

Stock Exchange Release



27 January, 2006

KONE Corporation Pro Forma Review: January–December 2005

Strong Order Intake Continued

- Kone Corporation demerged into two separately listed corporations, KONE Corporation and Cargotec Corporation, on 1 June 2005. This pro forma review presents KONE's January–December 2005 financial performance according to the business and corporate structure prevailing after the demerger.
- The official Report for the period June–December, 2005 is released in conjunction with this report. The Board of Directors proposes a dividend of EUR 1.00 per class B share
- Fourth quarter order intake continued strong both in new equipment and modernizations in all market areas.
- Fourth quarter net sales exceeded our expectations because of the completion of a high number of projects at the end of the year. This also boosted operating income slightly over last year's level. As a result, cash flow was strong.
- In 2006, KONE's target is to achieve, at comparable exchange rates, an approximately 10 percent increase in net sales, compared to the 2005 pro forma figure. This is supported by the strong order intake in 2005. Order intake growth, however, is not expected to achieve the 2005 level. The operating income (EBIT) target is to achieve growth of approximately 20 percent from the comparable 2005 pro forma figure of EUR 272 million.

Key Figures

		10-12/2005	10-12/2004**	1-12/2005	1-12/2004**
Orders	MEUR	700.4	568.5	2,639.2	2,135.8
Order book	MEUR	2,326.8	1,796.1	2,326.8	1,796.1
Sales	MEUR	1,008.4	896.0	3,242.2	2,894.5
Operating income	MEUR	94.1	92.3	272.0*	234.6
Cash flow from operations (before financial items and taxes)	MEUR	111.4	123.2	329.4	289.0
Net income	MEUR	54.7	63.5	108.8	164.0
Net debt	MEUR	99.3	-61.4	99.3	-61.4
Total equity/total assets	%	31.2	35.2	31.2	35.2
Gearing	%	14.8	-8.4	14.8	-8.4

* Excluding a MEUR 89.2 provision for the development and restructuring program. Operating income in 2005 including the provision was MEUR 182.8.

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



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

“We are very satisfied with the progress of our change programs and the numerous small wins that we already achieved in 2005. KONE’s business developed positively, and our order intake rose in all geographical markets. We are particularly pleased with the strong order intake in Asia. “

“We are gradually becoming more customer focused. Simultaneously our product and service portfolios are improving, and we have also started several productivity development projects.”

“KONE achieved faster than market growth already in 2005. As a result of strong sales growth and a slight improvement in operating margin, our operating profit development was also better than we had expected at the beginning of the year. I want to thank KONE’s committed personnel for the good work done in 2005.”

Analyst and Media Conference and Conference Call

A meeting for the media and analysts will be held on Friday 27 January, 2006 at 2:00 p.m. Finnish time at KONE Building, address Keilatasama 3, Espoo.

A telephone conference for analysts and investors, conducted in English, will begin at 4:00 p.m. Finnish time and will also be available as live audio web cast on the company website. Callers may access the conference directly at the following telephone numbers: +1-617-213-8845 (US callers) or +44-20-7365-8426 (Non-US callers), password: KONE Corporation. On demand copy of the conference will be available on the company website later the same day.

This pro forma review is unaudited.

Sender:

KONE Corporation

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KONE is one of the world’s leading elevator and escalator companies. It provides its customers with industry-leading elevators and escalators and innovative solutions for their maintenance and modernization. KONE also provides maintenance of automatic building doors. KONE has annual net sales of approximately EUR three billion and about 27,000 employees. Its class B shares are listed on the Helsinki Exchanges.

www.kone.com

Market Development, Order Intake and Order Book

During January–December 2005, order intake, excluding the value of maintenance contracts, totaled EUR 2,639 (2004: 2,136) million. Growth was nearly 24 percent. The good order intake was a result of the improved product portfolio and increased sales activity. Currency rate changes did not significantly affect the growth rate. At the end of December, the order book was at a record high of EUR 2,327 (1,796) million. At comparable exchange rates, the growth was 21 percent. The average order book margin differed only slightly from the one at the end of year 2004.

