

# **Kone Corporation**

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**Analyst and press conference**

**17 August, 2004, Keilaniemi, Espoo**

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***KONE today***

# Leading products and services

- KONE, the world's 4th largest elevator & escalator company
- Kone Cargotec, the world's leading provider of container- and cargo-handling solutions



# KONE's focus in recent years

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1. To systematically develop and streamline operations
  - KONE Elevators & Escalators - harmonized global way of working
    - Harmonized product & service offering
    - Streamlined production
    - Global installation and maintenance processes
    - Global R&D activities
    - KONE model
  - Acquisitions – two companies per month, integrated into KONE's processes
  - Kone Cargotec – restructured, efficient operations
    - Focus on container- and cargo-handling
    - Improved production structure by concentration of plants and by increasing flexibility
    - Continuous product development efforts and strengthening of the sales and service network

# KONE's focus in recent years

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## 2. To strengthen the financial position

- KONE virtually debt-free
- Steady operational cash-flow
- Solid funding opportunities

## 3. To increase shareholder value

- Increased dividend payout
  - In 2004, EUR 117.1 million in dividends for year 2003
- Repurchasing own shares
  - KONE now owns 2,696,876 of its class B shares
  - The maximum amount permitted under corporate law

# Benefits of separation into two companies

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- Benefits to the businesses
  - Synergies have already been achieved
  - Improved opportunities to develop and grow both businesses according to their long-term objectives
- Benefits to the companies
  - KONE's financial situation is solid => the two companies will have strong balance sheets
  - The potential of two separate corporations = > mergers and acquisitions
- Benefits to shareholders
  - Increased transparency
  - Shares in two companies
  - No negative tax consequences

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***Plan to demerge the divisions***



# Plan to demerge the divisions

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- KONE's Board of Directors decided on 16 August, 2004 to begin preparations for the demerger
- According to the preliminary plan, all assets and liabilities of the parent company KONE Corporation will be divided between two companies
  - KONE Elevators & Escalators -> KONE Corporation
  - Kone Cargotec -> Kone Cargotec Corporation
- KONE shareholders will receive shares in the two new companies, at no additional cost, in accordance with their holding in KONE shares.
- A meeting of shareholders will decide on the demerger plan, the process will take approximately one year.
- The aim is to have the two companies listed on the main list of HEX in 2005.

