issue options fully.

Class A Shares, %



Class B Shares, %



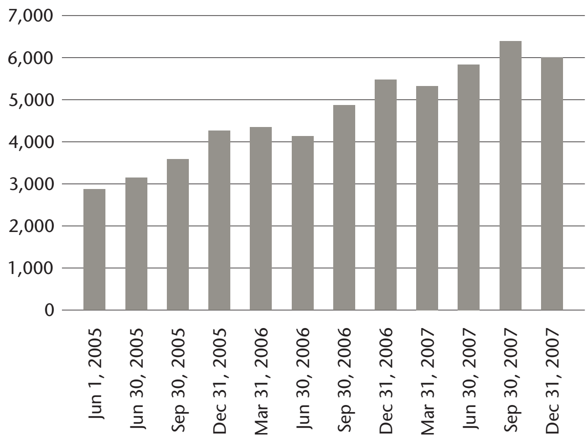
*) Includes foreign-owned shares registered by Finnish nominees.

KONE Corporation's share capital consists of the following:

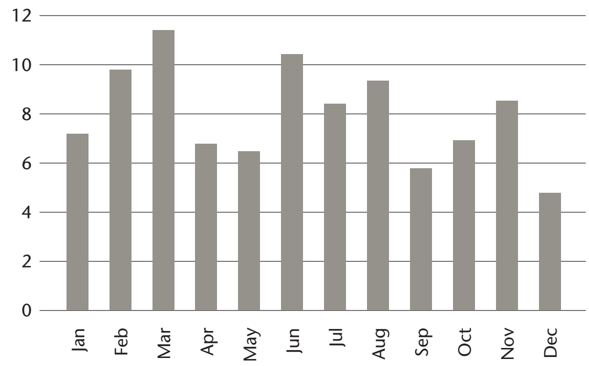
	Number of Shares	Par Value (EUR)
Class A	19,052,178	9,526,089
Class B	109,300,416	64,650,208
Total	**128,352,594**	**64,176,297**

	KONE Class B Share	KONE 2005A Option Rights	KONE 2005B Option Rights
Trading code in OMX Nordic Exchange (Helsinki)	KNEBV	KNEBVEW105	KNEBVEW205
ISIN Code	FI0009013403	FI0009618334	FI0009618342
Accounting Par Value	EUR 0.50		
Conversion rate		1:6	1:6

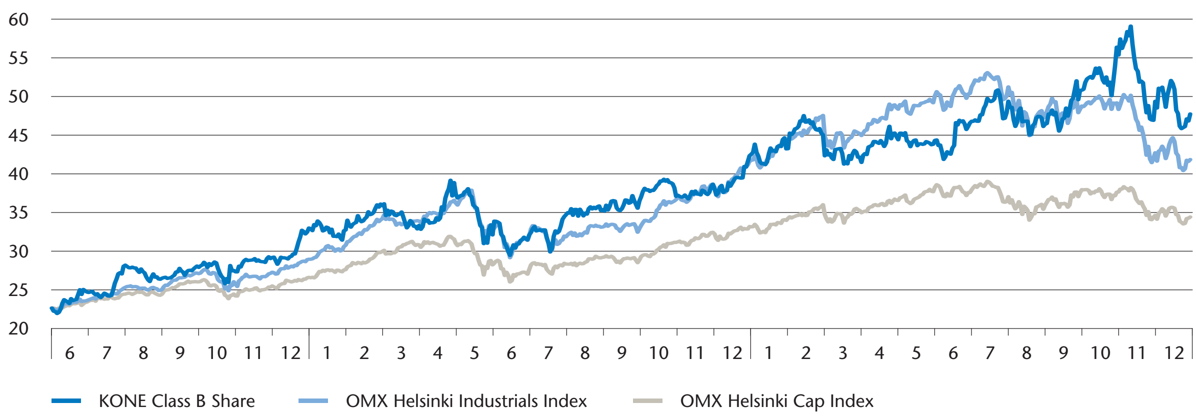
Market Capitalization, MEUR



KONE Class B Shares Traded January 1–December 31, 2007, million shares



KONE Class B Share Price Development June 1, 2005–December 31, 2007, EUR



Authorization to Purchase and Surrender Own Shares

KONE Corporation's Annual General Meeting held on February 26, 2007 authorized the Board of Directors to purchase and surrender the company's own shares. On the basis of this authorization, the Board decided to commence the purchase of shares on March 8, 2007 at the earliest. The purchase of shares will continue until otherwise announced.

The maximum amount of the shares to be purchased is less than 10 percent of the company's share capital and total voting rights of the shares. No more than 12,785,000 shares may be purchased, of which no more than 1,905,000 may be class A shares and no more than 10,880,000 may be class B shares, taking into consideration the provisions of the Companies Act, however, regarding the maximum amount of own shares that the company is permitted to hold.

The company's own shares purchased shall be used as compensation in possible acquisitions and in other restructuring, to develop the company's capital structure, to execute the share-based incentive plan or otherwise to surrender or cancel said shares.

Class B shares shall be purchased at the market price in public trading on the OMX Nordic Exchange Helsinki. Class A shares shall be purchased outside the stock exchange at a price equivalent to the average paid for class B shares on the OMX Nordic Exchange Helsinki at the time of purchase.

During the financial year, KONE Corporation purchased 6,000 of its own class B shares at an average price of EUR 47.06. In addition, relating to the share-based incentive plan, a company included in the consolidated financial statements owned 271,000 KONE class B shares in December 2007 after shares granted to the management during year 2007 were totally 129,000. The number of class B shares held by Group companies at the end of the year was 2,615,753.

Options

KONE Corporation had four stock option programmes at the end of the financial period 2007. The purpose of the stock options is to encourage long-term efforts by key personnel to increase shareholder value and their commitment to the company by offering them an internationally competitive incentive program. The company's Board Members, President & CEO and members of the executive board are not included in the stock option programs 2005C and 2007

Stock options 2005A and 2005B were granted according to the decision of the Extraordinary Shareholders' Meeting of the demerged Kone Corporation on November 17, 2000 to approximately 250 key employees. A total of 145,130 A options and 165,340 B options were subscribed. Each stock option entitles its owner to subscribe for six (6) new class B shares of the company. The share subscription price is EUR 8.04. The annual subscription period during which the shares can be subscribed with the options lasts from January 2 to November 30. The shares acquired shall first qualify for dividend payment for the financial year during which the subscription has taken place. Other rights related to the shares shall commence on the date when the increase in the share capital is entered in the Trade Register.

Stock options 2005C were granted according to the decision of the Extraordinary Shareholders' Meeting on November 21, 2005 to approximately 300 key employees. A maximum total of 2,000,000 options were offered for subscription. Each option entitles its owner to subscribe for one (1) class B share. The share subscription price for the option was originally EUR 28.40. The amount of KONE Corporation's dividend paid after the determination of the subscription price shall be deducted from the subscription price up until the time of share subscription, as per the dividend record date. Therefore the effective subscription price as per December 31, 2007 was EUR 26.40. The share subscription period for options 2005C shall be April 1, 2008–April 30, 2010. However, the share subscription period will begin only if the following criteria have been attained: the average net sales growth of the KONE Group for financial years 2006 and 2007 exceeds market growth and the Earnings before Interest and Taxes (EBIT) of the KONE Group for the financial year 2006 exceeds the EBIT for the financial year 2005 and the EBIT for the financial year 2007 exceeds the EBIT for the financial year 2006. The achievement of these criteria shall be decided at the Annual Shareholder Meeting on February 25, 2008.

Stock options 2007 were granted, according to the decision of the Board of Directors meeting on December 5, 2007, to approximately 350 key employees and the decision was based on the authorization received from the Shareholders Meeting in February 26, 2007. A maximum total of 2,000,000 options will be granted. The share subscription price for the option is 50.89 euros per share and further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. Each option entitles its holder to subscribe for one (1) new class B KONE share. The share subscription period for option 2007 will be April 1, 2010 - April 30, 2012. The share subscription period begins only if the average turnover growth of the KONE Group for financial years 2008 and 2009 exceeds market growth and if the earnings before interest and taxes (EBIT) of the KONE Group for the financial year 2008 exceeds the EBIT for the financial year 2007, and the EBIT for the financial year 2009 exceeds the EBIT for the financial year 2008. If the above-mentioned criteria have not been attained, stock options expire based on the consideration and in the manner and extent decided by the Board of Directors and the terms of the stock options.

Share-based Incentive Plan

KONE has a share-based incentive plan for the company's senior management, consisting of approximately 40 individuals. The potential reward is based on the annual growth in both sales and earnings before interest and taxes (EBIT). The reward is to be paid as a combination of class B shares and the cash equivalent of the tax and taxable benefit costs that are incurred. The plan prevents participants from transferring the shares during the fifteen-month period following the termination of each earning period. In April 2007, 129,000 class B shares in total were granted to the management as reward due to the achievement of the targets for 2006. Respectively, 165,400 class B shares in total will be granted in April 2008 due to the achievement of the targets for 2007.

