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

- 2005: >400
- 2017: >800

- Rest of the world
- China

...and even more of the global installed base

- 2005: >8
- 2017: ~15

- Rest of the world
- China

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
- >30,000 customers, including 9 of China’s top 10 developers
- ~18,000 employees located across China
- Two factories in China, in Kunshan & Nanxun
- >800,000 units delivered in total
- KONE is the market leader in China with ~20% market share in new equipment in 2017
- Awarded for #1 Brand Value in Elevator Industry by AQSIQ
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

Urbanization
Upgrading
Urban renewal

Units per 1,000 population

Source: China Elevator Association, KONE estimates

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

Units per 1,000 population

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

Sources: China NBS, E-house, CREIS, KONE estimates
City clusters are the growth engine

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Number of cities</th>
<th>GDP</th>
<th>Population</th>
<th>REI</th>
<th>REI growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yangtse River Delta</td>
<td>26</td>
<td>11%</td>
<td>11%</td>
<td>20%</td>
<td>9%</td>
</tr>
<tr>
<td>Beijing - Tianjin - Hebei</td>
<td>14</td>
<td>10%</td>
<td>8%</td>
<td>10%</td>
<td>-2%</td>
</tr>
<tr>
<td>Pearl River Delta</td>
<td>14</td>
<td>10%</td>
<td>6%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Yangtse River Middle Reaches</td>
<td>28</td>
<td>9%</td>
<td>9%</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Central Plains</td>
<td>23</td>
<td>6%</td>
<td>9%</td>
<td>8%</td>
<td>19%</td>
</tr>
<tr>
<td>Chengdu - Chongqing</td>
<td>16</td>
<td>6%</td>
<td>7%</td>
<td>8%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>121</strong></td>
<td><strong>52%</strong></td>
<td><strong>50%</strong></td>
<td><strong>64%</strong></td>
<td><strong>8.4%</strong></td>
</tr>
</tbody>
</table>
Property market dynamics vary across different city tiers

New equipment market demand by city tier

Share in units

<table>
<thead>
<tr>
<th>Tier 1 cities</th>
<th>Tier 2 cities</th>
<th>Lower tier cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urbanization status</td>
<td>~90%</td>
<td>~70%</td>
</tr>
<tr>
<td>Population inflow</td>
<td>Controlled</td>
<td>Sustainable inflow</td>
</tr>
<tr>
<td>Government restrictions</td>
<td>Restrictions normalizing</td>
<td>Most heavily restricted at the moment</td>
</tr>
<tr>
<td>Growth drivers</td>
<td>Urban renewal and upgrade</td>
<td>Attracting talent to build competitiveness</td>
</tr>
</tbody>
</table>

2017 REI growth

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
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

The maintenance market remains fragmented
Market share split in new equipment and maintenance in units

Increasing role of new technologies a relative competitive edge for OEMs’
Modernization is an increasingly meaningful opportunity

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

Based on KONE estimates

Modernization market lags the new equipment installations by 10-15 year delay, with the big opportunities ahead in the 2020’s
In 2018, we expect the new equipment market to stay on a high level and services to grow strongly.

- **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.
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

<table>
<thead>
<tr>
<th>Year</th>
<th>KONE Pricing</th>
<th>KONE’s Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-2014</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>2015</td>
<td>-</td>
<td>stable</td>
</tr>
<tr>
<td>2016</td>
<td>-</td>
<td>stable</td>
</tr>
<tr>
<td>2017</td>
<td>-</td>
<td>stable</td>
</tr>
<tr>
<td>H1 2018</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>
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
We are playing offense in modernization

- <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

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2010</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>&lt;5</td>
<td>&gt;20</td>
<td>&lt;100</td>
</tr>
</tbody>
</table>

'000 units
We continue to build our presence...

In 2004, we had 12 branches

1 factory
9 service stations
12 branches

Kunshan factory
Shanghai HQ

Branches: 12
Service Stations: 9
KONE has a wide presence across China

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

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

6 training centers

High employee engagement - attrition lower than industry average
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