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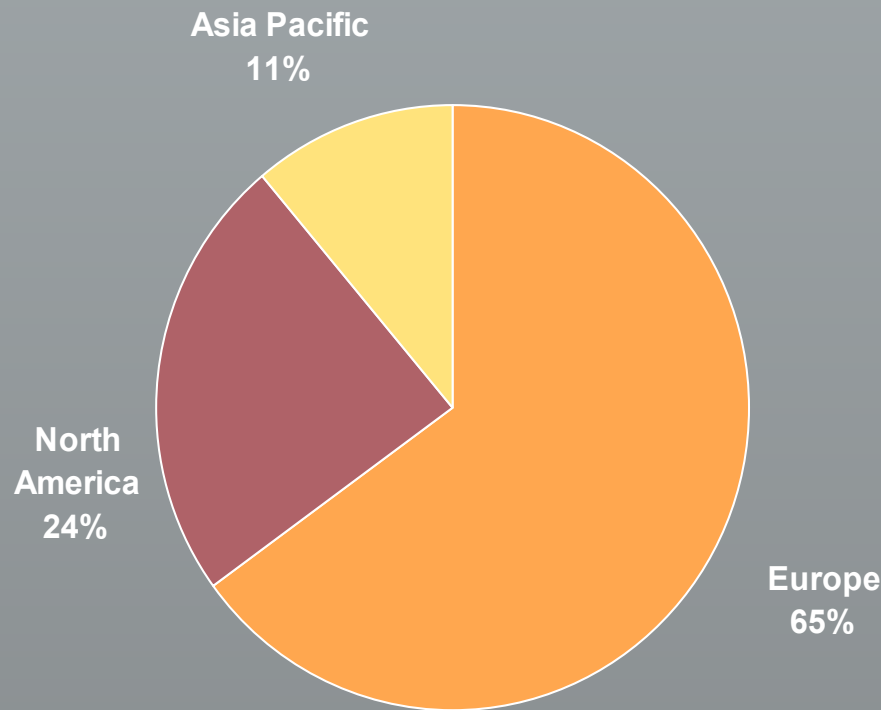
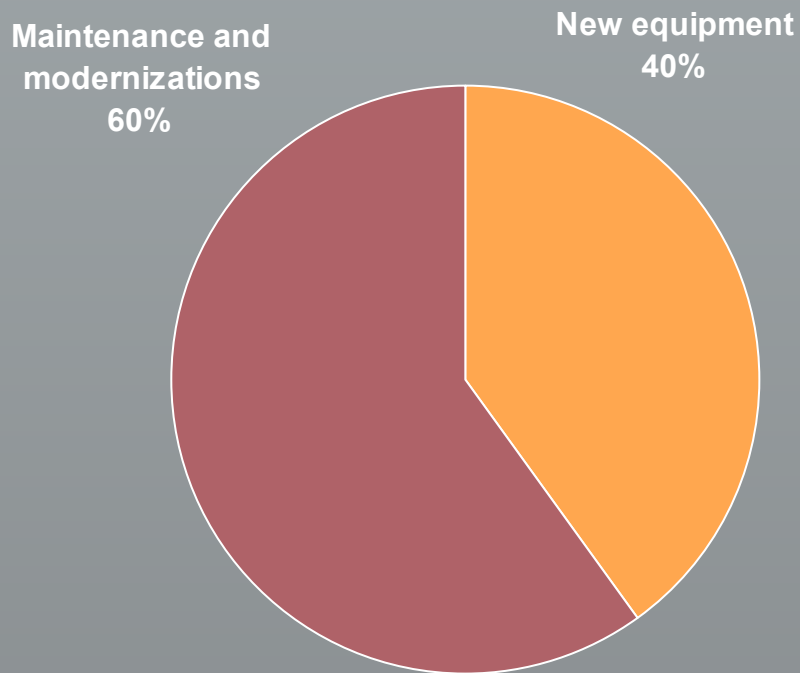
# ***KONE Elevators & Escalators***

# A global elevator and escalator company

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- Present in more than 40 countries with some 800 service centers
- Eight supply units on three continents
- Globally coordinated R&D operations in Finland, Italy, the U.S.A., China and India
- Strategic alliance with Toshiba of Japan since 1998
- Customers include builders, developers, building owners, designers and architects

# 2003 net sales by business and market area



# Key figures

## KONE Elevators & Escalators

M€	2003 IFRS	2003 FAS	2002 FAS	2001 FAS
Orders received	2,021	2,021	2,192	2,100
Order book	1,640	1,746	1,792	1,881
Sales	2,856	2,814	2,970	2,816
Operating income before goodwill amortization (EBITA)	290	299	287	256
Operating income before goodwill amortization (EBITA), %	10.1	10.6	9.7	9.1
Cash flow from operating activities before financial items and taxes	331	325	461	344
Working capital	-159	-80	-85	40
Tangible fixed assets	182	177	187	207

Figures are unaudited pro forma figures, and may change in connection with the proposed plan to demerge the companies.