In Europe, the Middle East and Africa (EMEA), the overall market for new equipment grew moderately, but development differed from one country to another. Overall demand in the residential sector was at a good level, and KONE was especially successful in this customer segment. The office-building sector remained weak, except in the U.K., where it was good. The high-rise market in the Middle East remained strong. KONE's new equipment order intake in EMEA grew substantially, buoyed especially by growth in the U.K., Italy and the Netherlands. Modernization demand continued to improve, partly due to the European Safety Norms for Existing Lifts (SNEL).

Demand in North America continued to show solid growth. KONE benefited from success in the growing machine-room-less elevator market, boosted by the apartment building, office and public transportation sectors. The impact of higher oil prices and natural catastrophes caused some market uncertainty in the U.S.A. KONE achieved strong order intake growth both in new equipment and modernizations.

In the Asia-Pacific region, the market for new equipment continued strong in all major areas. Particularly China and India contributed to KONE's extraordinarily strong new equipment order intake growth. KONE benefited from recent additions to its product portfolio targeted for the Asian markets as well as from a strengthened sales network.

In the EMEA and the Asian-Pacific regions, price competition for new equipment orders remained though. Price pressure was relatively unchanged in North America after easing somewhat during the first half of the year. The maintenance market showed steady growth globally, but prices continued to be under pressure.

Net Sales

During January–December 2005, net sales totaled EUR 3,242 (2,895) million. Net sales increased 12 percent. Currency rate changes did not significantly affect the growth rate. New equipment sales accounted for EUR 1,301 (1,130) million of the total, i.e. 40 (39) percent and service for EUR 1,942 (1,765) million, i.e. 60 (61) percent. Modernizations posted strong growth, and maintenance grew steadily.

Net sales grew in all market areas.



Sales by market area MEUR	10-12/2005	%	10-12/2004	%	1-12/2005	%	1-12/2004	%
EMEA*	670.1	67	605.4	68	2,149.4	66	1,904.0	66
Americas	215.8	21	180.1	20	696.8	22	628.9	22
Asia Pacific	122.5	12	110.5	12	396.0	12	361.6	12
Total	1,008.4		896.0		3,242.2		2,894.5	

* EMEA = Europe, Middle East, Africa

The number of elevators and escalators under service contract amounted to more than 575,000 (550,000) units, of which more than 440,000 (420,000) are in Europe, slightly over 90,000 (90,000) in North America and approximately 40,000 (35,000) in the Asia-Pacific region.

Income and Balance Sheet

During January–December 2005, KONE’s operating income, excluding the EUR 89.2 million provision for the development and restructuring program described below, was EUR 272.0 (234.6) million, representing 8.4 (8.1) percent of net sales. Operating income, including the EUR 89.2 million provision, was EUR 182.8 million. A large number of elevator and escalator installations were completed particularly during the last months of the year. Net income amounted to EUR 108.8 (164.0) million.

Net debt amounted to EUR 99.3 (–61.4) million at the end of the period. The total equity/total assets ratio was 31.2 (35.2) percent, and gearing was 14.8 (–8.4) percent. The change in net debt was partly due to demerged Kone Corporation’s capital gains taxes from divested operations and dividend payments, in addition to KONE’s buy-back of own shares.

Net Working Capital and Cash Flow

At the end of December, net working capital was negative at EUR –158.0 (–180.0) million. During January–December 2005, cash flow from operations (before financial items and taxes) totaled EUR 329.4 (289.0) million.

Development and Restructuring Program

In order to improve the cost-competitiveness of KONE’s supply chain and its products, a development and restructuring program was initiated in March, prior to the demerger. The total one-time operating income impact of the program of EUR 89.2 million, was provided for in the accounts of the demerged Kone Corporation and transferred to the new KONE Corporation. The main actions of the development and restructuring program were completed by the end of 2005.

