



KONE CMD 2018

Building on our strong position in China

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NAVIGATING IN A CHANGING
MARKET ENVIRONMENT



CAPTURING THE OPPORTUNITIES IN
CHINA

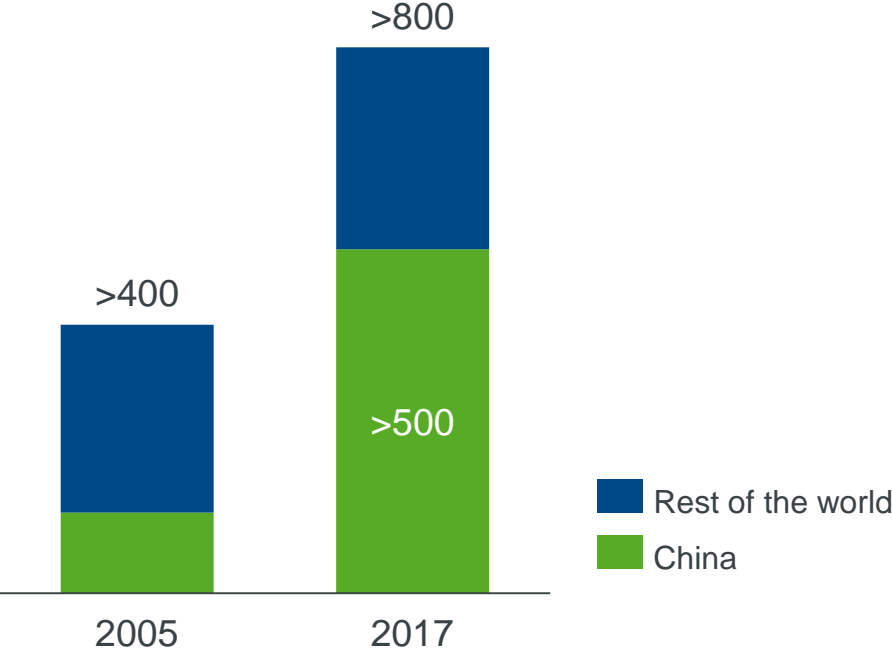


China is by far the biggest elevator and escalator market in the world



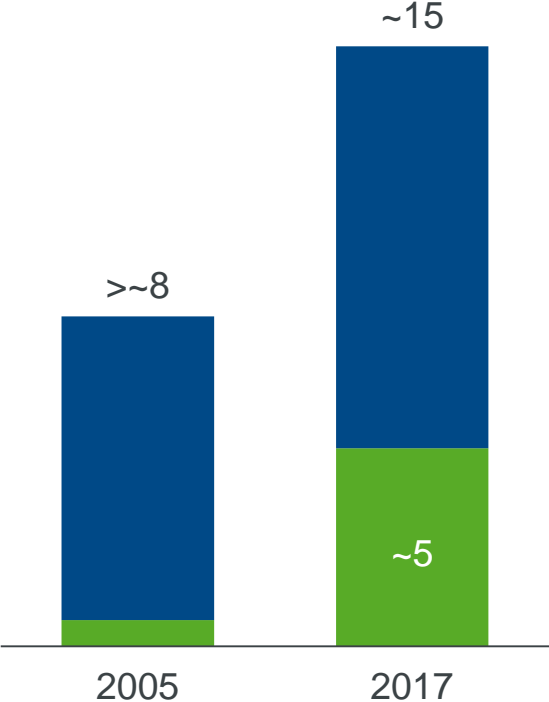
In 2005-2017, China has doubled its share of the new equipment market

'000 units



...and even more of the global installed base

'000 000 units



2/3 of global elevators and escalators ordered

1/3 of global installed base

KONE is a true market leader in China today



China contributed for **>25%** of total net sales in 2017

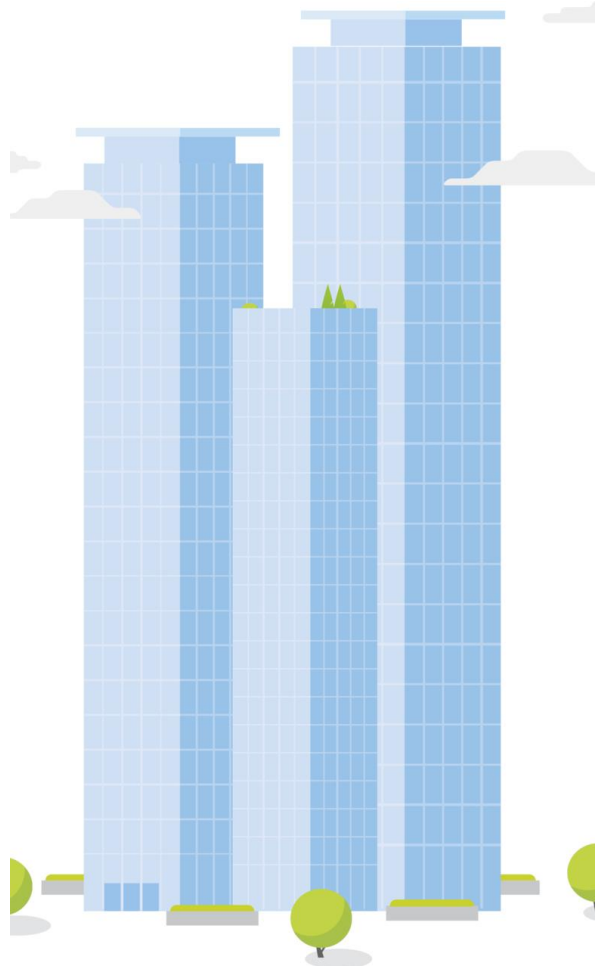
~18,000 employees located across China

KONE is the market leader in China with **~20%** market share in new equipment in 2017