Shareholders

At the end of December 2007, KONE Corporation had 13,650 shareholders. A breakdown of shareholders is shown on page 49.

At the end of December 2007, the ownership of approximately 43.7 percent of KONE shares was in non-Finnish hands, corresponding to around 19 percent of the votes in the company. Of foreign-owned shares, 7,654,822 were registered in the shareholders' own name. Foreign-owned shares may also be registered in the name of Finnish nominees. Only shares registered in a shareholders' own name entitle the holder to a vote at the Shareholders Meeting. There were 48,396,042 nominee-registered shares, representing approximately 38 percent of all shares, at the end of December 2007.

Shareholdings of the Chairman and Members of the Board of Directors

On December 31, 2007, KONE Corporation's Chairman and Members of the Board of Directors directly owned 469,978 class B shares, and indirectly owned 17,640,402 class A shares and 8,791,472 class B shares, representing approximately 21 percent of the total number of shares and 62 percent of the total votes.

Shareholdings on December 31, 2007 by number of shares

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 – 10	244	1.79	1,769	0.00
11 – 100	3,784	27.72	232,267	0.18
101 – 1,000	7,384	54.10	2,786,741	2.17
1,001 – 10,000	1,958	14.34	5,524,820	4.30
10,001 – 100,000	231	1.69	5,969,483	4.65
100,001 –	49	0.36	113,826,588	88.68
Total	**13,650**	**100.00**	**128,341,668**	**99.99**
Shares which have not been transferred to the paperless book entry system			10,926	0.01
Total			**128,352,594**	**100.00**

Largest shareholders on December 31, 2007

		A-series	B-series	Total	% of shares	% of votes
1	**Herlin Antti**	17,640,402	9,123,460	26,763,862	20.85	61.88
	Holding Manutas Oy [1]	13,571,148	6,624,486	20,195,634	15.73	47.47
	Security Trading Oy [2]	4,069,254	2,121,986	6,191,240	4.82	14.28
	Herlin Antti	0	376,988	376,988	0.29	0.13
2	**Toshiba Elevator And Building Systems Corporation**	0	6,046,680	6,046,680	4.71	2.02
3	**D-sijoitus Oy**	0	4,367,982	4,367,982	3.4	1.46
4	**Mariatorp Oy**	0	4,240,000	4,240,000	3.3	1.41
5	**Wipunen varainhallinta Oy**	0	4,200,000	4,200,000	3.27	1.4
6	**KONE Foundation**	1,411,776	2,464,908	3,876,684	3.02	5.53
7	**Ilmarinen Mutual Pension Insurance Company**	0	2,720,567	2,720,567	2.12	0.91
8	**Finnish State Pension Fund**	0	920,000	920,000	0.72	0.31
9	**Skagen Global Verdipapirfond**	0	845,300	845,300	0.66	0.28
10	**Varma Mutual Pension Insurance Company**	0	694,280	694,280	0.54	0.23
	10 largest shareholders total	**19,052,178**	**35,623,177**	**54,675,355**	**42.6**	**75.4**
	Nominee registered [3]		56,103,656	56,103,656	43.7	18.7
	Repurchased own shares		2,615,753	2,615,753	2.0	0.9
	Others		14,957,830	14,957,830	11.7	5.0
Total		**19,052,178**	**109,300,416**	**128,352,594**	**100**	**100**

1) Antti Herlin's ownership in Holding Manutas represents 1.1 percent of the shares and 12.8 percent of the voting rights and together with the ownership of Security Trading, company in which he exercises controlling power, his ownership represents 51.0 percent of the shares and 62.7 percent of the voting rights.
2) Antti Herlin's ownership in Security Trading Oy represents 93.8 percent of the shares and 97.7 percent of the voting rights.
3) The American investment fund company Tweedy Browne Company LLC notified KONE Corporation on April 1, 1999 that its holdings of KONE Corporation was over 5 percent of the shares.

Terms and Conditions for Stock Option Plans

Option Rights 2005A and 2005B

Terms and Conditions

The changes generated by the share split 1:2 approved by the extraordinary Shareholders' Meeting on November 21, 2005 have been marked in the text.
The Board of Directors of KONE Corporation ("KONE") proposes a demerger of KONE by transfer of all of its assets and liabilities without a liquidation procedure to two public limited liability corporations to be established, new KONE Corporation ("New KONE" or "Company") and Cargotec Corporation ("Cargotec"). Detailed terms and conditions of the demerger are presented in the demerger plan as signed by the KONE Board of Directors on 1 November, 2004.

In accordance with Section 16 of KONE 2004 option program ("Option program"), in case of demerger, KONE and it's Board of Directors can decide to offer an exchange of option rights on corresponding terms, where applicable, as in the exchange of KONE shares.

KONE's Board of Directors has decided to offer KONE option holders an exchange of option rights as follows:
- Each KONE series A option right will be exchanged for one (1) series A option right of New KONE and one (1) series A option right of Cargotec; and
- Each KONE series B option right will be exchanged for one (1) series B option right of New KONE and one (1) series B option right of Cargotec

Since the exchange of the option rights to new issued and corresponding option rights has been decided to be offered, the option right holders have, according to the terms and conditions of the Option Program, no right to request redemption of the option rights.

The New KONE option right terms and conditions will come into effect at effective date of the demerger (estimated 31 May, 2005) and are as follows:

1 Number of Option Rights
A maximum number of 266,780 New KONE option rights shall be issued. The option rights entitle to subscribe for a maximum number of 1,600,680 (before the share split 800,340) class B shares in New KONE.

2 Classification of Option Rights
The New KONE option rights have been marked with either letter A or B. The maximum number of A option rights is 96,780, and the maximum number of B option rights is 170,000.

3 Offering of option rights
KONE 2004 A option rights have been offered for subscription to key personnel of the KONE Group and they are freely transferable. The A option rights are listed on the main list of the Helsinki Stock Exchange. KONE Capital Oy ("Subsidiary Company"), a wholly owned subsidiary of KONE, has subscribed for all the 170,000 B option rights of the Option program, which are anticipated to be listed on the main list of the Helsinki Stock Exchange 1 April, 2005.

The option rights of the Option program have been entered into the book-entry system.

The Subsidiary Company may assign the option rights only to the key employees specified by the Company, or to another group company for assignment of its key employees.

The option rights have been given free of charge.

The option rights entitling to subscription of New KONE class B shares shall be issued in the book-entry system. The option rights shall be entered into the book entry accounts of the holders of the option rights at the effective date of the demerger (estimated 31 May, 2005), on which day the option rights of the Option program shall be null and void and automatically removed from the book-entry accounts of KONE option holders.

A deviation from the shareholders' pre-emptive right to subscription has been made, as the Option program constitutes a part of an incentive plan of the Company and a weighty financial reason for the Company thus exists.

4 Option rights
Each New KONE option right entitles to subscribe for six (6) (before the share split three (3)) class B shares in New KONE.

5 Transfer of Option Rights
The option rights held by any option right holder other than the Subsidiary Company are freely transferable once entered into the book-entry account of the option right holder.

TERMS AND CONDITIONS OF SHARE SUBSCRIPTION

6 Right to Subscription for New Shares
Each New KONE option right shall give its holder the right to subscribe for six (6) (before the share split three (3)) class B shares in New KONE with an accounting par value of fifty (50) eurocents (before the share split one (1) euro). The maximum increase in the share capital of the Company as a result of the subscriptions shall be 800,340 euros corresponding to 1,600,680 (before the share split 800,340) new shares.

7 Subscription and Payment
The New KONE option rights have been divided into two (2) series, A and B option rights. The A issue consists of 96,780 option rights at maximum and the B issue consists of 170,000 option rights at maximum.

The shares can be subscribed annually from 2 January to 30 November on the dates separately defined by the Board of Directors. In respect of the A option rights the subscription period commences on 13 June, 2005 and ends on 31 March, 2008 and in respect of the B option rights the subscription period commences on 13 June, 2005 and ends on 31 March, 2009. The subscription period is subject to the execution of the demerger on 31 May, 2005 and the first subscription day will be changed in accordance with the actual demerger date.

The subscription of the shares shall take place at the Headquarters of New KONE or another location to be announced later by the Company. Shares shall be fully paid for at the time of subscription. The option rights used for share subscription will be removed from the subscriber's book-entry account.

8 Subscription Price of Shares

The subscription price of a share shall be determined as follows:

The current share subscription price of 24.67 euros based on the Option program is to be divided between New KONE and Cargotec option rights and recalculated to reflect the market value of New KONE and Cargotec at the time of their listing. The market value to be used in recalculating the new subscription price is the trade volume weighted average price of the first six (6) trading days of New KONE shares and Cargotec shares, excluding the first trading day. The subscription price of New KONE and Cargotec shares is anticipated to be disclosed on 13 June, 2005.

Thus the share subscription price of New KONE option right was defined as EUR 16.08 per share. The share subscription price after the share split is EUR 8.04 per share.

