

The background of the slide is a nighttime photograph of a city skyline, likely Shanghai. Several prominent skyscrapers are illuminated with various lights, including white, blue, and purple. The buildings are set against a dark night sky. In the foreground, there are blurred light trails from cars on a multi-lane road, suggesting a busy urban environment. The overall scene is a vibrant and modern city at night.

KONE CMD 2013

Growing in China in a sustainable way

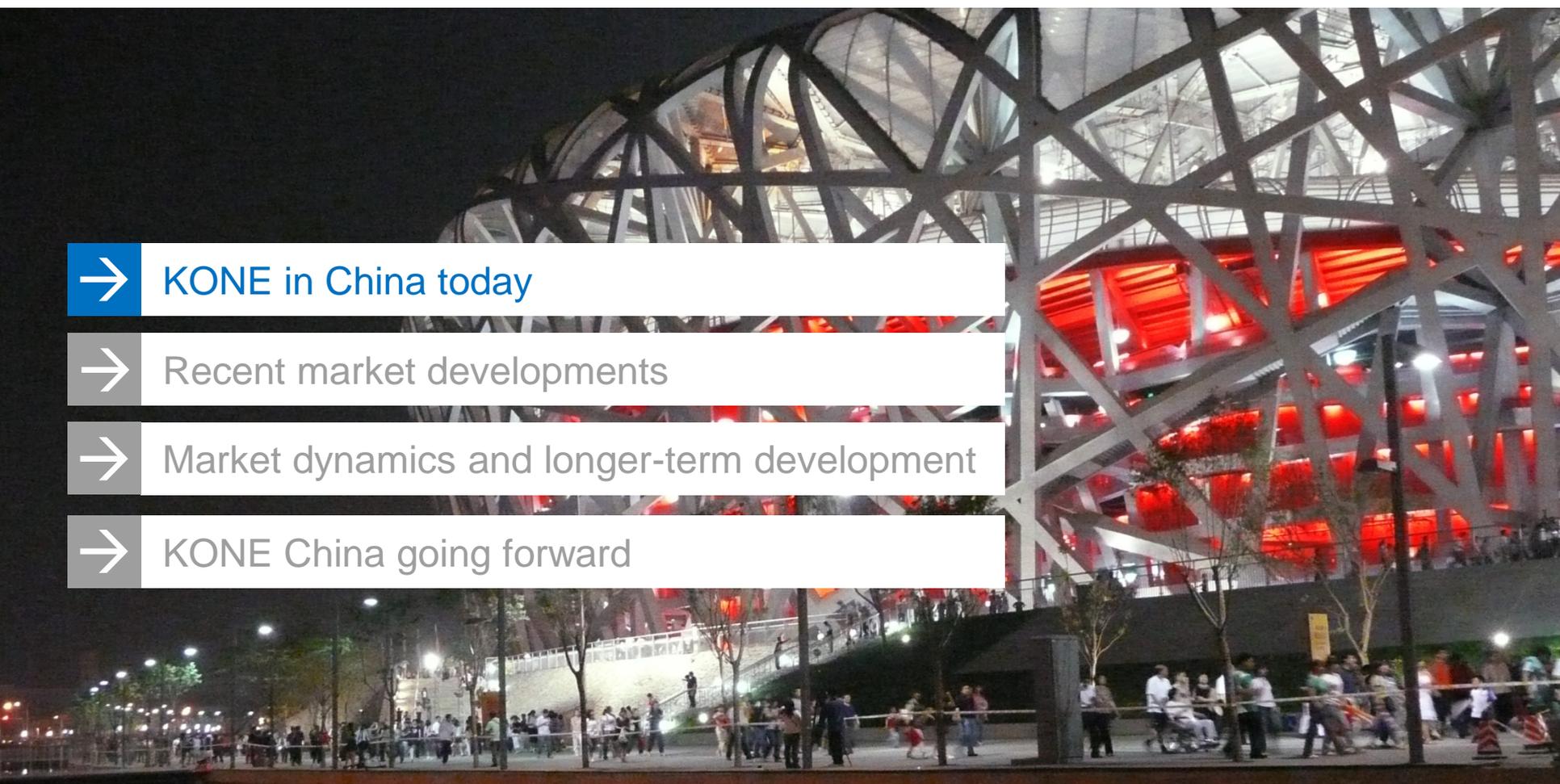
William B. Johnson, Executive Vice President, Greater China

24 September 2013

Agenda



- KONE in China today
- Recent market developments
- Market dynamics and longer-term development
- KONE China going forward

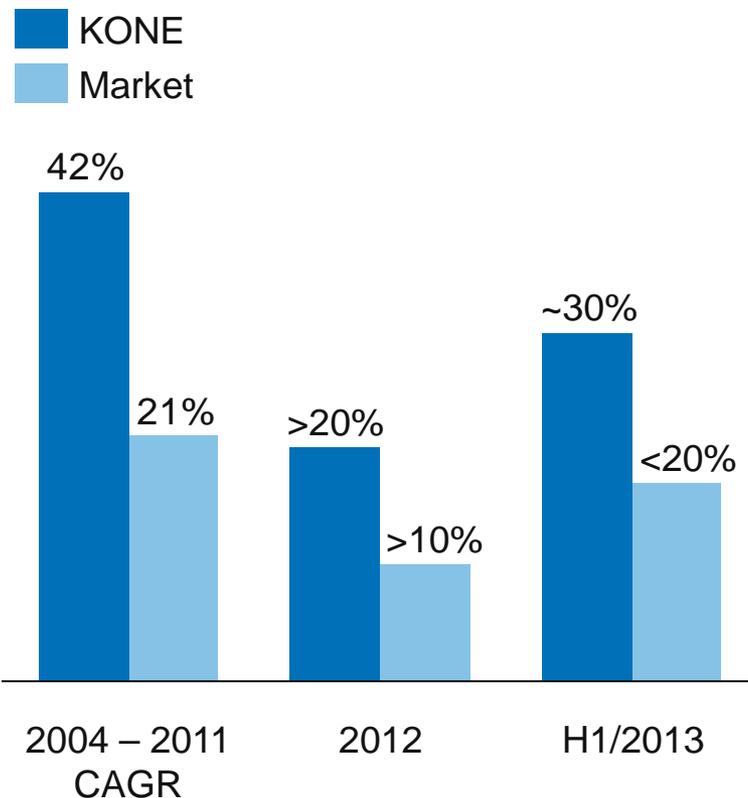


KONE has grown clearly faster than the market in China



Growth versus market

Orders received (units) vs. market growth



Note: The KONE figure 2004-2011 includes GiantKONE for December 2011 only. Market growth based on KONE's estimate.

KONE in China today

- #1 in new equipment in 2012 with 17% market share (2011: 15.5%)
- #1 in units in service
- Very competitive product portfolio covering all segments
- Targeted expansion geographically
- Strong leadership and sales teams, skilled technical workforce
- Dual brand strategy: KONE and GiantKONE
- New KONE factory in Kunshan fully operational and GiantKONE factory expanding to meet future demand