# Business drivers

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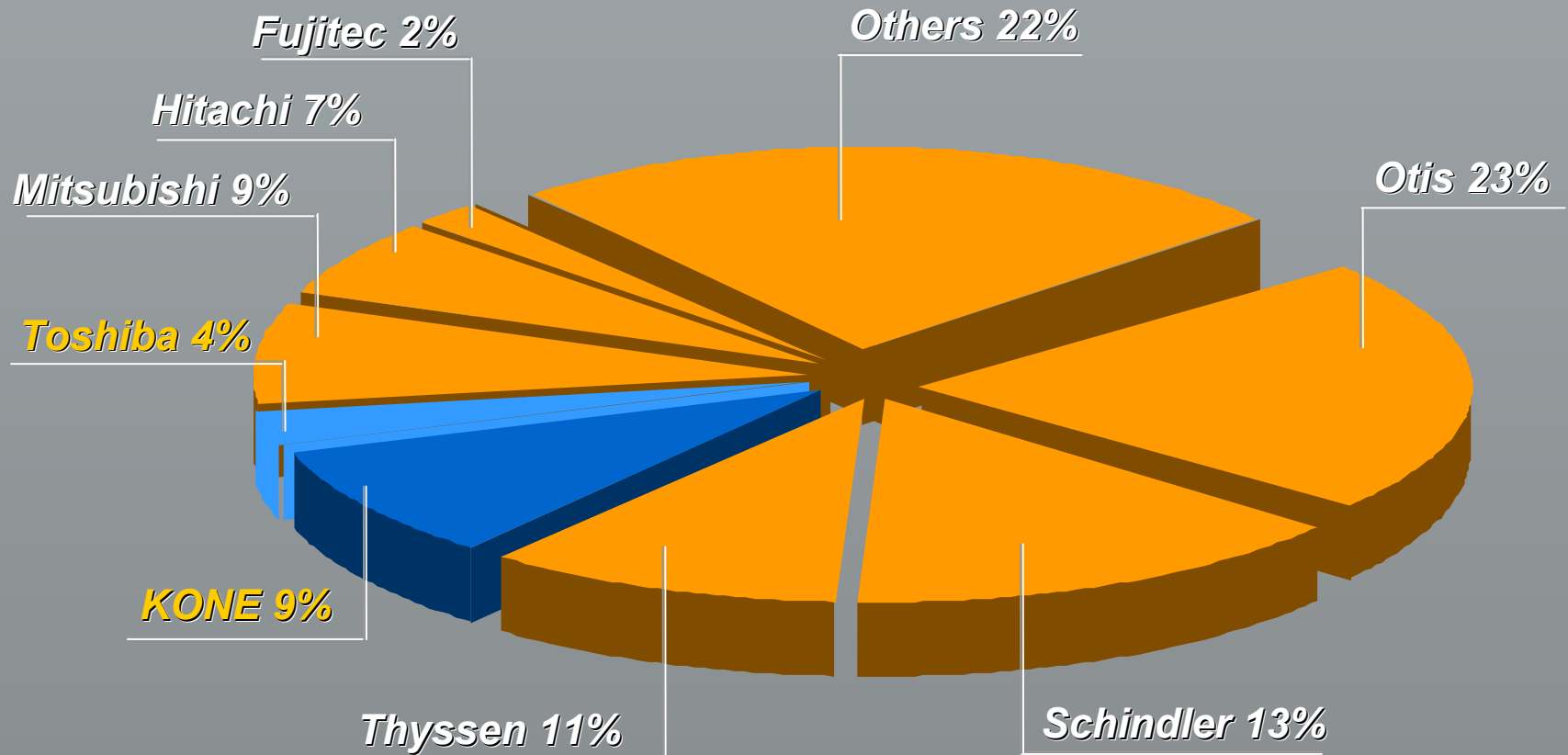
- Global socioeconomic trends
  - Ageing population in industrialized countries
  - Urbanization in growing and emerging countries
- Requirement for more cost-efficient buildings
  - Optimal shaft solutions
  - More high-rise buildings
- Safety regulations
  - Professional service to ensure safety
  - Modernizations and full replacements to increase safety
- Requirement to move more people more efficiently
  - Airports, railways, metros
- Architectural trends – scenic elevators and special solutions

# Global elevator and escalator market

	Total world market	KONE's market share
<b>Elevators</b> New equipment, maintenance and modernization	EUR 30 billion	9%
<b>Escalators and autowalks</b> New equipment, maintenance and modernization	EUR 1.5 billion	16%
<b>Automatic Building Doors</b> Maintenance and modernization	EUR 5 billion	3%

The above mentioned figures are based on analysts' estimates and publicly disclosed sales figures.

# Market shares 2003



The above mentioned figures are based on analysts' estimates and publicly disclosed sales figures.



# Investments in growth and profitability 2004-2005

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- Increasing production in low-cost countries.
  - Construction of elevator component plant in the Czech Republic and expansion of escalator plant in China underway.
  - Production to start at both locations by the end of 2004
- Developing new products
  - KONE MaxiSpace™: complements our product range, particularly in solutions for existing buildings
  - Double-deckers: technology partnership with Toshiba, improved competitiveness in major projects around the world
  - Cooperation with DORMA: accelerating growth in the automatic door business, increased competitiveness in large projects, and in the spare parts and replacement business

# Investments in growth and profitability 2004-2005

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- Investing in developing the operations
  - Field terminals for 11,000 service personnel in 17 countries
  - Information systems (KONE Model 2 rollout completion)
  - Investments in global R&D
- Continuing aggressive acquisition strategy
  - Over 20 elevator and door service companies acquired in the first six months of 2004.