9 Registration of Shares

Subscribed and fully paid shares shall be entered into the book-entry account of the subscriber.

The Board of Directors of the Company approves subscriptions at its regular meetings and is responsible for registration of the increases in share capital based on the approved subscriptions without delay as well as to make the new shares subject to trade on Helsinki Stock Exchange. However, the Board of Directors has no obligation to accept subscriptions in the period between the end of the accounting period and the Annual General Meeting.

10 Shareholders' Rights

The shares acquired shall first qualify for dividend payment for the financial year during which the subscription has taken place. Other rights related to the shares shall commence on the date when the increase in the share capital is entered in the Trade Register.

11 Issues of shares, convertible bonds, option rights and other financial instruments entitling to shares prior to the end of the period of subscription

Should the Company, prior to the end of the subscription period for shares, increase its share capital through a share issue or issue of new convertible bonds or option rights or other financial instruments entitling to shares according to the Companies Act so that shareholders have pre-emptive rights to subscription, holders of option rights shall have the same or equal rights as the shareholders. The equality among shareholders shall be addressed by the Board of Directors of the Company through amending the number of shares to be subscribed, the subscription price or both.

Should the Company increase its share capital through a bonus issue prior to the end of the subscription period, the subscription ratio will be amended so that the proportionate part of the share capital of the shares to be subscribed based on the option rights remains unchanged.

Should the new number of shares to be subscribed based on one option right be a fraction, the fraction will be taken into consideration by lowering the subscription price.

12 Rights in Certain Situations

Should the Company reduce its share capital prior to the end of the subscription period, the right to subscription of the holders of option rights shall be amended accordingly in a manner specified in the decision to reduce share capital.

Should the Company decide to acquire its own shares by an offer made to all shareholders of the Company after the share subscription period has begun, an equal offer has to be made to the holders of option rights. In other cases, the acquisition of the Company's own shares does not require any actions from the Company towards the option right holders.

In the event that a situation under Chapter 14, Section 19 of the Companies Act or a redemption obligation to other shareholders' shares set forth in Chapter 6, Section 6 of the Securities Markets Act arises, the holders of option rights shall be reserved an opportunity to use their right for subscription during the time period set by the Board of Directors. After such time no subscription right shall exist.

Should the share of the Company cease to be publicly traded on the Helsinki Stock Exchange before the end of the subscription period, an opportunity to use subscription rights within a time stipulated by the Board shall be reserved to the holders of the option rights before the trading of the Company's shares ends. Once the trading ends, the right to subscribe for shares with the option rights shall lapse.

Should the Company be set into liquidation before the share subscription period ends, the option holders shall be reserved an opportunity to use their subscription right before the commencement of the liquidation within a time stipulated by the Board of Directors. After this no subscription rights shall exist.

Should the Company decide to merge into another company or in a company to be formed in a combination merger or if the Company resolves to be divided, the Company or the company acquiring or the company to be formed in the combination merger (conditionally) and its Board of Directors may decide to offer an exchange of the option rights of the Company to new issued option rights to be exchanged on equivalent terms following the relevant terms and conditions on the shares of the Company at the merger or division. If the exchange of option rights to new, equivalent option rights is being offered the option right holder has no right to request redemption of the option rights as allowed under the Companies Act. At a merger or division the Board of Directors also has the right to decide that the option right holder shall be given a right to subscribe for the shares during a time stipulated by the Board of Directors before the actual merger or division. After such time no subscription right shall exist.

Should the accounting par value of shares be amended so that the share capital remains unchanged, these terms and conditions of subscription shall be amended so that the total accounting par value of shares to be subscribed and the total subscription price remain unchanged.

Should the Company change from public limited liability company to private limited liability company, the terms and conditions of option rights shall remain unchanged unless the law requires otherwise.

13 Applicable Law

This option program shall be subject to and governed by Finnish law.

14 Disputes

Any dispute, controversy or claim arising out of or relating to this option program shall be finally settled by arbitration in accordance with the Rules of Arbitration of the Finnish Central Chamber of Commerce. Arbitration shall take place in English in Helsinki.

15 Other Issues

The Board of Directors of the Company shall decide on all other matters relating to these option rights or to subscription. Copies of the option rights program shall be available for inspection at the Headquarters of KONE Corporation in Helsinki.

The English translation of the original Finnish language Terms and Conditions of New KONE Option Program is unofficial. In the event of any inconsistency, reference should be made to the Finnish language version of the Terms and Conditions of New KONE Option Program.

Option Rights 2005C

I STOCK OPTION TERMS AND CONDITIONS

1. Number of Stock Options

The maximum total number of stock options issued shall be 2,000,000, and they entitle their owners to subscribe for a maximum total of 2,000,000 class B shares in KONE.

2. Stock Options

The stock options shall be marked with the symbol 2005C.

The people to whom stock options are issued shall be notified in writing by the Board of Directors about the offer of stock options. The subscription period of stock options shall end on 31 January 2007 or on any earlier date determined by the Board of Directors. The Board of Directors shall decide on the approval of the subscriptions of stock options. Stock option certificates shall, upon request, be delivered to a stock option owner at the start of the relevant share subscription period, unless the stock options have been transferred to the book-entry securities system.

3. Right to Stock Options

The stock options shall, in deviation from the shareholders' pre-emptive subscription rights, be gratuitously issued to the key personnel of the KONE Group and to KONE Capital Oy (Subsidiary), a wholly owned subsidiary of KONE. The shareholders' pre-emptive subscription rights are proposed to be deviated from since the stock options are intended to form part of the Group's incentive and commitment program for the key personnel.

4. Distribution of Stock Options

The Board of Directors shall decide upon the distribution of the stock options. The Subsidiary shall be granted stock options to the extent that the stock options are not distributed to the key personnel of the KONE Group.

The Board of Directors of KONE shall later decide upon the further distribution of the stock options subscribed by the Subsidiary, to the key personnel employed by or to be recruited by the KONE Group.

5. Transfer of Stock Options and Obligation to Offer Stock Options

The stock options are freely transferable, when the relevant share subscription period has begun. The Board of Directors may, however, permit the transfer of a stock option also before such date. The Company shall hold the stock options on behalf of the stock option owner until the beginning of the share subscription period. The stock option owner has the right to acquire possession of the stock options when the relevant share subscription period begins. Should the stock option owner transfer his/her stock options, such person is obliged to inform the Company about the transfer in writing, without delay.

Should a stock option owner cease to be employed by or in the service of the KONE Group, for any reason than the death of a stock option owner, or the statutory retirement of a stock option owner, such person shall, without delay, offer to the Company or its order, free of charge, the stock options for which the share subscription period specified in Section II.2 has not begun, on the last day of such person's employment or service. The Board of Directors can, however, in the above-mentioned cases, decide that the stock option owner is entitled to keep such stock options, or a part of them, which are under the offering obligation.

Regardless of whether the stock option owner has offered his/her stock options to the Company or not, the Company is entitled to inform the stock option owner in writing that the stock option owner has lost his/her stock options on the basis of the above-mentioned reasons. Should the stock options be transferred to the book-entry securities system, the Company has the right, whether or not the stock options have been offered to the Company, to request and get transferred all the stock options under the offering obligation from the stock option owner's book-entry account to the book-entry account appointed by the Company, without the consent of the stock option owner. In addition, the Company is entitled to register transfer restrictions and other respective restrictions concerning the stock options to the stock option owner's book-entry account, without the consent of the stock option owner.

II SHARE SUBSCRIPTION TERMS AND CONDITIONS

1. Right to Subscribe for New Shares

Each stock option entitles its owner to subscribe for one (1) class B share in KONE. The book equivalent value of each share is EUR 0.50. As a result of the share subscriptions, the share capital of KONE may be increased by a maximum total of EUR 1,000,000 and the number of class B shares by a maximum total of 2,000,000 new class B shares.

The Subsidiary shall not be entitled to subscribe for shares in KONE on the basis of the stock options.

2. Share Subscription and Payment

The share subscription period for stock option 2005C shall be 1 April 2008 – 30 April 2010.

However, the share subscription period begins only if following criteria have been attained:

the average turnover growth of the KONE Group for financial years 2006 and 2007 exceeds market growth and the Earnings before Interest and Taxes (EBIT) of the KONE Group for the financial year 2006 exceeds the EBIT for the financial year 2005 and the EBIT for the financial year 2007 exceeds the EBIT for the financial year 2006. If the above mentioned criteria have not been attained, stock options 2005C expire in the manner decided by the Board of Directors.

Share subscriptions shall take place at the head office of KONE or possibly at another location to be determined later. The subscriber shall transfer the respective stock option certificates with which he/she subscribes for shares, or, in the case of the stock options having been transferred to the book-entry securities system, the stock options with which shares have been subscribed for, shall be deleted from the subscriber's book-entry account. Upon subscription, payment for the shares subscribed for shall be made to the bank account appointed by the Company. The Board of Directors shall decide on all measures concerning the share subscription.

