

19 October, 2004

KONE Interim Report: January – September, 2004, IFRS

- Consolidated order intake amounted to MEUR 2,963 (Jan.-Sept, 2003: 3,335^{*}). KONE Elevators & Escalators accounted for MEUR 1,545 (1,505), representing five percent growth at comparable exchange rates. Kone Cargotec's order intake was MEUR 1,419 (1,066), reflecting growth of 37 percent at comparable exchange rates.
- Consolidated net sales totaled MEUR 3,103 (3,847^{*}). Elevators & Escalators' net sales amounted to MEUR 1,979 (1,985), which at comparable exchange rates represents two percent growth. Kone Cargotec's sales were MEUR 1,124 (999.0), reflecting growth of 16 percent at comparable exchange rates.
- Consolidated operating income was MEUR 409.2 (286.6^{*}). Elevators & Escalators' operating income was MEUR 147.6 (193.3), representing 7.5 (9.7) percent of net sales. Kone Cargotec's operating income was MEUR 79.7 (55.8), equal to 7.1 (5.6) percent of net sales. Unallocated costs totaled MEUR 7.0 (10.7). Consolidated operating income includes capital gains of EUR 189.7 (3.5) million.
- Consolidated cash flow from operating activities before financial items and taxes decreased to MEUR 251.6 (388.6^{*}). Elevators & Escalators accounted for MEUR 164.2 (269.0) and Kone Cargotec for MEUR 94.9 (103.6).
- Income before taxes totaled MEUR 407.0 (265.5^{*}). Net income amounted to MEUR 242.1 (191.5). Diluted earnings per share were EUR 3.91 (3.04).
- KONE Elevators & Escalators is anticipating full-year net sales approaching EUR 2.9 billion and operating income approaching MEUR 250. Kone Cargotec's 2004 net sales are expected to exceed EUR 1.5 billion and operating income to be somewhat above MEUR 100.
- KONE Corporation's board of directors decided at its meeting on 19 October, 2004 to initiate preparations for a development and restructuring program in order to secure the long-term competitiveness and profitability of the elevator and escalator business. According to IFRS, expenses of this program are not provided for in financial statements for the period under review. A stock exchange release concerning the plans will be issued in conjunction with this report.
- The board of directors of KONE Corporation decided in August to begin preparation for the division of the company into two separate corporations. Preparations are proceeding more rapidly than initially anticipated, and according to the current plans, the listing of the two companies is expected to be implemented in June 2005. A stock exchange release of the demerger schedule will be issued in conjunction with this report.

^{*} The consolidated comparison figures include the Forest Machines and Tractors businesses, as well as other minor holdings, which have been divested.

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KONE changed over to International Financial Reporting Standards (IFRS) effective 1 January, 2004. The comparison figures for 2003 have been adjusted to reflect IFRS practices. For further information regarding the impact of the transition from Finnish Accounting Standards (FAS) to IFRS, please refer to KONE's 8 April, 2004 and 18 June, 2004 announcements.

CEO and chairman of the board Antti Herlin in Conjunction with the Interim Report:

“It was evident that the second half of 2004 would be challenging for KONE Elevators & Escalators, due both to market conditions and internal factors. After the disappointing profitability in the first half of the year, we set an ambitious full-year operating profit target of EUR 250 million. This target is still challenging due to market conditions and cost pressures.

“KONE Elevators & Escalators' third-quarter performance was clearly better than in the previous two quarters and in line with the third quarter of last year. The development of our North American operations, which have not lived up to our expectations recently, slowed our efforts to achieve even higher profit growth in the third quarter.

“Kone Cargotec continued to benefit from strong demand both within Kalmar and Hiab and was able to take full advantage of the good market environment, thanks to the extensive restructuring actions of the past two years. Strong container traffic growth propelled sales and order growth in Kalmar while Hiab enjoyed higher order intake due to general economic recovery and its renewed product portfolio. The improved profitability was a result of restructured operations, higher sales and improved price levels.

“The decision to invest in a new assembly plant for Kalmar products in the Shanghai area is a major step in our efforts to increase Kone Cargotec's presence in Asia. The assembly plant will primarily serve the Asian container-handling equipment market, which is the fastest growing area for most Kalmar products.

“We have decided to initiate preparations for a development and restructuring program in order to secure the long-term competitiveness and profitability of our elevator and escalator business. The aim of the program is, in particular, to improve the profitability of the new equipment business.

“The procedure to demerge KONE Elevators & Escalators and Kone Cargotec is progressing faster than planned and is anticipated to result in separate listings on the Helsinki Exchanges in June, 2005.”

