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INTERIM REPORT FOR  
JANUARY-JUNE 2008

# KONE'S Q2: GOOD GROWTH IN ORDERS RECEIVED AND OPERATING INCOME CONTINUED

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## April-June

- In April-June 2008, the growth in orders received was 16%, or 22% at comparable exchange rates. Orders received was strong in all geographical regions and totaled EUR 1,092 (4-6/2007: 944.4) million.
- Net sales increased by 14% to EUR 1,142 (1,002) million. At comparable exchange rates, the growth was 20%.
- Operating income was EUR 136.7 (116.4) million or 12.0% (11.6%) of net sales.

## January-June

- In January-June 2008, orders received growth was 20%, or 26% at comparable exchange rates. Orders received totaled EUR 2,210 (1-6/2007: 1,847) million. At the end of June 2008, the order book was EUR 3,839 (Dec 31, 2007: 3,282) million.
- Net sales increased by 13% to EUR 2,047 (1,813) million. At comparable exchange rates, the growth was 18%.
- Operating income was EUR 223.2 (185.7) million or 10.9% (10.2%) of net sales (1-6/2007 figures exclude an expense of EUR 142.0 million related to the European Commission's fine decision).
- KONE adjusts its outlook for sales growth in 2008. KONE's target for 2008 is to achieve, at comparable exchange rates, a growth of more than 10% in net sales, compared to 2007. The operating income (EBIT) target is to achieve a growth close to 20% compared to the 2007 figure of EUR 473 million. This corresponds to an operating income (EBIT) margin of at least 12.0%.

## Key Figures

		4-6/2008	4-6/2007	1-6/2008	1-6/2007	1-12/2007
Orders received	MEUR	1,092.4	944.4	2,209.9	1,846.5	3,674.7
Order book	MEUR	3,838.7	3,318.0	3,838.7	3,318.0	3,282.3
Sales	MEUR	1,142.1	1,001.9	2,047.4	1,813.1	4,078.9
Operating income	MEUR	136.7	116.4	223.2	185.7 <sup>1)</sup>	473.2 <sup>2)</sup>
Operating income	%	12.0	11.6	10.9	10.2 <sup>1)</sup>	11.6 <sup>2)</sup>
Cash flow from operations (before financing items and taxes)	MEUR	118.9	-37.4	285.5	105.3	380.0
Net income	MEUR	98.8	82.9	162.7	-12.1	180.3
Basic earnings per share	EUR	0.39	0.33	0.65	-0.05	0.72
Interest-bearing net debt	MEUR	87.0	263.4	87.0	263.4	91.7
Total equity/total assets	%	30.0	24.1	30.0	24.1	31.7
Gearing	%	11.7	46.7	11.7	46.7	12.2

<sup>1)</sup> Excluding an expense of EUR 142.0 million related to the European Commission's fine decision.

<sup>2)</sup> Excluding an expense of EUR 142.0 million related to the European Commission's fine decision, a EUR 22.5 million provision for the Austrian Cartel Court's fine decision and a EUR 12.1 million profit from the sale of the KONE Building.

## KONE President & CEO, Matti Alahuhta, in conjunction with the review:

"I am very pleased with KONE's progress during the second quarter. KONE's development programs continued to bring excellent results. We are now much more customer focused and productive, which is supporting us in an increasingly demanding market environment. Our continued strong growth in orders received has further increased KONE's market share in many key markets. Our progress was particularly strong in the new equipment business in Asia-Pacific and in the Americas. Furthermore, the development was also good in the less cyclical service business."

## Accounting Principles

KONE Corporation's Interim Report for January 1–June 30, 2008 has been prepared in line with IAS 34, 'Interim Financial Reporting'. KONE has applied the same accounting principles in the preparation of the interim report as in its financial statements for 2007. The accounting principles for the financial statements have been presented in the Annual Report 2007 published on January 25, 2008. The information presented in this Interim Report has not been audited.

## April-June 2008 review

### Operating environment in April-June

In the second quarter of 2008, overall demand for new equipment continued to be at a relatively good level; however the market situation differed from market to market. The modernization market continued to provide good growth opportunities for KONE while the global maintenance market remained very competitive.

In the European, Middle East and African region (EMEA), the business environment was mixed. The North European market (especially in Scandinavia) experienced increasing hesitation in the residential sector. In the United Kingdom, the residential market continued to weaken, while the major project market was active. The overall Southern European market activity remained on the same level as before, however the residential sector continued to slow down in Italy and particularly in Spain. The Eastern European and Middle East construction markets continued to experience strong growth.

In the Americas, the new equipment market decreased somewhat in the United States because the commercial segment no longer compensated for the slowdown in the residential segment. Modernization remained at a relatively good level in the United States, while the maintenance market continued to be very competitive. The markets in Canada and Mexico were quite stable.

In the Asia-Pacific region, growth was strong in most markets. In China, the new equipment market continued to be active with high real estate investments growth. The demand for both residential and office buildings remained even though the investment climate index has been dropping since March 2008. Also, the Indian market continued to offer good growth opportunities for KONE. Order activity continued at a high level. In Australia, market activity shifted from the residential market to the commercial segment.