3. Share Subscription Price

The share subscription price for stock option 2005C shall be the trade volume weighted average quotation of the KONE class B share on the Helsinki Stock Exchange between 24 October 2005 and 18 November 2005.

From the share subscription price of the stock options shall, as per the dividend record date, be deducted the amount of the dividend decided after the end of the period for determination of the share subscription price but before share subscription. The share subscription price shall, nevertheless, always amount to at least the book equivalent value of the share.

4. Registration of Shares

Shares subscribed for and fully paid shall be registered in the book-entry account of the subscriber.

5. Shareholder Rights

The dividend rights of the shares and other shareholder rights shall commence when the increase of the share capital has been entered into the Trade Register.

6. Share Issues, Convertible Bonds and Stock Options before Share Subscription

Should the Company, before the share subscription, increase its share capital through an issue of new shares, or an issue of new convertible bonds or stock options, a stock option owner shall have the same right as, or an equal right to, that of a shareholder. Equality is reached in the manner determined by the Board of Directors by adjusting the number of shares available for subscription, the share subscription price or both of these.

Should the Company, before the share subscription, increase its share capital by way of a bonus issue, the subscription ratio shall be amended so that the ratio to the share capital of shares to be subscribed for by virtue of the stock options remains unchanged. If the number of shares that can be subscribed for by virtue of one stock option is a fraction, the fractional part shall be taken into account by reducing the share subscription price.

7. Rights in Certain Cases

If the Company reduces its share capital before the share subscription, the subscription right accorded by the terms and conditions of the stock options shall be adjusted accordingly, as specified in the resolution to reduce the share capital.

If the Company is placed in liquidation before the share subscription, the stock option owner shall be given an opportunity to exercise his/her subscription right before the liquidation begins, within a period of time determined by the Board of Directors.

If the Company resolves to merge in another company as the company being acquired or in a company to be formed in a combination merger or if the Company resolves to be divided, the stock option owner shall, before the merger or division, be given the right to subscribe for the shares with his/her stock options, within a period of time determined by the Board of Directors. After such date no subscription right shall exist. In the above situations the stock option owner has no right to require that the Company redeems the stock options from him/her for market value.

If the Company, after the beginning of the share subscription period, resolves to acquire its own shares by an offer made to all shareholders, the stock option owners shall be made an equivalent offer. In other cases, acquisition of the Company's own shares shall not require the Company to take any action in relation to the stock options.

If, before the end of the subscription period, a situation, as referred to in Chapter 14 Section 19 of the Finnish Companies Act, in which a shareholder possesses over 90% of the shares and the votes of the shares of the Company, and therefore has the right and obligation to redeem the shares of the remaining shareholders, or a situation, as referred to in Chapter 6 Section 6 of the Finnish Securities Market Act, arise, the stock option owners shall be entitled to use their right of subscription by virtue of the stock option within a period of time determined by the Board of Directors, or they shall be entitled to have an equal right to that of a shareholder to sell their stock options to the redeemer. A shareholder who possesses over 90% of the shares and the votes of the shares of the Company has the right to buy the stock option owner's stock options for market value.

If the number of the Company's shares is changed, while the share capital remains unchanged, the share subscription terms and conditions shall be amended so that the relative proportion of shares available for subscription with the stock options to the total number of the Company's shares, as well as the share subscription price total, remain the same.

Converting the Company from a public company into a private company shall not affect the terms and conditions of the stock options.

III OTHER MATTERS

The laws of Finland shall be applied to these terms and conditions. Disputes arising in relation to the stock options shall be settled by arbitration, in accordance with the Arbitration Rules of the Central Chamber of Commerce.

The Board of Directors may decide on the transfer of the stock options to the book-entry securities system at a later date and on the resulting technical amendments to these terms and conditions, including those amendments and specifications to the terms and conditions which are not considered essential. Other matters related to the stock options shall be decided on by the Board of Directors. The stock option documentation shall be kept available for inspection at the head office of KONE.

The Company shall be entitled to withdraw the stock options which have not been transferred, or with which shares have not been subscribed for, free of charge, if the stock option owner acts against these terms and conditions, or against the regulations given by the Company on the basis of these terms and conditions, or against applicable law, or against the regulations of the authorities.

These terms and conditions have been made in Finnish and in English. In the case of any discrepancy between the Finnish and English terms and conditions, the Finnish terms and conditions shall decide.

Option Rights 2007

I STOCK OPTION TERMS AND CONDITIONS

1. Number of Stock Options

The maximum total number of stock options issued shall be 2,000,000, and they entitle their holders to subscribe for a maximum total of 2,000,000 new class B shares in the Company.

2. Stock Options

1. The stock options shall be marked with the symbol "2007".
2. The key personnel to whom stock options are issued shall be notified their entitlement to subscribe options in writing by the Board of Directors about the offer of stock options. The subscription period of stock options shall end on February 25, 2008 or on any earlier date determined by the Board of Directors. The Board of Directors shall decide on the approval of the subscriptions of stock options. Stock option certificates shall, upon request, be delivered to a stock option holder at the start of the relevant share subscription period, unless the stock options have been transferred to the book-entry account.

3. Right to Stock Options

The stock options shall, in deviation from the shareholders' pre-emptive subscription rights, be gratuitously issued to the key personnel of the KONE Group (stock option recipients) and to the Subsidiary wholly owned by the Company. The shareholders' pre-emptive subscription rights are deviated from since the stock options are intended to form part of the Group's incentive and commitment program for the key personnel. There is a weighty financial reason for the Company for granting options.

4. Granting of Stock Options

1. The Board of Directors shall decide upon the granting of the stock options. The Subsidiary shall be granted stock options to the extent that the stock options are not granted to the key personnel of the KONE Group.
2. The Board of Directors shall later decide upon the further granting of the stock options subscribed by the Subsidiary, to the key personnel employed by or to be recruited by the KONE Group.

5. Transfer of Stock Options and Obligation to Offer Stock Options

1. The stock options are freely transferable, when the relevant share subscription period has begun. The Board of Directors may, however, permit the transfer of a stock option also before such date. The Company or the Subsidiary shall hold the stock options on behalf of the stock option recipient until the beginning of the share subscription period. The stock option recipient has the right to acquire possession of the stock options when the relevant share subscription period begins. Should the stock option recipient transfer his/her stock options, such person is obliged to inform the Company about the transfer in writing, without delay.
2. Should a stock option recipient cease to be employed by or in the service of the KONE Group, for any reason than the death of a stock option recipient, or the statutory retirement of a stock option recipient, such person or his/her legal successor shall, without delay, offer to the Company or its order, free of charge, the stock options for which the share subscription period specified in Section II.2 has not begun, on the last day of such person's employment or service. The Board of Directors can, however, in the above-

mentioned cases, decide that the stock option recipient is entitled to keep such stock options, or a part of them, which are under the offering obligation.

3. Regardless of whether the stock option recipient or his/her legal successor has offered the stock options to the Company or not, the Company is entitled to inform the stock option recipient in writing that the stock option recipient has lost his/her stock options on the basis of the above-mentioned reasons. Should the stock options be transferred to the book-entry account, the Company has the right, whether or not the stock options have been offered to the Company, to request and get transferred all the stock options under the offering obligation from the stock option recipient's book-entry account to the book-entry account appointed by the Company, without the consent of the stock option recipient. In addition, the Company is entitled to register transfer restrictions and other respective restrictions concerning the stock options to the stock option recipient's book-entry account, without the consent of the stock option recipient.

II SHARE SUBSCRIPTION TERMS AND CONDITIONS

1. Right to Subscribe for New Shares

1. Each stock option entitles its holder to subscribe for one (1) new class B share in the Company. The book equivalent value of each share is EUR 0.50. As a result of the share subscriptions, the share capital of the Company may be increased by a maximum total of EUR 1,000,000 and the number of class B shares by a maximum total of 2,000,000 new class B shares. The Board of Directors has right to resolve to offer to the stock option holders´ shares owned by the Company instead of the new class B shares.
2. The Subsidiary shall not be entitled to subscribe for shares in the Company on the basis of the stock options.

2. Share Subscription and Payment

1. The share subscription period for stock option shall be April 1, 2010 - April 30, 2012.
2. However, the share subscription period begins only if following criteria have been attained:
   - the average Turnover growth of the KONE Group for financial years 2008 and 2009 exceeds market growth and
   - the Earnings before Interest and Taxes (EBIT) of the KONE Group for the financial year 2008 exceeds the EBIT for the financial year 2007 and the EBIT for the financial year 2009 exceeds the EBIT for the financial year 2008. If the above mentioned criteria have not been attained, stock options expire based on the consideration and in the manner and extent decided by the Board of Directors. As determination of the Turnover and the Earnings before Interest and Taxes (EBIT) for years 2007, 2008 and 2009 the Board of Directors has right to adjust the Turnover and Earnings before Interest and Taxes (EBIT) in the approved financial statements with possible one-time or exceptional from the conventional business income and/or expenses.
3. Share subscriptions shall take place at the head office of the Company or possibly at another location to be determined later. The subscriber shall transfer the respective stock option certificates with which he/she subscribes for shares, or, in the case of the stock options having been transferred to the book-entry account, the stock options with which shares have been subscribed for, shall be deleted from the subscriber's book-entry account. Upon subscription, payment for the shares subscribed for shall be made to the bank account designated by the Company. From the subscription price 0,50 euros representing the accounting par value will be entered to the share capital and rest to the paid-up unrestricted equity fund. The Board of Directors shall decide on all measures concerning the share subscription.

