27 January, 2006

KONE Audited Financial Statements for the Accounting Period 1 June–31 December 2005

Board of Directors' Report

Kone Corporation demerged into two separately listed corporations, KONE Corporation and Cargotec Corporation, on 1 June, 2005. This report presents the financial performance of KONE Corporation as of the demerger date, for the period June–December 2005. Hereafter, KONE's reporting period will follow the calendar year.

In order to facilitate the evaluation of the financial performance and status of the company, a separate pro forma review for year 2005 is published. The unaudited pro forma information has been compiled according to the business and corporate structure prevailing after the demerger. The pro forma review describes the development of the market, the business and the financial performance compared to year 2004.

Financial Performance

KONE's net sales during the reporting period 1 June–31 December, 2005 totaled EUR 2,101 million. Operating income was EUR 194.7 million, representing 9.3 percent of net sales. KONE's operations for the period under review met the targets that had been set. A large number of elevator and escalator installations were completed particularly during the last months of the year. Net income amounted to EUR 124.0 million, and diluted earnings per share equaled EUR 0.97. The Board proposes a dividend of EUR 1.00 for each outstanding class B share and EUR 0.99 for each class A share.

Order intake during the reporting period, excluding the value of maintenance contracts, totaled EUR 1,622 million. At the end of December, the order book stood at EUR 2,327 million. Order intake was good in all market areas, with North America and China posting extra-ordinarily strong growth, but good results were also achieved in many European countries.

Cash flow from operations (before financial items and taxes) totaled EUR 215.4. At the end of December, net working capital was negative at EUR –158.0 million. Capital expenditure totaled EUR 29.4 million. The high installation volume during the last months reduced the amount of work in progress. Payment collection was efficient, reducing accounts receivable and improving cash flow.

At the end of December, KONE's net debt amounted to EUR 99.3 million. Total equity as a share of total assets was 31.2 percent, and gearing was 14.8 percent. Total assets amounted to EUR 2,145 million, and assets employed totaled EUR 768.5 million.

KONE had 27,238 employees at the end of the period. The average number of employees during the period June–December 2005 was 27,016.

Market Review

Demand for new equipment continued strong in Asia, and the North American market picked up some, with demand shifting from hydraulic to machine-room-less technology. The European market, which is more mature than the Asian market, remained fairly unchanged.

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 for the residential sector was at a good level while the office-building sector remained weak in most major countries except the U.K. The high-rise market in the Middle East remained strong. The service market, including maintenance and modernizations, improved; modernization order intake showed strong growth.

As a result of the improved U.S. economy, demand for new equipment and modernizations in North America continued to be at a good level, boosted by the apartment building, office building and public transportation markets. The impact of higher oil prices and natural catastrophes caused some market uncertainty in the U.S. KONE benefited from the growing machine-room-less elevator market, which continued to gain ground. The maintenance market also showed stable growth.

In the Asia-Pacific region, the market for new equipment continued to be good. All major markets contributed to KONE's extraordinarily strong new equipment order intake. KONE clearly benefited from extensions to its product portfolio targeted for the Asian markets, as well as from strengthened sales network. In addition, acquisitions contributed to growth. As a result of the rapid growth of the installed base, particularly in China, maintenance demand grew rapidly, but the maintenance market is still relatively small.

In the EMEA and the Asian-Pacific regions, new equipment pricing remained intense. In Europe, the continuing trend of large customers bundling maintenance contracts for their entire equipment base increased pricing competition. In Asia, the escalator-pricing environment in particular was adversely affected by continuing production capacity increases in China. In North America, price pressure was relatively unchanged after easing somewhat during the first half of the year. Maintenance pricing continued to be under pressure globally.

Net Sales

Net sales in June–December 2005 totaled EUR 2,101 million. Europe, the Middle East and Africa (EMEA) accounted for 66 percent, North America for 22 percent and Asia-Pacific for 12 percent of net sales.

New equipment net sales were EUR 883.9 million, or 42 percent of the total sales. Net sales from services totaled EUR 1,218 million, or 58 percent of total sales, including building door maintenance sales of EUR 109.0 million.