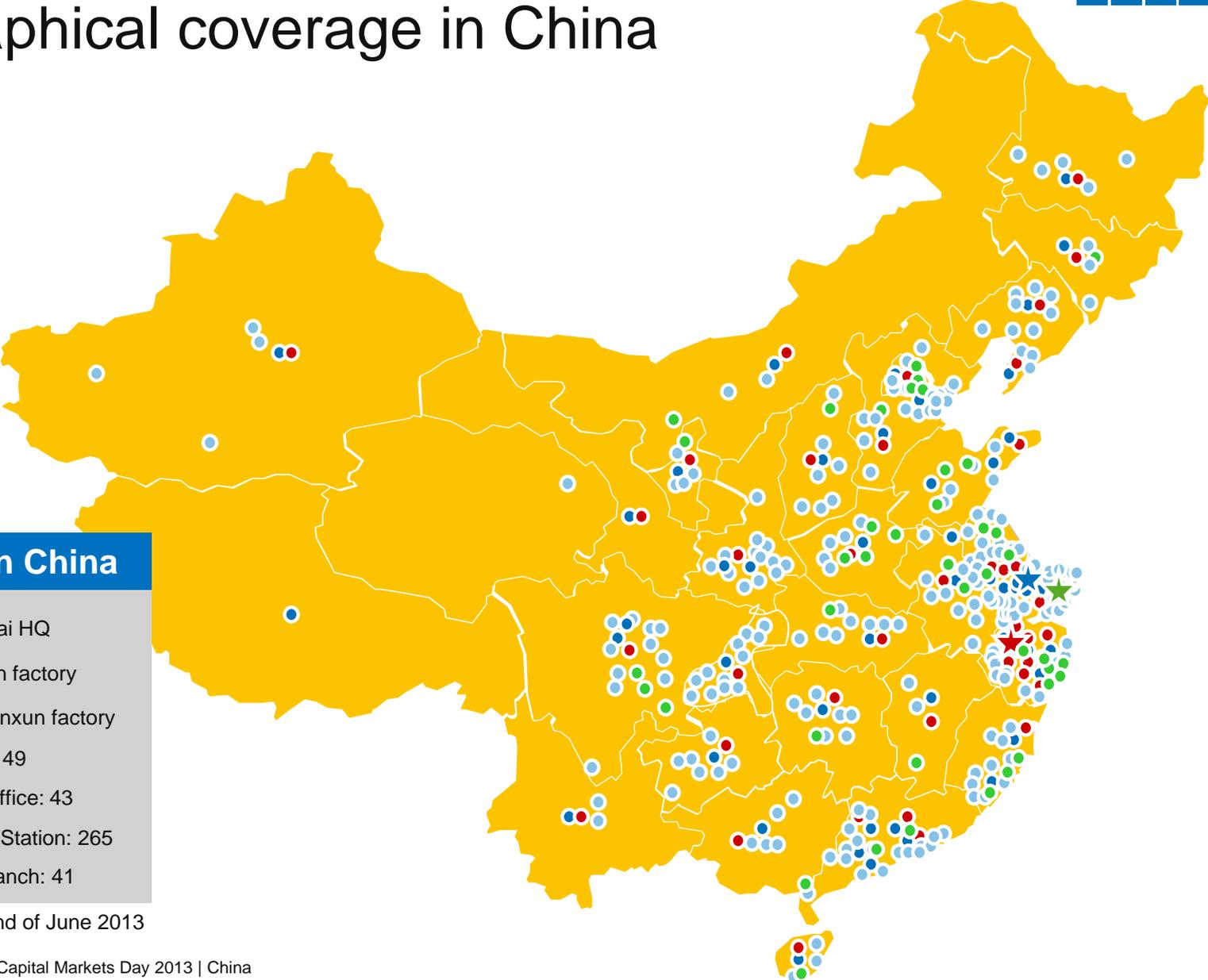
The new volume elevator offering has been very positively received in China



New elevator offering in China

- New elevator offering further strengthens KONE's leading position
 - KONE N MonoSpace machine-room-less elevator
 - KONE N MiniSpace elevator with small machine room
 - GiantKONE's new affordable housing elevator GPS33K launched at the end of 2012
 - New products have been well received by customers and volumes are ramping up well
- KONE EMiniSpace elevator for the affordable housing segment was launched in early 2011 and has been highly successful

We have continued to expand our geographical coverage in China



Footprint in China

- ★ KONE Shanghai HQ
- ★ KONE Kunshan factory
- ★ GiantKONE Nanxun factory
- KONE Branch: 49
- KONE Sales Office: 43
- KONE Service Station: 265
- GiantKONE Branch: 41

Note: Status at the end of June 2013

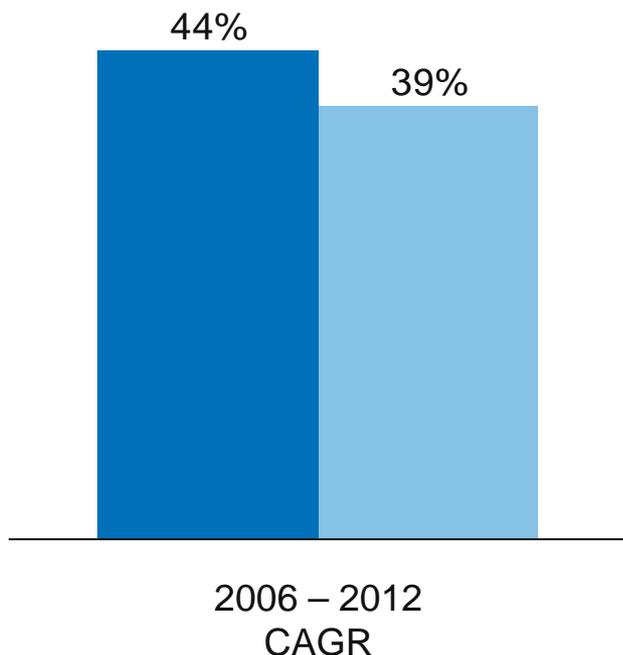
Our maintenance business has continued to develop rapidly



New equipment vs. maintenance growth

New equipment orders received (units)
vs. units in service growth

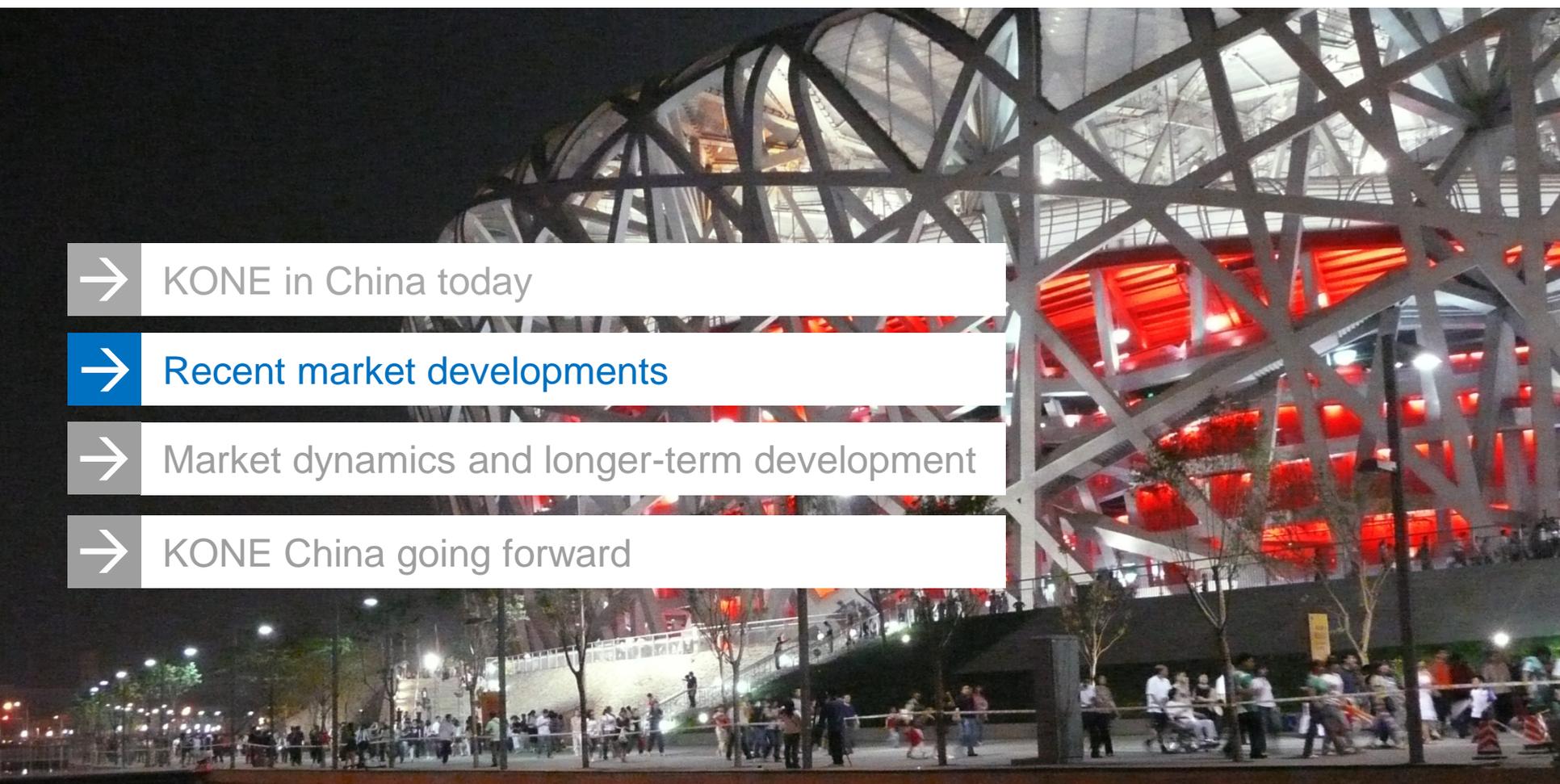
- New equipment orders received
- Units in service



Note: CAGR excluding GiantKONE would be 36% in new equipment and 34% in maintenance

Maintenance focus areas

- Rapid growth in service base, but maintenance has not increased as share of sales due to high growth in new equipment business
- Maintenance priorities
 - Further improve industry-leading conversion rate
 - Pricing development
 - Field productivity through field training and process/methods development
- Optimized method for affordable housing maintenance

The background of the slide is a photograph of the Beijing National Aquatics Center at night. The building's iconic "Water Cube" facade is illuminated with a complex network of white structural beams and glowing red lights. In the foreground, a crowd of people is gathered on a paved area, some walking and others standing. The scene is lit by streetlights and the building's own lights, creating a vibrant urban atmosphere.