# India – new growth area

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- India's increasing prosperity and urbanization makes it one of the most significant growth areas in the elevator and escalator business
- Agreement to acquire the front-line elevator business of Bharat Biljee Limited (BBL)
  - Sales of 800 new elevators annually and maintenance portfolio of about 5,000 units
  - Annual net sales of EUR 12 million, 460 employees
  - As a result of the acquisition, KONE's market share in India rises to nearly 30%
- KONE has a strong position on the Indian market
  - Local operations since 1991
  - Nationwide service network
  - Production for the local market
  - global R&D center specialized in software development

# Long-term targets

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- Operating profit margin of 12 percent
  - Improved profitability in the new equipment business
    - New innovative products for the faster growing market segments (KONE MaxiSpace™, double-deckers)
  - Profitable growth in the service business
    - IT investment
    - Field mobility
  - Growing the modernization business
    - Modular solutions and KONE MaxiSpace™
  - Harmonized company, strong brand
  - Prerequisites for successful acquisitions
    - Strong balance sheet
    - Acquisition and integration know-how
    - Managerial competence

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***Kone Cargotec***

# Global market leader

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- Customers
  - Kalmar: ports, terminals and industrial customers
  - Hiab: truck owners and producers, large transportation companies, vehicle and equipment rental firms, waste and recycling companies as well as the public sector
- Comprehensive product range to meet customers' container and cargo handling needs
- Extensive sales and service network
  - Own sales and service companies in 25 countries
  - Dealer network covering over 100 countries
- Production in three continents
  - The supply structure has been systematically developed and the number of production facilities reduced by 20.

# Business drivers

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- Accelerating growth of global material flows provides a solid foundation for growth in demand
  - The globalization of production generates increased transportation of goods
  - World trade increases long distance transport: container traffic grows faster than world trade, world trade faster than global GDP
  - Increased short-haul distribution creates the need for more efficient and frequent distribution, and more ergonomical loading and unloading of cargo

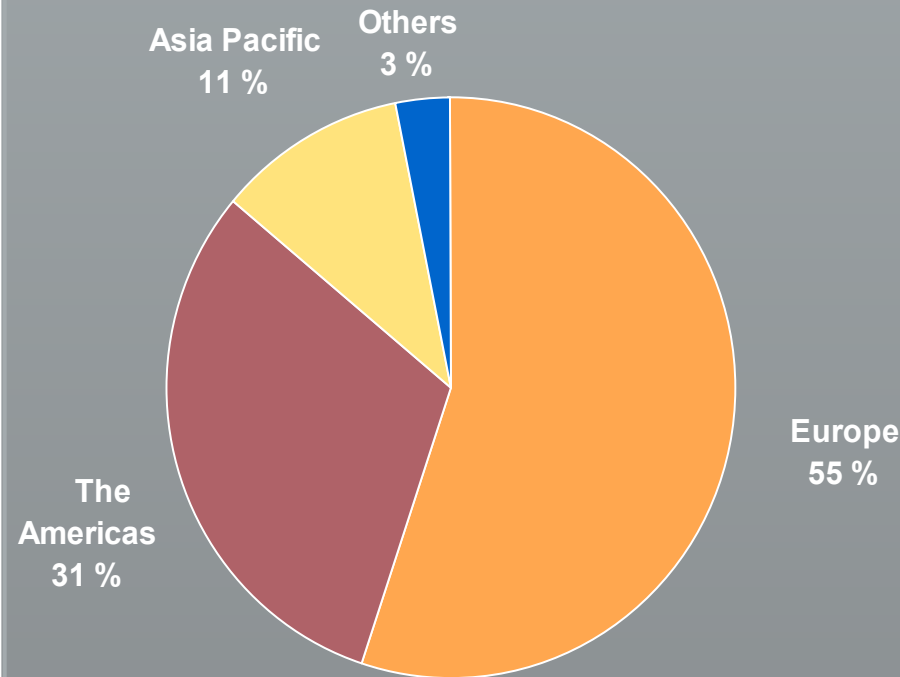
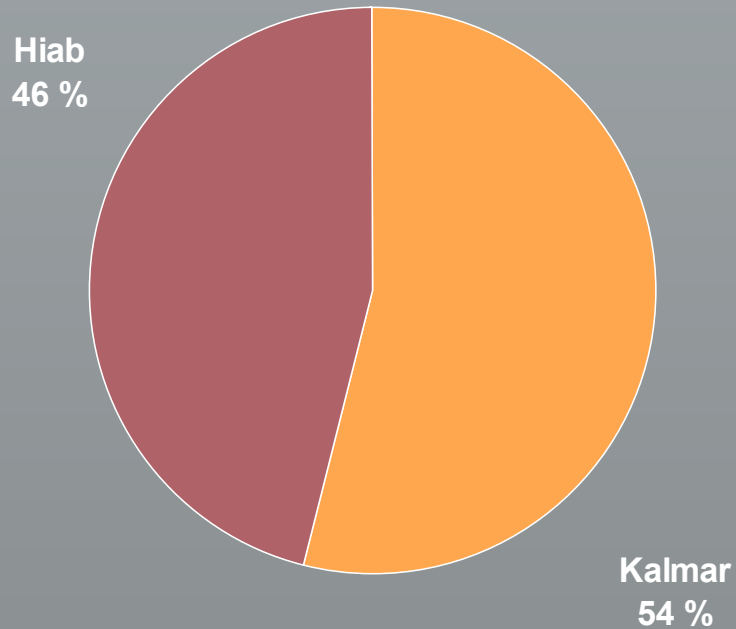
# Global container and cargo-handling markets