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

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 of the calendar year, 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

Capital expenditure totaled EUR 29.4 million. In addition, acquisitions accounted for EUR 37.1 million.

Research and Development expenditures totaled EUR 24.7 million or 1.2 percent of net sales. In order to improve its position in Asia, KONE strengthened its R&D operations in China and India.

KONE also focused on developing its product portfolio in order to maximize accessible markets. During the reporting period, measures to broaden the product range to meet differing regional demand and improve competitiveness continued successfully. In addition, KONE is building up the supply chain process for its counterweight-less KONE MaxiSpace™ solution in order to support KONE's order and installation volumes across Europe in 2006.

Acquisitions and Cooperation Agreements

KONE continued to make acquisitions 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. Capital expenditure for acquisitions totaled EUR 37.1 million.

The KONE and Toshiba Elevator and Building Systems Corporation (TELC) joint venture for escalator production in China launched its first escalator product for the Chinese market during the autumn and to other markets in Asia at the end of the year. KONE owns 70 percent of the new company, and TELC owns 30 percent.

The process of establishing a joint venture between KONE and Russia’s premier elevator company, Karacharovo Mechanical Factory (KMZ), is proceeding. Finalization of the joint-venture agreement will follow approval by the appropriate authorities.

European Commission Investigation

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.

Possible Operational Risks

KONE’s business activities are exposed to possible risks, of which the most significant are fluctuations in currency rates and increases in raw material prices and personnel costs. Fluctuations in currency rates have an impact on the consolidated figures while increases in raw material and personnel costs might weaken the result. In addition, relocation and concentration of the production network in order to improve cost-competitiveness of the products requires a stable business environment.

KONE Shareholders’ Meetings and Board of Directors

KONE Corporation’s Extraordinary Shareholders’ Meeting was held in Helsinki on 17 June, 2005. The Extraordinary Shareholders’ Meeting decided to raise the number of members of KONE Corporation’s Board of Directors to eight and elected Reino Hanhinen as a new member of the Board in accordance with the Nomination Committee’s proposal. The other members of the Board are Antti Herlin (Chairman), Sirkka Hämäläinen-Lindfors (Vice Chairman), Matti Alahuhta, Jean-Pierre Chauvarie, Masayuki Shimono, Gerhard Wendt and Iiro Viinanen.

In addition, the Board of Directors’ proposal that the Annual General Meeting authorize the Board of Directors to repurchase KONE’s own shares with assets distributable as profit was approved. Altogether no more than 6,367,000 shares may be repurchased, of which no more than 952,000 are class A shares and 5,415,000 are class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of own shares that the company is allowed to possess. The proposed amount corresponds to nearly 10 percent of both the share capital and total voting rights of the company.

The Board of Directors was authorized to decide to whom and in which order the repurchased shares will be distributed. The repurchased shares may be used as compensation in acquisitions and in other arrangements in the manner and to the extent decided by the Board of Directors.

These authorizations shall remain in effect for a period of one year from the date of decision of the Extraordinary Shareholders' Meeting.

KONE Corporation's Extraordinary Shareholders' Meeting in Helsinki on 21 November, 2005 approved the Board proposal that the number of the company's shares be increased (share split) in proportion to the holdings of the shareholders by doubling the number of shares from 63,867,465 to 127,734,930 shares without increasing the share capital. As a result, each share with the an accounting par value of EUR 1.00 was at the time split into two shares with accounting par values of EUR 0.50.

The increase in the number of shares was entered into the Trade Register on 28 November, 2005. Trading of the split shares began on 29 November, 2005.

In addition, the Shareholders Meeting approved the Board's proposal that the number of shares that can be subscribed for with KONE 2005A and KONE 2005B option rights be increased in proportion to the split. The total accounting par value of shares to be subscribed and the total subscription price remain unchanged. As a result, one option right will entitle to subscription for six (6) class B shares at a price of EUR 8.04 per share.