>30,000 customers, including 9 of China's top 10 developers

Two factories in China, in Kunshan & Nanxun
>800,000 units delivered in total

Awarded for **#1** Brand Value in Elevator Industry by ACSIQ





Navigating in a
changing market
environment

China has undergone a massive transformation



2000

Urban population of under 460 million, with close to 90% under 60 years old

Of urban population, 80% were poor, 4% middle class

Focus on low technology and low value sectors (manufacturing, agriculture)

2018

Urban population of nearly 800 million, with >20% over 60 years old

Of urban population, less than 25% are poor, 70% are middle class

Leader in global technology development

The China property market is affected by several trends



CONSUMERS

- Continued urbanization
- Increasing living standards
- High technology adoption
- Property as a preferred investment
- High preference for ownership over rental

PROPERTY MARKET

- Stable underlying demand, constant upgrading
- Tight liquidity and restrictions have cyclical impact on demand
- Supply-side policies push up input costs for developers
- Lower tier cities within clusters continue to grow
- Developers continue to consolidate

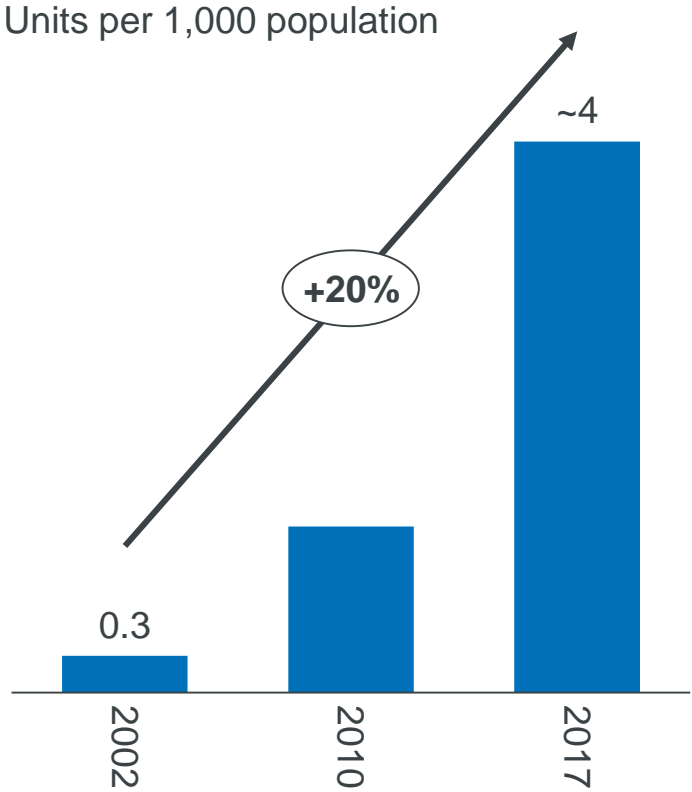
POLICIES

- Reduction of poverty, pollution and debt
- Restrictions on land supply, home purchases and prices
- Xi Jinping: "Housing is for living not for speculation"
- Investments in infrastructure and development of key clusters

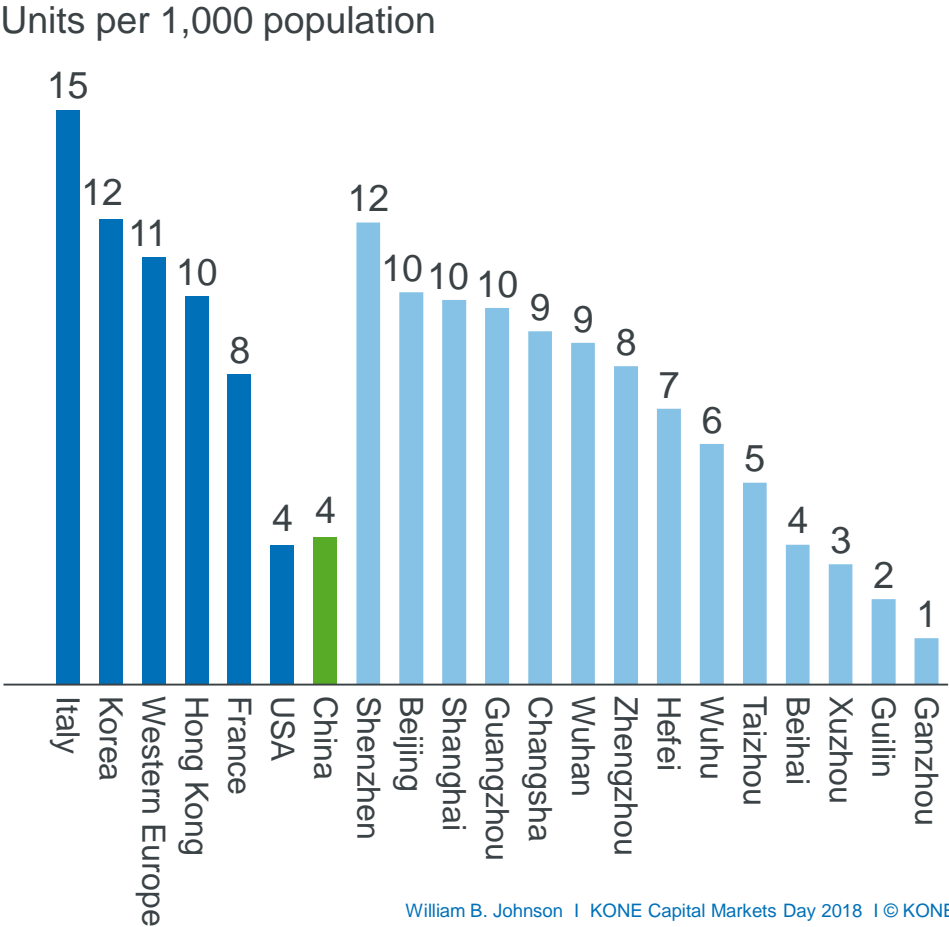
Many drivers for solid long-term demand in new equipment



China's elevator density has risen sharply



...but is still at low level compared to developed countries and varies considerably by city