## Financial performance in April-June

KONE's orders received in the second quarter of 2008 increased by approximately 16% and totaled EUR 1,092 (4–6/2007: 944.4) million. At comparable exchange rates, the growth was approximately 22%. The growth in orders was strongest in the Asia-Pacific region. At the same time, orders received growth continued to be very strong in the Americas and was also good in Europe, especially in Eastern Europe and the Middle East. Only new equipment orders and modernization orders are included in orders received.

The largest orders received in the April-June period included an order for the Marina Bay Sands Integrated Resort in Singapore and an order to supply all elevators for the new Ministry of Justice and Internal Affairs building in the Hague, Netherlands.

KONE's net sales grew by 14% compared with April-June 2007 and totaled EUR 1,142 (1,002) million. At comparable exchange rates, the growth was 20%. Growth was strongest in Asia-Pacific.

New equipment sales accounted for EUR 549.1 (457.5) million of the total and represented an approximate growth of 20% over the comparison period. At comparable currency rates, the growth was approximately 26%.

Service sales (maintenance and modernization) increased by 9% and totaled EUR 593.0 (544.4) million. At comparable currency rates, the growth was approximately 14%.

Operating income for the April-June period totaled EUR 136.7 (116.4) or 12.0% (11.6%) of net sales. The intensive work done with the development programs continued to contribute to the good development of KONE.

KONE defined its vision and redefined its strategy at the end of 2007 to better respond to current changes in the business environment and to deepen the customer focus in all operations. In May 2008, KONE defined its new long-term financial targets. These new financial targets replace the targets set in May 2005. The new long-term objectives are: Growth: faster than market; Profitability: EBIT 14%; Cash flow: Improving working capital.

**Sales by geographical areas, MEUR**

	4-6/2008	%	4-6/2007	%	1-6/2008	%	1-6/2007	%	1-12/2007	%
EMEA <sup>1)</sup>	747.3	65	651.7	65	1,365.0	67	1,187.2	66	2,675.3	65
Americas	214.0	19	206.1	21	375.7	18	383.7	21	840.8	21
Asia-Pacific	180.8	16	144.1	14	306.7	15	242.2	13	562.8	14
<b>Total</b>	<b>1,142.1</b>		<b>1,001.9</b>		<b>2,047.4</b>		<b>1,813.1</b>		<b>4,078.9</b>	

<sup>1)</sup> EMEA = Europe, Middle East, Africa

**January-June 2008 review****KONE's operating environment in January-June**

In January-June 2008, the overall market situation was favorable for new equipment and modernization even though some markets softened. In the maintenance markets, where demand is by nature non-cyclical, growth continued while the overall market environment became increasingly competitive.

In Europe, the Middle East and Africa (EMEA), the business environment remained favorable. The new equipment market was especially good in Eastern Europe as well as in the Middle East. In the United Kingdom and Scandinavia, the residential market weakened, but the commercial market activity continued at a good level. In Southern Europe, the new equipment market remained fairly stable due to activity in the commercial segment, although the residential market continued to slow down in both Italy and especially in Spain. The modernization market, which is driven by the European Safety Norms (SNEL) and the need for upgrades resulting from the ageing of the existing equipment base, created favorable opportunities for KONE to grow.

In the Americas, the economic environment continued to weaken. The new equipment market decreased somewhat in the United States because the commercial segment no longer compensated for the slowdown in the residential segment. Overall construction activity in the United States has declined year on year. The building activity remained strongest in the Northeast, South Central and Western areas. Modernization remained at a relatively good level in the United States, while the maintenance market continued to be very competitive. The markets in Canada and Mexico were quite stable.

In the Asia-Pacific region, market growth was strong in most markets. Particularly, the new equipment market continued to grow fast. The Chinese and Indian markets sustained high growth levels. Market development in Southeast Asia was also encouraging. On the other hand,

the Australian residential market has weakened, but the activity in the commercial has been relatively good.

**Orders Received and Order Book**

In January-June 2008, KONE's orders received increased by approximately 20% and totaled EUR 2,210 (1-6/2007: 1,847) million. At comparable exchange rates, the growth was approximately 26%. Only new equipment and modernization orders are included in orders received. The growth in orders received was strongest in the Asia-Pacific region, but growth was also very good in the Americas and EMEA. High growth in orders received is a strong evidence of KONE's improving competitiveness.

The order book increased from the end of 2007 by 17% and stood at EUR 3,839 (Dec 31/2007: 3,282) million at the end of June 2008. As earlier, the margin of the order book continued to be at a good level.

In the EMEA region, most markets contributed positively to KONE's orders received in January-June 2008. KONE performed particularly well in the United Kingdom and the Middle East. KONE also showed good progress in the modernization market. KONE's orders received in modernization have been particularly good in France and Scandinavia.

