

**KONE CAPITAL MARKETS DAY 2018**

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Sanna Kaje: Good morning everyone, welcome to Kone 2018 Capital Markets Day here in Helsinki, the hometown of Kone. My name is Sanna Kaje and I'm the Head of Investor Relations. Before I go to the practicalities and the agenda of today, I would like to introduce all of the management team members present here today, so would you please stand up.

We have here our President and CEO Henrik Ehrnrooth, CFO Ilkka Hara, EVP for Marketing and Communications Max Alfthan, EVP for Asia-Pacific Axel Berkling, EVP for Services Hugues Delval, EVP for Greater China Bill Johnson, EVP for Operations Development Mikko Korte, and EVP for Human Resources Susanne Skippari. Thank you.

Let's look at today's agenda. We have altogether five presentations for you. Henrik will start today by giving you an update on the strategy now that we are halfway through the strategic phase. Hugues will then tell you a bit more on what all of this means in practice in the service business; and after these two presentations we will have a 15-minute break.

After the break, we will have Bill's presentation on China and Axel's presentation on the rest of Asia-Pacific to regions where we think there are quite exciting growth opportunities for Kone. Then another 15-minute break after which Ilkka will give you a financial update and summarise how all of the things we will discuss today will take us Kone towards the financial targets.

Henrik will wrap up the presentations after which we hope most of you will join us for lunch and the small group meetings where you have more time to discuss in an informal setting with the presenters. All of the presentation materials you can find online. You have a paper on your table where you have the WiFi details and the address where the presentations are.

After every presentation, you will have an opportunity to ask questions and you can also use a message wall which is in the same address as the presentations. So, we will see that those questions on the wall as well.

And we have a bit of something special for you as well. We wanted to demonstrate a bit what digitalisation means for Kone in practice. So, in the room next door right behind that wall where we also serve the coffee and the lunch during the breaks, we have some demos. We have for example 24/7 Connected Services and People Flow Planning and Consulting, some of the new things we've been introducing during the past one-and-a-half years. And you will also get to learn how to install an elevator; so, we will showcase virtual reality training tool that we actually use to train our installers; and a bit of something else as well.

But I'm sure you are all eager to get started, so I'll invite Henrik now on stage to start the day. Henrik, please.

Henrik Ehrnrooth: Thanks Sanna. Also, a warm welcome from me both to everyone here in the room and everyone who's following us online. Great to have again so many here with us. It's now a year since we last met in a similar setting. And a lot has happened since that again.

When I look at our industry, there are perhaps a couple of different – there are two important aspects that we think about all the time. One is a very exciting part, which is that we can see that our industry is evolving. Our customer needs are changing quite rapidly and that is bringing a lot

of new opportunities, totally new business opportunities or revenue streams that this industry hasn't had before. We are still in early phase there, but you will hear more about this.

The second aspect is clearly that the our industry has been going and is going through quite a challenging phase that we can see through the very intense competition and you can see that from our performance in our margins. That's clearly something we also need to constantly work on. Both of these are very high priorities for us and we'll hear more about them today.

So, in the next half an hour or so, I will first start by looking a little bit back - how are we performing, how are we delivering on our strategic targets. Secondly, I'll talk about why I continue to be very excited about this industry, why there continued to be very good long-term growth opportunities. Then it's all about how do we actually capture these opportunities. That's about differentiation.

And then we will invite two of my colleagues to the stage and have more of a discussion of how we are driving our performance improvements. But let's start with how are we delivering on our strategic targets. Before I go to strategic targets, what have been our most important focus areas in the past 12 months since we met you last time in this Capital Markets Day?

Clearly, it has been about improving our growth and pricing. And here we can see that our orders received has returned to clear growth and also our margins have stabilised. Second important focus area is clearly the rollout of our new services and solutions. Here, you will hear much more about this, but this is a very exciting story how are we making progress here.

And the third important focus area is clearly about our Accelerate programme – how we're creating customer centricity, speed and efficiency into the organisation. And here we will also hear a lot about how we are renewing the way we are operating and why that's taking us in a very good direction. So, that's a bit of a summary and wrap up of what we talked about last year and what we have done since.

When I look at our five strategic targets, that's how we measure our performance whether we're progressing in the right direction as a company. I think they're quite familiar to everyone. We have five strategic targets. And as we can see in the past 12 months, we have had good development towards four of those. One is clearly an area where we can't be happy – and I'll talk about that as well.

But let's dive a little bit deeper into these strategic targets to see how we developed. Our first target is to have the most loyal customers in our industry. That we measure many ways. And one of the important ways is our Annual Customer Loyalty survey where this year again about 30,000 customers gave their feedback to us and we saw that our net promoter score improved once again.

This is incredibly important to us as we're bringing more new services to our customers. That means that we need to work increasing closer with them, understand their businesses much, much better. Therefore, having loyal customers that we have close to that appreciates us very important. So, we can see we're definitely on the right path here. And we look at what customers are saying about us in the survey. They say they particularly appreciate the fact that they feel that Kone is on their side, good service mindset, customer centricity. Also that we're a reliable partner. That is hugely important in complex projects and also in maintenance. And also that our product quality is good. As always, we have a number of areas we can improve.

We know the challenge in our industry, which actually is the biggest benefit as well, is a very broad customer base. And we need to constantly be better in being proactive responding to them and how we communicate with them. You will hear more Hugues will talk about this as well how we do it in the maintenance business. So, many good things, but as always, lot of areas to improve.

Our second strategic target is for Kone to be a great place to work. These have always been hugely important, but I think in a time where we are right now, a very rapid change, having a motivated

engaged workforce has never been more important. You can never execute successful strategy without having your whole organisation behind you.

And we have a high employee engagement. Our employee engagement is clearly in a high-performance category when we compare it to external benchmarks. And I believe that the way we measure it is highly relevant because, again, this year more than 91% of our 56,000 employees answered the survey. And what I'm particularly pleased about this year's survey is that we got very high marks from our employees about what they feel about Kone's direction and confidence in our future and our strategy.

And why is this important? Again, when you are changing as every company is doing today because of changing environment, changing customer needs, customer expectations, if your employees have a good understanding, a feeling about the direction, clearly, they're going to execute better on it. So, I would say these two first targets are the most important forward-looking metrics that we look at. And I'm happy that they're going in the right direction.

Our third target is the faster market growth. I'm happy to say that this year we have grown faster in our markets if you look at the orders received in the equipment business. These happened particularly in Asia-Pacific both in China and outside of China. In Europe, Middle East and Africa we're growing faster in the market and North America this year we've grown more or less in line with the market.

And what I'm happy about is that our orders received has grown in all geographic regions and in all businesses. It's a very broad-based good growth. If I look at faster market growth in our services business, we believe that we have the industry leading growth in services. We have continued to constantly compound our growth in services, and that we'll continue to do. So, again, here faster market growth, I believe we have achieved that target.

However, one target that we, of course, cannot be happy with is where we say best financial performance. Yes, we measure this of the longer term. But when we look at now our margins declining second year in a row, it's clearly something that we are not happy about. And it's clearly something that we are taking action to improve this. And I think we all know what the background to this is, clearly has been the very intense price competition we've seen in particularly in China but in other places as well in combination with increasing costs particularly on the raw materials side.

In addition, over the past years, we've made a decision to put more efforts and more resources into development R&D, IT and so forth. So, that has had a certain impact as well. So, clearly, this is a very high priority for us to improve performance here.

Our fifth strategic target is to be a leader in sustainability. Again, we know that sustainability is a very broad subject and we look at it very broadly, and that we report in our Sustainability report. However, when we take one metric we look at our resource efficiency and as we measure through CO2 footprint, both through our own operations and also how we can help our customers here. And I'm happy that we look at the CO2 footprint from our operations has constantly improved when we compare that to sales. Shows that we're making Kone a more efficient sustainable company all the time.

And also, we are helping our customers improve their energy and resource efficiency by the simple fact that Kone's elevators are the most energy-efficient in the market. And we know this is very important to many of our customers as buildings consume more than 40% of all the energy in the world. We can help our customers save energy on this side; very important to us.

So, today's elevators they consume a tenth of the energy compared to elevators in the 90s. There's been a massive change and, you know what, this continues. So, that is about our strategic targets. That's how we measure of performance. I wanted to share with you how we look at it.

Before I start looking forward, let's briefly touch on our outlook both the market outlook for 2018 that is the same as we gave back in July. In Asia-Pacific, we expect China to be stable or decline slightly and the rest of Asia-Pacific to grow. And we expect to continue to slight market growth in both Europe, Middle East and Africa and North America.

In maintenance, overall growth with fastest growth clearly in Asia-Pacific and some growth in other markets as well. And in modernisation, we expect markets to grow slightly in both Europe, Middle East and Africa and North America with strong growth in Asia-Pacific. So, I think this is quite familiar.

Our outlook is also the one we gave back in July. Here, we expect for this year sales will grow between 3% and 7% in comparable currencies. And we expect our EBIT to be in the range of €1.1 billion to €1.2 billion assuming that translation exchange rates stay at the level of where they were in June. With these effects, we'd have about €35 million negative impact.

We also expect that the pressure on our margins is expected to start to ease towards the end of the year and that would be in concretely Q4. Q3 as we have said continues to be a challenging quarter in this respect.

So, what is driving our performance in the right direction? It's clear the fact that we continue to have a solid order book. Our service business continues to grow very well and we continue to drive performance improvements. However, there are a number of factors that are burdening us – price pressures that we've seen earlier in China, in particular, higher raw material cost that you know it's about 100 million, and foreign exchange rates also negative impact. Since July, as you know, the world has been quite become perhaps more uncertain, particularly from a geopolitical and trade perspective and that has had an impact on many currencies that are important to us. So, today, that would be about 45 million the negative impact. So, that is about our business outlook for this year.

If I look in the next year, as you know, we don't give guidance yet for next year, that we'll give in January again. But if you look at what are the factors driving positive performance and, as always, continued some headwinds, how do we balance these two? Clearly, one of the positive things is that our orders received are growing now and we have been able to stabilise our margin. That's a good thing.

Also, continued good growth in our services business and also the savings we're expecting from Accelerate programme as well as general performance improvements. These are all the good things driving our performance. But as always, there continued to be some headwinds as well. If raw materials and currencies stay at the level where they are now, they're going to continue to be a headwind next year, probably not as big as this year, but that we have to see. We don't know yet where we're going to be.

And then clearly, the increasing trade and geopolitical uncertainties are having an impact in many of our important markets, particularly in the Middle East. And then something that has emerged clearly over the past year or so has been a clear labour shortage in Europe. That doesn't have the only impact on us and our industry, but we can see also on our customers the whole construction trade is suffering from this at the moment.

This has been the case already in many parts of North America particularly on the west coast for many years, but we started to see the same phenomenon happening in Europe as well. But as I said, many good things driving our performance what we have done, and that is of course we're very focused on what we can do to drive better performance, and that we're doing.

So, that's about if you look backwards. Let's go towards look forward. Why do we continue to be very excited about this industry and see good growth opportunities? First, we know that there continues to be very good growth drivers. I think this is very familiar to everyone the story of



urbanisation 200,000 people every day, about 80 million people a year moving into cities; that creates constant demand for affordable accessible housing, ageing population in urban cities also more and more accessibility is required.

All of this brings great growth opportunities, that basic trend is there. Technological disruption drives change. And when I look at Kone's history, the best periods of time in Kone's history has been during the most significant times of change and how we captured the opportunities out of this. So, let me look into both of these a little bit more in detail why we continue to see great opportunities in this business.

Housing shortage is a real problem in many, many countries and in most big cities today. That is one of the bigger societal problems in many large cities today where people cannot afford housing. That means there's not enough. It's more demand and less supply and it's because 80 million people are moving into cities. People are moving more and more into city clusters because that's where you have more opportunities for education, for growth, for healthcare, just for opportunities overall.

And we could also see big changes in demographics and the way people live. The fastest growing group of people are people who live alone. This has a massive impact on what kind of apartments are needed in cities. Think about this; in less than 15 years, it is expected that 50% of households in France and United Kingdom will be single-person households.

In Sweden, that's already today 55%. Stockholm something like 65%. In Stockholm people eat more outside of the home today than inside of the home. That has massive implications on what type of apartments you need and the number of apartments you need. All these cities have a massive, massive shortage, and we can see through this right hand graph here that is affecting prices everywhere.

So, when you're building a city centre, it's clear that you need to build denser. Land of course is usually one of the biggest issues. And how do you build in those places? You build upwards. I don't think it's a big secret we kind of like that. So, that's the basic urbanisation trend continues to be there in many different forms. We know the basic urbanisation in Asia and Africa or people moving from countryside, but also what's happening in Europe and North America at the moment.

But also, we can see that because of the changed expectations of consumers and with new technologies, we can see that the way we work and the way we live is changing. In fact, if we look at the challenges facing our customers who own buildings particularly office buildings, there's never been a faster cycle when you need to change the purpose of the building. That means you need to have flexibility. You need much more co-working spaces, team working spaces flexibility that goes for any company today. I trust that most of your companies are seeing that change. That means that you pack many, many more people into the same buildings. You know what, that creates people-flow challenges. I hope you go and see how our people flow planning and consulting team are helping our customers resolve those problems that's in a neighbouring room here.

Even if you look at the city of London today, everyone knows we work. They didn't exist in London in 2013. They established themselves in 2014 in London. Today they are the biggest tenant for office space in the whole city. These changes bring massive opportunities for flexibility, and that's how we are – want to cater to those needs.

We also know that consumers want to have much more convenience and experiences that we know all from our private lives what we can get. And then third, the important trend we see is that developers what they face is when they build in city clusters very high land cost. That means that they need to shorten their schedules to save money. The faster they can get to commercial revenues the better their business case gets. Speed is becoming an increasingly important feature in helping our customers succeed. You will hear more about this.

Let me take a couple of examples of this. And this is of course only two examples, but I think they're quite representative today. Speed and reliability. A customer of ours in Toronto, Canada 1 Bloor East, it's now occupied this building, very nice residential building. But here the challenge for our customer was that how can they speed up, how can shorten their schedule. In a city like Toronto where the weather changes a lot, this developer said that they were losing over 30 days per year when they couldn't get people up to towers like this because of weather. You couldn't put them in external hoists. So, you just lost many days. And also, they're slow to get them up with external hoist so losing productivity. The productivity improvement when we put in our JumpLift solution, which is the solution that goes up as the building goes up, they massively improved their productivity because people could move quickly within the building and they did not lose a single day due to weather. A big, big change for them. This JumpLift solution something that again Kone pioneered in our industry, we have to date delivered more than 100 of these. My understanding is way more than anyone else has done. And this is really a one of our trademark solutions for developer customers.