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KONE Corporation

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Discontinued Operations and Changes in Group Structure

The following divestments and discontinued businesses are included in the 2003 consolidated figures but no longer in the 2004 figures:

- Forest Machines
- Tractors (finalized on 5 January, 2004)
- Oy Sisu Auto Ab and other discontinued non-core businesses

KONE's Financial Result, Balance Sheet, Cash Flow and Personnel

KONE's operating income totaled EUR 409.2 (Jan.-Sept., 2003: 286.6) million, representing 13.2 (7.5) percent of net sales. KONE Elevators & Escalators accounted for EUR 147.6 (193.3) million and Kone Cargotec for EUR 79.7 (55.8) million. Unallocated costs were EUR 7.0 (10.7) million. Capital gains totaled EUR 189.7 (3.5) million.

Net income totaled EUR 242.1 (191.5) million when taxes proportionate to the amount estimated for the financial year are taken into account. Diluted earnings per share equaled EUR 3.91 (3.04).

Cash flow from operating activities (before financial items and taxes at the corporate level) totaled EUR 251.6 (388.6) million. Consolidated cash flow from operating activities was EUR 104.6 (303.9) million. Net cash flow from investing activities, including acquisitions and divestments, totaled EUR 538.8 (192.8) million.

KONE's net debt at the end of the period was EUR 315.0 (end of 2003: 746.7) million. Total equity as a share of total assets was 33.8 (end of 2003: 29.6) percent. Gearing was 28 (end of 2003: 67) percent.

Total assets amounted to EUR 3,396 (end of 2003: 3,771) million, and assets employed totaled EUR 1,421 (end of 2003: 1,862) million.

KONE had 31,175 (end of 2003: 33,305) employees at the end of September, 2004. The decrease is mainly due to the divestment of the Tractors business and Sisu Auto. The average number of employees during January-September was 30,698.

KONE Elevators & Escalators

Orders Received, Order Book and Sales

Orders received, excluding the value of maintenance contracts, totaled EUR 1,545 (Jan.-Sept., 2003: 1,505) million. At comparable exchange rates, order intake growth was five percent.

At comparable exchange rates, orders in Europe rose five percent. Third quarter order intake evened out the differences of the first half of the year in European countries so that order increases for the period under review were rather uniform across all major European countries. The pricing environment was also fairly similar across Europe. In order to maintain market share, KONE has adjusted its prices in line with market-price changes in certain markets where demand has weakened in recent years. Orders in North America increased slightly, but

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the price level continued to be depressed. Orders in the Asia-Pacific region were somewhat below the level for the corresponding period last year. Strong growth continued in China, but increased competition led to somewhat more pressure on prices.

At the end of September, 2004 the order book amounted to EUR 1,908 (end of 2003: 1,640) million. The average margin for entries in the order book is approximately at last year's level except in markets that have had decreasing construction activity in recent years.

Net sales totaled EUR 1,979 (1,985) million. At comparable exchange rates, net sales rose approximately two percent. Europe accounted for 64 (65) percent, North America for 23 (24) percent and Asia-Pacific for 13 (11) percent of net sales.

Revenue from new equipment sales was EUR 722.2 (776.1) million. Service revenue totaled EUR 1,257 (1,209) million, including door service revenue of EUR 116.2 (92.0) million. The number of elevators and escalators under service contract continued to increase. At comparable exchange rates, service revenue growth was in line with the full-year target of five percent, and door service revenue growth was in line with the full-year target of 20 percent.

The value of third-quarter new equipment deliveries increased clearly over the first- and second-quarter figures and was at the level of the third quarter of 2003. Maintenance revenue continued to increase in all regions. Modernization sales revenues improved but not as rapidly as anticipated. Modernization sales are expected to accelerate further in the fourth quarter.

Sales by market area (MEUR)

	1-9/2004	1-9/2003	7-9/2004	7-9/2003	1-12/2003
Europe	1,275.7	1,289.2	470.6	436.2	1,850.1
North America	444.9	468.7	170.9	167.5	681.7
Asia Pacific	250.7	220.8	98.2	92.8	315.3
Others	7.5	6.0	3.8	3.1	8.9
Total	1,978.8	1,984.7	743.5	699.6	2,856.0

Profitability

KONE Elevators and Escalators' operating income was EUR 147.6 (193.3) million, representing 7.5 (9.7) percent of net sales. Profitability in the service business was stable, but new equipment business profitability was below last year's level.

Long-term development programs in the service business have secured stable profitability despite pressure on prices. KONE has also raised the efficiency of its maintenance business by increasing the density of the location of equipment under service contract both through organic growth and acquisitions. By applying KONE's processes and business models in the acquired companies, synergy benefits have been achieved. The focus of the maintenance and modernization operations is now on harmonizing and improving processes in order to secure future profitability improvement. A major share of the increase in R&D investment is allocated to strengthening the service offering.