The Shareholders' Meeting also approved the Board's proposal to issue new option rights to key personnel of the KONE group as well as to a wholly owned subsidiary of KONE Corporation.

Incentive Programs and Share Capital

KONE 2005A and KONE 2005B option rights are based on the option program 2004 of the demerged Kone Corporation. The option program includes approximately 250 key employees. The program was introduced in 2000, and the amount of option rights to be given was tied to the development of Kone's cumulative net income (after taxes) in 2001–2003.

The new option rights 2005A and 2005B have been entered into the book-entry system and listed on the main list of the Helsinki Stock Exchange as of 1 June, 2005. The share subscription price of KONE 2005A and 2005B option rights is EUR 8.04 per share. Each KONE 2005A and 2005B option right entitles to subscribe six KONE class B shares.

During the period under review 345,930 shares have been subscribed for with the 2005A and 2005B option rights, raising KONE's share capital to EUR 63.9 million, comprising 108,803,262 listed class B shares and 19,052,178 unlisted class A shares. The 2005A option rights remaining at the end of the accounting period entitle to subscription of 307,380 class B shares, and the remaining 2005B option rights to subscription of 655,200 class B shares.

The issuance KONE 2005C options for key personnel of the KONE group as well as a wholly owned subsidiary of KONE Corporation was approved by the Extraordinary Shareholders' Meeting on 21 November, 2005. The option program includes a maximum of 300 key employees and subsidiary directors globally. The purpose of the stock options is to encourage long-term efforts by key personnel to grow shareholder value and increase their commitment to the company by offering them an internationally competitive incentive program. The company's CEO, President and members of the executive board are not included in the program.

All 2,000,000 KONE 2005C option rights offered for subscription were subscribed, and the Board of Directors of KONE Corporation approved the subscriptions on 19 December, 2005. The maximum number of option rights per person has been limited to 8,000 shares. Each stock option entitles its owner to subscribe for one (1) class B share. The class B shares for which these stock options can be exchanged constitute no more than 1.56 percent of the company's total number of shares. The share subscription price for 2005C option rights is 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 to the time of share subscription, as per the dividend record date.

The share subscription period for 2005C option rights shall be 1 April, 2008–30 April, 2010. The share subscription period will begin only if 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. If these criteria decided by the Board of Directors have not been attained, stock options 2005C expire in the manner decided by the Board of Directors.

A share-based incentive plan for the company's senior management, consisting of approximately 35 individuals, was decides upon by the Board of Directors on 24 October, 2005. The potential reward is based on the growth in KONE's sales and operating profit for 2006 and 2007. 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 share ownership plan amounts to no more than 0.2 percent of the entire corporation's shares. The plan prevents participants from transferring the shares during the fifteen-month period following the termination of each earning period.

Repurchase of KONE Shares

During the reporting period, KONE Corporation repurchased 374,840 of its class B shares at the average price of EUR 27.18 (split-adjusted figures). In addition, relating to the share-based incentive plan, a company included in the consolidated financial statements acquired 400,000 KONE class B shares in December 2005 for a total of EUR 11.8 million. These shares are taken into account in the maximum number of own shares that can be purchased within the

Board's authorization approved by the Annual General Meeting. At the end of December, the group had 774,840 class B shares in its possession. The shares in the group's possession represent 0.7 percent of the total number of class B shares of the voting rights of the class B shares. This corresponds to 0.3 percent of the total voting rights.

At the end of the financial period, KONE's Board of Directors had no valid authorization to increase the share capital or to issue convertible bonds or option rights.

Annual General Meeting and Distribution of Profits

KONE's distributable equity as of 31 December, 2005 stands at EUR 487.8 million. The company's distributable equity on 31 December, 2005 totaled EUR 1,206 million, and net income from the accounting period under review was EUR 70.5 million. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.99 be paid for each class A share and EUR 1.00 for each outstanding class B share from retained earnings. The date of record for dividend distribution is 2 March, 2006, and it is proposed that dividends be paid on 9 March, 2006. If the Annual General Meeting of 27 February, 2006 approves the Board of Directors' proposal of profit distribution, the dividends will total EUR 127.3 million.