	Total world market	Kone Cargotec's market position
<b>Kalmar</b>		
Ports and terminals		
Distribution and logistic centers	over EUR 4 billion	1.
Heavy industry		
<b>Hiab</b>		
Loader cranes		
Demountables	EUR 3 billion	1.
Truck-mounted forklifts		
Tail lifts		
Forest cranes		

Figures based on analysts' estimates and publicly disclosed sales figures.



# 2003 net sales by business area and market region



# Key figures

## Kone Cargotec

M€	2003 IFRS	2003 FAS	2002 FAS	2001 FAS
Orders received	1,482	1,482	1,336	1,405
Order book	474	425	302	325
Sales	1,364	1,335	1,341	1,539
Operating income before goodwill amortization (EBITA)	77	75	45	87
Operating income before goodwill amortization (EBITA), %	5.6	5.6	3.4	5.7
Cash flow from operating activities before financial items and taxes	136	114	88	155
Working capital	199	240	262	285
Tangible fixed assets	173	131	148	158

Figures are unaudited pro forma figures, and may change in connection with the proposed demerger plan.

# Structural changes have increased operational efficiency

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- Concentration on assembly, distribution, service business, product development and automation
  - Centers of excellence for each product
  - The supply structure has been systematically developed and the number of production facilities reduced by 20
  - Outsourced production of components and globalized purchasing
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- Improved competitiveness
  - Increased flexibility
  - Less capital employed

# Future in two growth businesses

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- World trade drives container traffic growth
- Proven ability to develop products that enhance efficiency
- Growing service market
- Comprehensive partnership approach with life-cycle support and full maintenance services



- Road transports drives growth
- The growth in local distribution increases need for more efficient load handling
- Growth opportunities in developing market areas
- New applications create growth

# Kone Cargotec invests in China

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- New assembly plant in the Shanghai area
  - An optimal location as Shanghai has become the most important port area in China
  - Will comprise about 7,000 m<sup>2</sup> in factory and office buildings on a property of approximately 50,000 m<sup>2</sup>
  - Assembly of terminal tractors is planned to start by the end of 2005
  - The new plant will also be an important step in Kalmar's aim to penetrate the Asian Rubber Tired Gantry Crane (RTG) market
- The assembly plant will primarily serve the Asian container-handling equipment market
  - The fastest growing area for most Kalmar products.
- The value of the investment will amount to approximately USD 10 million.

# Long-term targets

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- Operating profit margin of over 8 percent
- Strong organic growth and growth through acquisitions