Urbanization

Upgrading

Urban renewal

Source: China Elevator Association, KONE estimates

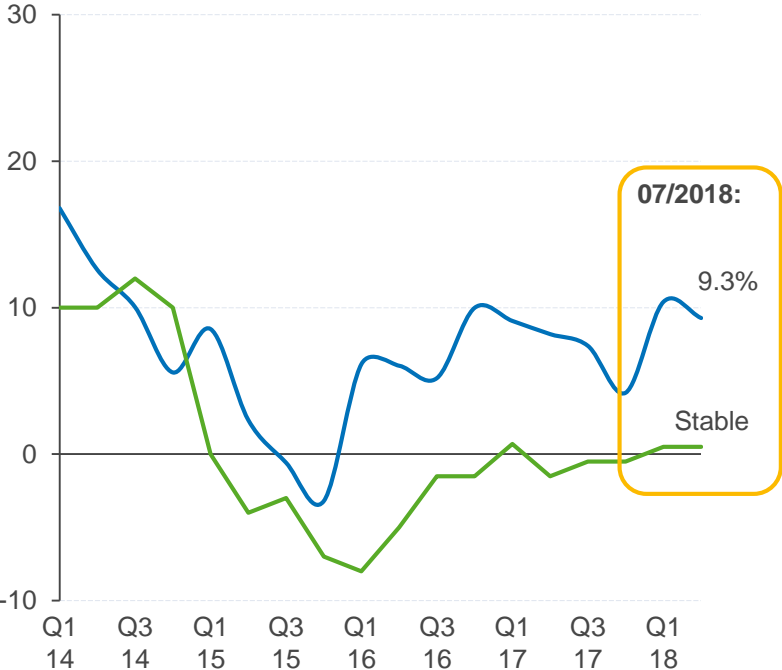
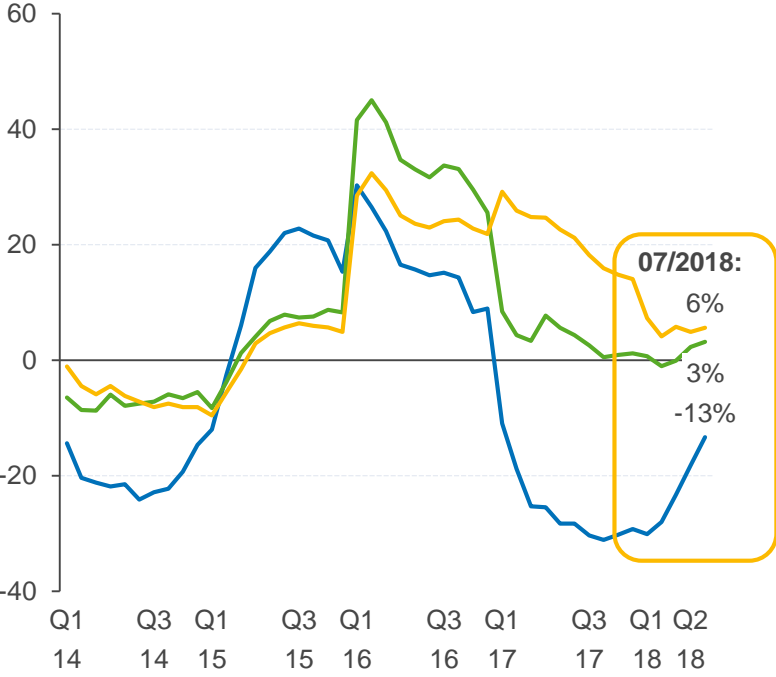
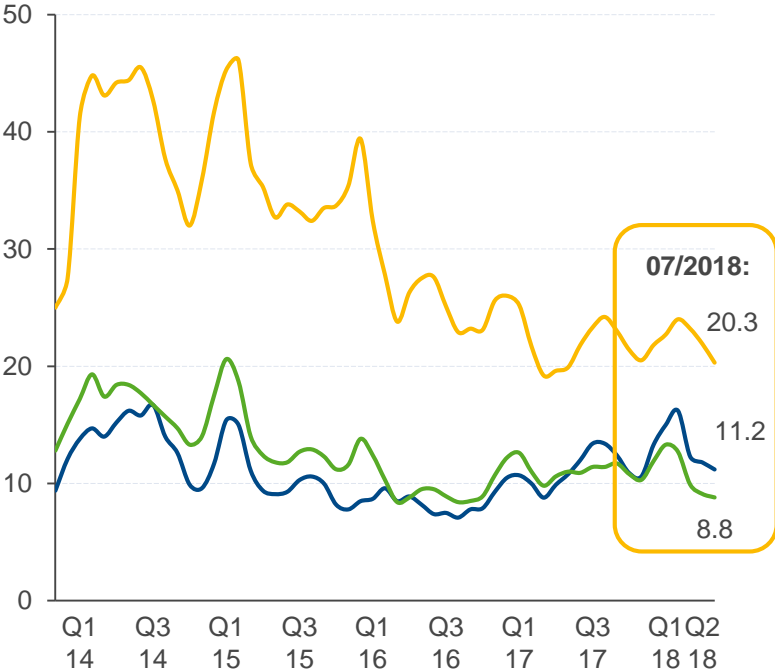
Government restrictions are cooling down the market



Housing inventories at a relatively healthy level

Government restrictions have cooled down the housing market

REI mainly driven by land, E&E demand stable



Newly built area for sale / monthly sales 3-m MVA
 — Tier-1 — Tier-2 — sample of lower tier cities