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The profitability of the new equipment business fell sharply in the first half of the year. Compared with the first half of 2003, when demand and order book margins were strong, volumes in the first half of 2004 were significantly lower, and many construction projects were delayed. Third quarter volumes and profitability recovered to the level of the corresponding period last year. However, due to the poor beginning of the year and the increased probability of delays in construction projects during the rest of the year, achieving the full-year operating profit target of EUR 250 million has become even more challenging.

Increased costs for materials and components, especially the rise in steel and fuel prices, affected profitability to some extent. The higher price of steel will have a somewhat greater impact in the fourth quarter. In general, however, labor costs and the development of elevator and escalator market prices are of much greater importance for the profitability of KONE Elevators & Escalators. Higher material and component prices were partly offset by internal measures, and the scarcity of steel on some markets did not disrupt production.

The unsatisfactory performance of KONE's operations in the U.S.A. continued in the third quarter. The new management team accelerated the implementation of several actions to improve efficiency in both the new equipment and service businesses, but the anticipated significant positive impact of these projects on profitability in the region will not yet be felt during the fourth quarter of 2004.

Net working capital and cash flow

At the end of September, 2004 net working capital allocated to KONE Elevators & Escalators was negative, standing at EUR -132.8 (end of 2003: -159.0) million. Tangible fixed assets amounted to EUR 194.9 (181.9) million.

Cash flow from operating activities before financial items and taxes totaled EUR 164.2 (296.0) million.

Capital Expenditure and Product Development

Capital expenditure, including financial leases, totaled EUR 21.4 (38.9) million. Construction of an elevator component plant in the Czech Republic and the expansion of the escalator plant in China are underway. These investments will amount to less than EUR 20 million. Both facilities are expected to start operations by the end of the year.

KONE Elevators & Escalators' product development expenditures totaled EUR 30.4 (28.6) million, equal to 1.5 (1.4) percent of net sales.

KONE proceeded with the launch of products based on KONE's new MaxiSpace™ technology platform and the pocket PC-phone field terminal.

Acquisitions and cooperation agreements

Third quarter acquisitions included a few mid-sized and strategically important transactions.

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KONE acquired the front-line elevator business of Bharat Bijlee Limited (BBL), one of India's leading electrical engineering companies and thereby significantly strengthened its position on the Indian elevator and escalator market. Given the country's increasing prosperity and urbanization, India is expected to be one of the most significant growth areas in the elevator and escalator business. The integration of BBL's elevator operations into KONE India will raise KONE's market share in India to nearly 30 percent. The finalization of the agreement requires approval of the appropriate Indian authorities.

KONE also acquired 70 percent of a Korean elevator company, Soolim. Korea is strategically important as it is Asia's third largest elevator market with 28,000 new units installed per year. Soolim is well positioned for rapid growth with the access it will gain to KONE technology.

In April, KONE and Toshiba Elevator and Building Systems Corporation agreed to strengthen their Alliance through long-term collaboration in the advancement of high-rise elevator technology. In May, KONE and the international door systems supplier DORMA established a strategic global alliance with the goal of accelerating the growth of both companies' automatic building doors business. Successful cooperation with both alliance partners continued in the third quarter.

European Commission Investigation

In January, 2004 the European Commission initiated an investigation of the European elevator and escalator industry, alleging anticompetitive behavior on an EEA-wide basis. As a result of an internal audit, KONE identified certain local anticompetitive practices in Belgium, Luxembourg and Germany but has not found evidence or indications of any European-wide anticompetitive practices.

KONE has taken immediate measures to stop anything that could potentially be considered anticompetitive behavior. KONE continues to be fully responsive to and cooperative with the European Commission's investigations.

Kone Cargotec

Market Review

Demand for container-handling equipment and services continued to increase during the third quarter of 2004 in all market areas as the investment cycle for container-handling equipment is currently at an exceptionally high level. Kalmar's markets improved in all regions and product lines.

The demand for on-road load-handling solutions offered by Hiab remained strong in the third quarter of 2004. Demand improved across the entire product range and on all continents. The North American market continued to show the strongest growth but was closely followed by Asia and Europe, where the negative effect of the summer holiday period on sales was milder than during previous years.

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Orders Received, Order Book and Sales

Kone Cargotec's order intake increased clearly in both Kalmar and Hiab and amounted to EUR 1,419 (1,066) million. At comparable exchange rates, order intake rose 37 percent.

Kalmar achieved record-high order intake, supported by strong bookings in all its major product segments. Third quarter orders included record refurbishment orders valued at approximately EUR 40 million.

The deliveries of the rough terrain container handlers (RTCH) ordered within the multi-year RTCH frame agreement with TACOM signed in 2001 will be completed this year. After the period under review, however, Kalmar, booked a new RTCH order from TACOM valued at approximately EUR 10 million. This order will ensure continued RTCH production.