→ KONE in China today

→ **Recent market developments**

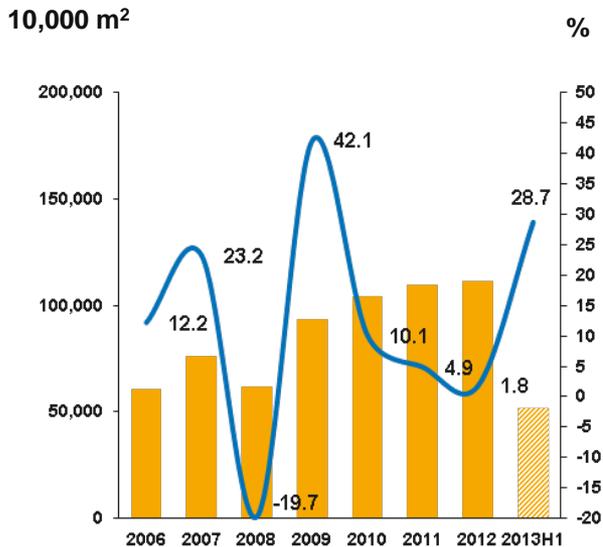
→ Market dynamics and longer-term development

→ KONE China going forward

Improved signals from real estate data

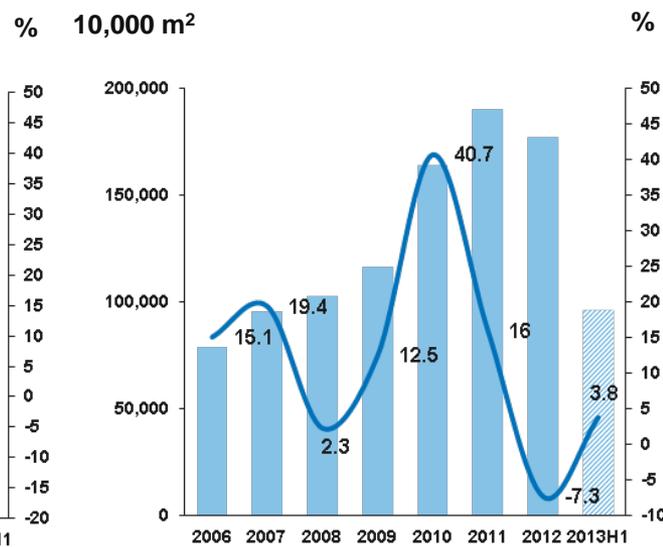


**Total area of property sold
2006 – H1/2013**



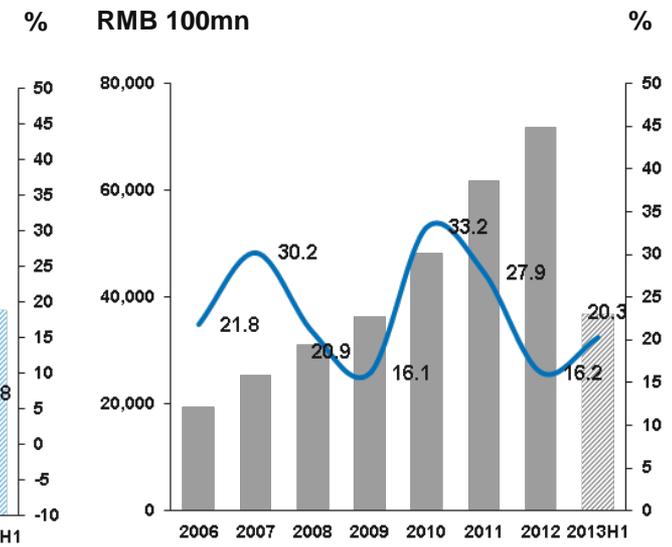
■ Sales area, Ihs
— Y-O-Y, rhs

**New construction area
2006 – H1/2013**



■ New Construction area, Ihs
— Y-O-Y, rhs

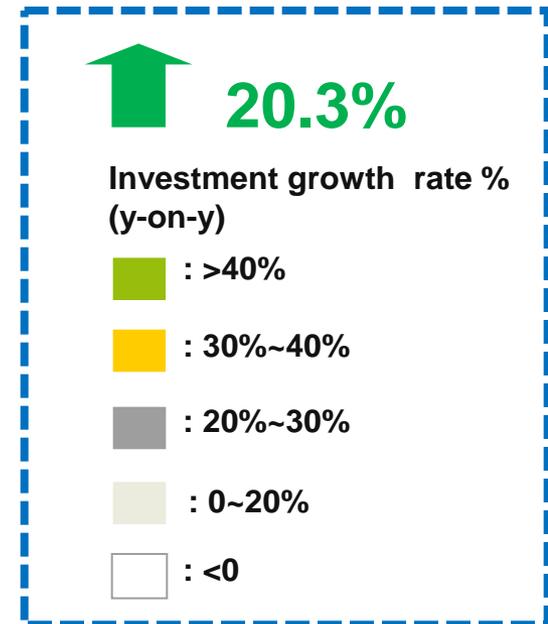
**Real estate investment
2006 – H1/2013**



■ Real Estate Investment, Ihs
— Y-O-Y, rhs

Real estate investment growth is fastest in Central and West of China

Real estate investment growth rate % (y-on-y), H1/2013



Improved financing situation resulting in strong equipment deliveries in H2/2013



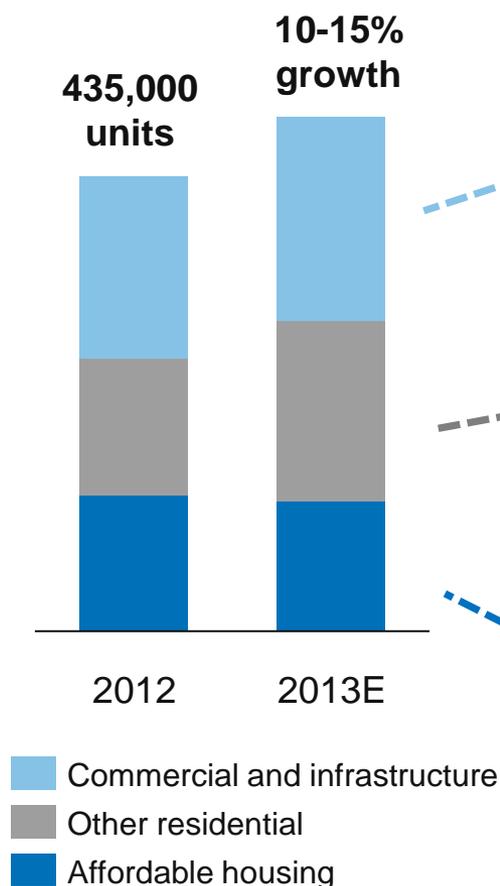
Liquidity situation has improved

- Overall liquidity improved after June 2013 credit crunch. Sites progressing well and deliveries of new equipment are strong.
- Particularly big developers have had very solid performance in 2013.
- Land sales volume recovering particularly in bigger tier 1 and 2 cities, supporting local government financing.