Ownership

On 5 April, 2005 an agreement was reached by Antti Herlin, Ilkka Herlin, Ilona Herlin and Niklas Herlin, the execution of which led to a change in the ownership structure of KONE Corporation. As a part of the announced reorganization, KONE Corporation was informed on 30 June, 2005 of the demerger of Security Trading Oy becoming effective, the exchange of shares by main shareholders in the new companies established in the demerger, and the share transactions carried out by Holding Manutas Oy with the companies that were created by the demerger. As a consequence of this reorganization, the shareholding in KONE Corporation controlled by Antti Herlin corresponded to 20.83 percent of the shares and 61.99 percent of the votes.

On 20 July, 2005, KONE announced a shareholders' agreement between the Kone Foundation and Antti Herlin. Under the agreement, the Kone Foundation has the right to recommend a candidate for KONE's Board of Directors to the Nomination Committee. The agreement will be applied during KONE's next annual general meeting to be held on 27 February, 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.

Helsinki, 27 January, 2006
KONE Corporation, Board of Directors

Consolidated Statement of Income

MEUR	1 Jun - 31 Dec, 2005	%
Sales	2,101.4	
Costs, expenses and depreciation	-1,906.7	
Operating Income	194.7	9.3
Share of associated companies' net income	0.9	
Financing income and expenses	-2.1	
Income before Taxes	193.5	9.2
Taxes	-69.5	
Net Income	124.0	5.9

Net Income attributable to:	
Shareholders of the parent company	124.8
Minority interests	-0.8
Total	124.0

Earnings per share for profit attributable to the shareholders of the parent company, EUR

Basic earnings per share, EUR	0.98
Diluted earnings per share, EUR	0.97

Consolidated Balance Sheet

Assets MEUR		31 Dec, 2005
Non-Current Assets		
Goodwill		497.9
Other intangible assets		53.7
Property, plant and equipment		217.7
Investments in associated companies		22.2
Shares		129.8
Available-for-sale investments		5.2
Non-current financial receivables	I	53.1
Deferred tax assets		130.1
Total Non-Current Assets		1,109.7
Current Assets		
Inventories		584.9
Advance payments received		-464.2
Accounts receivable		524.3
Deferred assets		148.6
Income tax receivables		33.8
Current financial receivables	I	0.6
Financial assets	I	93.3
Cash and bank	I	113.5
Total Current Assets		1,034.8
Total Assets		2,144.5

Equity and Liabilities MEUR		31 Dec, 2005
Capital and reserves attributable to the shareholders of the parent company		
Share capital		63.9
Share premium account		96.4
Fair value and other reserves		-5.1
Translation differences		9.9
Retained earnings		501.3
Total Shareholders' Equity		666.4
Minority interests		2.8
Total Equity		669.2
Non-Current Liabilities		
Loans	I	144.2
Deferred tax liabilities		24.7
Employee benefits		148.9
Total Non-Current Liabilities		317.8
Provisions		112.0
Current Liabilities		
Current portion of long-term loans	I	12.8
Other liabilities	I	202.8
Accounts payable		214.2
Accruals		557.0
Income tax payables		58.7
Total Current Liabilities		1,045.5
Total Equity and Liabilities		2,144.5

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	Retained earnings	Minority interests	Total equity
1 Jun, 2005	63.8	93.8	-2.2	0.0	397.9	22.9	576.2
Net income for the period					124.8	-0.8	124.0
Items booked directly into equity:							
Transactions with shareholders and minority shareholders:							
Dividends paid							-
Issue of shares (option rights)	0.1	2.6					2.7
Purchase of own shares					-21.9		-21.9
Sales of own shares							-
Change in minority interests						-19.3	-19.3
Cash flow hedge			-2.9				-2.9
Translation differences				15.2			15.2
Hedging of foreign subsidiaries				-7.1			-7.1
Tax impact of hedging				1.8			1.8
Option and share based compensation					0.5		0.5
31 Dec, 2005	63.9	96.4	-5.1	9.9	501.3	2.8	669.2

The retained earnings contains non-distributable earnings EUR 13.5 million, including the cumulative untaxed reserves less the deferred tax.