Hiab's third quarter order intake continued at the record level of the first half of the year. Growth was greatest in North America as a result of both the stronger market and Hiab's improved market position. Hiab's successful application-driven marketing combined with integrated mounting and service activities continued to pay off in increasing market share. Order intake in both Asia and Europe was at least on a par with market growth, supported by the success of new products launched late last year and in the beginning of 2004.

Hiab increased production capacity in the first and second quarter in order to meet rising order intake. This started to pay off in sales and delivery growth during the second and, in particular, third quarter. By the end of September, Hiab had delivered over 41,000 load-handling units to customers. Forecasts call for deliveries to reach a record high of 55,000 units by the end of the year.

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

	1-9/2004	1-9/2003	7-9/2004	7-9/2003	1-12/2003
Kalmar	844.3	596.2	249.7	190.0	834.9
Hiab	576.7	475.9	160.5	129.4	653.2
Internal orders	-2.2	-6.2	-0.8	-0.7	-6.6
Kone Cargotec	1,418.8	1,065.9	409.4	318.7	1,481.5
Other	0.0	784.6	0.0	233.5	1,055.9
Total	1,418.8	1,850.5	409.4	552.2	2,537.4

Kone Cargotec's order book at the end of September totaled EUR 761.8 (end of 2003: 473.6) million, of which Kalmar accounted for EUR 576.5 (end of 2003: 359.7) million and Hiab for EUR 185.7 (end of 2003: 114.2) million.

Net sales amounted to EUR 1,124 (999.0) million. At comparable exchange rates, sales rose 16 percent.

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

	1-9/2004	1-9/2003	7-9/2004	7-9/2003	1-12/2003
Kalmar	621.1	542.2	206.3	167.2	749.2
Hiab	504.8	463.3	166.5	143.9	622.4
Internal sales	-2.2	-6.5	-0.7	-0.3	-7.2
Kone Cargotec	1,123.7	999.0	372.1	310.8	1,364.4
Other	0.0	862.9	0.0	274.8	1,190.0
Total	1,123.7	1,861.9	372.1	585.6	2,554.4

Profitability

Operating income rose clearly to EUR 79.7 (55.8) million, which is 7.1 (5.6) percent of net sales. Kone Cargotec's profitability continued to benefit from the restructuring of production carried out in both Kalmar and Hiab over the past two years in addition to higher sales and improved price levels. Profitability was negatively affected by the weaker dollar and increased steel prices.

Increased uncertainty regarding the availability of steel and steel components has slightly raised the risk of affecting production, which is running at high capacity. The availability and prices of steel and steel components is being monitored constantly.

Net working capital and cash flow

At the end of September, Kone Cargotec's net working capital was EUR 209.1 (end of 2003: 199.4) million. The value of tangible fixed assets was EUR 169.8 (end of 2003: 172.6) million.

Cash flow from operating activities before financial items and taxes was EUR 94.9 (103.6) million.

Capital Expenditure and Product Development

Capital expenditure, including financial leases, amounted to EUR 13.9 (10.6) million, and customer financing totaled EUR 13.6 (6.8) million.

Kalmar will invest in a new assembly plant in the Shanghai area. The value of the investment will amount to approximately USD 10 million. The assembly plant will primarily serve the Asian container-handling equipment market, which is the fastest growing area for most Kalmar products.

Assembly is planned to start by the end of 2005 with terminal tractors (for short distance container and trailer movement), which are currently produced in the smaller-scale operation in Wai Gao Qiao (Shanghai). This plant will be the base for Kalmar's service and support operations in this important region.

The new plant will also represent an important step in Kalmar's efforts to penetrate the Asian Rubber-Tired Gantry Crane (RTG) market with its state-of-the-art products. In Europe, where

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Kalmar's RTG's are currently produced, Kalmar has gained a strong market position with its GPS-positioning-equipped RTG's.

Research and development expenditure was EUR 19.0 (19.4) million, which is 1.7 (1.9) percent of net sales.

KONE Annual General Meeting and Board of Directors

During KONE's Annual General Meeting (AGM) in February, 2004, shareholders approved the 2003 financial statements and discharged the responsible parties from liability for the financial year. Dividends of EUR 1.98 for each of the 9,526,089 class A shares and EUR 2.00 for the 53,104,052 outstanding class B shares were approved. The rest of the distributable equity, EUR 743.6 million, will be retained and carried forward.

The number of members of the Board of Directors was confirmed at seven. Antti Herlin was re-elected chairman of the Board. Re-elected as full members of the Board were Matti Alahuhta, Jean-Pierre Chauvarie, Iiro Viinanen and Gerhard Wendt. Sirkka Hämäläinen and Masayuki Shimono were elected as new members of the Board.