Chinese new equipment market expected to grow by 10-15% in 2013



E&E indicative market growth, 2013e



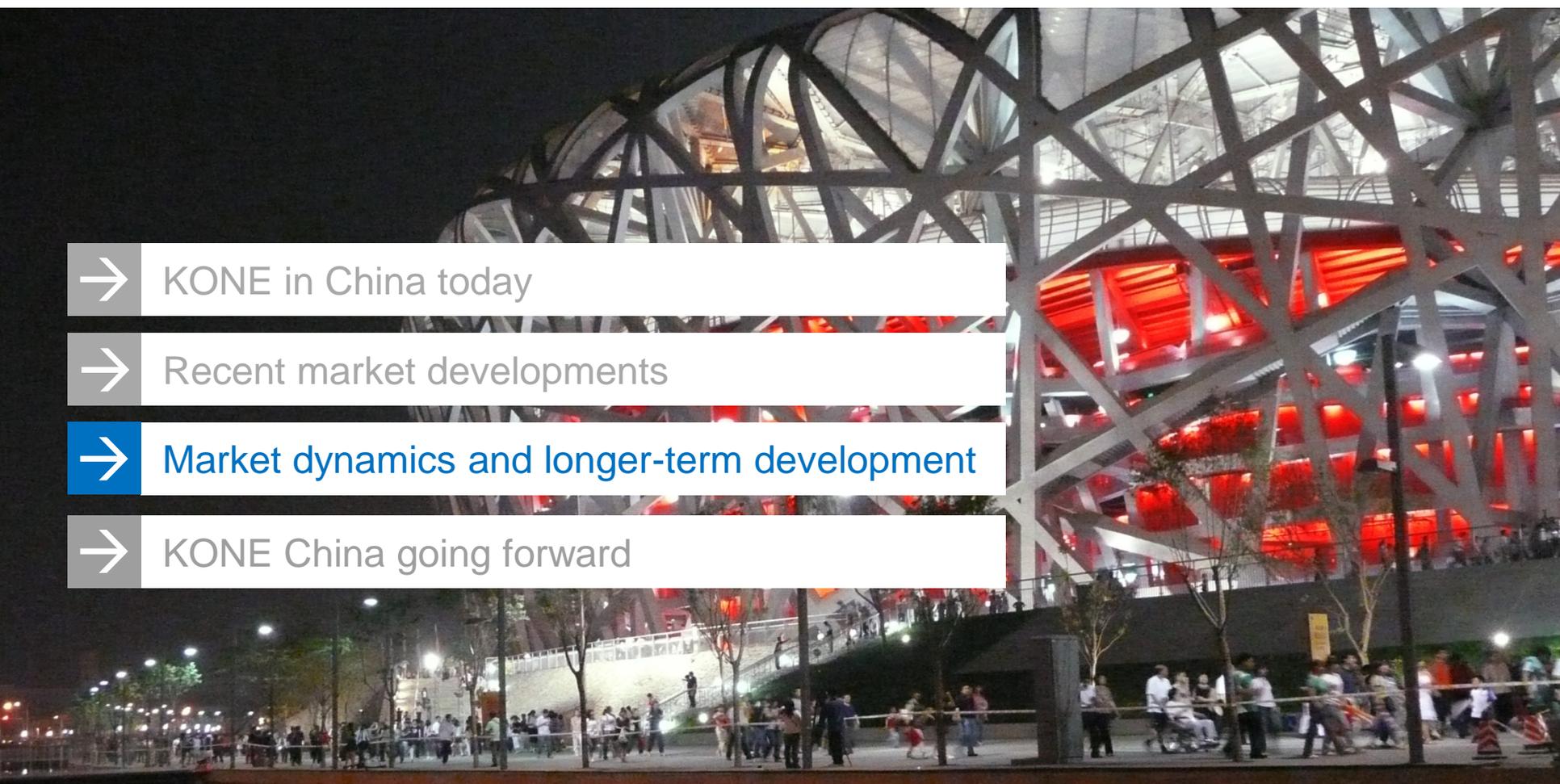
Segment-specific development

Commercial segment seeing solid growth, infrastructure segment relatively stable

Residential segment (other than affordable housing) picking up strongly in volume

Affordable housing trending gradually downwards

- Targeted 6.3 million starts in 2013 (2012: 7 million)
- Reported 5 million starts in 1-7/2013 (1-7/2012: 5.8)

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- The background of the slide is a photograph of the Beijing National Aquatics Center at night. The building's iconic, lattice-like structure is illuminated with red lights, creating a striking contrast against the dark sky. In the foreground, a large crowd of people is gathered on a plaza, some walking and others standing. The scene is lit by streetlights and the building's own lights.
- KONE in China today
 - Recent market developments
 - **Market dynamics and longer-term development**
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Drivers for E&E market demand in China



- Key drivers for **floor space** growth:

- Increasing number of urban people
- Increasing sqm/capita
- Demolition and replacement building

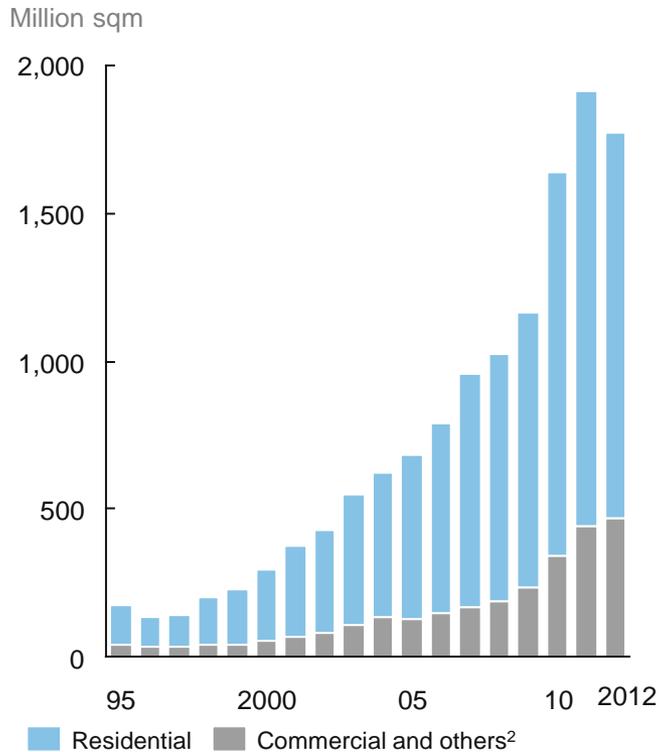
- Further drivers for **E&E intensity** growth:

- Change in building type mix from low-rise to mid-rise
- E&E intensity growing in all building types (especially low- and mid-rise)

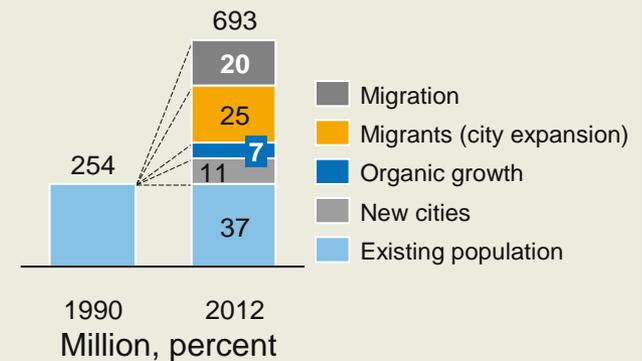
Historically annual floor space has grown with GDP, driven by residential income, increase of new migrants and middle income group



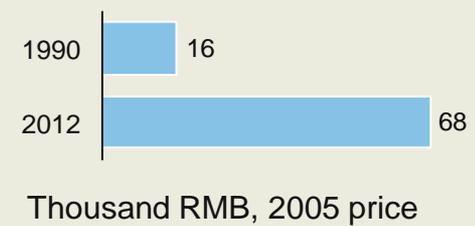
Annual floor space started



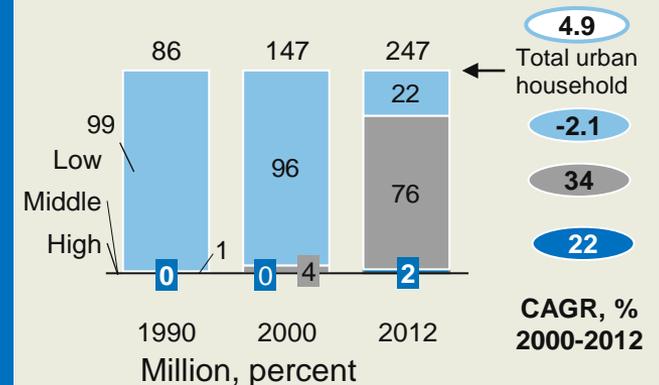
Urban population more than doubled driven by new migrants



Real household income grew at 7% p.a. over the past 20 years

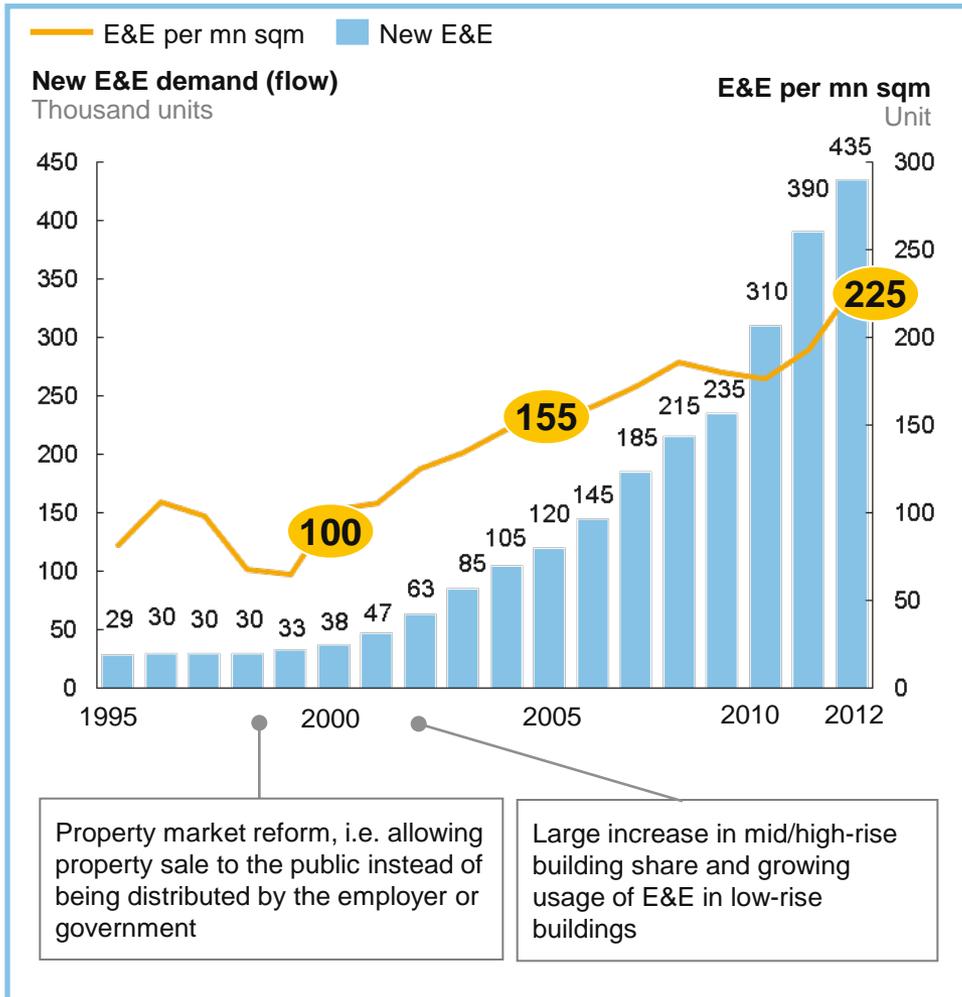


Middle income group ¹⁾ has expanded quickly



1) High income group with per household income > 171K RMB; middle income group with per household income 45-171K RMB; poor <45K RMB
 2) Include commercial, offices and buildings for industrial use