Negotiations in the electrification component unit in the U.K. were concluded during the second quarter, and production was closed down by the end of 2005. Production was moved to the facilities in Italy and Finland.



Regarding the production escalator facility in Germany, negotiations were concluded in September, and production was closed down by the end of the month. During the negotiations, different alternatives were evaluated, but no alternative solution was found to discontinuing production. The German facility is carrying on as KONE's Global Escalator Technology and Service Business Center. KONE's standard escalator production is now mainly concentrated in China, which represents roughly half of the global escalator market.

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

Capital Expenditure and Product Development

During January–December 2005, capital expenditure totaled EUR 80.5 (46.6) million, including the completion of full ownership of the KONE Building in Espoo, Finland. In addition, acquisitions accounted for EUR 93.2 (79.0) million.

Research and Development expenditures totaled EUR 41.4 (41.0) million or 1.3 (1.4) percent of net sales. In order to improve its position in Asia, KONE strengthened its R&D operations in China and India.

In 2005, KONE focused on developing its product portfolio in order to maximize accessible markets. Measures to broaden the product range to meet differing regional demand and improve competitiveness continued successfully throughout the year. In addition, KONE is building up the supply chain process for its counterweight-less KONE MaxiSpace™ solutions in order to support KONE's order and installation volumes for modern-izations across Europe in 2006.

Personnel

KONE had 27,238 (25,262) employees at the end of 2005. The average number of employees during the period was 26,405 (24,315). The increases are mainly due to acquisitions in India and Thailand, and expanded operations in China.

Acquisition and Cooperation Agreements

KONE continued its acquisition activity in order to strengthen its position in growth markets and increase the density of its maintenance base. Most of the acquired companies were local elevator or door service companies. In total, acquisitions accounted for EUR 93.2 (79.0) million in capital expenditure.

In February 2005, KONE and Giant Elevator Co. Ltd of China agreed to form a joint venture, Giant Kone Elevator Company Ltd, which was founded during the second quarter. KONE owns 40 percent of Giant Kone, and Giant Elevator owns 60 percent. KONE has an option to increase its shareholding to more than 50 percent.



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

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

In December, KONE signed an agreement to acquire an 80 percent shareholding in Fuji Lift & Escalator of Malaysia. Fuji's current management will hold the remaining 20 percent. The addition of Fuji's operations makes KONE one of the market leaders in both new equipment and service in Malaysia.

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

Other Significant Events

On 10 October, 2005 KONE received a Statement of Objections from the European Commission concerning its investigation of localized anticompetitive practices in the elevator and escalator industry in Belgium, Germany, Luxemburg and the Netherlands. KONE has cooperated fully with the European Commission since the initiation of the investigation in January 2004. The company will submit its reply to the Statement of Objections during the first quarter of 2006.

Outlook for 2006

At comparable exchange rates, KONE's target is to achieve an approximately 10 percent increase in 2006 net sales, compared to the 2005 pro forma figure. This is supported by the strong 2005 order intake. Order intake growth, however, is not expected to achieve the 2005 level. The operating income (EBIT) target is to achieve growth of approximately 20 percent from the comparable 2005 pro forma figure of EUR 272 million.



Pro forma consolidated statement of income

MEUR	10-12/2005	%	10-12/2004**	%	1-12/2005*	%	1-12/2004**	%
Sales	1,008.4		896.0		3,242.2		2,894.5	
Costs and expenses	-899.9		-788.5		-3,000.4		-2,601.5	
Depreciation	-14.4		-15.2		-59.0		-58.4	
Operating income	94.1	9.3	92.3	10.3	182.8	5.6	234.6	8.1
Share of associated companies' income	0.3		0.6		1.5		1.3	
Financing income and expenses	-1.6		-1.1		-6.4		-2.7	
Income before taxes	92.8	9.2	91.8	10.2	177.9	5.5	233.2	8.1
Taxes	-38.1		-28.3		-69.1		-69.2	
Net income	54.7	5.4	63.5	7.1	108.8	3.4	164.0	5.7
Net income attributable to:								
Shareholders of the parent company	55.2		63.4		110.2		163.9	
Minority interests	-0.5		0.1		-1.4		0.1	
Total	54.7		63.5		108.8		164.0	

* Including a MEUR 89.2 provision for the development and restructuring program. Operating income excluding the provision was MEUR 272.0.