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

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

Option Program and Increase in Share Capital

The Board of Directors' proposal that the AGM confirm the option program and issue option rights to the key personnel of KONE was approved. The option program was connected to the development of KONE's aggregated net income (after taxes) during 2001-2003 as shown in the Consolidated Financial Statements.

The AGM confirmed that KONE's aggregated net income for 2001-2003 exceeded EUR 470 million. In accordance with the decision of the shareholder meeting, a maximum of 350,000 option rights were issued, of which a maximum of 180,000 A option rights were offered to the Group's key personnel and a maximum of 170,000 B option rights to Kone Capital Oy. The Board of Directors approved the 145,130 A option rights and 170,000 B option rights that have been subscribed.

The option program also includes a cash bonus totaling EUR 5.8 million. The cash bonus related to each A option right has been separated from the option rights after 27 February, 2004, when the AGM confirmed the amount of option rights to be offered.

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Each option right confers the right to subscribe to three KONE class B shares with a par value of 1.00 euro. The subscription price is EUR 24.67/share. The A option rights confer entitlement to subscribe to 435,390 KONE B shares between 1 April, 2004 and 31 March, 2008, and the B option rights to subscribe to 510,000 KONE B shares between 1 April, 2005 and 31, March 2009. The annual window during which the shares can be subscribed to with these option rights lasts from 2 January to 30 November.

The A option rights were listed on the Helsinki Stock Exchange on 1 April, 2004. As of 30 September, 2004, 145,050 class B shares have been subscribed to with the option rights, raising KONE's share capital to EUR 63,608,670.00, and the number of class B shares to 54,082,581.

Repurchase of KONE shares

During the first half of 2004, KONE repurchased 1,863,397 of its class B shares at the average price of EUR 48.35. At the end of the reporting period, KONE had 2,696,876 class B shares in its possession, which equals the maximum number of B shares that can be held by the company according to the Companies Act.

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

Significant events after 30 September

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

On 11 October, 2004 KONE signed an agreement for the sale of the entire share capital of Velsa Inc. to Finnish Rautaruukki Corporation. Velsa is the leading Nordic manufacturer of mobile cabins for machines used in forestry, construction, industry, harbors and mining. It is currently a subsidiary of Kalmar and had sales of EUR 42 million (2003) and 396 employees as of September 2004. The transaction will not affect the personnel. The parties agreed not to publish the value of the transaction. The transaction is subject to competition authority approval in Sweden.

Outlook For 2004

KONE Elevators & Escalators anticipates 2004 net sales to approach EUR 2.9 billion and order intake to total EUR 2 billion. Operating income is expected to approach EUR 250 million.

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Kone Cargotec's 2004 net sales are expected to exceed EUR 1.5 billion and order intake to approach EUR 1.8 billion. Operating income is expected to be somewhat above EUR 100 million.

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

Helsinki, 19 October, 2004

KONE Corporation, Board of Directors

Unaudited

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CONSOLIDATED STATEMENT OF INCOME

M€	1-9/2004	%	1-9/2003	%	1-12/2003	%
Sales	3,102.5		3,846.6		5,410.4	
Costs and expenses	-2,816.4		-3,480.7		-4,890.2	
Depreciation	-66.6		-82.8		-108.1	
Sale of businesses	189.7		3.5		24.9	
Operating income	409.2	13.2	286.6	7.5	437.0	8.1
Share of associated companies' income	3.2		3.9		6.7	
Financing income and expenses	-5.4		-25.0		-27.8	
Income before taxes	407.0	13.1	265.5	6.9	415.9	7.7
Taxes	-164.0		-72.3		-113.2	
Minority share	-0.9		-1.7		-2.5	
Net income	242.1	7.8	191.5	5.0	300.2	5.5

Taxes proportionate to the amount due for the full year are taken into account.

Basic earnings per share, €	3.94		3.06		4.79	
Diluted earnings per share, €	3.91		3.04		4.77	

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CONSOLIDATED BALANCE SHEET

Assets			
M€	30/9/2004	30/9/2003	31/12/2003
Non-current assets			
Intangible assets	840.1	1,085.2	1,026.7
Tangible assets	367.7	462.7	468.5
Loans receivable and other non-current assets	181.2	205.7	211.1
Investments	196.6	209.9	197.0
Total	1,585.6	1,963.5	1,903.3
Current assets			
Inventories	401.0	567.2	482.4
Accounts receivable and other current assets	997.2	998.5	978.0
Cash and cash equivalents	412.1	438.4	407.0
Total	1,810.3	2,004.1	1,867.4
Total assets	3,395.9	3,967.6	3,770.7
Shareholders' equity and liabilities			
M€	30/9/2004	30/9/2003	31/12/2003
Equity	1,146.4	1,039.3	1,114.8
Long-term liabilities			
Loans	388.4	836.5	723.5
Deferred tax liabilities	12.9	30.4	25.5
Pension benefit liabilities and other liabilities	186.2	181.8	180.8
Total	587.5	1,048.7	929.8
Provisions	171.0	180.8	167.3
Current liabilities			
Loans	424.8	618.0	504.8
Accounts payable and other current liabilities	1,066.2	1,080.8	1,054.0
Total	1,491.0	1,698.8	1,558.8
Total shareholders' equity and liabilities	3,395.9	3,967.6	3,770.7