Let me take another case about ease and convenience. Every generation in Golden Square in London. Here the developer want to make sure that they have modern apartments that suits today's tastes with ease and convenience, utilising technology in a smart way to make it more convenient for people to live there. Here, they're going to have the residential flow solution and they're very excited about it because simply they think that this will create more demand for these apartments. You will hear more great cases from Hugues about how that's driving real differentiation. So, when I look at the world at the moment, I look at what's happening out there and say our mission and vision has never been more relevant.

In very crowded cities, the way people move is very important. So, our mission is to improve the flow of urban life; very important. That's a good purpose. And our vision is to create the best people for experience, best experience for people when they move in and between buildings.

And to make the living more concrete when we see these changes and we see these opportunities, what is great with our industry overall is we continue to have the core growth drivers that we've seen for many, many years. Urbanisation driving new equipment growth, that's driving a increase in the maintenance base, growing maintenance business, and constantly an ageing population of elevators and escalators require modernisation. That is the story I think everyone in this room and online is very familiar with.

And you know what, that continues. But what is so fantastic is that we're now seeing a total new opportunity because of changing customer needs that I talked about, and the ability to provide service and solutions that fits our customer's individual needs utilising technology. I think you all know that we invest a lot in technology, but it's not technology that our customers are buying, they buy outcomes; and the outcomes we can provide with this, this is a totally new revenue opportunity that is emerging in our industry that hasn't been there before. That is why we continue to be so excited and why we continue to invest heavily in developing Kone.

And you know what, we feel that we are in a very good position here. We are number one in Asia-Pacific. That's where much of the core growth and growth in installed base is happening. And you know what, customers in Asia-Pacific are actually the fastest to take up new technologies. They don't have a legacy, they want to have the latest and we are incredibly well positioned here. And we are leading the way in our industry with new services. We are very much in the beginning, but we can see what is coming out of it, and you'll hear much more from my colleagues about that today. And clearly, we're also driving improvement in our modernisation business as well. So, this is how we see the business that core growth drivers impact new opportunities emerging, and we are in a great place.

So, how do we intend to capture these opportunities then? That is of course the key question. Well, that's all about our winning with customers strategy that we have now been executing a little

bit over a year and a half. On the left hand side it's external ward[?], it's the megatrends in our purpose, our mission that we talked about. Top of the building, it's our vision and our strategic targets, so that's where we're going and how we measure our success. At the bottom of the building, we have our culture that's about our values, how we work with each other day-to-day and about safety and quality.

But in the middle, it's about how we are going to be winning with our customers, how we bring our strategy to life. It's all about collaborate innovation, new competences. We don't believe that innovation happens in isolation today. That's where we're working a lot with our customers, with our partners and also smaller companies to drive innovation. That requires a lot of new competencies from us; and that we're doing, we're bringing, we're training our people very actively. When we do that, we can bring the most customer centric solution and services to the market. That specifically means service and solutions that fits our customer's individual needs. That is what you can do with technology most of you are very excited about it. Then it's about faster smart execution. We need to constantly be the best partner for our customers' on sites in maintenance to help them succeed in their business. And then it's about through service mindset.

We have 450,000 thousand customers that we all the time want to meet and exceed their expectations, hugely important in this business. So, we look at this, we have a number of areas how we want to differentiate. So, we have a systematic approach how we differentiate throughout the lifecycle of our customers and their needs. Everything from new construction, then building being used to upgrades. And it's not only about products and services, it is very much about how we work with them, how we want to constantly understand their businesses better to be able to help them resolve the challenges they have. But you see our people for planning and consulting services in the other room, there you will see concrete examples of this.

So, it's about systematically making sure that wherever they are in their needs, in the lifecycle, we can be there with the way we work but also with differentiating service and solutions. And I think

we have a good situation here. And to be able to strengthen this and to be able to even better bring these services and solutions to our customers, what we have done over the past years that we've invested more than ever in our digital infrastructure and in digital future of the company.

Connected customers, that is how we want to make sure that customers have all information at their fingertips every day. This is growing at a very significant rate number of connected customers we have. Connected users; you know what, we for the first time now have users that are connected to our cloud and that is through the residential flow service. We understand what their needs are. This is actually a new thing in our industry and something where we're learning a lot. Connected employees, we want all of our employees to have the best collaboration tools to be able to work efficiently together in the best way and also to make sure that they have the tools so they can work out in the field. We know that the clear majority of our people out in the field every day, how to ensure that they can work there in efficient way and that's I think something we've done for many, many years already providing great field tools for them, and here I feel we're in a very good position.

And it's about connecting equipment. When we connect equipment, we can get data from the equipment, we can get data of people using buildings and again provide many new services. And also this is growing at a good rate. So, this is the first connecting all aspects of our business.

Another aspect is that this year we also introduced a Kone digital platform. This is about how we have all the relevant data in the cloud for the use for our own operations to serve our customers better; but also with this digital platform we start to have the first now third party services where people can through application programme interfaces access our cloud data in a structured way and provide third-party services. There are a few of these. It's very much at the beginning, but that's we can see a very much interesting opportunity where they sell a service and they can connect them into for example elevator flow. They get a fee for that then we get a share of it.

So, to build this whole digital platform that's about how we not only run our operations ourselves, how we serve our customers but also how we can provide, our third parties can provide services together with us.

And because of all the new opportunities and the changes we see, I mean it is also familiar to many of you that this year we also want to simplify our offering structure and make it more clear in this environment. At the bottom, we have the basic core; equipment for new buildings, maintenance and modernisation for existing buildings. It's there. That's really the basic core that we have, will continue to be there.

Next layer, we have our advanced people flow solutions. Those are solutions for smart buildings. You will hear many examples of that today. And at the top, we have our people flow planning and consulting services how we can utilise the data and the insight we have and how people are moving in buildings. This is very exciting because there clearly a lot of consultants in this industry; and that's okay, they have a good business and we continue to be there and provide a good service. But what we have here that we don't see others have today is the deep insight from the data on how people are moving in buildings. With this, we can actually help people rearrange buildings in a much better way to assure an uninterrupted and good people flow. There are many great cases for this.

So, I hope you shared your enthusiasm about even though we know that past couple of years or perhaps three years have been a much tougher time in the industry overall. But when you look forward, we continue to see great opportunities and we see a lot of opportunities for Kone to differentiate.

Next, I'd like to talk about how we then are also driving performance improvements to give some concrete examples. And for that, actually instead of talking about it alone, I'd like to invite Susanne Skippari and Mikko Korte to the stage to join me.

Susanne Skippari: So, thank you Henrik.

Henrik Ehrnrooth: Thank you. And as you heard, Susanne leads HR Kone and Mikko leads our operations development. Very important people in my team who help us drive performance every day. Before we go to some of Mikko and Susanne stories, let me share a little bit insight also which I noticed something many of you have asked about this and how do we drive pricing. How do you improve pricing in a incredibly competitive environment?

Well, the first aspect is clearly our strategy Winning with Customers. It's about differentiating. Pricing is always something you sell compared to the second-best alternative. And we just need to make sure that we create more value than the second-best alternative, that our customers are better off buying our services and solutions compared to other service and solutions so we create win-wins. That is of course the core of it and that's about differentiating. And that's what you'll hear a lot about today.

But at same time, you need to have very granular insight into market data, into competitor data to understand where are your sweet spots, where geographically can you find opportunities, and then focus on these opportunities where you have the best situation. That is about having the best tools, very granular insights, and also have an organisation that is clearly charged and driven towards that direction. That is about incentivisation to execute.

And I think as many of you have heard me say before, the absolutely most important aspect in improving pricing is courage. When you are in a competitive environment day-to-day, if you don't have coverage and drive it forward, it will not happen. So, that's as much about organisational maturity and skill.



So, that's about pricing. Then we thought about let's go into a little bit how we're driving performance at Kone. And Mikko has the responsibility for the Accelerate win with customers programme at Kone. And that is course very important to us. So, Mikko why don't you start with sharing your thoughts on why we're doing it?

Mikko Korte: Well, Henrik, Accelerate as it says here in the slide, it actually is short for Accelerate Winning With Customers. And the essence of the programme is really that we want to make sure we execute our strategy in a strong and impactful way as possible. And Accelerate programme really in this context then has three targets.

One of them is to increase customer centricity and improve the customer experience. The other one is speed and the third one is efficiency. So, we drive towards those three targets in all this transformation work that we do across different functions of the company. And I could pick up an example here, and that would be about customer solutions engineering.

Henrik, you told us a little while ago about the changing environment where our customers live and indeed when our customers are planning and designing new buildings, they need to design and plan for an unsecure future, meaning that they know that things will be changing and then they need to accommodate those changes ahead of time so that they can keep up with their building for the future needs that will evolve. So, we are stepping into that space with our customer solutions engineering function providing a better support to our customers.

And it's not only about the use of the building that's complex. It's also so that that the spaces where buildings are being built are getting tighter because of the scarcity of land, and oftentimes you also see situations where customers are combining both old and new and they have to build these things together, and even so that you have businesses running in that environment all the time. So, doing all that in a productive fast way and good quality way requires a lot of design and planning and

that's where we step in with the customers solutions engineering. So, it's a big demand from our customers and that's where the customer-centricity comes from.

There is another element of speed in this like Henrik, you mentioned the need for increased speed, obviously, is coming from the customers, their time to market and their time to revenues is crucial.

And on the other hand also, we are here developing a way to bring solutions to our customers in a faster way so we have readymade machine if you want to provide new solutions in a faster way. And finally, there's the piece of efficiency; as we're working on this transformation, we come up and we come across with many things that there are maybe a little less value-add to our customers where we can automate things, where we can centralise things and so on and so on so. That's an example of a programme that we're running in the Accelerate Winning with Customers and targets for those three main objectives.

Henrik Ehrnrooth: Yeah, so I would simply we can say that for us to executing our strategy serving our customers, increasing complex projects this I believe will be a very, very important competitive advantage for us. But Susanne, why don't you share a little bit your thoughts in HR. You were actually – your team was the one who showed us the way HR is where we started Accelerate and because of what you did we thought that hey, this is a great idea, let's multiply it.

Susanne Skippari: Yeah, we started a little bit ahead of the others in the HR renewal. And what we actually realised some time ago is that there are growing needs for attracting developing and engaging people to our company and our HR operations weren't maybe sufficient to actually go with that growth and growing demands. So, what we decided to do is that we wanted to simplify all of our people processes. We wanted to also implement one global tool that is used for supporting all of those people processes, and then at the same time we decided to renew our HR organisation. And what we did there in the HR organisation side is that we actually build it on three pillars leveraging our scale.

So, we implemented the unit HR roles. That are the ones that are close to the business, and these are really that part of the HR that is bringing the customer-centricity into our HR work. At the same time, we built centres of expertise. The centres of expertise are really doing specialised HR work such as talent acquisition and learning and development. And I believe that these are the elements of our HR organisation that are bringing the speed. And at the same time, we decided to utilise our shared service centre structure that we already had in place in the company to also bring efficiency into our HR operations.

Henrik Ehrnrooth: Yeah, so – and because of the great work you and your team did, we decided it is a good model, let's bring this to other functions as well at Kone.

Susanne Skippari: Yeah and we actually are now ten months in that journey and we're already seeing some benefits out from it. So, we're able now to attract good talent with reduced time to hire and reduced external spend on recruitment, which I think is great at this moment.

Henrik Ehrnrooth: Yeah, honestly I at least always like when we can do something better, faster and cheaper. That's usually a pretty good combination.

Susanne Skippari: Correct.

Henrik Ehrnrooth: Good. Let's move on and talk about how we're developing our people. I think it's pretty clear to everyone who has been listening to our strategy that this will not happen without very competent and skilled employees.

Susanne Skippari: That's correct. So, many of these of you in this room probably know that we are quite a labour-intensive business, so it is utmost important for us that we continue to engage and develop this large footprint that we have when it comes to our employees. And majority of this workforce actually is in the field either on the job sites or directly facing customers. And this is something that

we believe is our strength, but it also sets some requirements for us to be able to then develop and engage them.

And when we're looking at the strategy and the offering changes that we have, we actually decided to prioritise these six competencies to be at the core of our people strategy for the next two years. My colleagues Bill and Axel will later talk a little bit more about how we build the training centres for example in Asia and in China for building field and product competencies.

But what I would like to really highlight from this slide are starting from the customer business understanding. So, in order for us to really become outside in and customer-centric, we believe that this is something that we really need to train our people for, to really understand the customers, and understand how can they help our customers to solve their business situation. And that is then helping immensely in the growth of the new services and solutions. So, in the new services and solutions area, we're then both training but also attracting new talent to the organisation in order for us to really develop these new services and solutions to sell them, to install them and to maintain them. So, that is something that we are putting a lot of focus on at the moment.

And then to really boost this new services and solution side of the business, we are also investing into something called Consultative Selling. We already have a very good baseline here. We have our sales force trained for solutions selling and now we are putting that to the next level, or lifting that to the level really by training them on more profound consultative selling as well.

So, those are the competencies that I'd like to highlight from here. And how do we then get these competencies? So, we can of course attract them from the market or we can train them from our existing employees. And then in some areas, we just decide to partner with some other companies, if it's an expertise area where it actually makes sense to get that as a service or as a partnership from someone else. IBM, Watson for artificial intelligence would be an example here or some of the smaller players like Indoor Ninja would be another example of partnering.

One thing that I would like to highlight on the training side and developing our own employees to work these new competencies is how we are now using more and more of these new learning methods. So, examples there could be mobile learning, gamification and also using virtual reality for learning. And that's actually something that I would invite all of you during the break to test and try out. So, in the other hall, we have a virtual reality learning solution for installing a mono 500 elevator so you can try it out during the break. I think that's rather cool.

Then one more thing about the slide is the engagement. So, engagement is something that I feel is the most important thing that we need to put focus on. Henrik mentioned already earlier that customer loyalties in other important target and employee engagement clearly builds happy customers and loyal customers. So, that is also then impacting directly to the business results. And how we do that is we are building on our existing culture, continuous dialogue with our employees and we are now moving our culture even more towards outside in and customer-centric.

That would be maybe how I would summarise the people strategy for the next two years.

Henrik Ehrnrooth: Thank you. So, as you can see that we continue to invest a lot in our people. That is something we are proud that we have done in every cycle of the business; we continue to invest in our people because we believe this is so fundamental to our success. And hopefully, this opens up a little bit that what are the focus areas and something we as a company spend a lot of time on.

But let's go into more hard-core operations. How are we driving quality and productivity at Kone? Mikko very often get asked for from this group of people that we've been talking about productivity for many, many years and you every year said you improved productivity and then I get many other questions like is there any more to be done, have you come to the end already. What do you think?