Since 2000, E&E intensity has doubled from ~100 to ~225 units/mn sqm driven by growing share of mid- and high rise buildings and E&E usage in low/mid-rise



- E&E intensity increased ~100% in the past 10 years
- Changes in building mix and E&E usage per building are the key drivers:
 - City evolution drives more mid-rise buildings to be built with more than one elevator used in a single building
 - Increasing comfort and living quality requirements drive elevator intensity in low-rise buildings

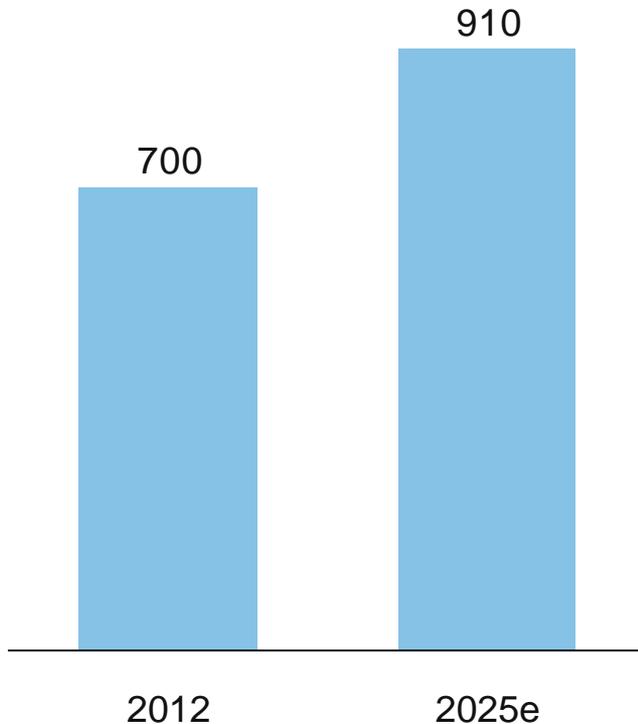
Source: KONE

Going forward, urbanization expected to add 210 million new urban people by 2025 and drive E&E demand

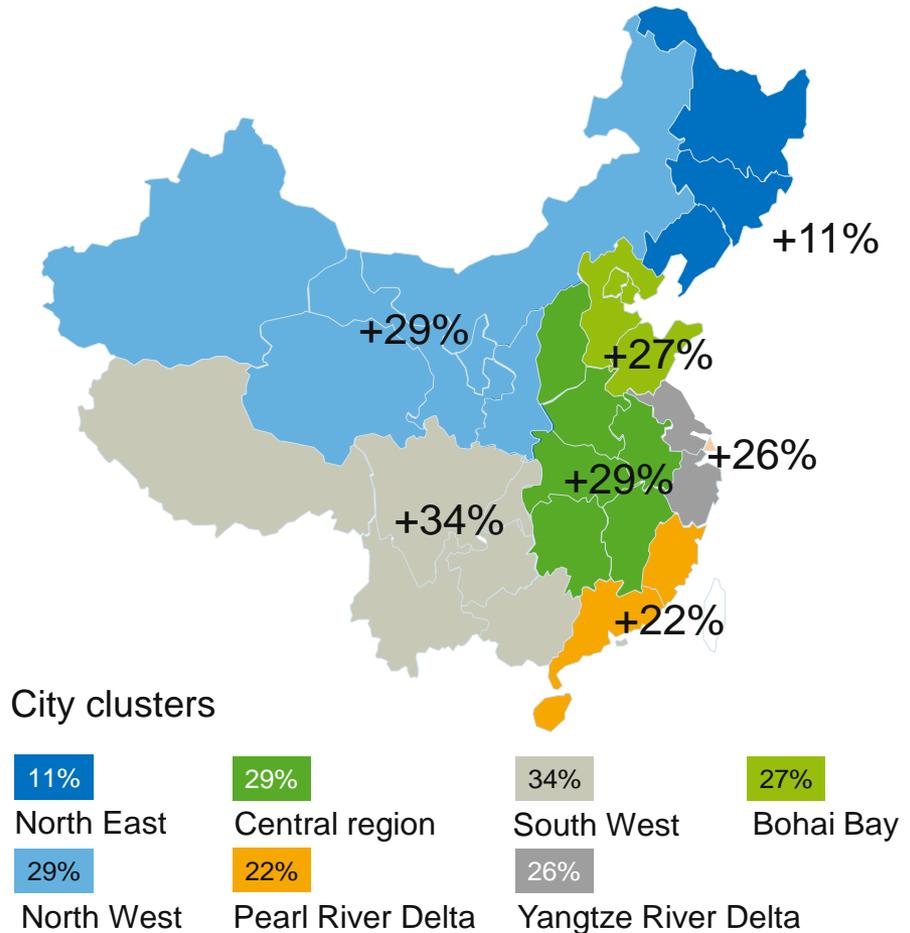


Expected growth in urban population 2012 - 2025E

Urban population, millions



Estimated urban population growth in 2010-2020E by city cluster



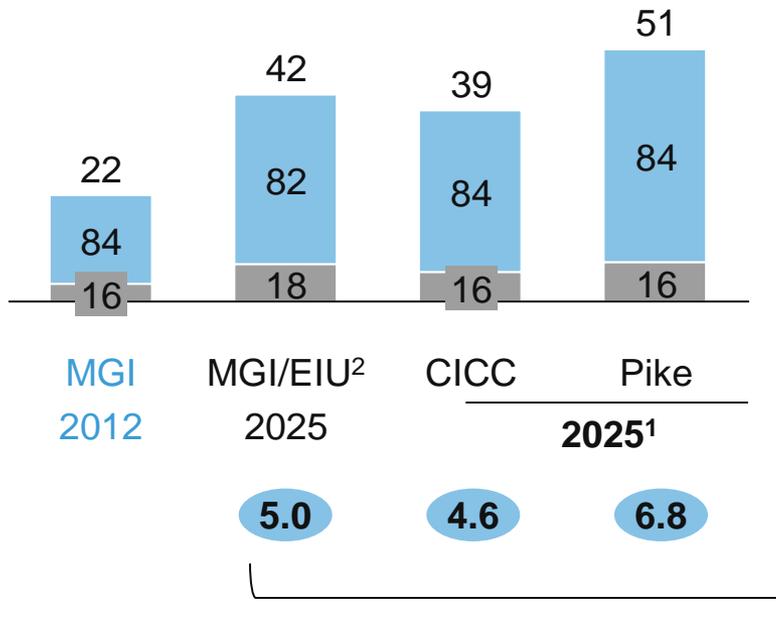
Expert estimates forecast 5-7% annual growth in total urban floor space driven by urbanization and increasing sqm/capita