In the Americas, KONE experienced a good order intake. KONE's advanced elevator and escalator solutions and improved competitiveness continued to increase customer awareness. In addition, improved customer focus has started to increasingly bring results.

In the Asia-Pacific region, KONE's new equipment order intake was exceptionally strong and continued to progress especially well in China and India.

**Net Sales**

In January-June 2008, KONE's net sales rose by approximately 13%, compared to last year, and totaled EUR 2,047 (1-6/2007: 1,813) million. Growth at comparable currency rates was approximately 18%.

New equipment sales accounted for EUR 932.5 (764.5) million of the total and represented an approximate



growth of 22% over the comparison period. At comparable currency rates, the growth was approximately 28%.

Service sales (maintenance and modernization) increased by 6% and totaled EUR 1,115 (1,049) million. At comparable currency rates, the growth was approximately 11%.

Of the sales, 67% (66%) were generated from EMEA, 18% (21%) by the Americas and 15% (13%) by Asia-Pacific. The weakened US dollar had an impact on the geographical sales mix. At comparable exchange rates, the Americas also had a positive sales growth.

### Financial Result

KONE's operating income was EUR 223.2 million (1-6/2007: 185.7 million, excluding an expense of EUR 142.0 million related to the European Commission's fine decision) or 10.9% (10.2% excluding an expense of EUR 142.0 million related to the European Commission's fine decision) of net sales. The strong growth was the result of sales growth, healthy sales margins and improved productivity. The rapid price growth in hot rolled steel and cast iron in May-June had some negative impact in June and is estimated to have an impact during the second half of the year. Net financing items were EUR -3.3 (-2.9) million. Operating income included EUR 5.9 (3.2) million other income which is related to earlier divested businesses.

KONE's income before taxes for January-June 2008 was EUR 220.7 (41.0) million. Taxes totaled EUR 58.0 (53.1) million, taking into account taxes proportionate to the amount estimated for the financial year. This represents an effective tax rate of 26.3%. In January-December 2007, the effective tax rate was 27.9% excluding the result impact of EUR -164.5 million relating to the fine decisions of the European Commission and the Austrian Cartel Court. Net income for the period under review was EUR 162.7 (-12.1) million.

Earnings per share were EUR 0.65 (-0.05). Equity per share was EUR 2.96 (2.24).

### Balance Sheet and Cash Flow

In January-June 2008, cash flow generated from operations (before financing items and taxes) was EUR 285.5 (1-6/2007: 105.3) million. At the end of June, net working capital was negative at EUR -150.8 (Dec 31, 2007: -121.8) million, including financing items and taxes.

At the end of June 2008, interest-bearing net debt totaled EUR 87.0 (Dec 31, 2007: 91.7) million, gearing was 11.7% (12.2%) and total equity/total assets ratio was 30.0% (31.7%).

### Capital expenditure, acquisitions and divestments

KONE's capital expenditure, including acquisitions, totaled EUR 64.7 (1-6/2007: 40.5) million. Capital expenditure, excluding acquisitions, was mainly related to R&D, IT and production. Acquisitions accounted for EUR 37.6 (16.5) million of this figure. Acquisitions made in January-June will have no material effect on the 2008 full-year figures.

In January-June, KONE acquired the French elevator company ARA Lyon. ARA Lyon maintains and modernizes elevators in the area of Lyon. KONE also acquired the Arundel Elevator Company, a full service elevator company based in Baltimore, Maryland, USA. This acquisition significantly increased KONE's customer base in Maryland and the neighboring Mid-Atlantic states. In addition, KONE acquired RPG Mantenimiento S.L., an elevator company based in Murcia, Spain. RPG maintains and modernizes elevators.

### Research and development

Research and development expenses totaled EUR 28.2 (1-6/2007: 25.4) million, representing 1.4% (1.4%) of net sales. R&D expenses include the development of new concepts and further development of existing solutions and services.

During the period under review, KONE's offering in space efficiency, performance and visual as well as eco-efficient features was expanded. A new system providing regenerative drive technology in modernization was also launched.

In addition, KONE launched in the first quarter of 2008 a next generation equipment monitoring system which is able, with an almost unlimited capacity, to monitor and manage large building complexes and geographically remote buildings from a single location. The system is easily integrated with a building's facility management systems.

### Personnel

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

KONE had 34,013 (December 31, 2007: 32,544) employees at the end of June 2008. The average number of employees was 33,301 (1-6/2007: 29,987). In the

period under review, most of the personnel growth was in the fastest growing markets such as Asia-Pacific and the Middle East. Additional recruitment in other markets was carried out mainly in installation and modernization operations due to growing volumes.

The geographical distribution of KONE employees was 56% (57%) in EMEA, 17% (18%) in the Americas and 27% (25%) in Asia-Pacific.

People Leadership is one of KONE's five development programs. KONE is increasingly investing in people development programs, personal coaching and change management.

### Environment

KONE aims to be a leader in eco-efficiency by further strengthening its product offering. The company is developing new volume elevator releases which will achieve significant progress in energy efficiency. The target is to reach a 50% improvement in this area by 2010.