Sales area growth, change Y-o-Y
 — Tier-1 — Tier-2 — Lower tier cities

— REI Y-o-Y
 — E&E market Y-o-Y in units

Sources: China NBS, E-house, CREIS, KONE estimates

City clusters are the growth engine



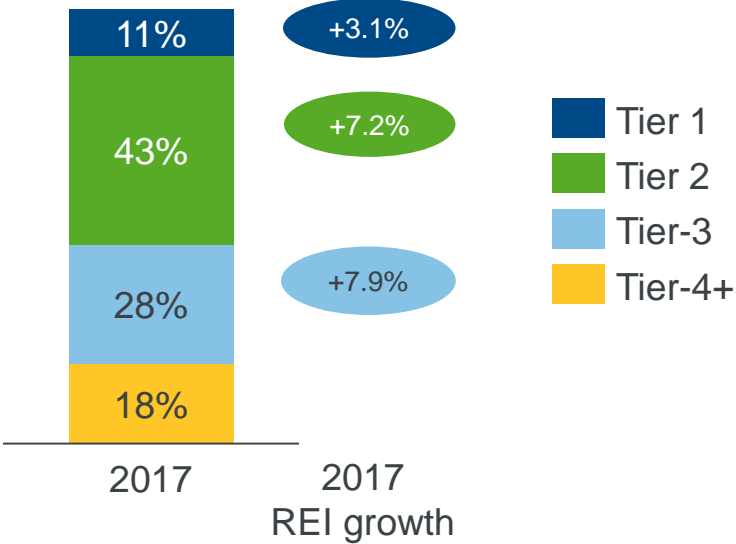
Cluster	Number of cities	Share of market in 2017			
		GDP	Population	REI	REI growth
1 Yangtze River Delta	26	11%	11%	20%	9%
2 Beijing - Tianjin - Hebei	14	10%	8%	10%	-2%
3 Pearl River Delta	14	10%	6%	10%	15%
4 Yangtze River Middle Reaches	28	9%	9%	8%	12%
5 Central Plains	23	6%	9%	8%	19%
6 Chengdu - Chongqing	16	6%	7%	8%	1%
Total	121	52%	50%	64%	8.4%

Property market dynamics vary across different city tiers



New equipment market demand by city tier

Share in units



	Tier 1 cities	Tier 2 cities	Lower tier cities
Urbanization status	~90%	~70%	~50%
Population inflow	Controlled	Sustainable inflow	Urbanization taking place
Government restrictions	Restrictions normalizing	Most heavily restricted at the moment	Mixed picture, restrictions near major hubs
Growth drivers	Urban renewal and upgrade	Attracting talent to build competitiveness	Urbanization driving property sales

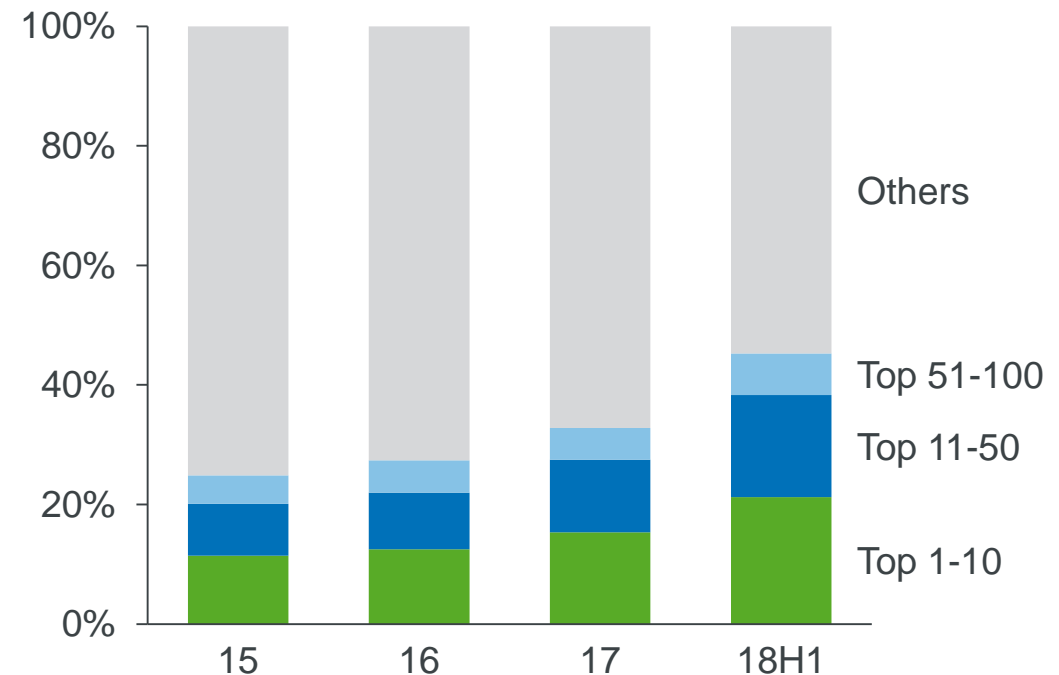
Sources: Based on KONE estimates

Consolidation among the developers continues

- Developers face tight liquidity and rising costs
 - focus on quick project turnover
- The big developers value reliable and fast installation, high quality service and newest technologies
 - prefer to work with established OEMs
- .. but they also have more purchasing power