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

Basic earnings per share for
profit attributable to the shareholders
of the parent company

EUR	0.44	0.51	0.87	1.33
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Pro forma consolidated balance sheet

Assets

MEUR	31 Dec, 2005	31 Dec, 2004
Non-current assets		
Intangible assets	551.6	500.2
Tangible assets	217.7	186.8
Loans receivable and other interest-bearing assets	53.1	77.1
Other non interest-bearing assets	130.1	97.7
Investments	157.2	158.4
Total	1,109.7	1,020.2
Current assets		
Inventories	120.7	130.3
Loans receivable and other interest-bearing assets	0.6	0.8
Accounts receivable and other non interest-bearing assets	706.7	658.4
Cash and bank	206.8	255.1
Total	1,034.8	1,044.6
Total assets	2,144.5	2,064.8

Equity and liabilities

MEUR	31 Dec, 2005	31 Dec, 2004
Equity	669.2	726.8
Non-current liabilities		
Loans	144.2	139.1
Deferred tax liabilities	24.7	10.6
Employee benefits	148.9	141.4
Total	317.8	291.1
Provisions	112.0	124.8
Current liabilities		
Loans	215.6	132.5
Accounts payable and other liabilities	829.9	789.6
Total	1,045.5	922.1
Total equity and liabilities	2,144.5	2,064.8



Pro forma Consolidated Statement of Changes in Equity

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Retained earnings	Minority interests	Total equity
1 Jan, 2005	63.7	91.6	11.0	-1.7	539.6	22.6	726.8
Dividends paid					-127.3		-127.3
Issue of shares (option rights)	0.2	4.8					5.0
Purchase of own shares					-21.9		-21.9
Sales of own shares							-
Cash flow hedge			-16.1				-16.1
Change in translation differences				11.8			11.8
Change in minority interests						-18.4	-18.4
Option and share based compensation					0.5		0.5
Net income for the period					110.2	-1.4	108.8
31 Dec, 2005	63.9	96.4	-5.1	10.1	501.1	2.8	669.2

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

Pro forma consolidated cash flow

MEUR	2005	2004
Operating income	182.8	234.6
Change in working capital	87.6	-4.0
Depreciation	59.0	58.4
Cash flow from operations	329.4	289.0
Cash flow from financial items and taxes	-163.4	-55.3
Cash flow from operating activities	166.0	233.7
Cash flow from investing activities	-182.5	-125.6
Purchase and sales of own shares	-21.9	60.0
Share issue	5.0	4.8
Dividends paid	-127.3	-125.1
Change in net debt	-160.7	47.8
Net debt in the beginning of period	-61.4	-13.6
Net debt in the end of period	99.3	-61.4
Change in net debt	-160.7	47.8

Key figures		1-12/2005	1-12/2004
Basic earnings per share	EUR	0.87	1.33
Equity per share	EUR	5.24	5.53
Interest bearing net debt	MEUR	99.3	-61.4
Total equity/total assets	%	31.2	35.2
Gearing	%	14.8	-8.4
Return on equity	%	15.6	24.3
Return on capital employed	%	18.3	23.1
Total assets	MEUR	2,144.5	2,064.8
Assets employed	MEUR	768.5	665.4
Working capital (including financing and tax items)	MEUR	-158.0	-180.0