3. Share Subscription Price

1. The share subscription price for the stock option is 50.89 euros per share representing the trade volume weighted average quotation of the Company class B share on the OMX Nordic Exchange Helsinki Ltd between November 7, 2007 - December 4, 2007.
2. The subscription price of the stock option shall be reduced in special situations and at times specified hereinafter at Sections II.7.1 - II.7.2. The share subscription price shall, nevertheless, always amount to at least the book equivalent value of the share.

4. Registration of Shares

Shares subscribed for and fully paid shall be registered in the book-entry account of the subscriber.

5. Shareholder Rights

The dividend rights of the shares and other shareholder rights shall commence when the increase of the share capital has been entered into the Trade Register.

6. Share Issues, Stock Options and Other Special Rights for Shares before Share Subscription

If the Company, prior to share subscription, decides to issue shares or new stock options or other special rights entitling to shares, a stock option holder shall have the same right as, or an equal right to, that of a shareholder. Equality is reached in the manner determined by the Board of Directors by adjusting the number of shares available for subscription, the share subscription price or both of these.

7. Rights in Certain Cases

1. If the Company distributes dividends or funds from the reserve of invested non-restricted equity, from the subscription price of a stock option is deducted the amount of the dividend or distributable invested non-restricted equity decided after the beginning of the period for the determination of the subscription price but before the subscription as at the record date for each dividend distribution or other distribution of funds.

2. If the Company reduces its share capital by distributing share capital to shareholders, from the subscription price of a stock option is deducted the amount of distributable share capital decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date of repayment of share capital.
3. If the Company is placed in liquidation before the share subscription, the stock option holder shall be given an opportunity to exercise his/her subscription right before the liquidation begins, within a period of time determined by the Board of Directors. If the Company is removed from the register prior to the share subscription, the option holder has the same or equal rights with a shareholder.
4. If the Company resolves to merge in another company as the company being acquired or in a company to be formed in a combination merger or if the Company resolves to be divided, the stock option owner shall, before the merger or division, be given the right to subscribe for the shares with his/her stock options, within a period of time determined by the Board of Directors. After such date no subscription right shall exist. The provisions of Chapter 16 Section 13 of the Finnish Companies Act shall be applied to the redemption of the stock options.
5. If the Company, after the beginning of the share subscription period, resolves to acquire or to redeem its own shares by an offer made to all shareholders, the stock option owners shall be made an equivalent offer. In other cases, acquisition or the redemption of the Company's own shares or stock options or other special rights entitling to shares by the Company, shall not affect the position of stock option holders.
6. If, before the end of the subscription period, a situation, as referred to in Chapter 18 Section 1 of the Finnish Companies Act, in which a shareholder possesses over 90% of the shares and the votes of the shares of the Company, and therefore has the right and obligation to redeem the shares of the remaining shareholders, the stock option owners shall be entitled to use their right of subscription by virtue of the stock option within a period of time determined by the Board of Directors. A shareholder who possesses over 90% of the shares and the votes of the shares of the Company has the right to buy the stock option owner's stock options and when a shareholder exercises this right the stock option owner is under obligation to sell them to the shareholder for market value.
7. If the Company, prior to the share subscription, decides to combine its share series, stock option holders have equal rights with the owners of the Company's class B shares.

III OTHER MATTERS

1. The laws of Finland shall be applied to these terms and conditions. Disputes arising in relation to the stock options shall be settled by arbitration, in accordance with the Arbitration Rules of the Central Chamber of Commerce by using one arbitrator.
2. The Board of Directors may decide on the transfer of the stock options to the book-entry account at a later date compared earlier mentioned and make also other such technical amendments and specifications, which are not considered essential, to these terms and conditions. Other matters related to the stock options shall be decided on by the Board of Directors and it may impose binding rules on stock option recipients. The stock option documentation shall be kept available for inspection at the head office of the Company.
3. If the stock option owner acts against these terms and conditions, or against any decisions, orders, or instructions given by the Company or against applicable laws and regulations of the authorities, the Company shall be entitled to withdraw the stock options which have not been transferred, or with which shares have not been subscribed for free of charge.
4. These terms and conditions have been made in Finnish and in English. In the case of any discrepancy between the Finnish and English terms and conditions, the Finnish terms and conditions shall prevail.

Reconciliation of Own Shares

Reconciliation of Own Shares, December 31, 2007

	KONE Corporation			Subsidiaries			Group Total		
	pcs	Total Acquisition Cost	Average Price	pcs	Total Acquisition Cost	Average Price	pcs	Total Acquisition Cost	Average Price
Jan 1, 2007	2,338,753	79,498,808	33.99	400,000	11,770,749	29.43	2,738,753	91,269,557	33.33
Changes 2007:									
Feb 7, 2007	6,000	282,363	47.06				6,000	282,363	47.06
Apr 25, 2007				-129,000	-3,716,428	28.81	-129,000	-3,716,428	28.81
Dec 31, 2007	2,344,753	79,781,170	34.03	271,000	8,054,321	29.72	2,615,753	87,835,491	33.58

Parent Company Statement of Income

EUR	Note	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
SALES	15	105,458,042.55	109,062,755.98
Other operating income	16	233,218,313.42	121,238,597.02
Materials and Services		-1,045,405.28	-1,009,944.74
Personnel expenses	17	-34,147,494.66	-30,065,225.72
Depreciation and amortization	18	-2,136,506.70	-1,787,303.98
Other operating expenses		-142,412,612.61	-76,715,183.24
OPERATING PROFIT		158,934,336.72	120,723,695.32
Financing income and expenses	19	106,339,274.91	131,617,378.04
PROFIT BEFORE EXTRAORDINARY ITEMS		265,273,611.63	252,341,073.36
Extraordinary items	20	33,262,768.98	33,985,805.81
PROFIT BEFORE APPROPRIATIONS AND TAXES		298,536,380.61	286,326,879.17
Income taxes		-14,341,790.23	-23,546,079.89
Deferred taxes		-523,691.55	-453,933.64
PROFIT FOR THE FINANCIAL YEAR		283,670,898.83	262,326,865.64

Parent Company Balance Sheet

Assets, EUR	Note	Dec 31, 2007	Dec 31, 2006
Non-current assets			
Intangible assets			
Intangible rights	1	533,989.00	640,663.00
Other long-term expenditure	2	2,512,738.00	1,631,216.00
		3,046,727.00	2,271,879.00
Tangible assets			
Land	3	367,077.32	367,077.32
Buildings	4	4,667,012.00	4,975,941.00
Machinery and equipment	5	3,211,081.03	3,765,675.03
		8,245,170.35	9,108,693.35
Investments			
Subsidiary shares	6	1,796,638,950.41	1,073,945,847.47
Other shares	7	9,374,221.59	9,379,177.66
		1,806,013,172.00	1,083,325,025.13
TOTAL NON-CURRENT ASSETS		1,817,305,069.35	1,094,705,597.48
Current assets			
Long-term receivables	8		
Loan receivables		678,350,326.04	776,570,898.31
Short-term receivables			
Accounts receivable		14,581,860.90	26,322,322.51
Loan receivables		280,588,353.49	248,055,707.22
Deferred assets		117,617,062.41	82,376,800.58
		412,787,276.80	356,754,830.31
Deferred tax assets		2,356,512.49	2,880,204.04
Cash and cash equivalents		17,365,872.04	1,111,824.03
TOTAL CURRENT ASSETS		1,110,859,987.37	1,137,317,756.69
Total assets		2,928,165,056.72	2,232,023,354.17

Equity and liabilities, EUR	Note	Dec 31, 2007	Dec 31, 2006
EQUITY			
Share capital		64,176,297.00	64,033,314.00
Share premium account		100,173,705.70	98,017,522.06
Retained earnings		1,145,610,030.46	1,009,096,965.28
Profit for the financial year		283,670,898.83	262,326,865.64
TOTAL EQUITY	9	1,593,630,931.99	1,433,474,666.98
PROVISIONS			
Provisions	10	1,720,411.17	856,647.00
LIABILITIES			
Non-current liabilities	11		
Loans from financial institutions	12	77,262,208.51	57,218,160.82
Current liabilities			
Advances received		100,000.00	0.00
Loans from financial institutions		75,373,539.62	61,892,077.71
Accounts payable		16,128,210.02	13,085,585.21
Other liabilities		1,135,020,170.79	628,414,575.03
Accruals		28,929,584.62	37,081,641.42
		1,255,551,505.05	740,473,879.37
TOTAL LIABILITIES		1,332,813,713.56	797,692,040.19
TOTAL EQUITY AND LIABILITIES		2,928,165,056.72	2,232,023,354.17