Stock of urban floor space¹

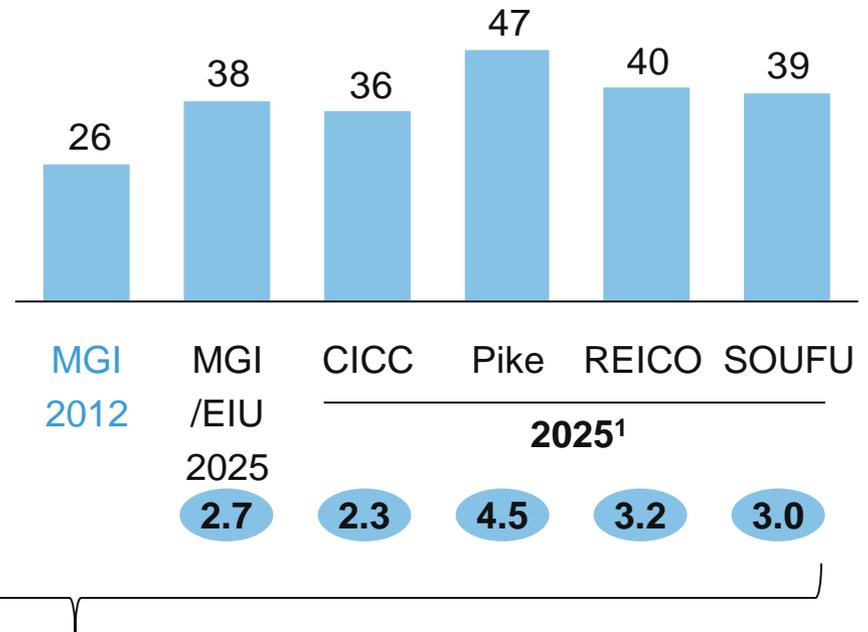
Total stock of urban floor space

Billion sqm, percent



Per urban capita stock of residential urban floor space

Sqm



CAGR 2012-25

Percent

■ Residential ■ Commercial

1 Only urban level counted for comparison between sources

2 MGI estimation adjusted by EIU trend

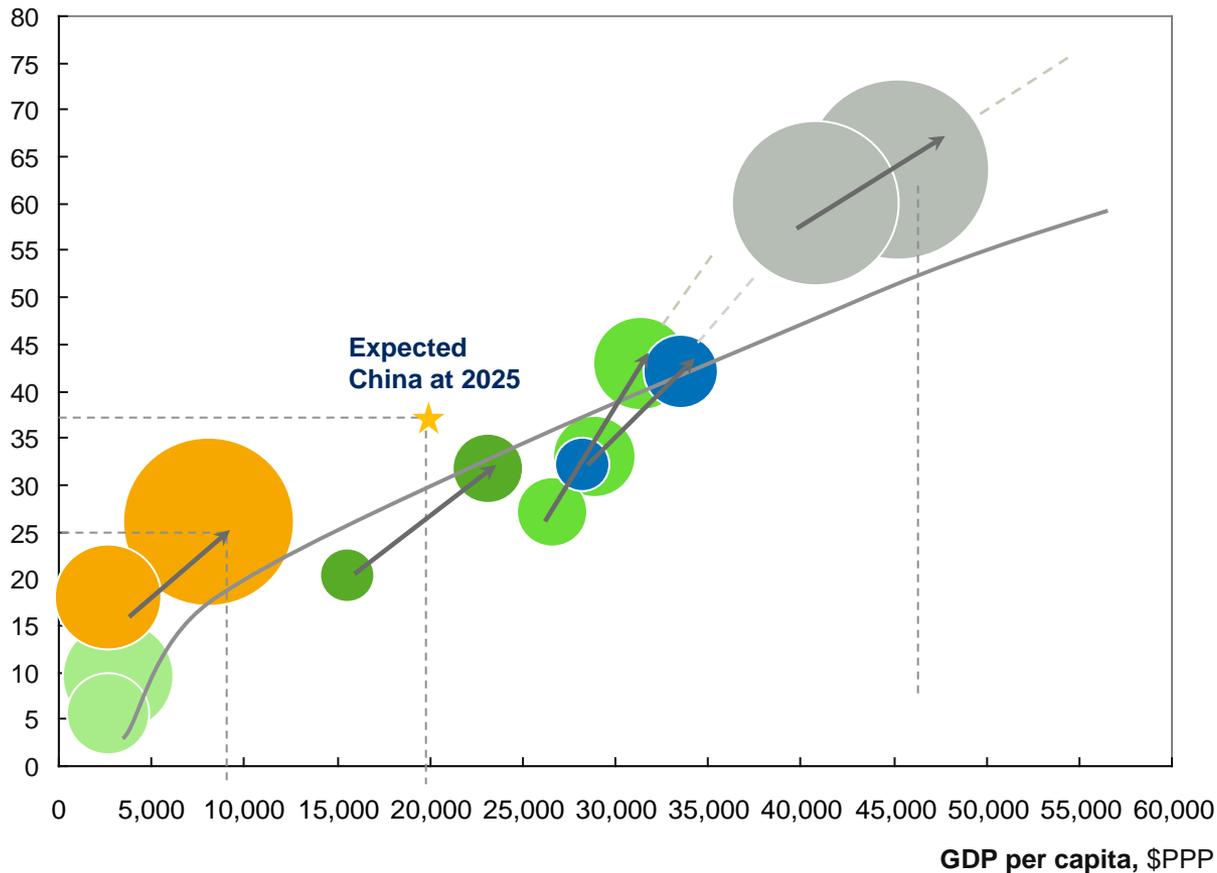
Sources: McKinsey Global Institute, Economist Intelligence Unit, China International Capital Corporation (CICC), Pike (international database), Real Estate Market Report (REICO), China Index Academy (SOUFU)

Based on international benchmark, urban residential floor space per capita is expected to grow from ~26 sqm in 2012 to ~38 sqm in 2025



Per capita residential floor space¹ vs per capita GDP

Residential floor space per capita, sqm, Size of circle represents total residential floor space stock



- China 00&12¹
- Germany 90&12
- Japan 90&00&12
- US 00&12
- Korea 00&12
- India 08&11

1 McKinsey Global Institute estimate

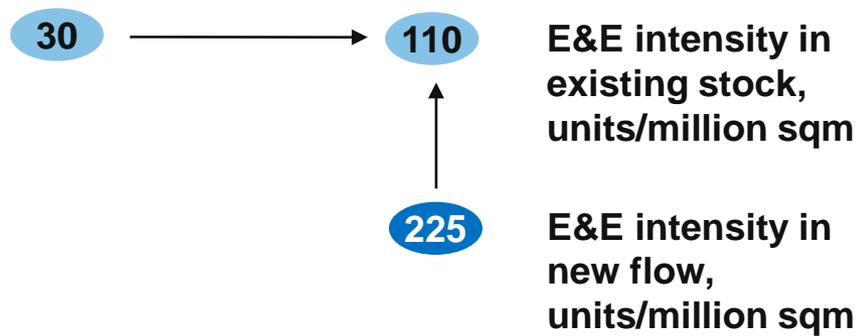
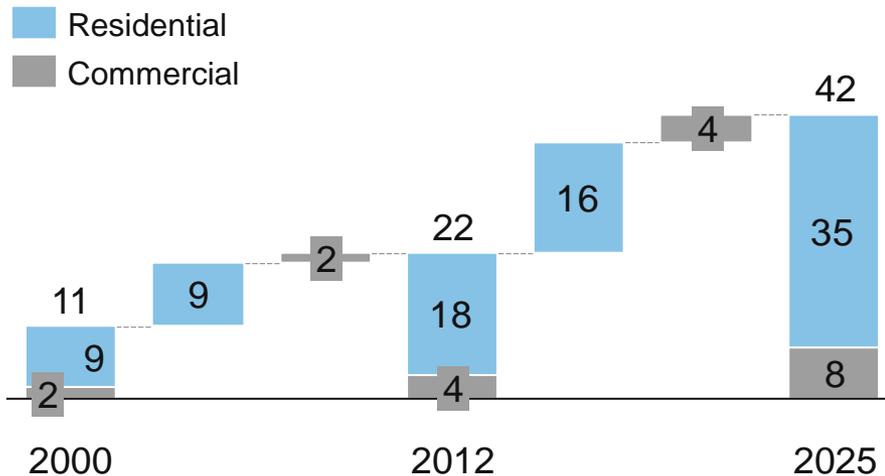
Source: EIU, Global Insights, McKinsey Global Institute analysis, Global Insight

This will result in floor space stock to double from ~22bn sqm today to ~42bn sqm by 2025, with ~80% of growth from the residential segment



Total stock of urban floor space

Billion sqm



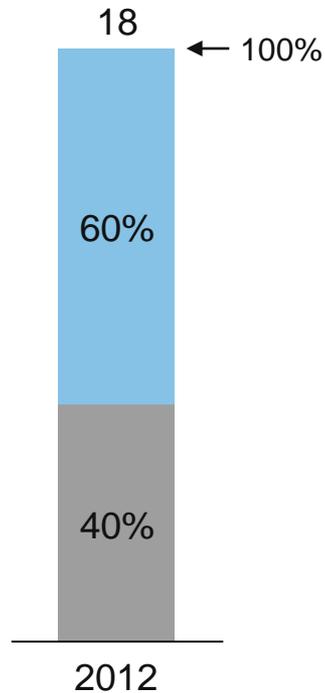
- **Residential floor space will contribute to 80% of urban floor space growth by 2025, of which**
 - ~60% will come from increase in GDP per capita
 - ~40% from urbanization flows of ~210 million additional urban inhabitants by 2025
- **Commercial floor space will be driven by the service sector**
- **New floor space flow has over double the E&E intensity compared to the existing stock today**

Sources: KONE data, expert interview

~40% of residential building stock built before 2000 is to be replaced in the next 10–15 years