Sales by market area MEUR	1-12/2005	%	1-12/2004	%
EMEA*	2,149.4	66	1,904.0	66
Americas	696.8	22	628.9	22
Asia Pacific	396.0	12	361.6	12
Total	3,242.2		2,894.5	

* EMEA = Europe, Middle East, Africa

Orders received MEUR	1-12/2005	1-12/2004
	2,639.2	2,135.8

Order book MEUR	31.12.2005	31.12.2004
	2,326.8	1,796.1

Capital expenditure MEUR	1-12/2005	1-12/2004
In fixed assets	47.5	41.9
In leasing agreements	10.0	4.7
Total	57.5	46.6

Expenditure for R&D MEUR	1-12/2005	1-12/2004
	41.4	41.0
Expenditure for R&D as percentage of sales	1.3	1.4

Number of employees	1-12/2005	1-12/2004
Average	26,405	24,315
In the end of the period	27,238	25,262

Pro forma notes

Commitments

MEUR	31.12.2005	31.12.2004
Mortgages		
Group and parent company	30.7	0.7
Pledged assets		
Group and parent company	5.8	11.4
Guarantees		
Associated companies	2.0	18.4
Others	23.6	18.8
Operating leases	118.9	89.5
Total	181.0	138.8

The future minimum lease payments under non-cancellable operating leases

	31.12.2005	31.12.2004
Less than 1 year	31.2	23.1
1-5 years	72.2	53.4
Over 5 years	15.5	13.0
Total	118.9	89.5

Derivatives

	Positive fair value	Negative fair value	Net fair value	Net fair value
Fair values of derivative financial instruments MEUR	31.12.2005	31.12.2005	31.12.2005	31.12.2004
FX Forward contracts	10.8	16.9	-6.1	22.6
Currency options	0.0	0.0	0.0	0.2
Cross-currency swaps	32.6	0.0	32.6	39.1
Interest rate swaps	-	-	-	-0.8
Electricity derivatives	0.7	0.0	0.7	0.0
Total	44.1	16.9	27.2	61.1

Nominal values of derivative financial instruments MEUR

	31.12.2005	31.12.2004
FX Forward contracts	859.3	1,608.4
Currency options	7.4	86.3
Cross-currency swaps	173.8	173.8
Interest rate swaps, due under 1 year	-	75.0
Interest rate swaps, due in 1-3 years	-	0.0
Electricity derivatives	2.4	2.6
Total	1,042.9	1,946.1



Quarterly figures

		Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Orders received	MEUR	700,4	646.4	688.3	604.1	568.5	505.3	543.7	518.3
Order book	MEUR	2 326,8	2,371.7	2,264.7	2,023.1	1,796.1	1,938.6	1,959.5	1,907.5
Sales	MEUR	1 008,4	801.4	783.1	649.3	896.0	746.3	695.1	557.1
Operating income	MEUR	94,1	78.1	60.8	39.0*	92.3**	72.4	42.5	27.4
Operating income %		9,3	9.7	7.8	6.0*	10.3**	9.7	6.1	4.9

* Excluding MEUR 89.2 provision for the development and restructuring program

** Disregarding MEUR 15.3 non-recurring income due to a provision reversal regarding disability pensions

Shares and shareholders

31 December, 2005	A shares	B shares	Total
Number of shares*	19,052,178	108,803,262	127,855,440
Own shares in possession**		774,840	
Share capital, EUR			63,927,720
Market capitalization, MEUR			4,261
Number of shares traded, million, 6-12/2005***		43.2	
Value of shares traded, MEUR, 6-12/2005***		1,116	
Number of shareholders	3	13,451	13,451
	Close	High	Low
Class B share price, € 6-12/2005***	33.53	33.90	21.55

* On 28 November, 2005 the shares were split at ratio of two-for-one

** During the accounting period 1 June–31 December, 2005, KONE Corporation purchased a total of 374,840 own class B shares. In addition, relating to the shares-based incentive plan, a company included in the consolidated financial statements acquired 400,000 KONE class B shares in December 2005.

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