Parent Company Cash Flow Statement

EUR	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Cash receipts from customers	121,782,633.40	86,627,970.05
Cash paid to suppliers and employees	-147,209,182.22	-96,585,538.29
Interest paid and received	99,515,166.27	107,376,778.15
Taxes and other items	-47,981,922.57	7,063,111.26
CASH FLOW FROM OPERATING ACTIVITIES	26,106,694.88	104,482,321.17
Capital expenditure	-2,047,831.70	-1,183,898.80
Proceeds from sales of fixed assets	4,956.07	121,227.96
Subsidiary investments	-701,891,961.64	-14,418,759.22
Proceeds from sales of subsidiary shares	186,149,485.74	134,555,078.00
CASH FLOW FROM INVESTING ACTIVITIES	-517,785,351.53	119,073,647.94
Purchase of own shares	-282,447.24	-69,310,124.08
Increase of share capital	2,299,166.64	1,697,951.52
Net change in short term debt	505,840,804.79	157,500,767.21
Net change in long term debt	34,290,300.57	-7,782,521.62
Dividends paid	-125,531,353.22	-127,290,078.22
Group contributions received	48,247,730.67	15,254,482.08
Group contributions paid	-22,619,423.55	-16,491,884.19
Other financing items	65,687,926.00	-176,711,828.05
CASH FLOW FROM FINANCING ACTIVITIES	507,932,704.66	-223,133,235.35
CHANGE IN CASH AND CASH EQUIVALENTS	16,254,048.01	422,733.76
Cash and cash equivalents, Jan 1	1,111,824.03	689,090.27
Cash and cash equivalents, Dec 31	17,365,872.04	1,111,824.03
CHANGE IN CASH AND CASH EQUIVALENTS	16,254,048.01	422,733.76
RECONCILIATION OF NET INCOME TO THE CASH FLOW FROM OPERATING ACTIVITIES		
PROFIT FOR THE FINANCIAL YEAR	283,670,898.83	262,326,865.64
Depreciations	2,136,506.70	1,787,303.98
Other adjustments	-239,782,244.73	-144,815,435.50
INCOME BEFORE CHANGE IN WORKING CAPITAL	46,025,160.80	119,298,734.12
Change in receivables	-15,772,798.10	-17,493,008.53
Change in payables	-4,145,667.82	2,676,595.58
CASH FLOW FROM OPERATING ACTIVITIES	26,106,694.88	104,482,321.17

Accounting Principles for the Parent Company Financial Statements

The parent company financial statements have been prepared according to the Finnish Accounting Standards. Financial statements have been prepared for the period of 12 months between January 1 and December 31, 2007. During the accounting period, a subsidiary (Taara Holding Oy) was merged into the parent company.

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the individual transaction. Foreign-currency denominated receivables and payables are translated using the period end exchange rates. Exchange rate differencies on the loans, deposits and other balance sheet items are recognized in the financing income and expenses in the Statement of Income.

Derivative instruments

Derivate contracts that are used to hedge the currency and the interest rate risks as well as the derivative contracts used to hedge the commodity risk related to the electricity price risk are valued at fair value. The fair values of interest rate swaps and cross-currency swaps are presented in the Note 15, Derivatives.

The fair values of fx forward contracts are calculated by discounting the future cash flows of the contracts with the interest rate yield curves of the currencies bought and sold, translating the discounted amounts into the reporting currency using the Balance Sheet date foreign exchange rate and calculating the difference between the discounted amounts. The fair values of foreign currency options are calculated with an option pricing model using exchange rates, interest rate yield curves and volatilities of foreign currencies quoted in the fx market on the Balance Sheet date. The fair values of interest rate swaps and cross currency swaps are determined by discounting the future cash flows of the contracts with the interest rate yield curves of the currencies concerned, translating the discounted amounts into the reporting currency using the Balance Sheet date foreign exchange rate and calculating the difference between the incoming and outgoing discounted amounts and by eliminating the accrued interests already booked as a net amount in deferred assets. The fair value of electricity derivatives is the period end value listed by Nord Pool (Scandinavian electricity pool).

Changes in the fair values of the instruments used in hedging the foreign currency loans, deposits and other receivavables and liabilities are recognized in the financing income and expenses in the Statement of Income.

Revenue recognition

Revenue is recognized, when the services have been rendered or when the work has been carried out.

Research and development cost

Research and development costs are expensed in the period they are incurred.

Pensions

An external pension insurance company manages the parent company pension plan. Contributions to the pension plan are expensed to the Statement of Income in the period to which these contributions relate.

Leases

Leasing charges are recognized in the leasing costs in the Statement of the Income. Remaining future leasing liabilities from existing contracts are presented in the Commitments in the Notes to the Finacial Statements. The leasing terms of exsisting contacts do not deviate from the conventional leasing terms.

Extraordinary income and expenses

Extraordinary income and expenses include the group contributions.

Taxes

Tax expense includes taxes based on the taxable income and the change in deferred tax assets and liabilities. Deferred taxes are recognized for temporary differences arising between the tax basis of assets and liabilities and their book values in financial reporting, and measured with enacted the tax rates prevailing at the balance sheet date. The deferred tax liabilities arising from temporary differencies are fully recognized with prudency, whereas the deferred tax assets are recognized only to the extent of the probable future tax benefit. Taxes from previous years are included in the current year tax expense.

Fixed assets and depreciation and Amortization

Tangible and intangible fixed assets are stated at the cost less accumulated depreciation and amortization. Depreciation and amortization is recorded on a straight-line basis over the economic useful lives of the assets as follows:

- Buildings	5–40 years
- Machinery and equipment	4–10 years
- Other long-term expenditure	4–5 years
- Land is not depreciated	

Investments in subsidiaries and other companies are measured at cost, or fair value in case the fair value is less than cost.

Provisions

Future costs in which the parent company has committed to and which probably will not contribute in future revenues are recognized in provisions.

Financial risk management

KONE Group Treasury of the parent company centrally manages the group financial risk. The financial risk management principles are presented in the Note 2 Financial risks and instruments in the Notes to the Consolidated Financial Statements.

Notes to the Parent Company Financial Statements

Notes to the balance sheet

1. Intangible rights

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Acquisition cost, Jan 1	834.2	717.0
Increase	68.0	117.2
Accumulated depreciation and amortization	-368.2	-193.5
Net book value, Dec 31	534.0	640.7

2. Other long term expenditure

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Acquisition cost, Jan 1	3,809.7	2,278.2
Increase	1,473.5	1,630.5
Decrease	0.0	-99.0
Accumulated depreciation and amortization	-2,770.5	-2,178.5
Net book value, Dec 31	2,512.7	1,631.2

3. Land

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Acquisition cost, Jan 1	367.1	367.1
Decrease	0.0	0.0
Net book value, Dec 31	367.1	367.1

4. Buildings

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Acquisition cost, Jan 1	7,460.0	6,606.0
Increase	0.0	854.0
Reclassifications	0.0	0.0
Accumulated depreciation	-2,793.0	-2,484.0
Net book value, Dec 31	4,667.0	4,976.0

5. Machinery and equipment

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Acquisition cost, Jan 1	17,017.0	16,273.1
Increase	506.4	1,095.8
Decrease	0.0	-351.9
Accumulated depreciation	-14,312.3	-13,251.4
Net book value, Dec 31	3,211.1	3,765.6

6. Subsidiary shares

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Net book value, Jan 1	1,073,945.8	1,083,239.7
Increase	1,317,188.7	12,616.1
Reclassifications	0.0	1,802.6
Decrease	-594,495.5	-23,712.6
Net book value, Dec 31	1,796,639.0	1,073,945.8

7. Other shares

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Net book value, Jan 1	9,379.1	9,891.4
Increase	0.0	1,358.4
Reclassifications	0.0	-1,802.6
Decrease	-4.9	-68.1
Net book value, Dec 31	9,374.2	9,379.1

8. Receivables

Receivables due within or over a year:

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Loan receivables	0.1	2,279.6

Loan receivables at December 31, 2006 include cross currency and interest rate swaps of EUR 2,136.4 thousand.