Consolidated Statement of Cash Flows

MEUR	1 Jun - 31 Dec, 2005
Cash receipt from customers	1,983.0
Cash paid to suppliers and employees	-1,767.6
Cash Flow from Operations	215.4
Interest received	5.8
Interest paid	-8.5
Dividends received	2.4
Other financial items	-3.0
Income taxes paid	-137.4
Cash Flow from Operating Activities	74.7
Capital expenditure	-29.4
Proceeds from sales of fixed assets	0.9
Acquisitions, net of cash	-37.1
Proceeds from divested operations, net of cash	0.0
Cash Flow from Investing Activities	-65.6
Cash Flow after Investing Activities	9.1
Change in current creditors, net	37.7
Proceeds from long-term borrowings	9.1
Repayments of long-term borrowings	-16.8
Purchases of own shares	-22.0
Sales of own shares	-
Share issue	2.8
Dividends paid	-
Other financing activities	0.0
Cash Flow from Financing Activities	10.8
Change in Net Cash	19.9
Cash and bank at the end of period	113.5
Translation difference	-1.0
Cash and bank in the beginning of period	92.6
Change in Net Cash	19.9

Reconciliation of Net Income to Cash Flow from Operating Activities	
Net Income	124.0
Depreciation	34.8
Income before Change in Working Capital	158.8
Change in receivables	-127.5
Change in payables	-21.1
Change in inventories	64.5
Cash Flow from Operating Activities	74.7

In drawing up the Statement of Cash Flows, 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.

Key figures		6-12/2005
Basic earnings per share	EUR	0.98
Diluted earnings per share	EUR	0.97
Equity per share	EUR	5.24
Interest bearing net debt	MEUR	99.3
Total equity/total assets	%	31.2
Gearing	%	14.8
Return on equity	%	34.1
Return on capital employed	%	36.4
Total assets	MEUR	2,144.5
Assets employed	MEUR	768.5
Working capital (including financing and tax items)	MEUR	-158.0

Sales by market area MEUR	6-12/2005	%
EMEA*	1,388.6	66
Americas	452.7	22
Asia Pacific	260.1	12
Total	2,101.4	

* EMEA = Europe, Middle East, Africa

Orders received MEUR	6-12/2005
	1,622.1

Order book MEUR	31.12.2005
	2,326.8

Capital expenditure MEUR	6-12/2005
In fixed assets	26.4
In leasing agreements	3.0
Total	29.4

Expenditure for R&D MEUR	6-12/2005
	24.7
Expenditure for R&D as percentage of sales	1.2

Number of employees	6-12/2005
Average	27,016
In the end of the period	27,238

Commitments

	31 Dec, 2005
Mortgages	
Group and parent company	30.7
Pledged assets	
Group and parent company	5.8
Guarantees	
Associated companies	2.0
Others	23.6
Operating leases	118.9
Total	181.0

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

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

The future minimum lease payments under non-cancellable operating leases	31 Dec, 2005
Less than 1 year	31.2
1-5 years	72.2
Over 5 years	15.5
Total	118.9

The aggregate operating lease expenses totaled EUR 18.5 million.

Derivatives

Fair values of derivative financial instruments	Positive fair value 31 Dec, 2005	Negative fair value 31 Dec, 2005	Net fair value 31 Dec, 2005
FX Forward contracts	10.8	16.9	-6.1
Currency options	0.0	0.0	0.0
Cross-currency swaps	32.6	0.0	32.6
Electricity derivatives	0.7	0.0	0.7
Total	44.1	16.9	27.2

Nominal values of derivative financial instruments	31 Dec, 2005
FX Forward contracts	859.3
Currency options	7.4
Cross-currency swaps	173.8
Electricity derivatives	2.4
Total	1,042.9

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.

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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.

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