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RECONCILIATION OF EQUITY

M€	Share capital	Share premium account	Fair value and other reserves	Translation difference	Retained earnings	Minority shares	Net income for the period	Total
01/01/2004	63.5	219.6	15.4	-37.7	829.9	24.1		1,114.8
Increase of share capital	0.1	3.4						3.5
Dividends paid					-125.1			-125.1
Cash flow hedge			-5.0					-5.0
Change of translation difference				3.4				3.4
Change of minority shares						2.8		2.8
Purchase of own shares					-90.1			-90.1
Net income for the period							242.1	242.1
30/9/2004	63.6	223.0	10.4	-34.3	614.7	26.9	242.1	1,146.4

M€	Share capital	Share premium account	Fair value and other reserves	Translation difference	Retained earnings	Minority shares	Net income for the period	Total
01/01/2003	63.5	219.6	13.2	0.0	623.4	20.1		939.8
Dividends paid					-93.7			-93.7
Cash flow hedge			6.5					6.5
Change of translation difference				-12.4				-12.4
Change of minority shares						7.6		7.6
Net income for the period							191.5	191.5
30/9/2003	63.5	219.6	19.7	-12.4	529.7	27.7	191.5	1,039.3

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RECONCILIATION OF NET INCOME

M€	1-9/2003	1-12/2003
Net income according to FAS	125.9	216.9
Effects of adopting IFRS:		
Goodwill amortization	58.8	80.9
Long-term contracts according to the percentage completion method	5.6	3.5
Deferred tax	0.1	-4.1
Finance leases	-0.1	-0.1
Customer finance arrangements	-0.8	-0.9
Cash flow hedge	-0.5	0.7
Employee benefits	0.9	-1.1
Other IFRS adjustments	1.6	4.4
Total IFRS restatement	65.6	83.3
Net income according to IFRS	191.5	300.2

RECONCILIATION OF EQUITY

M€	31/12/2002	30/9/2003	31/12/2003
Equity according to FAS	1,109.3	1,027.7	1,090.2
Effects of adopting IFRS:			
Capital loans	-102.1	0.0	0.0
Reserve for own shares	-26.3	-26.3	-26.3
Minority shares	20.1	27.7	24.1
Goodwill amortization	0.0	58.8	80.9
Long-term contracts according to the percentage completion method	-1.2	4.5	2.4
Deferred tax	36.4	35.8	31.8
Finance leases	-1.5	-1.5	-1.4
Customer finance arrangements	-9.2	-9.9	-8.8
Cash flow hedge	8.1	14.1	12.1
Employee benefits	-74.4	-71.2	-71.5
Cancellation of revaluations	-13.9	-13.9	-13.9
Other IFRS adjustments	-5.5	-6.5	-4.8
Total IFRS restatement	-169.5	11.6	24.6
Equity according to IFRS	939.8	1,039.3	1,114.8

Kone Corporation

CONSOLIDATED CASH FLOW

M€	1-9/2004	1-9/2003	1-12/2003
Operating income			
KONE Elevators & Escalators	147.6	193.3	289.6
Kone Cargotec	79.7	55.8	76.7
Others	-7.8	34.0	45.8
Sale of businesses	189.7	3.5	24.9
Total	409.2	286.6	437.0
Change in working capital			
KONE Elevators & Escalators	-26.2	32.9	-14.9
Kone Cargotec	-8.3	21.2	24.9
Others	0.0	-31.4	6.3
Sale of businesses	-189.7	-3.5	-24.9
Total	-224.2	19.2	-8.6
Depreciation			
KONE Elevators & Escalators	42.8	42.8	56.6
Kone Cargotec	23.5	26.6	34.4
Others	0.3	13.4	17.1
Total	66.6	82.8	108.1
Cash flow from operating activities before financial items and taxes			
KONE Elevators & Escalators	164.2	269.0	331.3
Kone Cargotec	94.9	103.6	136.0
Others	-7.5	16.0	69.2
Total	251.6	388.6	536.5
Cash flow from financial items and taxes	-147.0	-84.7	-101.0
Cash flow from operating activities	104.6	303.9	435.5
Cash flow from investing activities			
Fixed assets 1)	550.9	209.8	283.7
Leasing agreements	-3.8	-2.4	-6.0
Customer financing	-8.3	-14.6	-14.2
Total	538.8	192.8	263.5
Purchase of own shares	-90.1	0.0	0.0
Increase of share capital	3.5	0.0	0,0
Dividends paid	-125.1	-93.7	-93.7
Change in net debt	431.7	403.0	605.3
Net debt in the beginning of period	746.7	1,352.0	1,352.0
Net debt in the end of period	315.0	949.0	746.7
Change in net debt	431.7	403.0	605.3