Receivables subsidiaries

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Accounts receivable	14,071.1	25,268.0
Loans receivable	958,529.3	978,983.5
Deferred assets	73,044.5	73,579.0
Total	1,045,644.9	1,077,830.5

Receivables from associated companies

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Accounts receivable	0.0	2.3
Loans receivable	234.3	282.4
Deferred assets	0.0	0.0
Total	234.3	284.7

Deferred assets

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Deferred interest	1,026.6	2,016.3
Deferred assets from subsidiaries	73,044.5	73,579.0
Derivative assets	22,357.8	5,001.0
Income taxes	1,662.1	0.0
Other	19,526.1	1,780.5
Total	117,617.1	82,376.8

9. Equity and changes in equity

EUR 1,000	Share capital	Share premium account	Retained earnings	Profit for the financial year	Total
Book value Jan 1, 2007	64,033.3	98,017.6	1,271,423.8		1,433,474.7
Dividends			-125,531.4		-125,531.4
Option plan	143.0	2,156.1			2,299.1
Purchase of own shares			-282.4		-282.4
Profit for the financial year				283,670.9	283,670.9
Net book value Dec 31, 2007	64,176.3	100,173.7	1,145,610.0	283,670.9	1,593,630.9

10. Provisions

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Restructuring provision	485.0	553.0
Other provisions	1,235.4	303.6
Total	1,720.4	856.6

11. Liabilities to subsidiaries and associatied companies

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2007	Dec 31, 2006
Other liabilities	1,134,968.8	470,266.3
Accounts payable	10,034.1	8,123.4
Accruals	12,017.0	5,275.6
Total	1,157,019.9	483,665.3

Accruals, EUR 1,000	Dec 31, 2007	Dec 31, 2006
Accrued wages, salaries and employment costs	8,779.9	6,701.9
Accruals to subsidiaries	12,017.0	5,275.6
Derivative liabilities	3,914.6	2,653.6
Others	4,218.1	22,450.5
Total	28,929.6	37,081.6

12. Long-term debt

Parent comany has a total amount of EUR 13,257.4 thousand of pension loans due after five years.

13. Commitments

EUR 1,000	Dec 31, 2007	Dec 31, 2006
Mortages		
For own debt	700.0	700.0
For subsidiaries	0.0	10.0
Pledged assets		
For subsidiaries	67.9	75.9
Guarantees		
For subsidiaries	938,802.3	787,909.5
For associated companies	5,338.5	1,817.0
For others	6,339.5	1,138.1
Leasing commitments		
Due next year	2,186.6	577.6
Due over a year	13,970.8	830.4
Total	967,405.6	793,058.5

14. Derivative instruments

Fair values of derivative instruments, EUR 1,000	Derivative assets Dec 31, 2007	Derivative liabilities Dec 31, 2007	Net fair value Dec 31, 2007	Derivative assets Dec 31, 2006	Derivative liabilities Dec 31, 2006	Net fair value Dec 31, 2006
Fx forward contract with external parties	9,661.5	3,876.5	5,785.0	3,866.8	2,366.2	1,500.6
Fx forward contract with subsidiaries	2,462.3	8,955.3	-6,493.0	9,110.9	2,607.2	6,503.7
Currency options	35.4	38.1	-2.7	83.0	67.7	15.3
Cross currency and interest rate swaps, due under one year	2,906.6	0.0	2,906.6	43,242.0	0.0	43,242.0
Cross currency and interest rate swaps, due in 1–3 years	8,879.1	0.0	8,879.1	2,773.0	0.0	2,773.0
Electricity derivatives	910.6	0.0	910.6	452.2	219.8	232.4
Total	24,855.5	12,869.9	11,985.6	59,527.9	5,260.9	54,267.0

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2007	Dec 31, 2006
Fx forward contract with external parties	369,891.1	367,039.4
Fx forward contract with subsidiaries	619,585.6	368,875.4
Currency options	15,600.0	32,300.9
Cross currency and interest rate swaps, due under one year	20,000.0	153,755.5
Cross currency and interest rate swaps, due in 1-3 years	136,728.9	43,632.4
Electricity derivatives	2,454.3	2,877.6
Total	1,164,259.9	968,481.3

IAS 39 hedge accounting is not applied in the Parent Company. IAS 39 hedge accounting has been applied for part of derivative instruments in KONE Group.

Derivates are hedging transactions in line with KONE hedging policy.

Notes to the statement of income

15. Sales

Sales to subsidiaries was EUR 105,372.5 thousand, which consists mainly of internal service fees.

16. Other operating income

EUR 1,000	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Rent income	1,517.4	2,238.1
Guarantee provisions	1,160.2	1,219.9
Subsidies received	1,796.9	2,155.2
Others	228,743.8	115,625.3
Total	233,218.3	121,238.5

17. Personnel expenses

EUR 1,000	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Salaries for members of the board of directors and the president & CEO	3,167.4	2,163.4
Other wages and salaries	25,174.8	23,103.3
Pension costs	4,514.8	4,103.4
Other employment expenses	1,290.5	695.1
Total	34,147.5	30,065.2

Average number of staff employed by the Parent Company was 396 during the period.

18. Depreciation and amortization

EUR 1,000	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Intangible rights	174.7	157.7
Other long term expenditure	591.9	342.1
Buildings	308.9	252.4
Machinery and equipment	1,061.0	1,035.1
Total	2,136.5	1,787.3

19. Financing income and expenses

EUR 1,000	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Dividend income from subsidiaries	89,043.5	85,855.1
Dividend income from associated companies	25.1	0.0
Other dividends received	2.9	172.0
Interest income from subsidiaries	42,622.6	37,548.4
Interest income from others	5,397.1	7,982.5
Interest expenses to subsidiaries	-26,978.1	-13,178.1
Interest expenses to others	-12,323.0	-10,133.7
Other financing income and expenses	8,549.2	23,371.2
Total	106,339.3	131,617.4

20. Extraordinary income and expenses

EUR 1,000	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
Group contributions received	55,451.0	48,224.0
Other extraordinary income	431.2	2,253.7
Group contributions paid	22,619.4	16,491.9
Total	33,262.8	33,985.8

Subsidiaries and Shareholding Companies

Subsidiaries, December 31, 2007

Country	Company	Shareholding %
Australia	Elevators Pty Limited	100
	EPL Pty Limited	100
	KONE Elevators Pty Ltd	100
	KONE Elevators Empl. Benefits Pty Limited	100
	KONE Holdings (Australia) Limited	100
Austria	KONE AG	100
	Konematic GmbH	100
	KONE Investition GmbH	100
Belgium	KONE Belgium S.A.	100
	KONE International N.V.	100
	Liften E. Thiery N.V.	100
Canada	KONE Holdings (Canada) Inc.	100
	KONE Inc.	100
	KONE Quebec Inc.	100
	Konematic Inc.	100
	Miro Elevators Limited	100
	Service Professionnels d'Ascenseurs (SPA) Inc.	100
	Central Elevator Services Ltd.	100
China/Hong Kong/Macau	Ben Fung Machineries & Engineering Limited	100
	KONE Elevators Co. Ltd	95
	KONE Elevator (HK) Ltd	100
	KONE ElevatorsInternational (China) Limited	100
	KONE Elevator (Macau) Limited	100
	KONE TELC Industries Co., Ltd.	70
	Nanjing Lian Ao Elevator Engineering Co., Ltd.	70
Cyprus	KONE Elevators Cyprus Limited	100
Czech Republic	KONE a.s.	99.9
	KONE Industrial – koncern s.r.o.	100
	VÝTAHY - Slavík spol. s.r.o.	100
	Waldoor s.r.o	100
Denmark	KONE A/S	100
Estonia	AS Kandur	100
	OU Pärnu Lift	51.9
Finland	AMC Advanced Management Consulting Oy	100
	Finescal Oy	100
	Kiinteistö Oy Heves	100
	KNEBV Incentive Ky	99
	KONE Capital Oy	100
	KONE Elevator Holding Oy	100
	KONE Hissit Oy	100
	KONE Industrial Oy	100
	Oy Tuote-Leasing Ltd.	100
	Suur-Helsingin Hissihuolto Oy	100
France	Ascenseurs Cierma S.A.S.	100
	Ascenseurs Technologie Serrurerie (S.A)	99.80
	Ascenseurs Soulier S.N.C	100