Mikko Korte: Well, I don't think there ever is going to be an end for productivity, quality improvement and that certainly is the case for us as well. I think probably all of you know that a lot of our activity and fieldwork is actually conducted in our customer building. So, all of our service work is like that, it's disparate over a wide geography. But also, our new equipment business goes the same way; after the part of the centralised supply chain, our deliveries actually happen on construction site that we operate thousands and thousands at any given time. So, that's where we start to see a more variation in the field performance of our different units and the different parts of business.

In the left side of the graph here we have an example from a new equipment business. That's the lead time that describes the time between when our supervisor is on a site with a customer and concludes with the customer that it is now time to start the works, he gives an impulse to our supply chain to start to procure the materials and start to do the manufacturing after which follows the logistics and then the installation on the site. And this difference in which is described to 50% there is a difference that can be between similar countries in a similar market with the similar type of a product and solution. So, our work really focuses on reducing that variation and it is about improving the last mile of logistics, it is about improving site management and the installation efficiency and those types of thing. So, there's quite a lot of opportunity; and as we go forward with that, we can improve the service to the customers being able to deliver faster and then, obviously, there's an opportunity to improve productivity as well as lower the inventory. So, that's an example from the new equipment business.

The other example there on the right side is more from the service side of the house. First fixed rate is something that we call a measurement where we measure on how many cases out of one hundred we can resolve a customer trouble or a call out on one go without having to come back. And that's obviously all about again skills to support the technicians. It's about material availability, logistics and so on; and there we also work to reduce these differences, which then will provide the customers with better uptime as well as lower the costs.

So, those are just two examples out of many. We have lots of places and operations in the company where we can continually improve and that's something that we do.

Henrik Ehrnrooth: Good.

Susanne Skippari: That's something that I always ask my colleagues to also focus on because of the labour shortage that Henrik mentioned earlier, so very important for us.

Henrik Ehrnrooth: That's right. This is important driver there as well. So, thank you Susanne, Mikko.

Susanne Skippari: Thank you.

Henrik Ehrnrooth: Hopefully, this gave us some good insight in some of the areas how we're driving Kone's performance and also how we're developing our people. Before going to questions, let me wrap up.

First, we made some good progress in our strategic targets as you can see. That's why I feel very good about the direction that we have. Also, we are capturing the solid growth drivers in our markets and we continue to see those to be there for the long term. Our Winning with Customers strategy, it's all about improving differentiation and about capturing those opportunities in the market. You will hear from many of my colleagues today more about how we are developing those and how we are specifically capturing in many of our important markets. I must say I feel good about where we are in that strategy execution and the direction. Of course, I would always like us to be faster. This direction is a good one.

And it goes without saying that a very important focus for us is to drive an improvement in our performance. That is an area we're not happy with where our margins are and we're working very actively to differentiate better pricing, better productivity to improve that.

So, with that, I think we have now some time for questions. There will be plenty of opportunities for those today, but we can take the first round of them now.

Sanna Kaje: Yes, we will take best of the questions both from the audience, but you can also send your questions on the message wall if you prefer that. But let's start from the front row.

Klas: Thank you, Klas, Citi. Can I just Henrik ask you about the headwinds and tailwinds going into next year? And end of this year as an exit, do you think price cost will be in balance on new orders or is the intention to be price cost positive? Or to ask this differently, do you think the margin on new orders can be higher year over year?

Henrik Ehrnrooth: So, if I – where are we today? So, we know that we are now – let me first address where we are on our margin delivery just to give perspective here. It's clear that the margin that we're delivering from our orders now has been coming down and that is the historic pricing that has been under pressure. So, that's why we've seen the pressure on margin so far this year. And as I mentioned, we continue to see that in the third quarter as well. Now this year in many of our important markets we have been able to increase prices, and that increase in prices year over year about to the same as to compensate for the raw material headwinds. And that means that now we are pretty stable on what we are booking and what we are delivering, if that answers your question.

Klas: Exactly, but there is obviously a difference if we think about the margin expectation going into next year in terms of whether the margin will go up or not, whether the price is above cost or in balance towards the end of the year.

Henrik Ehrnrooth: That depends on how long back you look. It's clear that if you look two, three years back, it's clear that we're not there. Year over year, we start to be there and clearly, we're not giving any guidance for next year but I think our ambition is pretty obvious.



Klas: Okay one quick follow-up is on pricing. To what extent do you think you can hold on to the price increases in China next year should for example raw material starts to fade and you obviously have the consolidation among your customer? So, everything in terms of services, digitalisation to what extent is that helping net pricing if we exclude the impact of raw materials?

Henrik Ehrnrooth: If I look at first just the new equipment business, I feel like China team has done a good job in a very, very competitive market in driving prices upwards. Clearly, we always would like to get more. But one of the key things I'm focusing on was what is the direction. Are we going in the right direction because then you can always build momentum on that, but yes we're going the right direction; and with the differentiation we have, the capabilities we built, that is clearly an objective that we want to keep up this.

Where are we going to be next year? I can't – as you know I don't comment on pricing going forward and we have no idea what the markets would be like. What I'm always looking at that where are we today, do I see that we're getting better at it every day, and is the direction right than when we are right now today. The answer to that is yes. Where we're going to be next year, we have to see.

Klas: Thank you.

Sanna Kaje: I think you can hand the mic right behind you.

Andre: Yes, thank you. It's Andre from Credit Suisse. Sorry about the voice. Can I just check firstly on 2018 guidance the ten million extra raw material headwind, do we interpret this guidance have changed despite that or do we need to think about that going forward?

Henrik Ehrnrooth: Well, our guidance range is the same 1.1 to 1.2. It was just – I mean anyone who looks at where currencies are today can see that particularly the RMB compared to the Euro is much weaker and many other Asian currencies have weakened a lot. So, that's just a matter of fact. But the range is the range. That's what we have given and what we have.

Andre: Okay, got it. And the second question just more about your midterm or future market growth outlook where the new services and technologies have become bigger driver and quite a meaningful driver looking at the rest that's all kind of us known you know growing installed base and then some growing economies. Those new services and the kind of addition to the core drivers from that sort of change in buildings mix and utilisation, etc., do you not think there's a risk of that making the market kind of inherently more competitive as opposed in the past when we thought about installed base growing, ageing that has to be maintained, that has to be modernised. There's no choice about this. Now it's kind of need to convince the customer that your cloud proposition is stronger than someone else's and your value-added services, more value-added than someone else's, kind of what are your thoughts on that?

Henrik Ehrnrooth: I would say that first the basic what you said at the traditional growth model, it's still there, hasn't gone anywhere and it will continue to be there. This is just an opportunity on top. How much will we capture that, that's an additional opportunity. I think it's up to everyone in the industry; and I think we are showing the way that when you build capabilities of demonstrating to your customer that with this service, their business is better off, clearly, makes sense for them to pay it. I mean again, we'll be in our early phase, but we have some great examples where we have been able to help our customers make their buildings function better that they have had tier complaints from tenants because of queuing and waiting and things like that. And with the new services that we have, because of the insight and the connectivity and the constant understanding of what's happening, we help them rearrange things in buildings, and this is not the only one case. We have several cases.

And the feedback from our customers was that hey, when you did that, now I can increase my rent because I'll have your tenants. If we're not creating opportunity after that, then we should be doing something different. And that's why I see a great opportunity here. What will exactly mean? I don't think we quite know because we're so early in early phase, but that's why we are developing our people a lot, our understanding a lot so that we can really bring something that helps our customers succeed. That is about clear win-wins. That's what it's all about.

Andre: Great, thank you.

Sanna Kaje: Okay, that's Daniela, almost next to you.

Henrik Ehrnrooth: Daniela, yeah.

Daniela: Thank you, good morning. Just following up on this point of the new offerings, two questions, one directly related on I know sort of the trajectory you sort of struggled to say exactly how much it will be. But for the core customers, you have already converted from an old maintenance contract to a new maintenance contract. What are you seeing in terms of sort of pricing margin from those clients, just is it sort of are you staying still or you're actually adding something to your own P&L? And then –

Henrik Ehrnrooth: Let's take one question at a time. That's always makes it easier. The answer to your question is yes. So, when we have the customers who we've sold these new services to, you know what, they're very happy because they've seen a clear improvement in how they're building or their business functions. So, they're better off. You know what, we're better off because we sold a value-added service where we get additional revenues and yes margins are better then.

Daniela: And there was a very interesting last slide than the first fixed rate I think that's what you call it where you had the difference between top three and bottom three. But can you clarify what

is your current average first fixed rate across the business and where do you think that can move with for example 24/7 connected services in terms of diminishing the failure rate of first maintenance or whatever the opposite of first maintenance is?

Henrik Ehrnrooth: Now what we see is that when you have connectivity and you understand remotely what's happened then your first fixed rate is much higher. But I would say in the industry overall when there was a benchmarking, first fixed rates can be as low as 50%, they can be clearly over 60%. But when you have then connectivity and you can analyse remotely, we have a technical helpdesk that looks at it, can make sure we dispatch the right person with the right parts that Mikko was talking about, you can get that up quite significantly. So, but again, this is what we see from the first cases and we can see a big improvement both for us, and therefore uptime and how quickly we can resolve challenges on customer sites.

Daniela: Okay thank you.

Sanna Kaje: I think we have time for one quick question at this point and then later –

Henrik Ehrnrooth: Let's take hear from Antti. He's been waiting for his turn.

Antti: Yeah, this is Antti from Danske Bank. I've seen these presentations for a number of years and my observation would be that nowadays you have less and less pictures from China and you have more and more stories how people live in Stockholm and London. And I wonder why because China is still 30% of your sales and combined with the rest of Asia even more. So, is this is really a correct observation that Kone has shifted its focus?

Henrik Ehrnrooth: I think Bill has been presenting at this Capital Markets Day every year and he's here again. China is hugely important. I think when we look at these new services, many of them we have actually started in Europe. That's why we have more of the examples here. But in fact,

actually as you hear from Bill's position and also from Axel's presentation, when you look at the take-up of these new services and solutions, that's actually the fastest there.

So, I think the reason we have perhaps given more focus in Europe on service is that with these new services, we see a clearly new growth impulse here. China, I think you know quite well we've been talking about a lot. But this is the perhaps a more new thing that is happening in the industry and the fact is that there are just more examples in Europe of this at the moment.

Antti: Okay, that clarifies your thinking.

Henrik Ehrnrooth: All right, yeah.

Sanna Kaje: Okay, I think we need to move on. Thank you, Henrik. And there will be time for more questions later. So, don't worry if you didn't get your question as at this point of time.

Henrik Ehrnrooth: Thank you.

Sanna Kaje: I would next like to invite on stage Hugues Delval to talk more about the Service business and these new opportunities that Henrik already mentioned. Hugues, please?

Hugues Delval: Thank you. So, good morning, happy to be with you again this year. As Henrik mentioned, we have been investing more in developing our service business over the last years and there is already quite a bit of talk about the new services and solutions in questions. So, let's use the next 30 or 40 minutes to dive a bit deeper in the service business, in this new service and solution.

Our journey will be actually in three steps. The first one is to take some time to reflect a bit on what we've been doing over the last 12 months the last time I was in front of you in London and how we have been developing. Then we will take a look at the markets and what are the opportunities we

see in this market to continue to grow faster than the market, and of course profitably. And then I will give you more insights on the way we are deploying our new services and solutions and what is the value we are creating for our customers with very concrete examples.

So, first, last year, Henrik, I actually talked again about this is that when as you know every year we are collecting the customer feedback and getting their appraisal or assessment about our service quality. And the feedback is actually very good. You've seen that our performance has been increasing over the years and our satisfaction has been increasing. Though what we also recognise is that when we are listening to them, they also are saying, of course, you are doing a good job but we don't see much difference among the different players on the market.

And we all know that when there is no differentiation, well, there is commoditisation[?] and price erosion, and not very far away. So, again, last year we said that our main focus on our service strategy was to bring more differentiation in the eyes of our customers. And in order to do so, we were working on three directions. The first one is about continuing to work on the service mindset and the service culture of our personnel. The second one is about developing new solutions, which are, I would say, build with our customers based on their on or understanding of their customer needs, and, of course, third direction is capturing the digital opportunity that everyone is talking about.

So, service mindsets, again, our customers are very clear. What is the most important driver behind their satisfaction and their loyalty? It's the ability or the relationship and the trust with our people. So, we continue as you – and you have heard that already several times we continue to invest significantly in building the competencies of our people. Of course, from a technical point of view, and again we will excel and Bill talking about our training centres in both China and Asia-Pacific and how important they are in building our success.

And, of course, as Susanne mentioned, we are also investing a lot in building these new sales competencies or these new competencies in order to sell and deliver on these digital services. Also, we are developing our tools so that they are mobile and they are enabling our people shorten[?] your field supervisor to be more on the field. What does it means is that they are more in front of our technicians and in front of our customers again in order to build further the relationship because you don't build relationships with the customer from the office, you build that on the field in front of them.

So, from a new services point of view, we will enter into much more detail about four of the new offerings we've been launching on the market over the last 18 months; so new KONE Care, 24/7 Connected Services, Residential Flow and People Flow Planning and Consulting Services.

What we have done over the last 12 months, again, since I was in front of you in London, is that we have worked on deploying these new solutions as broadly as possible. So, we are now I would say on the market with these four solutions in about 20 front lines or markets. And we have been putting a lot of effort in, of course, again building the sales competencies but also ensuring that we are able to deliver on our promise to the customer; very, very important.

And as you have seen, these digital opportunities of this digital technology is actually both supporting the ability for us to reinforce the service mindset of our people. I talked about the mobility tools for our field supervisors or technicians and there is a clear technology content behind our new offering or backing up our new offering.

So, again, we are actually very happy or happy about our performance so far. We have been growing clearly faster than the market at a growth rate of 6.5%. And as you see, this growth rate is actually coming from both the maintenance business and the modernisation business. And you will see that when in a couple of minutes I will go through the market figures, you will see, I would say, this our performance is clearly better than the rest of the markets.

So, speaking about markets, because we have looked at the past now the markets and we are looking more of I would say present and future story. And we look at the maintenance market and how it supports our growth in the future. So, again, if we look at the very fundamentals what we see that today the market in units is at 15 million units and it has grown by slightly below 6% last year. Okay. Of course, we all know in this room that this growth has been – well, first the market is growing in every single geography, which is, of course, very positive. The second element is that the markets or the share of the market growth is of course larger in Asia-Pacific in China. And in Asia-Pacific in China, today, the average price or the maintenance contract is lower than in the rest of the world.

Hence the market growth in monetary value for the market is 3%. 6% in units, 3% in monetary value and you show that our growth in the maintenance business was at 6%. So, that gives you a clear I would say story about how we are performing against the markets. Of course, we continue to see opportunities ahead of us because with the new construction which continues to bring an order of 800,000 units to the market, of course, we will continue or at least we have the ambition to continue to grow faster than the markets.