KONE is also focusing on minimizing the carbon footprint of all its operations. Improvements cover manufacturing, logistics and installation throughout the product's entire life-cycle, including its modernization and maintenance.

Globally, KONE is increasingly requiring its suppliers to operate in an eco-efficient way. For instance, the ISO 14001 environmental standard and tighter environmental requirements are increasingly included in KONE's supplier contracts.

### Capital and Risk Management

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

Capital is managed in order to maintain a strong financial position and to ensure that the Group's funding needs can be optimized in a cost-efficient way even in a critical funding environment. In such a weak economic environment, a low debt level is a strength. KONE's philosophy is to take an aggregated view of share price development, dividends and the possible purchase of own shares as components of the total shareholder return.

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

Labor costs and related employment costs amount to approximately a third of sales. Inflation has had an impact on higher increases in salaries and wages worldwide. On

an annual basis, a one percentage increase represents approximately EUR 10–15 million.

A rise in raw material prices is reflected directly in the production costs of components made by KONE, such as doors and cars, and indirectly in the prices of purchased components. The price of oil also affects maintenance costs. Direct materials, supplies and other related direct costs represent more than a third of total sales.

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

### Appointment to the Executive Board

KONE appointed Anne Korkiakoski, M.Sc. (Econ) Executive Vice President, Marketing & Communications and Member of the Executive Board as of September 1, 2008. She will be responsible for KONE Corporation's Marketing, External and Internal Communications as well as Investor Relations.

### Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting in Helsinki on February 25, 2008 confirmed the number of members of the Board of Directors to be seven and the number of deputy members to be one. Re-elected as full members of the Board were Matti Alahuhta, Reino Hanhinen, Antti Herlin, Sirkka Hämäläinen-Lindfors, Sirpa Pietikäinen, Masayuki Shimonon and Iiro Viinanen, and as a deputy member Jussi Herlin. The term of the Board ends at the next Annual General Meeting.

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

The Annual General Meeting decided to amend the Articles of Association due to the new Companies Act, which entered into force on September 1, 2006. The new Articles of Association can be found at [www.kone.com](http://www.kone.com).

In addition, the Annual General Meeting decided to increase the number of shares in the company by issuing new shares to the shareholders without payment in proportion to their holdings so that one class A share was given for each class A share and one class B share was given for each class B share. The new shares were admitted to public trading and entered into the book-entry system on February 29, 2008.

The Annual General Meeting decided that the share subscription period for the 2005C option rights will begin on April 1, 2008. In addition, it was decided that EUR 0.25 of the subscription price to be paid for the new shares issued based on the 2005A, 2005B, 2005C, and 2007 option rights will be credited to the share capital, and that the remaining part will be credited to the paid-up unrestricted equity reserve. Due to the increase in the number of shares, the Annual General Meeting decided that the number of shares to be subscribed for based on the 2005A, 2005B, 2005C and 2007 option rights will increase, and the share subscription price will decrease in the same proportion.

In addition, the Annual General Meeting authorized the Board of Directors to repurchase KONE's own shares with assets distributable as profit. The shares may be repurchased in order to develop the capital structure of the Company, finance or carry out possible acquisitions, implement the Company's share-based incentive plans, or to be transferred for other purposes or to be cancelled. Altogether no more than 25,570,000 shares may be repurchased, of which no more than 3,810,000 may be class A shares and 21,760,000 class B shares.

The Annual General Meeting also authorized the Board of Directors to decide on the distribution of any shares repurchased by the company. The authorization is limited to a maximum of 3,810,000 class A shares and 21,760,000 class B shares. The Board shall have the right to decide to whom to issue the shares, i.e. to issue shares in deviation from the pre-emptive rights of shareholders.

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

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

PricewaterhouseCoopers Oy, Authorized Public Accountants and Heikki Lassila, APA, were re-elected as the Company's auditors.

## Dividend

The Annual General Meeting approved the Board's proposal for a dividend of EUR 1.29 for each class A share and EUR 1.30 for each outstanding class B share before the increase in the number of shares due to the share issue without payment. This amounted to EUR 163,619,671.52 for the financial year, which ended December 31, 2007. The date of the dividend payment was March 6, 2008.

## Share Capital and Market Capitalization

The KONE 2005A and KONE 2005B options based on the KONE Corporation option program 2005 were listed on the main list of the OMX Nordic Exchange Helsinki on June 1, 2005. Each option entitles its holder to subscribe for twelve (12) class B shares at a price of EUR 4.02 per share.

In 2005, KONE also granted a conditional option program, 2005C. The 2005C stock options were listed on the OMX Nordic Exchange Helsinki in Finland as of April 1, 2008. The total number of 2005C stock options is 2,000,000 of which 522,000 are owned by a subsidiary of KONE Corporation. Each option right entitles its owner to subscribe for two (2) KONE Corporation class B shares at a price of EUR 12.55 per share.