Property sales split by developer size

Share of sales area



Several trends support OEMs in the maintenance market



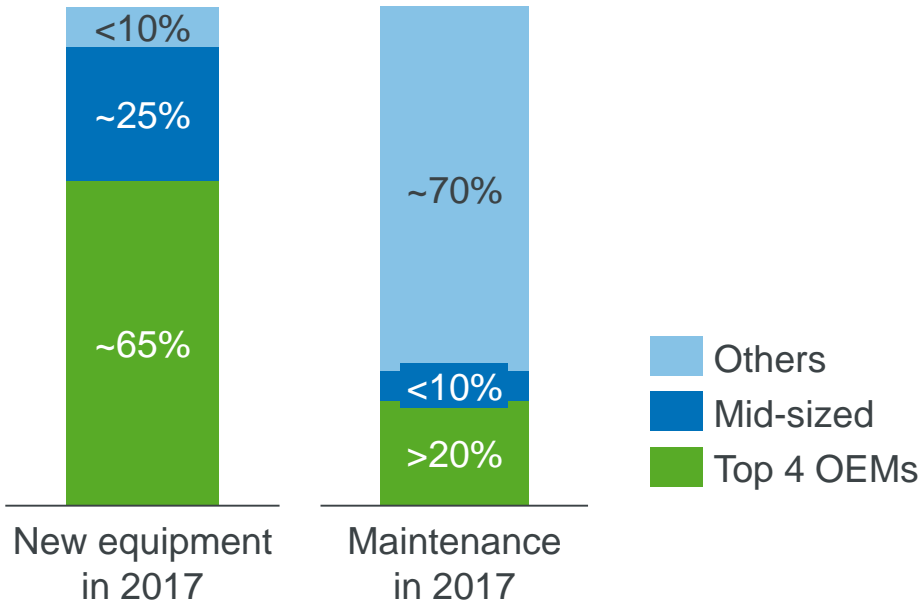
- Starting to see series of shifts in regulation:
 - Stricter enforcement
 - More responsibility to the OEMs'
 - Pilots for regulation that is more based on remote monitoring instead of frequent maintenance visits
- Services and quality of service are becoming more important and transparent to customers



Increasing role of new technologies
a relative competitive edge for OEMs'

The maintenance market remains fragmented

Market share split in new equipment and maintenance in units

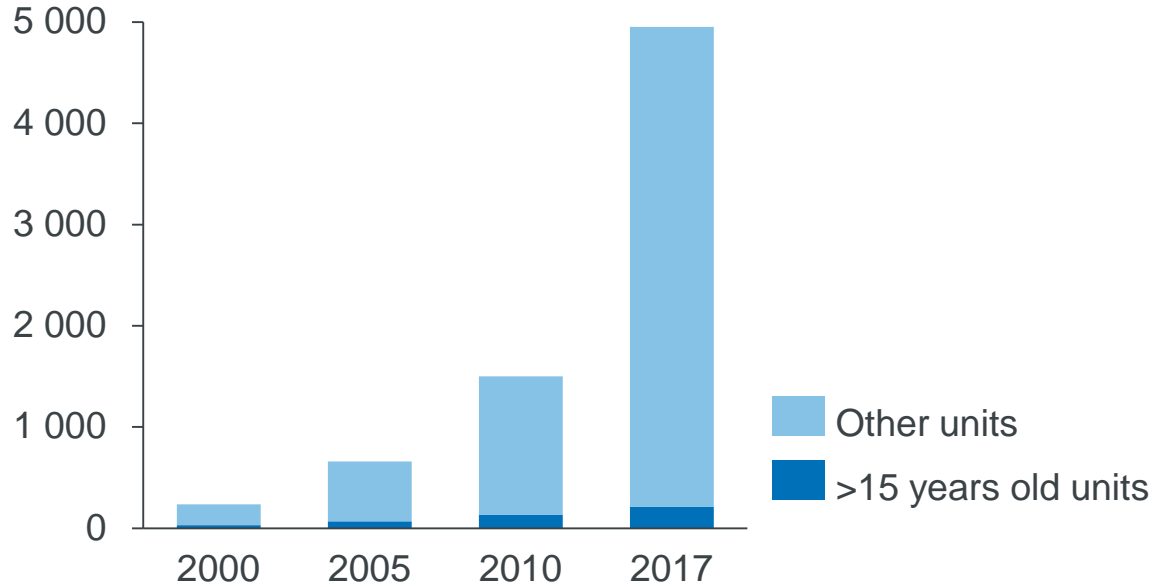


Modernization is an increasingly meaningful opportunity



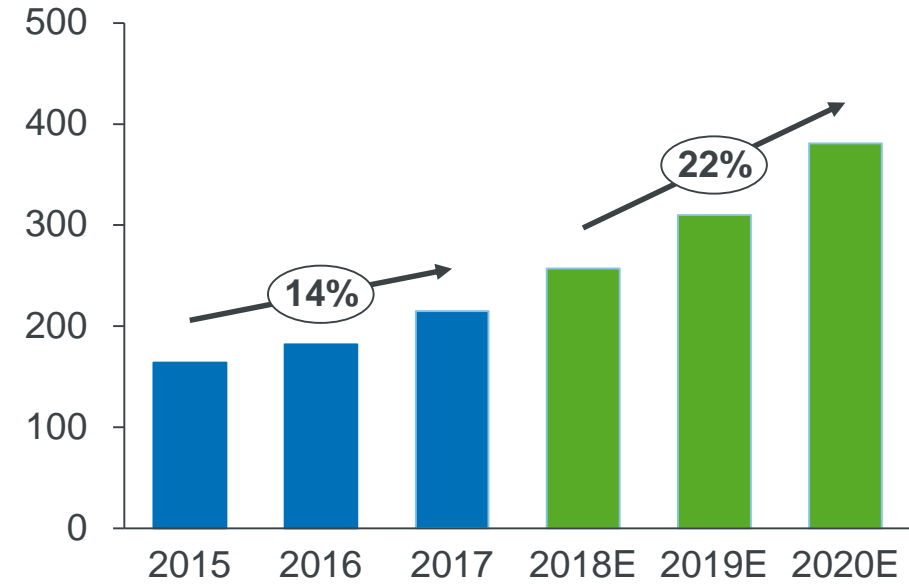
The amount of units older than 15 years is still low in China

'000 units



... but will grow significantly faster in the next few years

'000 units



Modernization market lags the new equipment installations by 10-15 year delay, with the big opportunities ahead in the 2020's