What about the modernisation market? Maybe let's start with the graph which is on the right side of the screen. The modernisation market today is €8 billion. And as you see on the right graph on the pie there, the modernisation market is mainly in the mature countries today. So, in Europe and in North America; actually the largest single markets from a modernisation value point of view is in the US okay. Asia-Pacific is at 18% of the market today. When we look a bit in the future, it's probably important to take a look at the left picture, which is showing the number of units of new units which have been delivered between 2000 and 2017. In 2000, there were 200,000 units delivered per year on the markets. So, these units are now coming to an age where they're going to be starting to I would say go under I would say every[?] modernisation. I will explain in a minute what I mean by that.



But of course, this potential will grow over the next years because again in 15 years from now it's 800,000 units potential, which will come on the markets, okay, so trend number one. Trend number two is that as we see there most of these units are in Asia-Pacific in China. So, again, the growth potential of modernisation in Asia-Pacific and China from what we see here is clearly going to be there. And again, Axel and Bill will talk more about it okay.

So, we speak a lot about – I mean maybe to give you a bit more colour about what we mean by modernisation, modernisation is actually a pretty diverse business. We go from I would say changing a component after five, seven years of operation, for example if the customer wants to change the aesthetics of the car or he wants to change the signalisation[?], then a bit later if the equipment starts to have performance issues, then we change bigger components like the machine or the controller of the equipment which is at the end of day the brain of the equipment. And later certainly, so if the customer didn't take the partial modernisation path then we can replace completely the equipment meaning we take all the equipment out of the shaft and we place a new one. This is what is our modernisation business, okay. And historically, so this has been very much driven by the ageing and the intensity of usage of the equipment.

Another interesting element of the market is that this intensity of usage can be very different even in the same segments. And the example you have there or the illustration you have there on the screen is for the residential segments. And in Europe a normal or typical residential building is five to six floors. And the number of start[?] is about 50,000 to 60,000 a year. In China, a typical residential building is at least 15 floors and the number of start is 250,000 starts a year. So, we immediately see that again based on our current understanding, the rhythm and the pace of modernisation will be faster in China and in some countries in Asia-Pacific than in the rest of the world, again potential for us in the future.

So, the way we've been looking at the modernisation business in the past was very much about this ageing of the equipment and the intensity of usage. What is a new or relatively a new phenomenon for us is the fact that modernisation business is also driven by the change of usage in the buildings. Again, Henrik mentioned that and it's certainly true in office segment in the office buildings. More than ever, there are more people per floor in the office buildings. And also, the fact is that there are more collaborative floors where people come and go from the floor several times during the day. And this is actually increasing significantly the flow of the people or the number of people moving from floor – between floors and from the entrance to the floor. And this is actually create new needs of modernisation. Actually, sometimes very early in the building life; and I will give you an example later when we talk about the people flow, planning and consulting services, a concrete example of what it means. But clearly this is another driver for the modernisation from I would say today on.

So, I speak about – from the market point of view, I spoke about the potential of the maintenance business, the modernisation business. And, of course, there is a third clear trend which is this digitalisation. Okay what does it mean for customers digitisation in the building industry or in the building management industry?

What we see from our most advanced customers is that they are clearly expecting more from us in the quality of the service in being predictive, in being able to adjust the maintenance based on the condition of the components, and certainly so also in the information we are able to provide to them. We also see a certain number of our customers which are already very deep in the smart buildings area. And actually, the questions they have is that how will this make sense all together. We have different suppliers talking about smartness or digitisation, how can we[?] ensure that we're bringing them together in order to bring more experience and more value to our customers. That's one of the key question we keep hearing today from the market.

And the third layer is about well these buildings will be evolving much more faster than in the past. And really when you are a developer today or an investor, you place your money in the building, you want to ensure that it's going to stay flexible, it's going to be able to adjust with the different usage, it's going to known[?] across the lifetime. So, this is our digitalisation or what are the trends of the customer needs we see and it can be answered by the digitisation or the new technologies.

So, it makes actually a good transition towards what we have been doing or the four new offerings we've been launching on the market over the last 18 months now and how it creates value for our customers. Let me give you a very quick recap of what they are. The first one is about New KONE Care. New KONE Care is all about understanding the customer needs deeply and customising/tailoring or maintenance contract and/or maintenance delivery to their individual needs. Very different to what they've been used so far, which was about we have three contracts. You can choose between A, B and C whatever you would need, it's between A, B and C.

The second service offerings we have been launching on the market is 24/7 Connected Services, which is the first, I would say concrete offering coming from our collaboration with IBM and Watson specifically. So, it's about basically combining IoT, cloud, mobility and analytics technologies in order to offer more value to our customers. And again, I will come back in a minute about the values we are providing to them.

The third one is about Residential Flow. Again, you heard already about it today. It's about – I don't know for the ones of you who were there last year, you remember there was a small video showing that tenant was approaching its residential building and he was actually recognised through the smartphone and the door was opening for him. And the elevator was actually called in at the main floor and the floor where he is living was actually also pre-selected so that basically he was coming to his apartment door without having touched anything, so a lot of convenience and ease for the tenants. And of course, then he was able also – or he or she is able to look on his

mobile phone and who is the visitor and also to give access to open the door to this visitor from his mobile phone. So, this is what residential flow is about.

And then last but not least People Flow Planning and Consulting Services. Henrik already mentioned it and again I will give you a clear case a bit later in the presentation.

So, these four offerings are completely in line with the new framework Henrik has just talked about right. New KONE Care is for us about developing our core maintenance and modernisation solutions or actually our core maintenance solutions, okay. 24/7 Connected Services is actually in two layers. It's about improving the core maintenance proposition because it helps the customer to increase uptime, but it's also more and more going to add value in the smartness of their buildings and giving their more information about the flow of their people.

And again, I will give you a concrete example about this. And then Residential Flow is clearly in the Advanced People Flow Solutions layer and the People Flow Planning and Consulting Services – well, they are also clearly in the third layer. That's the name of the third layer.

So, let's go a bit deeper on where we are with these four offerings and what we've done so far. So, with new KONE Care, we have deployed very actively the offering in many markets, actually the 20 largest markets. And as you see there with this deployment, we're now ready to commercialise this new offering for 75% of our customer base. Why 75%? Because we still have a certain number of geographies to cover. Again, when we launch this, it's not only about promising to the customer tailoration, it's also about our ability to deliver on it and ensure that we can customise to the last bit the customer service we're giving, we are providing every day.

With this, we are covering today about 5% of our current contract base. What's probably interesting is that again if you remember we said that we had started to commercialise that in Germany and in Italy. And in Germany, in Italy, their coverage is actually for more than 10% of their customer base

today. What's also very important for us to see if the trend is right is the fact that if we take a look at the tenders or the maintenance contracts we are signing in the specific segments which are targeted by these new KONE Care offering which are mainly residential and I would say customers with less than five units, there we are – I mean new KONE Care is virtually covering 100% of our overall contracts. So, the speed in the trend is right to cover even more in the future.

Again, what is good for the consumers is that it's tailoring the offering today's specific needs. What is good for us is that it translates into a clear price improvements for the contracts we have signed so far. And this is valid in every single geography we have been deploying this contract.

24/7 Connected Services, again, three main values, the fact is that the first value is safety. Very important for many of our customers to see that we are looking 24/7 at some of the key safety components of the elevator or some of the key safety situations. As an example, we are checking the leaving-in[?] accuracy so that nobody trips in the elevator when getting in or out. It's actually the most common incidents or user incidents we have. So, it's reassuring for our customers.

What's also reassuring is that we are providing them through mobile or desktop the full set of information about what's going on in their equipment, which means that they can know all the time what's going on, which also is important for them because so they can inform their customers when being asked. They can be also responsive to your customer questions.

And then last but not least, it's about the intelligence and/or ability to ensure that with the data collected, we can through analytics identify/predict technical issues before they even happen. And let me share with you two concrete examples and two customer feedbacks about this. The first one is actually a what I consider a bit of a funny one. At least, I would not have to come with this sentence. It's coming from a building manager in a residential segment in Belgium. And he said 'This service is like Tom Cruise in Minority Report. It prevents the problem before it occurs,' which is actually a good definition of what we're doing with 24/7 Connected Services.

Another more KPI-oriented example is one of our customers in the medical segment selected very early service on his 75 most critical equipment. And after four months of operations, we sat down with him and reviewed performance and what did we see? We saw that the 24/7 or the analytics actually identified 60 service needs or situations where we were required to make an action. And in 35 of them we actually dispatched a technician immediately in order to prevent a call out. So, it actually decreased the number of times he had to call us to report an issue by more than 25%, which again increased the uptime for its customers or the patients. And, of course, it decreased the I would say inconvenience for him in order to report problems and to manage problems.

I would say as a second step or I would say interestingly so because we continue of course to I would say show the value regularly to this customer, one of the key learnings after when looking at the data is that most of it's – very critical elevator for its patients are actually used by the visitors, and it's something he could spot from the data we've provided to him. So, now it's changing the signalisation[?] to ensure that the elevators which are aimed to transport the patients are more available to them and not only used by the visitors. I think we can recognise that it's a pretty good thing for an hospital to ensure the elevators for the patients are reserved for the patients. Okay, so these are two very concrete examples of how we are providing value today with 24/7 Connected Services. And yes, this is creating as there is value. Our customers are also willing to pay, so yes, there is a price tag which is coming above the price of the core maintenance contract we are selling.

Third example Residential Flow, another great story. With residential flow, we have seen some customers, some developers actually marketing in their own material about the fact that the apartments they were delivering or they were building were equipped with Kone residential flow, which is actually a first for us in our history. It's actually when we speak about different situation, if your customer starts to advertise in their own material about your solution, I think it's a really good start because it really helps them to differentiate. And when we asked them about but why are you I would say advertising residential flow in your material, the answer has been pretty clear, because

we strongly believe that thanks to this, we can command a higher price for our apartments and they will sell faster.

Again, that's all what we're looking for. That's the differentiation we're looking for, clearly. And that transfers into more value for us, more pricing and more monetary value or more growth. What's interesting is that it's not a concept right. It's actually we have been delivering the first residential flow units over the last couple of weeks and we now have a couple of tens of users were enjoying the services that they're getting from this application or from this technology when entering or when coming back home in the evening. It's really a very, very good story.

Maybe before I'm switching to the last one is that we are now active with this solution in about ten markets and we are at the very beginning of the commercialisation process in China as well. Again, last but not least, People Flow Planning and Services. Again, the usage of the buildings is changing and our customers are looking for advices, insights about what they need to do in order to cope with it.

And again, let me tell you a concrete example. We had one customer who called us one year ago almost, no, a bit less, and he has actually a new office building and we didn't install the elevator on this office building actually. And a very large tenant was moving in. And after a very a couple of weeks, this tenant was experiencing a lot of performance issue, people flow performance issues. There people were waiting a lot of time in front of the elevators or in the buildings and they were very unhappy, and they were actually threatening the building owner to leave the premises. So, our experts went on the site and started to of course ask questions, of course, observing on the field, and then equip the old building with sensors. Not only with the vertical transportation equipment but also sensors in the entrances, in the lobby, in the restaurants, in the parking, and we started to collect data again relying on the same technology we have been installing this digital platform that Henrik has talked about.

And after a couple of weeks of collecting data and analytics, we were able to show concrete examples in data to our customer showing that yes, indeed, there were clear people flow performance issues with recommendations. And these recommendations can go or we're going as far as we need to improve the performance of your elevators even if they are new, we need to place two additional elevators in the strategic locations, we need to, you need to move the VIP and bicycle parking from place, and you need to be because they are creating crossroads. So, this is the extent of where we are going in order to help our customers to improve the flow performance in their building. Again, what's very important is that it's based on actual data. It's not based on just assumptions and hypothesis, and that's what our customers' value a lot with this. Of course, we sell this service, but we also understand that it creates a good call for our core business certainly both for modernisation business but also for new equipment.

So, when we look at our new offerings at the future, the technology is there. We are deploying or we have been deploying these new services in almost 20 countries, and we of course are going to continue to do it. The main opportunity and challenges we have in front of us is to ensure that we are faster to go to market, we are having the right sales capabilities and competencies in order to sell these new services and this value to the customers, and then of course we keep investing in our ability to deliver on it. That's really what we're working on today and we're going to be working again in the next coming quarters. I'm sorry about this.

So, I spent most of my presentation about the new services and offerings and those new solutions. Still I want to make clear that of course we continue to work and develop on the core side of our business, right. These are additions to the core side of our business and the foundations that we have seen earlier and as Henrik talked about. So, we continue to work on our sales management, our sales capabilities on the pricing excellence that again Henrik mentioned because we have the ambition to continue to improve the retention rate, the conversion rates and certainly the pricing. We are also continuing in developing the productivity of our operations. Mikko spoke about the first fixed rate for example. Actually, today is a very important day for us, of course, because there



is the Capital Market Day, but not only, because we are actually launching in Belgium as we speak the piloting of the platform or the new generation of the service platform we have been developing with Salesforce and we are expecting very strong benefits from both the customer service point of view and in an efficiency point of view.

Accelerate is an enabler for us. Accelerates and the elements of change you have seen in the last presentation are all about for us enabling us to go faster to the market with these new solutions. It's really what we're focused on. We have grades[?] offerings in our hands to create value. It's about us deploying them as quickly as possible and as broadly as possible.

So, to conclude the presentation, what we have shared with you today is about we have excellent growth opportunities on the markets. We have strong foundation because we have been growing faster than the market and we absolutely have the ambition to continue to grow faster than the markets. You have seen that we have clear new service offerings which are on the market today again. They are not concepts. They are on the market, we are selling them and the customers do appreciate them, they see value and they're ready to pay for it, and of course we continue to work actively on improving the core performance of our business. Thank you. Questions I guess. Yes, we have a couple of minutes.

Sanna Kaje: Yes, we have time for some questions. Let's now start from the back.

Speaker: Yes, thank you very much for the presentation. My question is on the new service offerings that you're describing here. Of the new service offerings that you're highlighting here today, which you found the most helping in improving service contract conversions in China compared to other regions and why?

Hugues Delval: As we said, it's still a bit early, but we strongly believe that all New KONE Care and 24/7 Connected Services are the ones where we have most potential for volumes and they will clearly

or we are expecting them to improve the conversion rate and retention rates globally in China as well, but of course not only in China. But again, if I'm looking at residential flow, why am I saying all, because if I'm looking at residential flow, once the customer has installed this service, and the fact that the people are enjoying these new services, it actually creates stickiness. It actually helps us to convert and to retain also I would say the entire relationship with him that this is the residential for services but also the maintenance contract for the elevators, okay.