As of June 30, 2008, 1,916,104 shares have been subscribed for with the options, raising KONE's share capital to EUR 64,233,781.00. The share capital comprises 218,830,768 listed class B shares and 38,104,356 unlisted class A shares.

At the end of June 2008, the remaining number of shares that can be subscribed for was 4,700,916. The remaining 2005B options entitle their holders to subscribe for 707,916 and the remaining 2005C for 3,993,000 class B shares. The share subscription period for series A options ended on March 31, 2008. The share subscription period for series B and series C options will end on March 31, 2009, and April 30, 2010, respectively. As the 2005A options subscription period ended on March 31, 2008, all remaining series A options have been used and the shares were entered in the Finnish Trade Register in April.

In December 2007, KONE Corporation's Board of Directors decided to grant stock option rights to approximately 350 employees of the global organization of KONE based on the authorization granted by the Annual General Meeting on February 26, 2007. A maximum of 2,000,000 options in total can be granted. The share subscription period for stock option 2007 will be April 1, 2010–April 30, 2012. The share subscription period begins only if the average turnover growth of the KONE Group for the 2008 and 2009 financial years exceeds the market growth and if

the earnings before interest and taxes (EBIT) of the KONE Group for the financial year 2008 exceeds the EBIT for the 2007 financial year, and the EBIT for the 2009 financial year exceeds the EBIT for the 2008 financial year.

The share issue without payment approved by KONE Corporation's Annual General Meeting on February 25, 2008 was entered in the Trade Register on February 28, 2008. The share issue without payment has the same effect as a share split. The number of shares in the company was increased by issuing new shares to the shareholders without payment in proportion to their holdings so that one class A share was given for each class A share and one class B share for each class B share.

KONE's market capitalization was EUR 5,630 million as of June 30, 2008, disregarding own shares in the Group's possession.

### Share buy-back

On the basis of the Annual General Meeting's authorization, KONE Corporation's Board of Directors decided to commence repurchasing shares at the earliest on March 7, 2008.

During January 1–June 30, 2008 KONE did not use its authorization to repurchase its own shares. In April, 326,000 class B shares assigned to the share-based incentive plan for the the company's senior management were transferred from KNEBV Incentive Ky to the participants due to achieved targets for the financial year 2007. At the end of June, the group had 4,905,506 class B shares in its possession. The shares in the group's possession represent 2.2% of the total number of class B shares. This corresponds to 0.8% of the total voting rights.

### Shares traded on the OMX Nordic Exchange Helsinki

The OMX Nordic Exchange Helsinki traded 97.6 million (the number of shares has been adjusted to the increase in the number of shares due to the share issue without payment) KONE Corporation's class B shares in January–June, equivalent to a turnover of EUR 2,245 million. The daily average trading volume was 778,000 (1–6/2007: 840,096) (the numbers of shares have been adjusted to the increase in the number of shares due to the share issue without payment). The share price on June 30, 2008 was EUR 22.34. The volume weighted average share price during the period was EUR 23.76. The highest quotation during the January–June was EUR 27.87 and the lowest 18.77.

The number of registered shareholders at the beginning of the review period was 13,650 and 14,101 at its end. The number of private households holding shares totaled 12,656 at the end of the period.

According to the nominee registers, approximately 43.7% of the listed class B shares were owned by foreigners at June 30, 2008. Other foreign ownership at the end of the period totaled approximately 7%; thus a total of approximately 51.7% of the company's listed class B shares were owned by international investors, corresponding to approximately 19% of the total votes in the company.

### Flagging notifications

Tweedy Brown Company LLC (Reg. no. 801/10669) announced on April 30, 2008, pursuant to the Securities Markets Act chapter 2, section 9, that its holding in KONE Corporation was below five (5) % (1/20) of the share capital on March 9, 2007.

### Outlook

We estimate that the market continues to provide favorable opportunities for KONE to continue to grow in 2008 although market growth is weaker this year than in 2007, due to the weakened economic outlook.

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

### Previous outlook

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

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

Helsinki, July 22, 2008

KONE Corporation

Board of Directors



# CONSOLIDATED STATEMENT OF INCOME

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MEUR	4-6/2008	%	4-6/2007	%	1-6/2008	%	1-6/2007	%	1-12/2007	%
<b>Sales</b>	1,142.1		1,001.9		2,047.4		1,813.1		4,078.9	
Costs and expenses	-990.4		-871.4		-1,794.5		-1,741.1		-3,699.8	
Depreciation	-15.0		-14.1		-29.7		-28.3		-58.3	
<b>Operating income</b>	136.7	12.0	116.4	11.6	223.2	10.9	43.7	2.4	320.8	7.9
Share of associated companies' net income	0.4		0.4		0.8		0.2		1.7	
Financing income	1.9		5.7		7.5		9.1		16.6	
Financing expenses	-5.3		-6.8		-10.8		-12.0		-25.1	
<b>Income before taxes</b>	133.7	11.7	115.7	11.5	220.7	10.8	41.0	2.3	314.0	7.7
Taxes	-34.9		-32.8		-58.0		-53.1		-133.7	
<b>Net income</b>	98.8	8.7	82.9	8.3	162.7	7.9	-12.1	-0.7	180.3	4.4
<b>Net income attributable to:</b>										
Shareholders of the parent company	98.7		82.9		162.3		-12.0		180.1	
Minority interests	0.1		0.0		0.4		-0.1		0.2	
<b>Total</b>	98.8		82.9		162.7		-12.1		180.3	