2012 Residential floor space stock split by construction year

Billion sqm, percent



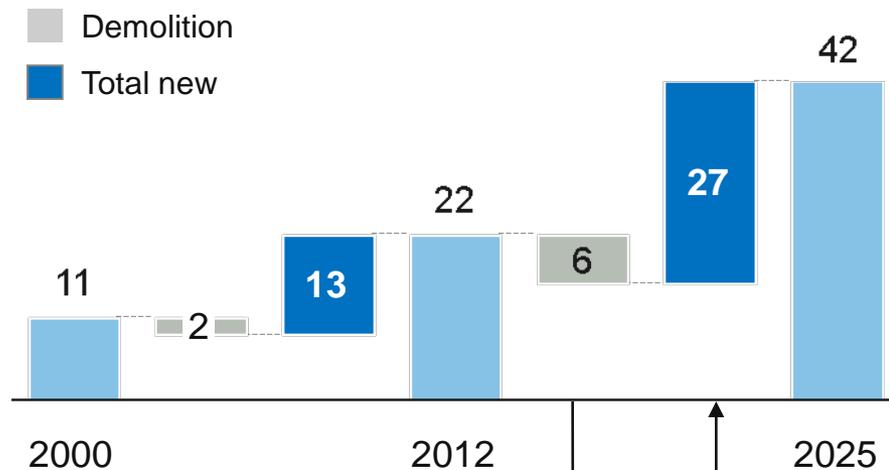
- Building stock built in 2000-2010
- Building stock built before 2000

- The 6th National Census Survey at 2010 stated there were about half of residential buildings that were built before 2000.
- 'Majority of buildings built 1979-1999 are far short of today's urban development needs, and can exist only 10-15 years' (Policy Research Office and China economic Research Institute, MOHURD, August 2010)
- 'Average lifetime of buildings in China is only 25-30 years' (Minister of MOHURD, March 2010)
- Since 2010 building construction standards targeting 40-50 years' lifetime

Rebuilding will therefore represent ~20% of total new construction and have multiple times higher E&E intensity compared to the demolished buildings

Demolition and total new construction vs. net stock addition

Billion sqm



E&E intensity in flow, units/ million sqm

30

>225 today, expected to increase

- **Demolition will boost construction by ~20% vs. net stock addition driven by**
 - upgrade of old city centers from low-rise to high-rise buildings due to increasing land cost
 - short life of buildings built from 1980s and early 1990s
 - changing function of local area (e.g. from residential to commercial center)
- **New building floor space flow replacing demolished floor space has 7.5 times higher E&E intensity (comparison to 2012 new flow)**
- **E&E intensity per sqm of new floor space is expected to increase further**

Low-rise city dwellings are being rebuilt around China

Shijiazhuang - 2010



Changchun - 2010



Ha'erbin - 2011



Changzhi - 2011



Xi'an - 2012



Shanghai - 2012



Changsha - 2013



Shanghai - 2013



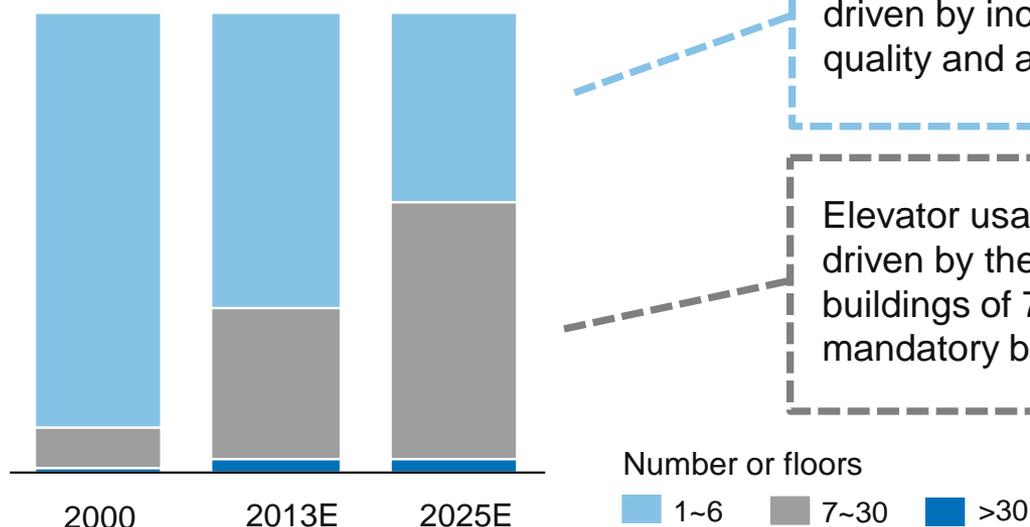
Source: Press search

Going forward, E&E intensity is expected to continuously increase as mid/high-rise share of buildings and E&E usage continue to grow



Evolution of residential building mix by number of floors, indicative

% of buildings built
Percent



Elevator intensity to increase further

Elevator usage for low-rise building to increase further driven by increasing demand of comfort level, living quality and accessibility

Elevator usage for mid-rise buildings to increase largely driven by the increasing intensity of elevators in buildings of 7-11 stories, where 2 elevators are not mandatory by regulation (increasing comfort level)

Moving forward, **all tier cities are expected to see an increase in mid-high rise building share** as more people continue to urbanize, living standards from growing middle class increase and land continues to be scarce in urban areas.

Sources: KONE data, expert interviews

Recap of drivers for E&E market demand in China



- Key drivers for **floor space** growth:

- Increasing number of urban people
- Increasing sqm/capita
- Demolition and replacement building

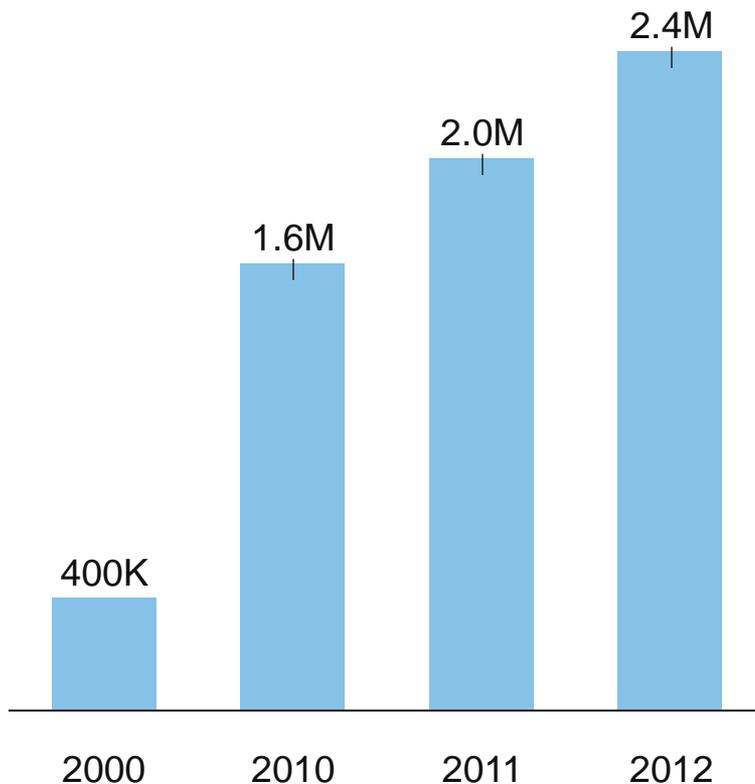
- Further drivers for **E&E intensity** growth:

- Change in building type mix from low-rise to mid-rise
- E&E intensity growing in all building types (especially low- and mid-rise)

Installed base is growing fast, making maintenance a very significant future opportunity



Elevator and escalator base



CAGR: 16% (KONE 2006-2012: ~39%)

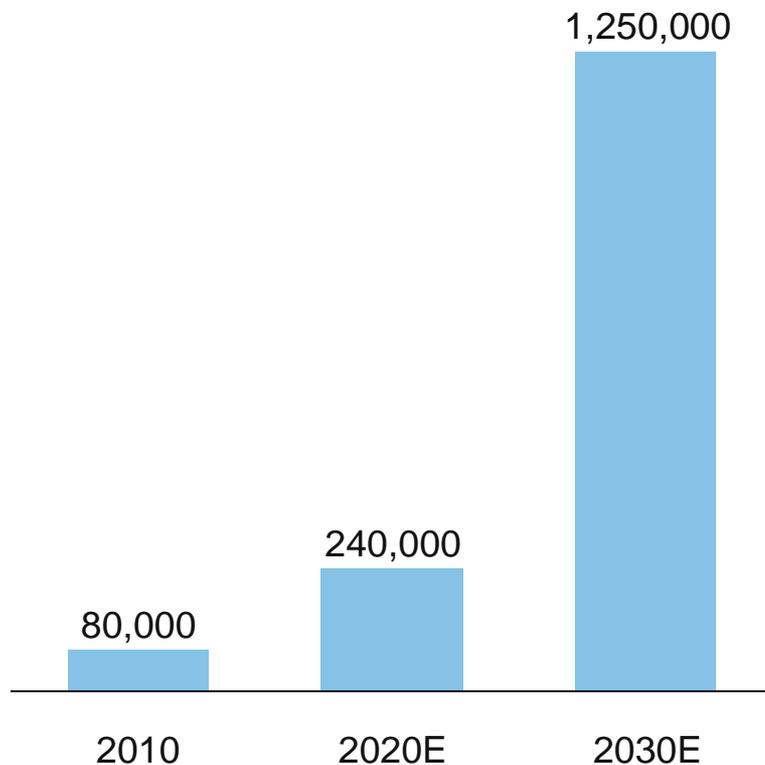
Maintenance market in China

- Maintenance market still very fragmented
 - Share of OEMs approx. 25% of total
 - Share of self-maintenance estimated to be 30-40% of total
- The government and local authorities are tightening maintenance regulation
 - Central government has set nationwide minimum standards on maintenance
 - Complemented by local governments' regulation