Sanna Kaje: Okay, let's take here.

Manu Rimpela: Manu Rimpela for Nordea Markets. When we listened to your presentation, it sounds like you really kind of invented something new. But then when we listened to your competitors they talk about exactly the same things. So, my question would be that is this actually something that is differentiating and new to the industry or is this more of license to operate going forward? And if you don't have this, you're going to be out; if you have it, you're going to be on the same playing field that with the rest of the competition.

And then the follow-up to that would be that you talked about the kind of addition to top line that this is generating, but what about the cost? I mean you need to rollout these new services. You probably need to find new capabilities within your people organisation. So, if you can just talk about those two please?

Hugues Delval: So, if we focus on what we see today on the market and what we hear from our customers, we still believe that we are ahead of the competition there. And our customer see clear value in what we're offering and it's this differentiating at this level.

How will it impact the market in the future? Well, what we say is that, as you have said, I mean in order to provide these new offerings, it requires investment in the technology, investment in our people. And not all the companies on the market have the same financial power in order to make

this investment because again, let's not forget that we talk – when you address this competition, you talk about the large OEM which are global. But actually, most of our competition locally are also the smaller and medium size companies, right. And there is a differentiation power in this as well towards this part of the market.

Is there a cost to this? Of course, there is. There is a cost, but again for example the cost of the connectivity in the device is relatively limited and actually we sell that as a service. So, the customer is no upfront investment on this. But of course, there is of course – but actually we have already invested quite a bit as Henrik mentioned in IT and R&D in order to enable this digital platform. So, the digital platform for us is there any scalable and we can offer this service globally. Today 24/7 for example is active in countries like China, US, South Africa, Middle East and all Europe. So, we see that these investments and this cost of ensuring that everything is there to provide these services is there. We have it.

Sanna Kaje: Let's take from the back now.

Tom Skogman: Yes, this is Tom Skogman from Carnegie. Henrik mentioned that as a negative EBIT drive for next year is labour cost inflation. And of course, you are in the in the centre of that and I want to understand how you see this now for Europe and the US and what time do you have to react to your own pricing. So, how is the model? How long are these contracts and how often can you renew pricing and how afraid are you about cost inflation eating the EBIT margin improvements for next year?

Hugues Delval: Yes, one probably important thing to remember then is that in the maintenance contract, we have escalation clauses which are really linked to wage inflation. So, actually, we're – in the vast majority of cases we're able to pass in price increases the wage inflation in many of the countries. And, of course, as I said as well, we are continuously working also on the productivity side in order to I would say erase or eliminate the potential negatives coming from this wage

inflation. So, today, there is as much as an opportunity as a challenge in the wage inflation in the maintenance business.

Tom Skogman: But given the improved environment clearly in Europe, do you feel quite confident that you can improve the margin in Europe like they have seen in the US when the economy started to improve?

Hugues Delval: Yeah, based on what we see today, well, maybe one way to answer that is that we see an improving environment in the pricing side from a maintenance business also in Europe. We know, as you know, there has been tensions on the pricing side [inaudible] Europe also on the based on the fact that the new equipment market has been weak for several years. Now we see that with the efforts we have been doing and certainly these new offerings, we clearly see a more positive trend in the pricing development also in Europe.

Tom Skogman: Thank you.

Sanna Kaje: We have again more time for questions in the end and in the small group meetings, I think we need to go for the 15-minute break now. And please join us in the next room to visit the demos during the break. Let's be back here in 15 minutes. Thank you.

All right, ladies and gentlemen I think it's time to continue. Next, you will hear the long-awaited China story as well as the rest of Asia Pacific with Axel. But let's start with Bill on how we are building on our strong position in China.

Bill Johnson: Thank you Sanna, and welcome everyone to our Capital Markets Day. I'm very excited to talk to you today about the business in China for Kone. We will talk a little bit about the changing environment. A lot has been going on in the last couple of months, a couple of quarters since we met. And we'll also talk to you about how we're going to capture these opportunities going forward

in China. I think it's always instructive to begin any discussion of our industry as it relates to China to remind us all that China is material to the elevator-escalator market significantly.

So, in 2017 fully two-thirds of all new equipment orders came from the China market. It is very significant for us. It's grown as you can see quite dramatically over the last number of years. So, it is very material for our industry. When we look at the installed base, that has also matured very nicely. Each year for the past several years we've been adding about 500,000 units a year to the installed base. And now it represents about one-third of the overall installed base globally.

So, for our industry, China is material. China is also material to Kone. In 2017, more than 25% of our sales came from China. One third of our employees now are located in China. And it's a big change, when I started in 2004 we had 750 employees. By the end of 2017, our market share was over approximately 20%. And we're the number one elevator-escalator supplier in China. We've got more than 30,000 customers and nine of the top ten real estate developers count as our customers.

Earlier this year I was excited to announce that we had delivered our 800000<sup>th</sup> elevator since our start in China. We were the very first elevator-escalator company in the China market to deliver 800,000. And at the rate that we're going, we should hit the million unit mark sometime in 2020. You can be sure I will let you know when that happens.

How is the market right now, the overall market, the environment going? Well, it's very interesting that in the year you know at the turn of the 21<sup>st</sup> Century China's urban population was under 500 million. But within 18 short years, more than 300 million people had moved from the countryside into the cities. This mass human migration, the largest in history has been a real phenomenon in human history. When you look at the urban population at the turn of the 21<sup>st</sup> Century, 80% were poor in China. By 2018 at this point 70% had entered the middle class. And I think the impact globally of this change has been dramatic.

In the year 2000, China was still kind of a low technology country and they were focused a lot on agriculture. But within 18 short years, China had joined the global leadership, technology leadership. And you see today for example in artificial intelligence, in mobile payment systems, even in online shopping, China is among the leaders in the world. And if you go to Shenzhen[?], it is clearly the leader in terms of mobile hardware development.

We often see in our business in China a lot of movement day to day in terms of market dynamics, economics, regulations and things like that. And there's a lot going on this chart. There's no need to really go into specifics right now. We can talk about that later. But clearly there's a lot of pulls and pushes that are taking place on a month-by-month basis. But we really want to come to our core thesis that we've spoken now for several years on what are the long-term drivers for our industry in China.

And clearly urbanisation is one of our key drivers. We see that by the year 2030 close to one billion people will be in cities in China. So, we've got a lot of runway in that regard. We're seeing a lot of upgrading take place. People start with a smaller apartment and then after they gain some wealth, they want to now upgrade. We also see urban renewal as cities transform from tier 3 or tier 2 up to tier 1 type cities. You see that a lot of shantytown development takes place or infield locations are upgraded to from low density to high density living. And this is a big key driver for us long term.

When we look at what's the runway look like for us, it still looks pretty darn good. When you look at the density of elevators, it's still four per thousand population which is on the level of the US. But when you compare that to Hong Kong, Korea, even Western Europe, we still have a long way to go. One city that's very interesting here is Hefei[?] with seven – it's basically a seven. Hefei is a city, it's a small city. It's only about eight million people. And they are less than half of where Beijing and Shanghai are. So, we think that there's still a lot of opportunity even in places like Hefei.

A couple of the key statistics that we take a look at month to month, quarter to quarter are these here. On the left-hand side, you see that inventories have come down significantly from their peak in 2014-2015 particularly in tier 3, tier 4 cities. We believe that these inventory levels are at a healthy point at this time, maybe even slightly light. So, we're watching and seeing if this means that we're going to get some opportunity going forward. But the headwind on that inventory number clearly is the restrictions that the government has imposed to cool off the market. And as you can see here, restrictions were put in there now in about a hundred cities and they have really had their intended effect, namely to cool down the market in terms of sales. And we've also seen sales prices come off.

In matured cities, the sales prices now are pretty flat. And we've even seen in some cases sales price come down. One city Xiamen[?] has seen its prices revert back to the early 2017.

Another interesting statistic that we look at is real estate investment. As you can see here, real estate investment continues to grow. However, it hasn't really translated in recent quarters to an uptick very much in the overall orders. Why is that? The big key thing to remember in China right now is the cost of land. And that's what's driving real estate investment. So, this statistic is maybe a little bit misleading because the delta really here, all is going in to purchase more and more expensive land. In this chart, what we've seen is that the government now is looking at clusters, city clusters across China. About 19 city clusters have identified, the first key six ones are listed here. And you can see that these are in the key population centres. These six clusters alone right here represent about 50% of the population, 52% of the GDP and 60% of all real estate investment in these six clusters.

We've also imposed on this map where you see these clusters high speed rail links. High speed rail has really changed the dynamic movement of people throughout China. For example, from Shanghai up to the city of Nanjing or Hangzhou, you can do that in less than 40 minutes when even

as long as only about three or four years ago it would have taken you five hours by car. Shanghai to Beijing now they have rail links that can get you there in under four hours. This is a game changer for China in the speeding and movement of talent across the country. Within these cluster cities, we also see tier 1, tier 2 and lower tier cities. And they each have their own kind of dynamic. When you look at a tier 1 city such as Shanghai, it's built out already. There's no intention to continue to urbanise. It's reached its sort of peak. What they're looking now more is for urban renewal and upgrade. That's kind of their focus. When you look at tier 2 cities like just I mentioned now Nanjing or Hangzhou, these cities are looking to sort of move away from quantity movement of people into the cities into more quality. They have incentives and policies to encourage graduates, engineers, high-tech people, entrepreneurs into their city. So, they're looking more to upgrade their talent. And they'll be looking more to also upgrade their real estates.

When you look at the lower tier cities, this is what's driving the next wave of urbanisation.

These might even be cities such as Qinshan[?] which is not far outside of Shanghai where we find one of our factories. This is where more of the urbanisation is going to take place. And they're looking to build the kind of housing that allows people to come into the city's lower cost housing and really drive the population into those areas. Another key trend that we're seeing in the last couple of years is the consolidation among the developers.

I mentioned the cost of real estate. This is one of the key reasons why the development community needs to begin to consolidate. Why? Because they've got to raise the money. They've got to find ways to spread their costs over more and more projects. So, they are really getting larger. By the time when we saw this at the end of the second quarter of 2018 fully 45% of real estate sales were in the top 100, but in terms of value it was approximately 65%.

With these developer zone[?], we believe this is a good opportunity for Kone. Why? Because in their quest for speed and finding the right partners, they want to partner with OEMs like us because we can deliver on our commitments. They're also looking for technology. They're looking for good



project management. They want a good brand. This works in our favour. One of the challenges of course when dealing with these larger and larger developers is their purchasing power.

And with this purchasing power comes squeeze on price. And Henrik is always asking me, raise your price. So, what do we do? We have to deliver new values to these large developers and sell what goes on. In addition, we can talk about this a little bit later in the question-and-answer time, is payment terms. That's probably the second biggest challenge for us when we negotiate with these people. But we've so far been pretty good at getting the right kind of payment terms that we want from them.

Another trend that we're seeing, and this has really taken place I believe in the last – even within the last six months or so. We're seeing increasing enforcement of regulations around the books for service, after-market service. Combine this with the requests from our larger customers to go with them, not just for supply of new equipment but for aftermarket and this is a very potent combination that is helping us increase – gradually increase our penetration into the maintenance market.

We're also seeing that the governments themselves are starting pilot programmes for 24/7 in certain cities to see how this might improve the service. And we can begin to reduce the number of visits that we need to take, productivity. And we believe this all comes to work in our favour. One of the things, Hugues, you mentioned it briefly but I want to emphasise. The amount of data that 24/7 creates is huge. And you have to have the analytics, you have to have even the artificial intelligence, the people to read through this data. And this is going to work in our favour, especially the OEMs because the smaller, very small-sized maintenance companies are not going to be able to keep up with us. You can see while the new equipment market is pretty concentrated, the maintenance market still even today is quite fragmented. But I think we're going to begin to see this change. Modernisation, also becoming more and more meaningful.

We had about ten years ago a huge wave of new equipment begin to come into the overall install base. And that is now becoming mature and people are increasingly looking for opportunities to upgrade or modernise their equipment. And by the way, any time there is an incident with an elevator, it is instantly on social media. So, everyone is particularly sensitive to any issue that happens when it comes to elevators or escalators.

By early this year, I saw a material increase in the number of tender requests and enquiries for modernisation opportunities. So, we see this really beginning to take off. Henrik mentioned this I believe a little bit earlier, what does the new equipment market look like for 2018. We've looked at this quite extensively. Clearly there's interest on the government to continue to promote construction particularly as there are some external pressures on them. But much of that money that's going towards construction is going into infrastructure. We have to remember that residential construction still is 60-70% of the construction profile. And so therefore the government's policy is to hold down pricing and keep the market from overheating still are in effect. So, you've got some pluses, you've got some minuses. And when we look at it, we believe that for the new equipment market in 2018, we're still going to be on a flat even slightly down basis year over year. So, when it comes to the service market, we believe continued strong growth as we keep adding, you know, 500,000 units as an industry into the portfolio each year.

Another trend we're seeing is gradually more and more services coming in and balancing the new equipment market. New equipment still dominates today in 2017. However, we see that by 2025, a gradual shifting towards services where it will probably be 50-50, maybe 60-40. But, generally, we're going to be starting to balance out here. And we believe modernisation is going to be one of the key drivers for this rebalancing.

We look to the three pillars of our industry to drive our growth in China. We see that we have a lot of opportunities with the large developers. We have great collaboration with them. They like us. We just finished our customer surveys. And repeatedly the main feedback to us is that Kone is

reliable and knows how to execute on its promises and commitments. This is one of the key reasons why we've been able to do well in this market and command a slight premium. In maintenance, our big customers continually say look, I don't need you just for new equipment. I need you for services too. So, we go with them, and these 24/7 services also are very exciting to offer our customers. They want that in the new equipment contract. So, we're not waiting for service. We're already selling it in new equipment. And then that will automatically be included when the time comes to install. Modernisation, I just mentioned, a great opportunity.

In our new equipment market for the last two years, we've been under pressure. There's no -- there's been no question about that. Our margins have increasingly been compressed because the competitive environment, people who have missed perhaps the wave want to come back in, use low price to gain share. So, we've had to fight back.

We began the journey in 2016. It's not easy. Susanne talked about how we need to spend a lot of time training to change the mindset, give the skills, the sales skills to our people. But also give the skills to our field people how to execute on our commitments, meet the customer requirements and show the value that we believe we deserve by doing a great job. And we can see that we've now begun in the first half of 2018 to be able to harvest those good efforts.

But it's a never-ending challenge. We've got to continue to do that every day. We've also been fortunate that in the first half of 2018 we've also begun to take a little bit more volume into our portfolio without necessarily having to sacrifice price. So, we've had good price increase and good volume increase. First half of 2018 year-over-year, our volume is up about 5%. Good start. More to go.