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

Basic earnings per share	0.39	0.33	0.65	-0.05	0.72
Diluted earnings per share	0.39	0.33	0.64	-0.05	0.71

The result for the comparison period of 1-6/2007 includes an expense of MEUR 142.0 related to the European Commission's fine decision. In addition to this, the result for the comparison period of 1-12/2007 includes a MEUR 22.5 provision for the Austrian Cartel Court's fine decision and a MEUR 12.1 profit from the sale of the KONE Building.

# CONDENSED CONSOLIDATED BALANCE SHEET

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Assets MEUR	Jun 30, 2008	Jun 30, 2007	Dec 31, 2007
<b>Non-current assets</b>			
Intangible assets	644.2	619.9	630.4
Tangible assets	203.7	225.6	201.0
Loans receivable and other interest-bearing assets	1.7	2.9	1.7
Deferred tax assets	110.5	138.1	118.6
Investments	135.2	125.5	131.3
<b>Total non-current assets</b>	<b>1,095.3</b>	<b>1,112.0</b>	<b>1,083.0</b>
<b>Current assets</b>			
Inventories	896.6	825.9	773.2
Advance payments received	-842.5	-730.7	-694.6
Accounts receivable and other non interest-bearing assets	1,049.2	910.7	924.5
Current loans and receivables	121.5	116.9	118.9
Cash and cash equivalents	162.0	108.2	154.9
<b>Total current assets</b>	<b>1,386.8</b>	<b>1,231.0</b>	<b>1,276.9</b>
<b>Total assets</b>	<b>2,482.1</b>	<b>2,343.0</b>	<b>2,359.9</b>

Equity and liabilities MEUR	Jun 30, 2008	Jun 30, 2007	Dec 31, 2007
<b>Equity</b>	<b>745.3</b>	<b>564.4</b>	<b>749.2</b>
<b>Non-current liabilities</b>			
Loans	219.6	180.9	175.8
Deferred tax liabilities	28.3	32.4	25.9
Employee benefits	124.9	145.4	131.9
<b>Total non-current liabilities</b>	<b>372.8</b>	<b>358.7</b>	<b>333.6</b>
<b>Provisions</b>	<b>76.9</b>	<b>65.9</b>	<b>86.6</b>
<b>Current liabilities</b>			
Loans	152.6	310.5	191.4
Accounts payable and other liabilities	1,134.5	1,043.5	999.1
<b>Total current liabilities</b>	<b>1,287.1</b>	<b>1,354.0</b>	<b>1,190.5</b>
<b>Total equity and liabilities</b>	<b>2,482.1</b>	<b>2,343.0</b>	<b>2,359.9</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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MEUR	Share capital	Share premium account <sup>1)</sup>	Fair value and other reserves	Translation differences	Own shares	Retained earnings	Minority interests	Total equity
<b>Jan 1, 2008</b>	64.2	100.2	5.5	-31.3	-87.8	698.1	0.3	749.2
Net income for the period						162.3	0.4	162.7
Items booked directly into equity:								
Transactions with shareholders and minority shareholders:								
Dividends paid						-163.6		-163.6
Issue of shares (option rights)	0.0	0.9						0.9
Purchase of own shares								-
Sale of own shares								-
Change in minority interests							0.5	0.5
Cash flow hedge			1.7					1.7
Translation differences				-14.3				-14.3
Hedging of foreign subsidiaries				3.4				3.4
Tax impact of hedging				-0.9				-0.9
Option and share based compensation					4.7	1.0		5.7
<b>Jun 30, 2008</b>	64.2	101.1	7.2	-43.1	-83.1	697.8	1.2	745.3

<sup>1)</sup> For share subscriptions after February 25, the remaining part of the share subscription price after share capital has been credited to paid-up unrestricted equity reserve, which is included in the share premium account. The amount credited in the paid-up equity reserve is EUR 0.8 million.