The modernization opportunity lies years ahead, but will be huge



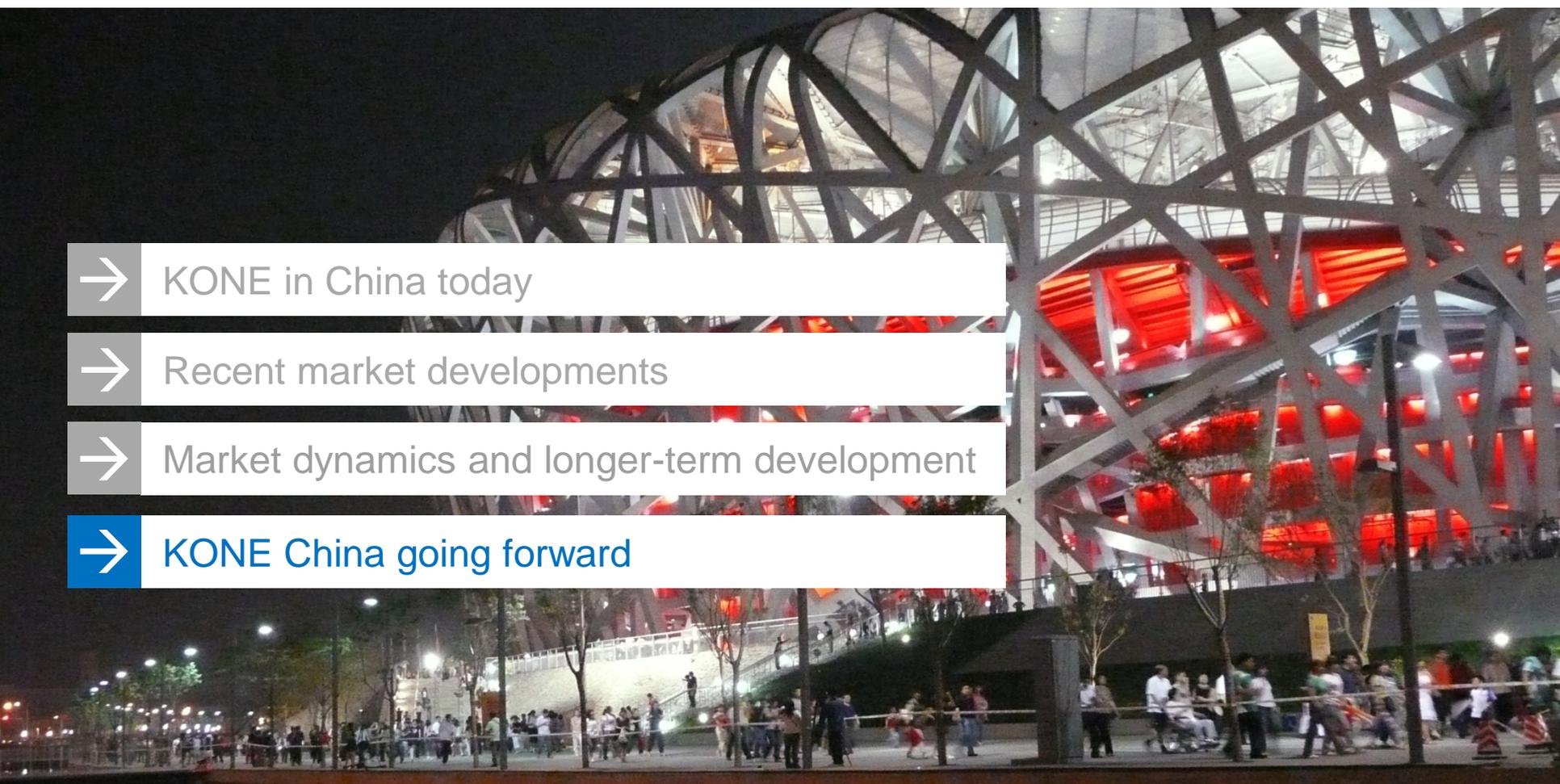
+20-year-old units in operation



Source: Based on KONE's estimate.

Modernization opportunity

- Modernization becomes a very significant opportunity in the future
 - Building lifetime increasing, buildings built within the past 10 years and going forward expected to have lifetime of 40-50 years
 - Modernization / E&E full replacement market will have very rapid growth once new equipment units installed after 2000 will require modernization / full replacement

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Our objective is to have profitable, faster than market growth over the long-term

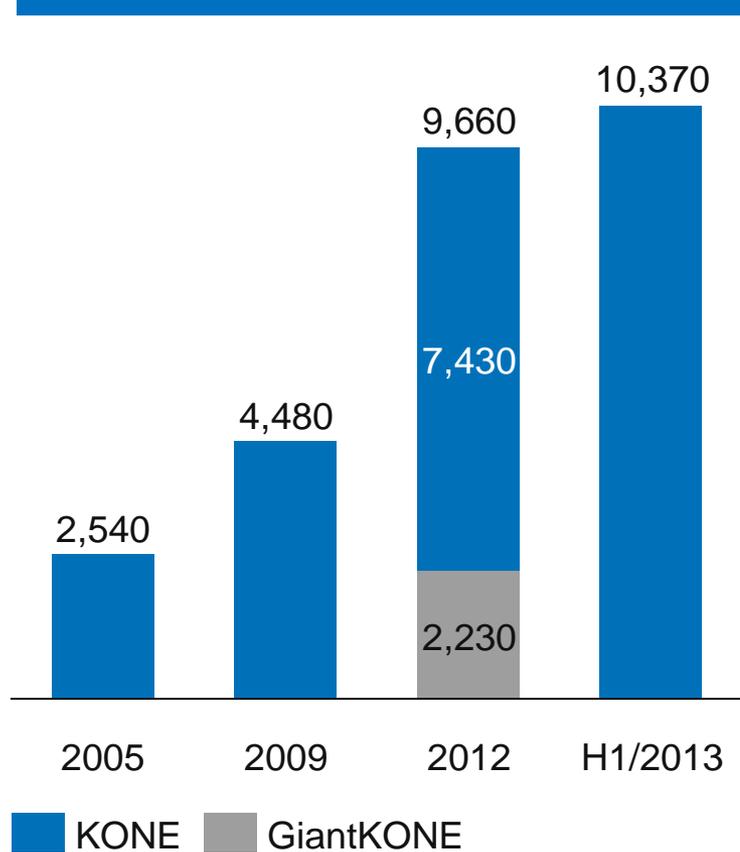


2005	2009	2011	2012
Competitor	Competitor	Competitor	KONE (no. 1)
Competitor	Competitor	KONE + GK	Competitor
Competitor	Competitor	Competitor	Competitor
Competitor	KONE (no. 4)	Competitor	Competitor
Competitor	Competitor	Competitor	Competitor
Competitor	Competitor	Competitor	Competitor
Competitor	Competitor	Competitor	Competitor
KONE (no. 8)	Competitor	Competitor	Competitor
Competitor	Competitor	Competitor	Competitor
⋮	GiantKONE (no. 10)	Competitor	Competitor
GiantKONE			

Motivated and highly capable employees are our key asset – talent management is a priority



**KONE employees in China
2005-2012**



- **Growing our field capabilities**
 - Over half of employees work in the field
 - Collaboration with leading technical schools
 - National and regional training centers
 - Field operations trainee programs
- **Continuous focus on employee engagement and talent development**
 - Growing trend of employee engagement
 - Above market employee retention rate
- **Developing leaders at all levels**
 - KONE leadership programs
 - Mentoring and coaching
 - Promoting from within: over 80% of staff and management positions filled internally

Incl. China mainland, Hong Kong and Taiwan

Growing in China in a sustainable way



KONE objectives in China

- Continue to grow faster than the market
- Continue to improve profitability
- Build market-leading service business

Key focus areas

- Offering performance and competitiveness
- Pricing excellence
- Productivity development in operations
- Active talent management



Dedicated to People Flow™