¹⁾ Includes sale of businesses

Kone Corporation

KEY FIGURES

		1-9/2004	1-9/2003	1-12/2003
Basic earnings per share	€	3.94	3.06	4.79
Diluted earnings per share	€	3.91	3.04	4.77
Equity per share	€	18.4	16.2	17.8
Interest bearing net debt	M€	315	949	747
Total equity/total assets	%	33.8	26.2	29.6
Gearing	%	28	94	67
Total assets	M€	3,395.9	3,967.6	3,770.7
Assets employed	M€	1,420.7	1,988.1	1,861.5

SEGMENT REPORTING

1. BUSINESS SEGMENTS

Sales

M€	1-9/2004	1-9/2003	1-12/2003
KONE Elevators & Escalators	1,978.8	1,984.7	2,856.0
Kone Cargotec	1,123.7	999.0	1,364.4
Others	0.0	862.9	1,190.0
Total	3,102.5	3,846.6	5,410.4

Operating income

M€	1-9/2004	%	1-9/2003	%	1-12/2003	%
KONE Elevators & Escalators	147.6	7.5	193.3	9.7	289.6	10.1
Kone Cargotec	79.7	7.1	55.8	5.6	76.7	5.6
Others	-7.8		34.0		45.8	
Sale of businesses	189.7		3.5		24.9	
Total	409.2	13.2	286.6	7.5	437.0	8.1

Orders received

M€	1-9/2004	1-9/2003	1-12/2003
KONE Elevators & Escalators	1,544.5	1,504.7	2,021.0
Kone Cargotec	1,418.8	1,065.9	1,481.5
Others	0.0	784.6	1,055.9
Total	2,963.3	3,355.2	4,558.4

Order book

M€	30/9/2004	30/9/2003	31/12/2003
KONE Elevators & Escalators	1,908.0	1,821.5	1,639.6
Kone Cargotec	761.8	438.0	473.6
Others	0.0	146.0	83.0
Total	2,669.8	2,405.5	2,196.2

Kone Corporation

Capital expenditure in fixed assets

M€	1-9/2004	1-9/2003	1-12/2003
KONE Elevators & Escalators	18.1	36.6	36.2
Kone Cargotec	12.9	10.5	21.9
Others	0.0	15.2	24.1
Total	31.0	62.3	82.2
as percentage of sales	1.0	1.6	1.5

Capital expenditure in leasing agreements

M€	1-9/2004	1-9/2003	1-12/2003
KONE Elevators & Escalators	3.3	2.3	4.3
Kone Cargotec	1.0	0.1	1.7
Others	0.0	0.0	0.0
Total	4.3	2.4	6.0

Capital expenditure in customer financing

M€	1-9/2004	1-9/2003	1-12/2003
KONE Elevators & Escalators	0.0	0.0	0.0
Kone Cargotec	13.6	6.8	6.9
Others	0.0	7.8	7.3
Total	13.6	14.6	14.2

Expenditure for R&D

M€	1-9/2004	1-9/2003	1-12/2003
KONE Elevators & Escalators	30.4	28.6	40.5
Kone Cargotec	19.0	19.4	25.1
Others	0.0	15.7	22.8
Total	49.4	63.7	88.4
as percentage of sales	1.6	1.7	1.6

Average number of employees

	1-9/2004	1-9/2003	1-12/2003
KONE Corporation	30,698	34,513	34,489

Number of employees

	30/9/2004	30/9/2003	31/12/2003
KONE Elevators & Escalators	24,485	23,870	23,751
Kone Cargotec	6,690	6,410	6,377
Others	0	4,230	3,177
Total	31,175	34,510	33,305

Kone Corporation

2. GEOGRAPHICAL SEGMENTS

SALES

KONE Corporation

M€	1-9/2004	%	1-9/2003	%	1-12/2003	%
Europe	1,861.0	60	2,428.1	64	3,432.1	64
North America	777.0	25	813.4	21	1,147.4	21
Asia Pasific	386.3	12	362.2	9	509.2	9
Others	78.2	3	242.9	6	321.7	6
Total	3,102.5		3,846.6		5,410.4	

KONE Elevators & Escalators

M€	1-9/2004	%	1-9/2003	%	1-12/2003	%
Europe	1,275.7	64	1,289.2	65	1,850.1	65
North America	444.9	23	468.7	24	681.7	24
Asia Pasific	250.7	13	220.8	11	315.3	11
Others	7.5	0	6.0	0	8.9	0
Total	1,978.8		1,984.7		2,856.0	