We've got good customer loyalty on our service business. Our retention rate is over 85%. We continue to have very good growth here. And we are also continuing to raise prices here as well and focus on productivity.

Modernisation, this is still a small business for us at this point. But it's growing at a rate which we double the business every two years. And the interesting thing about this is we don't really spend too much time modernising our own portfolio. Why? Our portfolio is still very young. It's barely ten years old at volumes necessary to really have a strong modernisation business. That's why I say for the next five years we're going to be playing offense in the market here in China we're going to be taking from our competitors. And then after the next – after five years the Kone portfolio will begin to gradually age and we look forward to adding that as well more into our modernisation business.

2004, I started with Kone. We had a good modest presence. We've added to that a little bit over the last few years. And as you can see, we've circled the – we've put in here the cluster cities. You can see these cluster cities were quite well-represented. I mentioned I joined Kone in 2004. And people have often said to me wow, you've seen a lot of development take place in China. I usually like to remind people, well, we haven't been passive observers during this time. Kone has been an active participant in the transformation of this economy of this nation. And it's been hugely rewarding for us. One example of that is a recent contract we got to supply 170 escalators for a new airport outside of Beijing. You probably haven't heard of it yet. It's not open. It should open sometime in 2019. We won the first phase escalation for the first phase. And by the time this airport is fitted out of all four phases in 2040, it will be the largest airport in the world. What's really amazing is that this airport is serving a population centre of a hundred million people. And to be part of that really is – it means that we're enabling this kind of growth.

Another example is the Shanghai Metro. We've won a number of contracts with them. And the number one criteria for the Shanghai Metro after being able to meet the requirements for the hardware, of course that's a given. What they want to know is can you keep up with their construction schedules; do you have the proper skills, project management, capabilities to go at the same speed that they do. And this is why we win contracts like this because we do. We can

move at China speed. Our customers are larger and more demanding than ever before. They want speed. They've got money on the line. They need to make sure that they're working with reliable partners, and that's Kone. They want us also to help them move their projects faster than just us.

It's not just about us moving up. They want to know can we help them with their other trades. And they're also under competitive pressure, how do they differentiate from their competitors. They look to us to help them given them a new face, new ideas, new technologies. Co-create with us they say, help us to be better than our competitors. In the end, we say it's all about the people. We have a great team in China, 18,000 employees. We bring in about 1500 new employees each year. How do we absorb that? The key thing is using what Susanne talked about earlier the centres of excellence, hiring the right people, training them, getting them up to speed, teaching them not just the skills but the values of the company so that we can continue to treat our customers the way they want to be treated and win more business. We have the lowest attrition rate in our industry and our employees are constantly saying the reason I like working for Kone is because you help always train me to be better than what I am today.

I'm excited about our future in China. We often – our company, our industry, the country faces challenges all the time. But we're always coming up with inventive ways to move beyond those challenges and create new opportunities. I believe we can continue to do that not just today but tomorrow and in the future. Thanks very much. Let's take some questions.

Sanna Kaje: Thank you, Bill. I'm sure there will be questions. Okay, let's start from the middle.

Tomi Railo: Tomi Railo, SEB.

Bill Johnson: Yes.

Tomi Railo: The Chinese market has been stable for some time now. 2017 stable, first half 2018 stable. But it doesn't -- or you are still repeating your outlook that it will be flat or slightly down. What kind of visibility do you have overall to the Chinese market for the second half? What can you remind us on the biggest risks, why are the good indicators correlating to better outlook apart from the fact that the purchase prices are high on the land side? And then what is your first initial prediction for the Chinese market in 2019?

Bill Johnson: Clearly the China government has said that they want to ensure that housing is for living not for speculation. They have not -- they have increased the number of cities in which they are imposing purchase restrictions. Clearly, they want to make sure that there's a right balance between the volume price, etc., for housing. It is a huge social issue. So, we don't see that they are going to let up on these restrictions. So, we think that's going to have certainly a dampening effect. So, we see that for the balance of 2018, really, it's still going to be flattish to maybe slightly down depending on how the development community can keep up with the present situation. Looking to 2019, we really -- it's too early for us to say. We usually give our outlook in January when we have our result. So, we'll have to wait until then.

Sanna Kaje: We'll take from this side.

Wasi Rizvi: Hi, it's Wasi Rizvi from RBC. Just going back to the chart on page 16 was quite helpful. Could you help me understand your underlying assumptions for the market growth in China out to 2025? And then also you've been quite helpful showing the market strength fragmentation between the top four mid-sized and smaller players for [inaudible] and maintenance. Could you give us the same indications as to what the modernisation market looks like and how that's evolved?

Bill Johnson: You said which slide 16?

Sanna Kaje: 16 with the service and new equipment if I remember correctly.

Bill Johnson: Sorry. It's this one here? Yes, your question was again, I'm sorry?

Wasi Rizvi: So, your underlying assumptions for the growth for the market to 2025?

Bill Johnson: Right. But this is a general directional, so this is not an absolute number. What we want to do is we want to show that there's much more balance beginning to take place. It's still early. We don't have an exact number or figure, but this is directional.

Wasi Rizvi: Okay, and then just on the modernisation part of the market, could you give us an idea how that market splits between the top four – the mid-size and the smaller players?

Bill Johnson: I don't have again a figure for that. It's clearly going to grow. I think when you have an existing building and you want to ask someone to come in and modernise, you're going to typically go with someone with the experience and with the wherewithal to make that happen, project management. Working in an existing populated building is much different than new construction. So, you are typically – it's going to favour I think the larger OEMs in general we can say that.

Also, the OEM business in China kind of is – we call it half or full modernisation. Unlike Europe which may have a lot of skilled people who know how to offer a huge number of different options; in China we're much less skilled, so, we have to provide either this or that. And so, in that case it makes it actually easier for us. Customers are given sort of two choices, A or B. And that will help us.

Wasi Rizvi: Okay.

Sanna Kaje: So, let's continue there.

Glen Liddy: It's Glen Liddy from JP Morgan.

Bill Johnson: Yes.

Glen Liddy: You clear that in the modernisation segment of the market, you are effectively taking share from smaller players. In the service side of the business, how much is your penetration of your own install base with service contracts changing? And are there still a lot of sort of one man and a van type service agents fighting to get some of your install base?

Bill Johnson: On the first question, we're going after everybody in terms of modernisation. So, we see the whole opportunities out there. On the sort of the overall modernisation – maintenance it's not just a single man. We see this gradually changing where the government actually wants the OEMs to get more involved in their service. There's an interesting pilot right now in two cities of which we're involved in. They say we want to see how you can do remote monitoring so that we can see what data you're collecting and how that will enhance the reliability and safety of the elevators. And their idea in this pilot is to eventually roll this out nationwide. Again, that favours the large OEMs. So, technology is now becoming the differentiator between us and the small mom-and-pops, small independent service providers.

Sanna Kaje: And the conversion rate has improved slightly – now slight above.

Bill Johnson: Yes, each year, each quarter the conversion rate is continuing to improve.

Sanna Kaje: So, 60% slightly above for Kone brand, including Giant Kone around 50%.

Glen Liddy: Okay. And secondly on pricing, we always focus on OE. But given your expectation that the aftermarket is going to be half of revenue in the medium term, what's happening to prices over the last couple of years and now – just the aftermarket, the service side rather than modernisation?



Bill Johnson: The aftermarket pricing is continuing to grow. And interestingly enough we get much higher pricing after the first year of the contract, not after the first year of service, but after the first year of service converting it over to our maintenance. Then the next year's renewal, we have to get a much higher price. It's very interesting. Also, when we're adding in 24/7, this is very much a productivity tool as well. So, we're not just getting higher prices but we're getting much better productivity for our teams. They know when they go to a job, how much quicker to, you know what to diagnose quicker, what to go after, and that's actually a huge productivity opportunity for us.

Bill Johnson: Thank you.

Sanna Kaje: Right, there in the middle.

Speaker: Yes, hi just a question on slide eight. It is quite surprising to see the large Chinese cities being at or even higher levels of density of units for population compared to the western countries. And I think we got to the 500,000 units from moving those cities from very low levels to actually where they are now. Well, how do you see the density over the next kind of five years? Do you see doubling from here, i.e., do you see that 500,000 units for the market is kind of a level of threshold that we can move beyond or not?

Bill Johnson: Of course, that's – I don't have an ability to forecast exactly what's going to happen absolute. But clearly the new equipment business has remained on a high level. I think it will remain there for the future for the very reasons we talked about earlier which are urbanisation is continuing to happen. Their target is a billion people by 2030. So, we're still going to get another 200 million people moving into these centres. That's going to keep the level of new equipment up as well as urban renewal and upgrading. So, I think that's what – those mega trends will continue to be the key drivers for our industry going forward.

Speaker: And then maybe, secondly, just on the justifications for the flattish kind of market we've seen over the past couple of years. Do you think the modernisation market is also a factor in that one? And what I mean by this is historically for old buildings that of refurbishing them or demolishing them and rebuild them, and in those cases the sale of a unit will be accounted for as a new equipment, while now we're talking about the growing modernisation market. Is there a correlation or a link there between the growing modernisation and the weak new equipment market?

Bill Johnson: I am not sure we would call it the – it is a separate market. So, we're talking new equipment and modernisation, second. And they're – the modernisation really is kind of a wave, the second wave of new equipment if you will. But it's clearly in its own market segment. We think the new equipment will stay high and the modernisation will continue. What's interesting is that the modernisation will have an impact on our overall service base.

Every unit we modernise is – it accretes to our service base. So, that's the exciting thing as we improve our modernisation market, it's going to have great benefit to our overall service base. So, over the next five years any unit I modernise, I'm going to bring it immediately into my service base. That's the intention.

Sanna Kaje: Okay, one final question, right next to you, please.

Speaker: Thank you. You mentioned sort of OE where you see it at the high level, but relatively flattish near term. And that conversion rate is still 50-60% which is a lot lower than elsewhere, I guess partly because you sold through a distribution there which you didn't in other places. But why not actively go after this maintenance base that is spread maybe with distributors or somewhere else given that OE is not growing going forward.? And then if I can just ask another thing which is –

Bill Johnson: I will just answer that question real quick because that's a great question. It is happening with this, A, regulatory environment becoming much more strictly enforced with this new technology coming in, with the larger development community saying look, I don't want you just for new equipment, I need you to follow me in the aftermarket. That is happening naturally. And it's happening every month. So, we're very positive about that, that our conversion rate and our recapture rate will increase over time.

Speaker: But to make a significant leap frog, why not inorganic activity?

Bill Johnson: Why not inorganic –

Sanna Kaje: Organic acquisition.

Bill Johnson: Acquisition. I'm not – we had done that in the past. It's possible we may do that in the future. But we think that we can bring these units back into our portfolio much more easily by offering a superior service and a superior technology than these independent service providers. So, there's no need to buy them from them. We can just attract them to us for a higher level of service.

Speaker: And very quickly, the interesting pilot you mentioned, what's the timeline for us to know what the government decides and who is involved?

Bill Johnson: It just began this year. So, it's hard to say how long they want to watch that. It's in two different cities and we're watching it very carefully. We're participating there. It's just a few companies participating and we're one of them.

Sanna Kaje: Excellent. Thank you, Bill.

Bill Johnson: Thank you. Thank you everyone.

Sanna Kaje: Next we will move on to Bill's neighbouring countries, so the rest of Asia Pacific. I would like to invite on stage Axel Berkling.

Axel Berkling: Thank you, Sanna. Good morning and welcome on my behalf to our Capital Market Day this year. It's really a pleasure to be here today and talk a bit the other exciting opportunities we clearly see in Asia Pacific in addition to China. But this is not the first time that I'm here in front of you. Let me have a few words about myself in the beginning. Before I took over the responsibility for Asia Pacific, I was in charge of the German organisation of Kone. And next month I will be twenty years with Kone. And there are two good reasons for this. Number one is the corporate culture I really like. And the second reason is I'm still very excited about the future of this company.

And let me share my view about Asia Pacific to explain what does it mean to be excited about opportunities there. When we talk about Asia Pacific, it's a region of roundabout 2.3 billion people. So, this is one third of the world's population. India is by far the largest country in Asia Pacific, almost the same population as China. Later on, I will explain how do we see the development of the urbanisation in India especially when we compare this with China. Southeast Asia, it's almost a billion people. The urbanisation rate varies in the countries. So, we have countries like Vietnam for example, the urbanisation rate is on a level in the 30s. We have countries where the urbanisation rate is in the early 40s like the Philippines or Indonesia. And we have countries where the urbanisation rate is already on the level of roundabout 50% like Thailand, for example, but plenty of opportunities in this part of the world as well. And we have more matured countries like Australia, New Zealand and Singapore. As you can know or imagine in Singapore, the urbanisation rate is already 100%. So, it's quite an exciting area and a good potential for growth.

What is our position in this part of the world? Kone is the clear market leader in the new equipment business in Asia Pacific. So, this gives us a great opportunity also to grow in service business

where we are still the challenger, but with great opportunities. We have roundabout one billion sales in Asia Pacific. And it's fairly evenly split between India, Southeast Asia and Australia and New Zealand.

Today, I will talk about two main topics. So, first of all is why we believe that in this part of the world we are in the right neighbourhood. And the second part is about how can we even strengthen our foundation there to capture the growth in the future.

Let's start with why are we in the right neighbourhood. So, this is a common term I use all the time when I talk to our organisation about my excitement to be in this part of the world. Why do I believe that this is the right place to be in the future? Let's start with the potential of economic growth in this part of the world. If we look back roundabout 20 years, so the share of these countries to the GDP growth all over the world was roundabout 15% to 16%. If we look in the future it is to be forecasted that the share will be roundabout one third which is in line with the population in this part of the world. So, there is good support by the economic growth in these countries. If you take India for example and think about the size of the GDP, it is to be forecasted that somewhere between 2030 and 2040 India will be the second largest economy in the world right after China; or Indonesia will be on place number four right after the US. So, there is good potential definitely in this area.

Even more exciting is to see the development in urbanisation. So, if we see currently we are on an average of roundabout 40% when it comes to the urbanisation rate. And within the next 30 years, we should come to a level of roundabout 60%. So, as Henrik mentioned, not only today several times, so the urbanisation is clearly a trend which supports our business in this area.

When we talk about the external environment, then we also need to take into account the adaption of the new technology. So, this is clearly a trend which supports our business as well. If we think about Asia Pacific and if we think about the market for IoT solutions including census for example, so, it is forecasted that already in 2020 roundabout 60% of the market for IoT solutions will be in

this part of the world. So, the adaption rate is really high. The mobile penetration is high as you know. The number of connected devices is very high. The internet usage is on the highest level. So, a lot of potential is going on in this part of the world. And when we take Singapore as an example, Singapore is poised[?] to be the first world's smart nation. So, what does it mean? Singapore would like to get the leverage out of this new technology, the data usage to improve the efficiency and sustainability in Singapore.