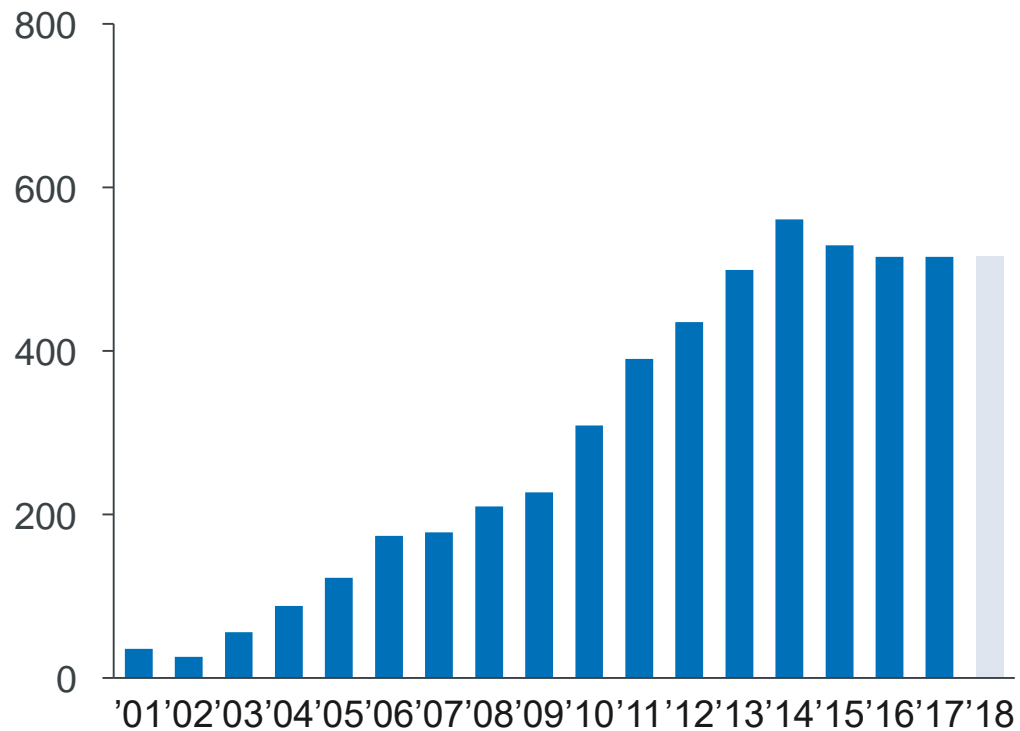
Based on KONE estimates

In 2018, we expect the new equipment market to stay on a high level and services to grow strongly



New equipment market orders 2001–2018

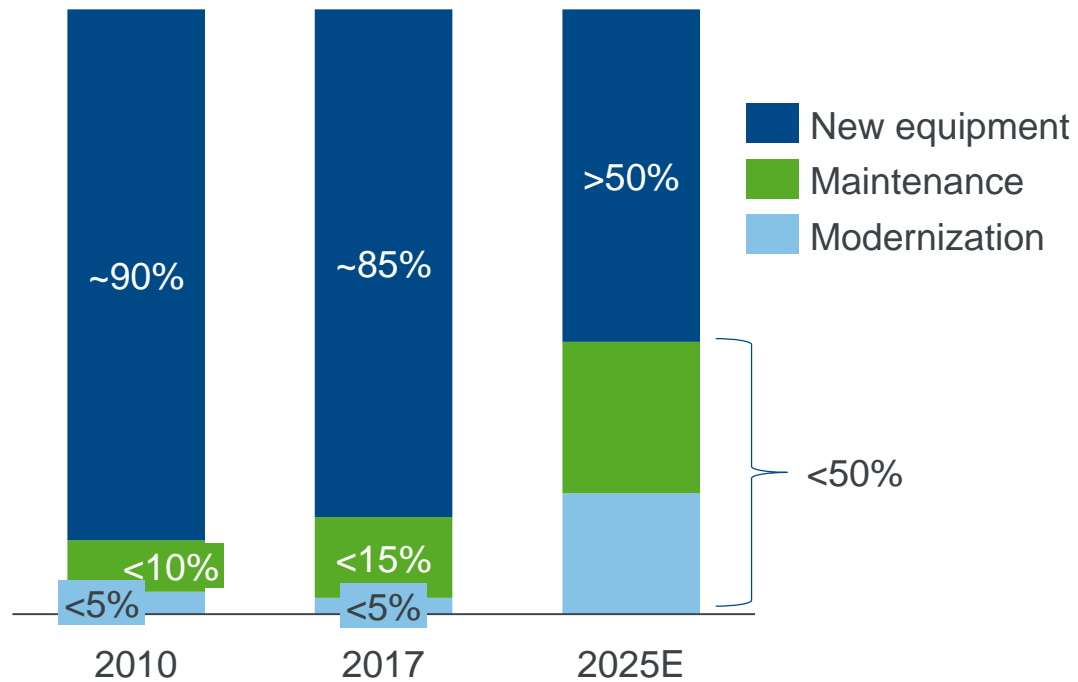
'000 of new equipment units



- **The new equipment** market in China is expected to be stable or to decline slightly in units ordered while competition is expected to remain intense in 2018
- **The service market** is expected to show strong growth

The market in China is shifting more towards services

Chinese market split by business in monetary value could potentially look like this in 10 years



- We expect the new equipment market to stay on a high level
 - Long-term development will depend on government policies on for example land supply and general economic development
- We expect double-digit growth to continue in services with more focus on quality and value-add than quantity



Capturing the
opportunities in China

Our recipe for success in China



NEW EQUIPMENT:

- Strong collaboration with large developers
- Increasing role of services as a differentiator

MAINTENANCE:

- Improving retention through delivering high quality service
- Differentiation and value capture through 24/7 Connected Services

MODERNIZATION:

- Expanding sales & delivery competences and capacity with focus on the fastest growing cities
- Product offering enhancements