Kone Cargotec

M€	1-9/2004	%	1-9/2003	%	1-12/2003	%
Europe	585.3	52	532.1	53	732.4	54
North America	332.1	30	291.1	29	394.4	29
Asia Pasific	135.6	12	105.7	11	146.3	11
Others	70.7	6	70.1	7	91.3	6
Total	1,123.7		999.0		1,364.4	

Kone Corporation

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

Contingent Liabilities and Pledged Assets

M€	30/9/2004	30/9/2003	31/12/2003
Assets pledged to secure loans	1.5	19.2	18.6
Pledged assets	14.9	14.5	14.7
Guarantees			
Associated companies	16.6	7.1	10.1
Others ¹⁾	64.7	67.4	47.7
Leasing liabilities	96.8	101.0	112.8
Other contingent liabilities ¹⁾	0.3	16.1	18.5
Total	194.8	225.3	222.4

¹⁾ Guarantees for others include M€10.0 (Dec. 31, 2003 M€11.0) customer finance arrangements in which the sold machines are a collateral, and other contingent liabilities include repurchase commitments for sold products with a value of M€0.0 (Dec. 31, 2003 M€14.0).

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

Derivatives M€	Nominal value		Nominal value		Nominal value	
	30/9/2004	Fair value 30/9/2004	30/9/2003	Fair value 30/9/2003	31/12/2003	Fair value 31/12/2003
Forward contracts	880.6	13.3	924.9	40.9	958.3	41.3
Currency options	94.2	0.2	178.5	0.8	94.1	0.5
Currency swaps	173.8	5.9	173.8	7.9	173.8	6.0
Interest rate swaps	140.0	-3.0	140.0	-5.1	140.0	-4.6
Commodity derivatives	3.0	0.3	1.1	0.1	2.8	0.1
Total	1,291.6	16.7	1,418.3	44.6	1,369.0	43.3

Kone Corporation

QUARTERLY FIGURES

KONE Corporation

		Q3/2004	Q2/2004	Q1/2004	Q4/2003	Q3/2003	Q2/2003	Q1/2003
Orders received	M€	905.8	1,092.1	965.4	1,203.2	1,038.6	1,161.3	1,155.3
Order book	M€	2,669.8	2,677.2	2,456.6	2,196.2	2,405.5	2,432.5	2,392.9
Sales	M€	1,115.6	1,093.5	893.4	1,563.8	1,285.2	1,376.8	1,184.6
Operating income	M€	100.7	89.5	219.0	150.4	102.9	111.5	72.2
Operating income	%	9.0	8.2	24.5	9.6	8.0	8.1	6.1
Earnings per share								
basic	€	0.94	0.89	2.11	1.73	1.16	1.14	0.76
diluted	€	0.93	0.89	2.09	1.73	1.15	1.13	0.76

KONE Elevators & Escalators

		Q3/2004	Q2/2004	Q1/2004	Q4/2003	Q3/2003	Q2/2003	Q1/2003
Orders received	M€	496.4	534.5	513.6	516.3	486.4	515.5	502.8
Order book	M€	1,908.0	1,935.3	1,868.6	1,639.6	1,821.5	1,839.0	1,797.1
Sales	M€	743.5	684.3	551.0	871.3	699.6	693.6	591.5
Operating income	M€	74.8	42.4	30.4	96.3	75.6	70.1	47.6
Operating income	%	10.1	6.2	5.5	11.1	10.8	10.1	8.0

Kone Cargotec

		Q3/2004	Q2/2004	Q1/2004	Q4/2003	Q3/2003	Q2/2003	Q1/2003
Orders received	M€	409.4	557.6	451.8	415.6	318.7	356.9	390.3
Order book	M€	761.8	741.9	588.0	473.6	438.0	431.8	437.5
Sales	M€	372.1	409.2	342.4	365.4	310.8	360.2	328.0
Operating income	M€	26.5	31.4	21.8	20.9	12.8	25.8	17.2
Operating income	%	7.1	7.7	6.4	5.7	4.1	7.2	5.2

SHARES AND SHAREHOLDERS

30 September, 2004	A shares	B shares	Total
Number of shares	9,526,089	54,082,581	63,608,670
Own shares in possession		2,696,876	
Share capital, €			63,608,670
Market capitalization, M€	462	2,623	3,085
Number of shares traded, 1-9/2004		36,529,649	
Value of shares traded, M€ 1-9/2004		1,769.3	
Number of shareholders	3	11,914	11,914
	Close	High	Low
Share price, € 1-9/2004	48.50	51.85	45.01

During the period under review, the price of the KONE class B share rose 6.6 percent.