So, that means it will even increase Singapore's status as a prime destination for data centre technology hubs. It will attract more highly skilled talents. So, there is a huge need to improve the infrastructure in Singapore as well, so good support for our business. So, this is the external environment. Then let's have a look in our industry.

So, what does it mean for us? Despite the fact that we see or I mentioned that one third of the world's population is living in this area. The elevator and escalator market in this part of the world is less than 10%, both in new equipment business and in service business. So, to increase the share, the opportunity is huge. The urbanisation is clearly driving the demand. But what also supports us is that the conversion rate in service compared to other parts of the world is really on a high level. It's on average at 90%. So, the service business will also grow very nicely within the future.

We were talking about what is the split in new equipment business and service business in China and how will this develop over the future. Let me explain how does this look like in Asia Pacific. It varies quite a lot in the different countries. If we take a country like Vietnam for example, the Philippines or even Indonesia, so the share of the new equipment business is roundabout 90%. I think this was in China the same case a few years ago. Then we have more matured markets like Australia or Singapore. So, their share of the service business is already up to a level of 50% or even 60%.

So, we have opportunities both in these developing countries, but also in the more matured markets. Let me talk about these markets a bit more in detail. So, it's the combination of these developing countries and matured markets. And the clear driver when it comes to the number of volume, units, it's India and Southeast Asia. So, India is when it comes to the number of units the second largest elevator market in the world. It's roundabout 50,000 units. Still a way to go to China, but it is a really good number of good growth opportunity for us. Same in Southeast Asia.

Then we have these matured markets. When it comes to the number of units these are quite small markets. But when we talk about the monetary value Australia for example still has the highest monetary value in the market. So, there's a wide range in this part of the world. Markets are fairly consolidated. In the new equipment business, it is I guess a bit similar to China now, 60% covered by the four top OEMs. And the service business situation is a bit different. On average, it is so that already slightly more than 40% is covered by the top four OEMs. We also face competition from the Japanese companies in this part of the world, and we have strong local players in India as well. When we talk about the countries in this part of the world, let's start with the mature market in Australia and New Zealand.

We have a clear market leader in the new equipment business in Australia. And we have a very strong position in this market. So, the new equipment market is really on a high level. And it's cooling down slightly. But nevertheless, there's a huge demand in this part of the world in Australia, New Zealand for all kinds of new technology. So, there's a huge pull from the market to get all this exciting stuff we were talking about to make this happen in Australia and New Zealand. So, good opportunities there as well.

Maintenance market offers good opportunities as well. As stated out in these matured countries, the share of the service business when it comes to the turnover is roundabout 60%. And just to put this a bit in perspective when we talk about the value per unit, it is so that the value per unit in the service business in Australia compared to India is five times higher. So, to increase and work

on the service business in these matured markets is definitely a good growth opportunity for us as well.

Next let's talk a bit about Southeast Asia. So, what is Southeast Asia for Kone? So, Kone with its own sales organisation we are presenting in Singapore, Malaysia, in Indonesia, the Philippines, Vietnam and Thailand. And we have a distributor organisation for example in Myanmar, Cambodia and Laos just to mention a few. We have seen in Bill's presentation that the urbanisation is also now driving the development in this so-called tier plus cities, tier four cities or whatever in Southeast Asia. I would call them tier two cities.

So, maybe let's take Indonesia as one example. When I joined the area and the first time I -- we were talking about the potential in the area, I was really surprised to hear the size of the population in Indonesia. It's 260 million and growing rapidly. So, it will become very close to the US at some point of time. So, it's an impressive number. And it's a huge market for us. It's by far the largest market in Southeast Asia.

And let's take the capital city, Jakarta. Currently we talk about ten million population in Jakarta. If we take the area greater Jakarta into account, then all together it's roundabout 30 million people living in this area. This is a huge city. It will be the largest city in Southeast Asia and a lot of urbanisation and development is going on in Jakarta. But what is the second largest city in Indonesia? Do you know this? I was not aware. It's a city called Surabaya. It's the capital city of the Java region. And the size of the city, the population is roundabout 3.5 million currently. So, you can imagine there's a huge potential and the urbanisation in the cities -- this will really develop in the future. And we have our new office in Surabaya to capture the growth in Surabaya in Indonesia as well. So, opportunity driven by the organisation in Southeast Asia is clearly there, but the market is also volatile. As you know, with the elections in the -- there was an election in Malaysia, there will be an election in Indonesia, this will create in a short while some uncertainty. But in the long run it will definitely help and support our business. The volatility of the currency will



add to this uncertainty. But when we talk about the future opportunities, they are huge. As we don't have the time to talk about all countries in Southeast Asia, maybe just to give you a bit of a flavour how does it look in these countries. I'd like to talk about Vietnam as a special case.

This is one of the fastest-growing markets in the area. Quite a young population with roundabout 100 million people living in Vietnam. The number of people in this working age group between 25 and 55 is roundabout 50, so which is quite high. And this is clearly a good sign for economic growth in Vietnam. When we talk about the economy in Vietnam, it is -- it consists of three key economic regions. So, let's start with the north. So, there we have the city of Hanoi. It's very close to the Chinese border. And the whole development, the cultural development of the city, everything is influenced by the way of how China is doing business. So, it's very close to the development we have heard about China of course in a different size. So, but nevertheless a hundred million population is not -- there is good potential for us. The second and most dominant economic region in Vietnam is the south. It's the area around the Ho Chi Minh City, where you can find all kind of global players. So, this is clearly the dominant part of the economy. And we have our head office in Ho Chi Minh City and just opened up a training centre in collaboration with local college in Ho Chi Minh City. And just at the weekend there was a piece of it in the national TV in Vietnam. So, it's a very successful collaboration with the college.

And then the third economic key region is the central part of Vietnam. It's an area around two cities. They are called Da Nang and Nha Trang. And more and more investors, they now expand in this part of Vietnam as well for good reasons. They would like to be among the first. And one key industry in this part of Vietnam is the tourist industry. So, if you later on may check the map of Vietnam, you will see there is quite a long coastal line. And it's very attractive and I can definitely recommend this and this part where we find the tourist industry, it's also attractive for us. And this is the reason why we just also opened up a new office in Da Nang to capture the growth in Vietnam. So, a good potential for growth. And last year, we doubled our business in new equipment business in Vietnam, just to give you a bit of a flavour about this.

Then last but not least of course we would like to talk about India, the second largest new equipment market in the world. There's a strong fundamental for growth in India. So, the population, 1.3 billion but also the economic growth. So, the GDP is to be forecasted on a level of roundabout 7.7 for this year which is -- I think this is one of the first years where it is above China. So, it's a good potential for growth. And also, the government is now driving the urbanisation.

I'd like to explain a bit an approach and mission what the government has initiated, its so-called 100 smart city mission. So, what does it mean? They have identified already one hundred cities where they would like to improve the opportunity for investment, the employment, the sustainability and what it is in India also really important the quality of life. One of the key initiatives to work on this is an initiative so-called Housing for All. So, just to highlight one figure of this initiative, the target is to build 20 million affordable houses until 2022. So, a good potential for us in India because of this. Infrastructure in India, clearly something what we need to develop in this country. A target of the government is to build one hundred new airports until 2035. So, a good opportunity in the infrastructure segment as well.

Also, the market in India is volatile. Last year many changes in the regulations took place, just to mention the demonetisation impact. We had a GST implementation. And last but not least we had the real estate regulation act which took place last year. So, this has created some uncertainty and the market cooled down last year slightly. But we can see good signs of recovery and the future definitely is there. And all these reforms clearly will help to consolidate the market and stabilise the market in the long run.

What about our position, Kone's position in India? So, we are market leader in India as well in the new equipment business. So, we have very high customer loyalty. It's the highest net promoter score in Kone overall. We have already fifty branches. So, we have a very good representative across the country. And we will further expand in the right spots in India as well. Next year in the

second half of the year, we will open up a new factory in Chennai. So, this is to replace the old factory which is very close to the same area to increase our production capacity.

As I get many questions about the development in India compared to China, I'd like to spend also some time to explain how do we -- how do I see the development in India compared to China. As mentioned several times, population almost the same. But as you can see from the picture, so far, the development in the cities has gone completely different. So, on the left-hand side, you see the skyline of New Delhi. And on the right-hand side you see the skyline of Shanghai. So, the cities in China are much denser and the buildings are taller. So, in India maybe we see the exception of Mumbai. So, the city development so far was more horizontally compared to China. So, when we talk about the average numbers of floors in India, it's currently still below ten. So, it means a lot of elevators for us as well. But this will also change the picture in India quite a lot. So, a good potential for us.

We know from China that there is a strong central planning. In India, we have 29 different states with different regulations in place. So, this clearly slows down the decision making, just to highlight this. But then taking the urbanisation rate into account, 35% compared to China, now close to 60%, this gives you a flavour of what kind of opportunities we have in India when we talk about the future. So, it's really amazing to be there. And within the last three years, I was almost every month a few days in India.

Do I now understand the development in India? I don't know. Do I have a better understanding compared to two years before? Yes, definitely. But if you ask me then will India be the next China, I can answer India will be India. So, development will be different but opportunities are huge. And I really believe in the opportunities in India and especially with our strong position already in the market.

What about our foundation and how can we even strengthen our foundation for growth in this part of the world? I think Bill stated out it's all about people. And it's – of course at the end in Asia Pacific it's the same. So, we have the leading employer engagement in Kone in Asia Pacific. So, this is a very strong foundation. And being now in this part of the world for two years, the enthusiasm for change and the commitment to Kone and the strategy is really on a top level.

So, everybody is willing to develop further all the time. And it is asking for change and improvement. So, we have a very high commitment in all countries in this part of the world. How can we further improve this? So, we were already talking a bit about training, how important training is. And we will further invest in training in Asia Pacific as well. In 2018, we will open four new training centres. We have already opened a new training centre in KL in Kuala Lumpur Malaysia, in Ho Chi Minh City as mentioned and also in Pune in India. The next one will be Bangkok and Thailand. And we will continue with this next year as well. But it's not just about these training centres, and how do we use the training centres to train our people. In these training centres, we also have the latest technologies. And it's a kind of a customer experience centre where we show all these new stuff to our customers. These customers are always very impressed of course to see the technology, but how systematically we train our people. This is clearly a competitive advantage especially in this part of the world. The reliability of our organisation and the capability to maintain and install elevators and escalators in this part of the world, it's something what is really an advantage compared to many competitors.

This brings me to my next point. It leads to a very high customer loyalty because of our capability to maintain and install. We have a very strong relationship with our customers in this part of the world. The net promoter score has grown quite nicely. And this is because of our solid foundation, very strong relationship with top developers in the area. So, for example the Singaporean developers, Singapore is 100% urban. You can imagine that they of course spread out in the other countries as well and expand. And we now do business with them in Cambodia, Malaysia,

Indonesia and Thailand for example. So, relationship is a key for this. So, it's about understanding customer needs and then do business with them.

Let me share one other example about how we understand customer needs. This is the case from India. In March this year, we launched our new offering for the mid-range segment. It is of course based on our strong global product platform. But because of the – taking the local culture into account, the car design is inspired by an Indian mythology. It's about nine different gems. It's different colours, different meanings. It's called Navaratna. If you see this picture for example, this is a car design from a so-called diamond collection with a special meaning. Our Indian customers, they really like it. And this is having a strong global product but understanding the local needs when it comes to the car designs, very good success stories so far.

How do we differentiate through our offering? I mentioned the point that the technology adaption rate is really high in the area. So, there is a huge pull from the market to get all the latest technologies in solutions. It's across all countries. I can clearly confirm. So, I think we mentioned the example of 24/7. Singapore was among the first pilot countries. We have similar examples, maybe hospitals in Singapore where we improved the availability, reliability of our equipment roundabout 20-25% we will see within a few months, less than a year. And we got additional orders from our customers there as well. But also, we have many major projects in Asia Pacific. I'd like to highlight one of these projects.

I guess most of you know the Marina Bay Sands in Singapore. It's a very complex building. It consists of three main towers. So, this is the hotel complex, 2500 rooms in this hotel. We have a casino. We have theatre. We have restaurants. We have an entertainment hall. We have a business centre, restaurants I mentioned. And then on top of this we have a 150-meter infinity pool. So, the occupancy rate is 98%. This is really high and the people flow in this building, this is really a challenge. In 2013 in Singapore for the Marina Bay Sands, we installed the first UltraRope ever. And now after five years, the customer is very happy with our performance. It's the

performance of our product, our solutions. So, we've got a long-term maintenance contract. And all the high-rise elevators, 45 of them will get the UltraRope in the future. So, this is what we call winning the customers.

To summarise; why do we believe, why do I believe that we are in the right neighbourhood? So, we have a strong foundation for growth. Economic growth is there, urbanisation rate will support our growth and the technology adaption rate is really the fastest in the world. Our foundation is very strong. We've very committed and engaged people. We have very loyal customers. So, this will really help us to capture the growth in this part of the world. Thank you.

Sanna Kaje: Thank you, Axel. Again, time for questions. And we do acknowledge that there are also questions for the other presenters on the message wall. We will take those questions after Henrik's wrap-up. But any questions for Axel at this point?

Andre: Thanks very much. It's Andre from Credit Suisse. Again, on India, could we talk about the pricing environment in that market? We've seen numerous kind of capacity addition announcements from obviously yourselves, but also virtually all your peers. So, could you talk about if that's impacting pricing? And also, just related to that, where are the conversion rates in India in the market and for yourself?

Axel Berkling: Okay, then let me start with the pricing first. Of course, the competition in the pricing in India, it's similar to the rest of the world. So far, in India we have been quite successful to sell additional value and to increase our prices. So, coming back to conversion rate, as stated, conversion rate on average in the area is 90% and it's the same in India. So, it's on a really high level.

Sanna Kaje: We have a question on the wall. So, what is Kone's position in the Indian maintenance market? What is the market split overall between residential, nonresidential and infrastructure? And do we need to tie up with a local player to do business in India?

Axel Berkling: Yeah, so first of all, our position in the maintenance market is the same as in Asia Pacific overall. We're still in the challenger position. So, but we are clearly improving and growing faster than the market. So, this is for India quite clear. The split between residential, non-residential and infrastructure, residential is clearly dominating the market. So, this is by far the most dominant segment. And we are clearly a representative in the residential segment in India and we are definitely the market leader in this segment as well. So, a very strong position there and a very high share of residential buildings in India in the market.

Do we need to tie up? We have our own production in India. And we will increase the capacity, so we are a strong player in India. So, currently we don't see the need.