RELIABILITY AND QUALITY OF EXECUTION

STRONG FOOTPRINT IN KEY AREAS

FOCUS ON PRICING AND PRODUCTIVITY

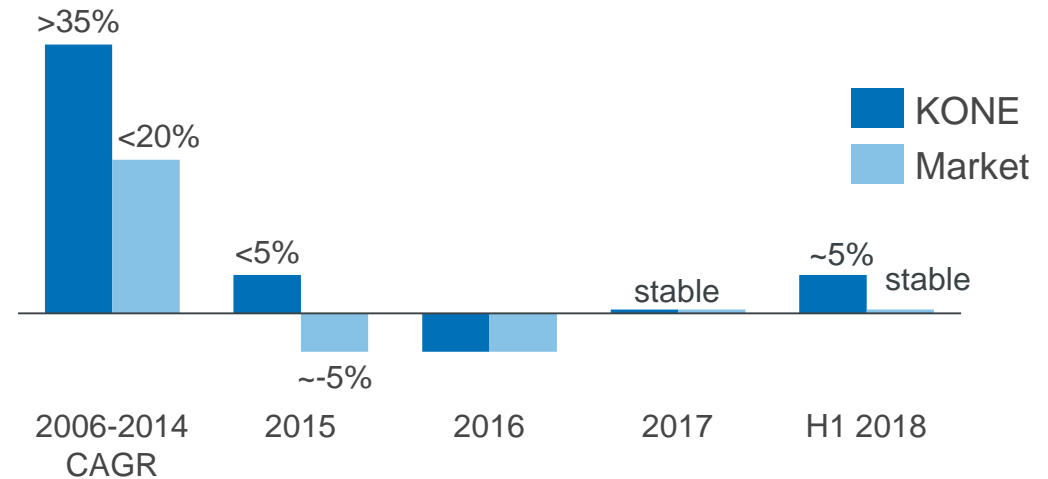
TAKING GOOD CARE OF OUR 18,000 PEOPLE IN CHINA

In new equipment, our competitiveness continues to be strong



- Pricing actions showing positive results
- A good start for the year 2018 also in terms of market share

KONE's new equipment orders received in units in China vs. market development



KONE pricing	-	-	-	+
KONE's market share	+	stable	stable	+

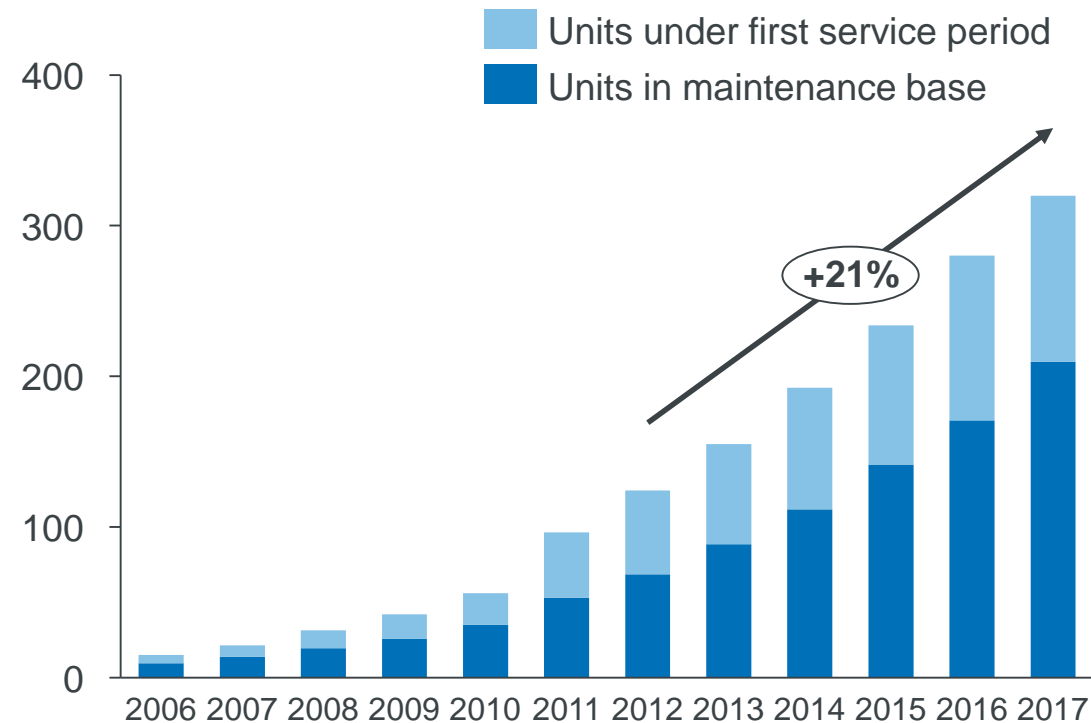
Our maintenance base continues to grow robustly



- Continued high customer loyalty (NPS) supports long term relationships and retention
- 24/7 Connected Services has gained traction with customers
- Continued focus on pricing

Our maintenance base and units in first service

'000 units



We are playing offense in modernization



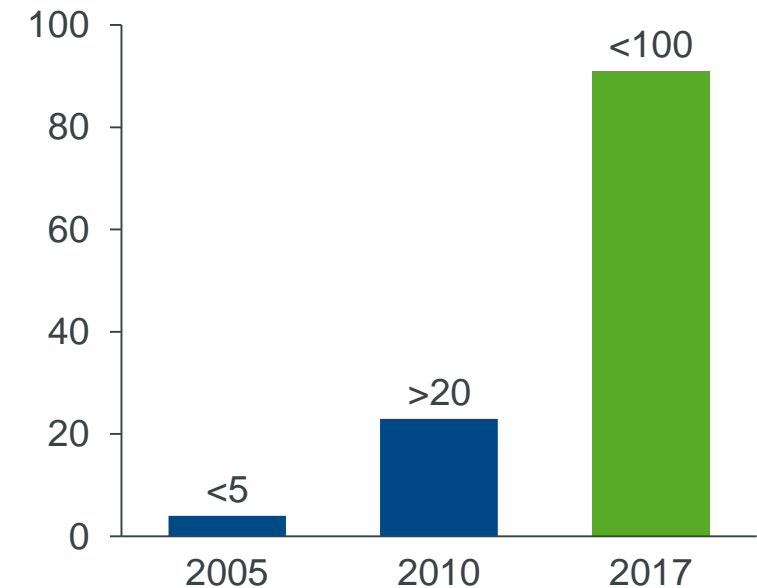
Now

In 5 years

- <5% of KONE's sales in China, CAGR of ~35% for the last three years
- Capturing opportunities mostly in **non-KONE equipment**
- Capturing the modernization potential of **our own installed base**
- Continuing to capture also the non-KONE opportunities

KONE new equipment deliveries in China 2005, 2010 & 2017

'000 units



We continue to build our presence...