MEUR	Share capital	Share premium account	Fair value and other reserves	Translation differences	Own shares	Retained earnings	Minority interests	Total equity
<b>Jan 1, 2007</b>	64.0	98.0	-0.5	-14.0	-91.2	638.8	3.5	698.6
Net income for the period						-12.0	-0.1	-12.1
Items booked directly into equity:								
Transactions with shareholders and minority shareholders:								
Dividends paid						-125.1		-125.1
Issue of shares (option rights)	0.0	0.6						0.6
Purchase of own shares					-0.3			-0.3
Sale of own shares								-
Change in minority interests							-1.1	-1.1
Cash flow hedge			0.6					0.6
Translation differences				2.4				2.4
Hedging of foreign subsidiaries				-4.2				-4.2
Tax impact of hedging				1.0				1.0
Option and share based compensation					3.7	0.3		4.0
<b>Jun 30, 2007</b>	64.0	98.6	0.1	-14.8	-87.8	502.0	2.3	564.4

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

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MEUR	1-6/2008	1-6/2007	1-12/2007
Operating income	223.2	43.7	320.8
Change in working capital	32.6	33.3	0.9
Depreciation	29.7	28.3	58.3
<b>Cash flow from operations</b>	<b>285.5</b>	<b>105.3</b>	<b>380.0</b>
Cash flow from financing items and taxes	-50.6	-57.9	-134.0
<b>Cash flow from operating activities</b>	<b>234.9</b>	<b>47.4</b>	<b>246.0</b>
Cash flow from investing activities	-61.3	-67.0	-94.6
<b>Cash flow after investing activities</b>	<b>173.6</b>	<b>-19.6</b>	<b>151.4</b>
Purchase and sale of own shares	-	-0.3	-0.3
Issue of shares	0.9	0.6	2.4
Dividends paid	-163.3	-125.1	-125.1
Change in loans receivable	-5.6	47.3	42.0
Change in loans payable	1.5	94.9	-24.0
<b>Cash flow from financing activities</b>	<b>-166.5</b>	<b>17.4</b>	<b>-105.0</b>
<b>Change in cash and cash equivalents</b>	<b>7.1</b>	<b>-2.2</b>	<b>46.4</b>
Cash and cash equivalents at end of period	162.0	108.2	154.9
Translation difference	0.0	-0.9	1.0
Cash and cash equivalents at beginning of period	154.9	109.5	109.5
<b>Change in cash and cash equivalents</b>	<b>7.1</b>	<b>-2.2</b>	<b>46.4</b>

## Change in interest-bearing net debt

MEUR	1-6/2008	1-6/2007	1-12/2007
Interest-bearing net debt at beginning of period	91.7	124.9	124.9
Interest-bearing net debt at end of period	87.0	263.4	91.7
<b>Change in interest-bearing net debt</b>	<b>-4.7</b>	<b>138.5</b>	<b>-33.2</b>

The EUR 142.0 million fine for the European Commission's decision is included in the interest-bearing net debt.

## Key figures

		1-6/2008	1-6/2007	1-12/2007
Basic earnings per share	EUR	0.65	-0.05	0.72
Diluted earnings per share	EUR	0.64	-0.05	0.71
Equity per share	EUR	2.96	2.24	2.98
Interest-bearing net debt	MEUR	87.0	263.4	91.7
Total equity/total assets	%	30.0	24.1	31.7
Gearing	%	11.7	46.7	12.2
Return on equity	%	43.5	neg.	24.9
Return on capital employed	%	31.1	0.1	18.6
Total assets	MEUR	2,482.1	2,343.0	2,359.9
Assets employed	MEUR	832.3	827.8	840.9
Working capital (including financing and tax items)	MEUR	-150.8	-143.2	-121.8

The Calculation of the Key Figures has been presented in the Annual Report 2007 published on January 25, 2008. The formula for Return on Capital Employed (%) has been revised, the new formula is presented below:

$$\text{Return on Capital Employed (\%)} = \frac{\text{Net Income} + \text{Financing Expenses}}{\text{Equity} + \text{Interest-bearing Debt (average of the figures for the accounting period)}}$$

## Sales by geographical areas

MEUR	1-6/2008	%	1-6/2007	%	1-12/2007	%
EMEA <sup>1)</sup>	1,365.0	67	1,187.2	66	2,675.3	65
Americas	375.7	18	383.7	21	840.8	21
Asia-Pacific	306.7	15	242.2	13	562.8	14
<b>Total</b>	<b>2,047.4</b>		<b>1,813.1</b>		<b>4,078.9</b>	

<sup>1)</sup> EMEA = Europe, Middle East, Africa

## Quarterly figures

		Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
Orders received	MEUR	1,092.4	1,117.5	901.9	926.3	944.4	902.1
Order book	MEUR	3,838.7	3,617.4	3,282.3	3,473.6	3,318.0	3,105.7
Sales	MEUR	1,142.1	905.3	1,294.2	971.6	1,001.9	811.2
Operating income	MEUR	136.7	86.5	160.8 <sup>1)</sup>	126.7	116.4	69.3 <sup>2)</sup>
Operating income	%	12.0	9.6	12.4 <sup>1)</sup>	13.0	11.6	8.5 <sup>2)</sup>

  

		Q4/2006	Q3/2006	Q2/2006	Q1/2006
Orders received	MEUR	712.1	742.0	821.9	840.3
Order book	MEUR	2,762.1	2,951.0	2,818.0	2,654.0
Sales	MEUR	1,145.6	879.8	840.4	735.0
Operating income	MEUR	123.4	101.1	83.9	51.7
Operating income	%	10.8	11.5	10.0	7.0

<sup>1)</sup> Excluding a MEUR 22.5 provision for the Austrian Cartel Court's fine decision and a MEUR 12.1 profit from the sale of the KONE Building.