Country	Company	Shareholding %
	Distribution Assistance Technique Ascenseurs (S.A.S)	100
	Evin Ascenseurs S.A.S.	100
	KONÉ S.A.	99.97
	KONÉ Développement S.N.C.	100
	KONÉ Holding France S.A.S.	100
	Konématic S.A.S.	99.98
	Prokodis S.N.C.	100
	Société en Participation KONE ATS	100
Germany	GIS KONE Deutschland GmbH	100
	Hages-Aufzüge GmbH & Co. KG. Düren	75
	Hages Verwaltungs - GmbH	75
	Heinz Förster GmbH	100
	Herbert Acker Aufzugbau GmbH	100
	KONE Garant Aufzug GmbH	100
	KONE GmbH	100
	KONE Holding GmbH	100
	KONE Köln GmbH	100
	KONE Montage GmbH	100
	KONE Servicezentrale GmbH	100
	KONE Verwaltungsgesellschaft mbH	100
	Konematic GmbH	100
	KSM GmbH	100
	Lödige Aufzüge GmbH	100
	Lödige Aufzugstechnik GmbH	85
Greece	KONE S.A.	100
Hungary	KONE Felvonó Kft	100
Iceland	KONE ehf	60
India	KONE Elevator India Private Limited	100
	Olympus Elevator Private Limited	100
Indonesia	PT. KONE Indo Elevator	100
Ireland	Bleasdale Ltd.	100
	Industrial Logistics Limited	100
	KONE (Ireland) Limited	100
Italy	Elecomp S.r.l.	100
	KONE Industrial S.p.A.	100
	KONE S.p.A.	100
	Neulift S.r.l.	100
	Sabiem S.p.A.	100
	Slimpa S.r.l.	100
	Tosca Ascensori S.r.l.	66.66
	RUMAN Srl	75
Japan	KONE Japan Co. Ltd.	100
Latvia	SIA KONE Lifti Latvija	100
Lithuania	UAB Elektros Pavara ir Ko	100
	UAB Unikali ideja	100
Luxembourg	KONE Luxembourg S.a.r.l.	100
Malaysia	KONE Sdn. Bhd.	100
	Fein Blanking Sdn. Bhd.	100
	Fuji Lift & Escalator Manufacturing Sdn. Bhd.	100
	Fuji Lift & Escalator Sdn. Bhd.	100
	Premier Elevators Sdn. Bhd.	100
Mexico	KONE Industrial S.A de C.V.	100
	KONE Industrial Servicios S.A de C.V.	100
	KONE Mexico S.A. de C.V.	100
Netherlands	Borga Bijstede Gevelonderhoudinstallaties B.V.	100
	Hissi B.V.	100
	Hissi Holding B.V.	100
	Hopmann Liften Nederland B.V.	100
	KoMont Investment B.V.	100

Country	Company	Shareholding %
	KONE B.V.	100
	KONE Nederland Holding B.V.	100
	KONE Deursystemen B.V.	100
	Kone Finance Holding B.V.	100
	KONE Holland B.V.	100
	KONE Liften B.V.	100
	Kone Shared Services Centre B.V.	100
	KONE TELC Industries B.V.	70
	LTF Liften B.V.	100
	Waldoor B.V.	100
	Xinix Holding B.V.	100
New Zealand	KONE Elevators Pty Ltd branch	
Norway	KONE Aksjeselskap	100
	KONE Rulletrapper AS	100
	KONE Scandinavia AB branch	
Panama	Indusmar S.A.	100
Philippines	KPI Elevators, Inc.	100
Poland	KONE Sp.z o.o.	100
	KONE Zachod Sp. z o.o.	100
	KONE Dzwigi I Chodniki Ruchome Sp. z.o.o	100
Portugal	KONE Funchalift, Lda.	100
	KONE Portugal- Elevadores Lda.	100
	VTP-Tractores S.A.	99.28
Russia	OOO "EKOLIFT”	100
	OOO KONE Lifts	100
	OOO Lift RSU-5	100
	OOO KONE Lift St. Petersburg	100
	ZAO KONE Lifts St. Petersburg	100
	ZAO KONE Lifts Moscow	100
Singapore	KONE Pte Ltd.	100
Slovak Republic	KONE s.r.o.	100
	KONE SSC s.r.o.	100
Slovenia	KONE proizvdnja in prodaja dvigal d.o.o.	100
South Africa	KONE Elevators South Africa (Pty) Ltd.	100
South-Korea	KONE Elevators Korea Co., Ltd	100
Spain	Atlas Elevadores S.A.	100
	Inmel S.L.	100
	KONE Elevadores, S.A.	100
	Rigonza S.A.	75
	Serviparking S.L.	100
	Intedel Sl	100
	Ascensores Juma	100
	ASEKI	100
Sweden	Cajax AB	100
	Hissjouren Ekmans AB	100
	KONE AB	100
	KONE Door AB	100
	KONE Invest AB	100
	KONE Rulltrappor AB	100
	Motala Hissar AB	100
	Wasa Hissvård AB	100
	KONE Scandinavia AB	100
Switzerland	KONE (Schweiz) AG	100
Taiwan	Ben Fung Elevators Taiwan Ltd.	100
	KONE Elevators Taiwan Co., Ltd	100
Thailand	Thai Elevators & Escalators Ltd	100
	KONE Thai Lift Public Company Limited	91.46
Turkey	KONE Asansör Sanayi ve Ticaret A.S.	100
United Kingdom	Bennie Lifts Limited	100

Country	Company	Shareholding %
	Biddle Holdings Ltd.	100
	Cable Lift Installations Ltd.	100
	KONE Bolton Brady Limited	100
	KONE Escalators Limited	100
	KONE Lifts Limited	100
	KONE (NI) Limited	100
	KONE Pension Trustees Ltd.	100
	KONE plc	100
	Konematic Holdings Ltd.	100
	Konematic Limited	100
	Konepart Ltd.	100
	O & K Escalators Ltd.	100
	The UK Lift Company Ltd	100
	UK Lift (Holding) Ltd	100
	Waldoor (UK) Ltd.	100
United States	ENOK Electrical Company, LLC	100
	KONE Holdings, Inc.	100
	KONE Inc.	100
	KREM Inc.	
	Konematic Inc.	100
	Marine Elevators LLC	100

Shareholding companies, December 31, 2007

Country	Company	Shareholding %
Andorra	KONE Ascensors i Escales, S.A.	33
China	Giant Kone Elevator Co., Ltd	40
	Shan On Engineering Company Limited	30
	Kunshan Vataple-Kone Escalator Equipment Co., Ltd.	49
Egypt	Marryat & Scott Egypt - S.A.E.	49
Estonia	Real Estate Company Koiko	25.7
Japan	Toshiba Elevator and Building Systems Corporation	19.9
Malaysia	KONE Elevator (M) Sdn. Bhd.	49
Philippines	Elevators Philippines Construction, Inc.	40
Qatar	KONE Elevators Qatar LLC	49
Saudi-Arabia	Arabian Elevator & Escalator Co. Ltd	40
Thailand	Thai Elevators Holding Ltd	49
United Arab Emirates	KONE (Middle East) LLC	49
Vietnam	Thien Nam Elevator Joint Company	15

Dividend Proposal, Signatures for the Board of Directors' Report and Financial Statements and Auditors Note

Dividend Proposal

The parent company's non-restricted equity on December 31, 2007 is EUR 1,429,280,929.29 of which the net profit for the financial year is EUR 283,670,898.83.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.29 be paid on the 19,052,178 class A shares and EUR 1.30 on the outstanding 106,955,663 class B shares. Under the proposal, the total amount of dividends will be EUR 163,619,671.52. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,265,661,257.77 be retained and carried forward.

The Board proposes that the dividends be payable from March 6, 2008.

Signatures for the Financial Statements

Helsinki, January 25, 2008.

Antti Herlin	Sirkka Hämäläinen-Lindfors
Matti Alahuhta	Reino Hanhinen
Sirpa Pietikäinen	Masayuki Shimono
Iiro Viinanen	Jussi Herlin

The Auditors Note

The above financial statements and the Report of the Board of Directors have been prepared in accordance with generally accepted accounting principles in Finland. The consolidated financial statements have been prepared in accordance with International Reporting Standards as adopted by the EU. Our auditors' report has been issued today.

Helsinki, January 25, 2008.

PricewaterhouseCoopers Oy
Authorised Public Accountants

Niina Raninen	Heikki Lassila
Authorised	Authorised
Public Accountant	Public Accountant

List of the Parent Company Accounting Journals, Common Document Types and Means of Storaging

Balance sheet book		In paper
Journal		In electrical format
General ledger		In electrical format
Accounts payable and accounts receivable		In electrical format and in paper
Loan and deposit register		In electrical format and in paper
Sales invoices	document type RV	In electrical format
Purchase invoices	document type RE	In CD and in electrical format
Memo vouchers	document type Y3	In paper and in electrical format
Fixed asset register	document type AA	In paper and in electrical format
Periodisation entries	document type SA	In paper and in electrical format
Bank entries	document type SB	In paper and in electrical format
Cash entries	document type SK	In paper and in electrical format
Travelling expense entries	document type ZH	In paper and in electrical format
Salary entries	document type Z9	In electrical format
Financing entries	document type TR	In paper and in electrical format
Adjustments and cancellations	document type AB	In electrical format

The accounting material filed in electrical format according to the Ministry of Employment and Ecomomy's decision 47/1998 is storaged in KONE's servers, which are located in Brussels in the facilities of Hewlett-Packard and Belgacom. Purchase invoices are storaged in servers located in Hyvinkää.

A complete list of the document types is included in the balance sheet specifications.

Auditors' Report

To the shareholders of KONE Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of KONE Corporation for the period January 1–December 31, 2007. The Board of Directors and the President & CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors and the parent company's financial statements and administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements and in the report of the Board of Directors, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the President & CEO of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President & CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies' Act.

Helsinki, January 25, 2008

PricewaterhouseCoopers Oy
Authorised Public Accountants

Niina Raninen Authorised Public Accountant	Heikki Lassila Authorised Public Accountant