In 2004, we had 12 branches

1 factory

9 service stations

12 branches



● Branches: 12

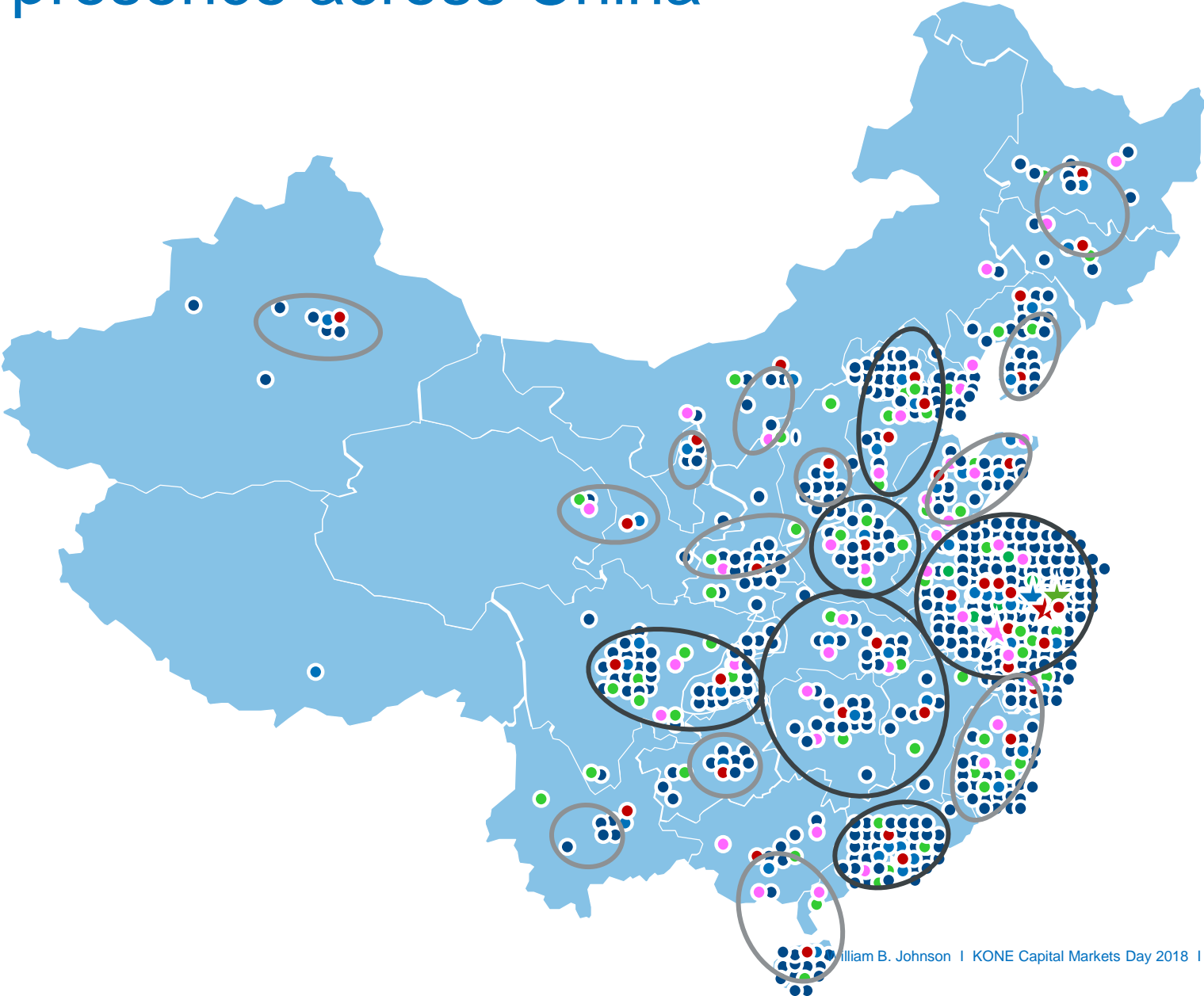
● Service Stations: 9

KONE has a wide presence across China



2018

- 2 factories
- <80 branches
- <80 sales offices
- <450 service stations



- KONE Branch
- KONE Sales Office
- KONE Service Station
- Giant KONE Branch
- Giant KONE Sales Office
- Key city clusters

Enabling new mega city clusters

CASE: BEIJING NEW AIRPORT

- KONE is delivering 170 escalators for the new Beijing Airport
- When fully completed, it will be the world's largest international airport with 7 runways serving 100 million passengers per year
- Building the airport is part of developing the Beijing-Tianjin-Hebei city cluster, which accounts for 10% of China's GDP and inhabits over 100 million people



CASE: SHANGHAI METRO

Delivering equipment to one of the busiest rapid rail networks in the world requires speed also in execution

China is all about speed!



KONE customers are becoming larger, more demanding



Speed

in operations to match
customer requirements

Innovation

to make construction time
shorter and smarter

Co-creation

to help our customers
differentiate

In the end it's all about the people and having a great team!

~18,000 employees, clearly over half in the field

High employee engagement - attrition lower than industry average

6 training centers



We are excited about our future

- Solid position in the new equipment business and with largest customers
- Many new opportunities in the fast-growing services business
- Consistent, strong growth in modernization
- A great team to make it happen



Dedicated to People Flow™