<sup>2)</sup> Excluding an expense of MEUR 142.0 related to the European Commission's fine decision.

## Orders received

MEUR	1-6/2008	1-6/2007	1-12/2007
	2,209.9	1,846.5	3,674.7

## Order book

MEUR	Jun 30, 2008	Jun 30, 2007	Dec 31, 2007
	3,838.7	3,318.0	3,282.3

## Capital expenditure

MEUR	1-6/2008	1-6/2007	1-12/2007
In fixed assets	23.6	17.2	58.1
In leasing agreements	3.5	6.8	9.2
In acquisitions	37.6	16.5	49.6
<b>Total</b>	<b>64.7</b>	<b>40.5</b>	<b>116.9</b>

## R&D Expenditure

MEUR	1-6/2008	1-6/2007	1-12/2007
	28.2	25.4	50.7
R&D expenditure as percentage of sales	1.4	1.4	1.2

## Number of employees

	1-6/2008	1-6/2007	1-12/2007
Average	33,301	29,987	30,796
At the end of the period	34,013	30,665	32,544

## Commitments

MEUR	Jun 30, 2008	Jun 30, 2007	Dec 31, 2007
Mortgages			
Group and parent company	0.7	30.7	0.7
Pledged assets			
Group and parent company	4.8	5.4	4.8
Guarantees			
Associated companies	3.7	1.8	5.3
Others	6.1	0.9	6.3
Operating leases	149.0	119.6	148.9
<b>Total</b>	<b>164.3</b>	<b>158.4</b>	<b>166.0</b>

### The future minimum lease payments under non-cancellable operating leases

MEUR	Jun 30, 2008	Jun 30, 2007	Dec 31, 2007
Less than 1 year	39.2	34.5	39.0
1–5 years	90.6	75.0	91.2
Over 5 years	19.2	10.1	18.7
<b>Total</b>	<b>149.0</b>	<b>119.6</b>	<b>148.9</b>

## Derivatives

Fair values of derivative financial instruments	positive fair value Jun 30, 2008	negative fair value Jun 30, 2008	net fair value Jun 30, 2008	net fair value Jun 30, 2007	net fair value Dec 31, 2007
MEUR					
FX Forward contracts	18.3	5.7	12.6	-2.3	6.0
Currency options	0.2	0.2	0.0	0.0	0.0
Cross-currency swaps, due under one year	-	-	-	2.0	2.9
Cross-currency swaps, due in 1–3 years	10.4	-	10.4	8.6	8.9
Electricity derivatives	1.8	0.1	1.7	0.4	0.9
<b>Total</b>	<b>30.7</b>	<b>6.0</b>	<b>24.7</b>	<b>8.7</b>	<b>18.7</b>

### Nominal values of derivative financial instruments

MEUR	Jun 30, 2008	Jun 30, 2007	Dec 31, 2007
FX Forward contracts	603.8	525.7	527.3
Currency options	46.0	11.1	15.6
Cross-currency swaps, due under one year	-	20.0	20.0
Cross-currency swaps, due under 1–3 years	136.7	136.7	136.7
Electricity derivatives	3.0	2.9	2.5
<b>Total</b>	<b>789.5</b>	<b>696.4</b>	<b>702.1</b>



# SHARES AND SHAREHOLDERS

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Jun 30, 2008	Class A shares	Class B shares	Total
Number of shares	38,104,356	218,830,768	256,935,124
Own shares in possession <sup>1)</sup>		4,905,506	
Share capital, EUR			64,233,781
Market capitalization, MEUR			5,630
Number of shares traded (millions), 1–6/2008		97.6	
Value of shares traded, MEUR, 1–6/2008		2,245	
Number of shareholders	3	14,101	14,101
	Close	High	Low
Class B share price, EUR, 1–6/2008	22.34	27.87	18.77

<sup>1)</sup> During the first half of 2008, the authorization to repurchase shares was not used. In April, 326,000 class B shares assigned to the share-based incentive plan for the the company's senior mamagement were transferred from KNEBV Incentive Ky to the participants due to achieved targets for the financial year 2007. Due to the share issue without payment (registered on February 28, 2008) the number of shares in the company was increased by issuing new shares to the shareholders without payment in proportion to their holdings so that one class A share was given for each class A share and one class B share for each class B share.

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*KONE's objective is to offer the best people flow experience by developing and delivering solutions that enable people to move smoothly, safely, comfortably and without waiting in buildings in an increasingly urbanizing environment. KONE provides its customers with industry-leading elevators, escalators and innovative solutions for modernization and maintenance, and is one of the global leaders in its industry. In 2007, KONE had annual net sales of EUR 4.1 billion and over 32,500 employees. KONE class B shares are listed on the OMX Nordic Exchange Helsinki in Finland.*

This Interim Report contains forward-looking statements that are based on the current expectations, known factors, decisions and plans of the management of KONE. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions and fluctuations in exchange rates.