Sanna Kaje: And what I at least found really interesting was the high conversion rate in India. So, I suppose that is helping us to catch up?

Axel Berkling: Of course, the conversion rate it is 90% plus. So, it is definitely something that will help us to increase our business in maintenance as well. And maybe to top this a bit when we talk about the retention rate, so it's 95% in India. So, this is clearly helping us to support our business and growth in maintenance. Thank you.

Sanna Kaje: Any other questions? Over there.

Speaker: Just on India, you showed the picture on the city landscape. And I was just wondering if you compared China versus India in terms of as they say elevator intensity, meaning how many

elevators they put per one million new square metres started? Where is that number in India and where is that number in China? This may also be a question to Bill at the same time.

Axel Berkling: Yeah, so what I can say that the -- in India it's a bit more difficult to get these kinds of statistics. And I can't answer this, so I don't know exactly. The only impression I can give, as I said, I was almost every month within the last two years, I was a few days in India visiting all these kinds of cities. And with the exception of Mumbai where we -- really the skyline is the same as most of these capital cities and very close to the skyline in China. In these other cities, so far, the growth has been horizontally and it is clearly below China when we talk about the number of elevators per square metre.

Speaker: I mean it is 10% or is it 40%? Do you have any feel?

Axel Berkling: What I can say is that the number of floors, so we were talking about it is below ten on average. So, this gives you a feeling that at least in the past in China, I guess it was at least double of this. So, just to put this in perspective.

Sanna Kaje: There in the middle.

Speaker: Just a quick question for me. Why do you think or why is the conversion rate much higher in India than in China?

Axel Berkling: Yeah, they are -- let's just mention two reasons. So, first the OEM is the preferred partner in India. And the second reason is I mentioned the customer loyalty in India is the highest in all Kone countries. So, it's our performance as well which has supported this high conversion rate.

Sanna Kaje: In the back.



Speaker: Yes, I wonder about legislation in India, both when it comes to maintenance and in equipment. How many stories can you build the house without having an elevator in India and in other – Is the market pushed to go for that low buildings, so you don't even have a market there?

Axel Berkling: Yeah legislation and regulation in India is a bit different compared to China. As I mentioned, we have 29 states and all of them have different regulations in place. And I mentioned the Real Estate Regulation Act, 29 states. 20 has within one year started to implement the act. So, this is -- it shows you a bit how long it will take to implement all this in India. But this is something where we have a common act in place for India overall. So, far we have regulations for maintenance as well; but mainly in the states like around Mumbai and Delhi and we have other states where clearly the market is so far not regulated. So, it's clearly an area of what needs to be improved in India.

Speaker: So, you should avoid taking elevators perhaps in India than if there is no guaranteed maintenance at all?

Axel Berkling: So far, the common practice in these capital cities in each of the regions is that there is a regular maintenance business. So, in most of the big cities, we have regulations in place. But if we go to the eastern part of India for example, it's less developed. There we have less business, and we have less regulations.

Speaker: And you can build like six storey buildings without elevators, that's allowed or not?

Axel Berkling: At least not across India. In the main economic centres, it's not allowed.

Speaker: And I understand you source to the India market from your own factory obviously. But what about these other Southeast Asian countries? Are the products actually coming from China, from your factories?

Axel Berkling: Mainly from China, yes.

Speaker: Thank you.

Axel Berkling: Thank you.

Sanna Kaje: Thank you. If no other questions at this point, we will have another 15-minute break. You will have more time to talk to our people at the demo stands. And let's be back here in fifteen minutes. Thank you.

Axel Berkling: Thank you.

Sanna Kaje: Okay. Is everyone ready to continue? One more presentation left. I would like to invite next on stage our CFO Ilkka Hara to give you an update on the financials but also to summarise how everything you've heard today is taking us towards the financial target. Ilkka, please.

Ilkka: Very good and thank you Sanna. And good afternoon also on my behalf and to those that have made the trip and listening here physically in this room but also to everybody on the webcast. And I said my pleasure is to take what we've heard today the interesting presentations and try to summarise them from a financial perspective on how they're taking us forward. Henrik started with how we are making progress executing our strategy. Hugues talked about both how we're everyday building our maintenance and modernisation business but also what other new services and solutions that we are now introducing. And then we had the pleasure of having Bill talking about China and the opportunities there. And then how we're in the right neighbourhood as Axel always put it when it comes to Asia Pacific.

I'm going to talk about two different topics. So, first starting with where are we from a financial

perspective; how are we performing as well as talk about our financial targets, and look at what we've heard today how is that helping us to achieve our targets going forward. But let's start with financial performance and our orders received. Our orders received hadn't returned to growth. And after a what I would call a more difficult period in 2016 where we did not see growth, we have now returned to growth during 2017 and have seen good growth at first half of 2018. And more importantly than the growth number itself, it is also broad-based growth. So, we see both of our businesses, both new equipment as well as services contributing to orders growth as well as all of our regions contributing to it as well. And that's to me something where this broad-based growth gives us also diversity going forward.

Our order book stands now after second quarter 7.9 billion and gives us a good foundation to build on going forward. Then the second topic I wanted to talk about was actually something that already we've got a question in the room; but also, I get to speak quite often with many of you when it comes to how our margin of our orders has developed and how it's been stabilising over the last three quarters.

And before I go to too much detail this picture is meant to be illustrative. So, you can't draw too many conclusions, but I use it as a way to try to summarise the dynamics that we see when it comes to raw material price development as well as price, like-for like price development and especially in china where this trend has been the strongest.

So, first of all if I look at the bottom and see the raw material price which is for us a component price development year-on-year basis, after a longer period where the raw material prices were coming down we started to see a reverse of that trend in second half of 2016. The raw material start to contribute negatively and prices start to increase. And that trend has continued as we've spoken already even during today. Then at the same time we have seen prices in the overall China market, they were coming down and for quite some time in line with the raw material price development. So, from a margin perspective we didn't see much of an impact to our orders margin.

But as we saw prices continuing to come down while raw materials start to go up in third quarter of 2016, that's when they start to impact our orders margins.

Now we started as Bill talked about and Henrik also talked about the initiatives around pricing. So, we started our initiatives in late 2016 to really improve the analytics tools we have available, improve our sales management, both tools and processes and also training our people as Susanne talked about, to really be able to turn this development around. And it actually took a while to see the impact of those efforts. And in third quarter '17 we then saw our prices first stabilising and then we start to see like-for-like prices year-on-year basis contributing positively during fourth quarter of 2017 and that has continued in the first half of '18.

So, our prices therefore have stabilised, start to stabilise during fourth quarter '17 and have continued now in 2018[?]. And as we see in China, the order book rotation is round about nine months; so, you start to see these orders then being delivered latter part of this year. It is also good to note though that although we've start to see improvement in the like for like prices, if I look at the longer period from a margin perspective, those orders are still at the lower margin than we saw them previously and we still have work to be done when it comes to returning to the same profitability to work on the pricing going forward. So, hopefully this is summarising a bit of the dynamics that we've seen and gives you a insight of this development.

Then if I move forward, when it comes to sales growth, Henrik talked about how we've seen more growth coming from our services or organic services growth as we label it here. So, from a period of 2013 to 2015, clearly more of the growth was coming from new equipment; and now in the latter part of this period, it's actually services which is mainly contributing to growth. Also, we've seen slightly less growth coming from acquisitions mainly due to just availability of acquisition targets in the maintenance business. It's good to note though that new equipment still continues to contribute positively in this period but it's less than we've seen in the past. Also from a currency perspective, currencies have contributed negatively to our growth. That being said, still in the first half of this

year, we actually saw more balanced growth, both new equipment growing at 6.8% and services 6.1% in the first half of this year.

If I look at our development of our adjusted EBIT, that's something which we can't feel happy about. Although we've seen growth continuing to contribute positively to our EBIT, profitability has contributed negatively. If you combine both the raw material impact, the impact of pricing in China especially as well as the investments that we made in R&D and IT to opportunities as we see, that being said, we still continue to drive productivity but it's just a net has been a negative impact. Also, currencies have contributed negatively to our EBIT in the latter part of this period.

If I then talk a bit more in detail these two headwinds, namely, first the currencies and then the raw material development. Henrik talked about in the beginning how currencies have moved in the last couple of months quite a bit. But let's start with what is the exposure we have on the right-hand side. So, the main exposure we have from a currency perspective is to renminbi given the size of our operations in China, as well as dollar plays a key role as well. But it's good to note that the grey part, the others, thus include many other currencies especially in emerging markets that have actually moved against euro, and euro has strengthened, so having a negative impact to our performance. And as Henrik said, so with these rates, we are seeing for the 2018 about 45 million negative impact coming from currencies in translation of the currencies. And that's up ten million compared to where we were at the end of second quarter. And although it's a bit early to comment on 2019, if we just look at where the currencies are right now, then we would see a negative impact coming from currencies also in 2019 if the spot rates are where they are. And one of the key currencies to look at is renminbi; it's over now eight against the euro, and the average so far has been 7.7 for the year.

Then towards raw materials. So, on the right-hand side you see what is our main exposure and no surprise there; so steel, stainless steel, [inaudible] and billets are the main exposure we have. Also copper is relatively large. And the overall exposure from raw materials is about 5% of sales. And

this year we continue to see about 100 million impact from raw materials in our results as a headwind. And if we assume that the raw material prices are where they are right now, we do see and also a headwind in 2019 coming from raw materials.

Then tariffs have changed the landscape quite a bit. And although we see a less significant impact from the US tariffs for 2018, right now with the tariffs for steel and aluminium as well as the imports coming to US from China, we're estimating the impact for 2019 to be round about ten million. It's one where we continue to learn more as the situation evolves, but that's the estimate right now.

Then to cash flow. So, cash flow obviously is an important focus area for us. And we continue to see healthy cash flow for the business. We have good commercial terms with our customers and they have not changed. And also, we have seen our payment behaviour with our customers continuing to be the same. And if I look at the contribution coming from working capital, we did see actually a slight negative contribution in 2017. But over the years, we've seen working capital contributing positively to cash flow. And we continue to see that be the case as I look at our targets in the latter part of the presentation.

From capital acquisition[?] point of view, we've been quite stable. Capex have been a bit more than 1% of sales throughout the period. Acquisitions in the range of 50 to 80 million. Slightly less as I said in the last year. And also, we've seen increasing capital been allocated to dividend payouts. And if I look at our dividend development since 2000, so we're quite proud about the fact that we've been able to compound our dividend over 20% CAGR throughout that period. And in 2017 that represents 87% pay-out ratio and a yield of 3.7%. So, something which we are proud of.

But if I now shift gears a bit and look at our financial targets going forward. So, first our targets growth, we want to grow faster than markets. We talked – Henrik talked about it so did Hugues as well as Axel and Bill. Profitability we have clear ambition. We want to have a 16% EBIT margin for the company and cash flow. We want to continue to improve our working capital rotations. So,

I'll start actually with cash flow. I guess it's closest to my heart as a CFO out of these targets. And we continue to see healthy cash conversions for the business. We have good payment terms with our customers, and quite frankly I don't see much improvement there. They're already on a good level. But where we do see opportunities to improve further our working capital is what Mikko already talked about in the area of inventories. So, as we are able to get this lead times to be closer together, we also then improve our inventory rotations. And that contributes positively to working capital. Also, I do see that in an area of accounts payable and as well as accounts receivable we still have a improvement opportunities there. And some of the accelerate programs that we have ongoing are contributing to that. But clearly something where we continue to see opportunities to work on improving our working capital rotation.

Then we talked quite a bit about growth, how we can grow faster than the market. And let's start with new equipment. What are the drivers and ways for us to achieve faster than the market growth? Henrik talked about outcomes. Our customer needs – needs for the buildings are changing and how we can contribute to it. And that helps us to then grow faster than the market. Hugues talked about from a services perspective our new services offering but actually does contribute also to our new equipment business. It differentiates and gives us a different dialogue with our customers. So, for example, the residents outflow[?] is something which is sold at the same time that we quite often sell new equipment. So, it gives us a deeper dialogue and differentiates us against the competition. Both Axel as well as Bill talked about building competencies as well as Susanne, so investing to training centres to really drive in our growth especially in emerging markets for our new equipment business.

And then innovation. It continues to be important. We don't necessarily always talk enough about it in the context of new equipment but we've already today talked about for example innovations such as jumplift[?] that contribute to us growing faster.

Services. We talked quite a bit today already. What are the ways for us to grow faster, but clearly

number one is the fact that we have a healthy growing new equipment business that contributes to us having leading growth rates also in the services businesses. Conversions and retention that we work on is important for us as well as the new revenue streams that are now still a small part of the revenue but continue to help us to grow faster. Competencies are important. Hugues talked about how the everyday the main work we have in the service area is to deliver the maintenance and modernisation work. And there we need competencies continuously.

And then lastly the monetisation opportunity that we see ahead of us especially in APA and – in Asia Pacific and China continues to contribute here. And then lastly our target of 16% EBIT margin. It's good to note that we have a balance sheet that is relatively asset-light. So, we drive for improving our absolute EBIT as main target; but a good way to set the ambition for us is the margin target. It's also an easier way for us to communicate it internally.

And what are the ways for us to achieve it? So, growth helps. We've talked quite a bit about growth. How it provides us economies of scale. Also differentiation is important part where we can – by differentiating ourselves we can then command a premium in terms of our pricing and that improves our profitability. We talked about customer satisfaction. Especially in the maintenance area. A retained customer is actually more profitable than an acquired one. And then lastly, quality and productivity, Mikko talked about, directly impact our profitability. Also, our Accelerate programme is contributing to this. And from Accelerate program point of view we've set ourselves a clear goal. We want to achieve 100 million of run rate savings by end of 2020. And we're estimating to invest about 100 million to make that happen and we're well on track to deliver that. Our goal for 2019 is 50 million. And that we're delivering.

Final summarised what I talked about today. So, first, we are well on growth track. Our orders received are growing and contributing to it but we're seeing good growth in our sales. Our profitability is burdened by several headwinds. But our orders received margins have now stabilised and we also have taken action that we see clearly contributing to changing this path. And



we're committed to our financial targets whether they remain the same and we're committed to delivering those.

Thank you. And I guess we have time for a few questions.

Sanna Kaje: Exactly. How did you guess? Questions for Ilkka? Did I see your hand up in the air? You will get a mic.

Speaker: Well, Ilkka, this actually this was a more general question. I thought that was just the final Q&A. Coming back to services actually thinking about the – how we can bridge the gap between 5% contract penetration versus 75% market potential is the duration still two to three years, i.e. the contract renewable until it gets into the PNL? And is there any region that is faster than that, where you see faster renewal rates currently? Just trying to understand when you look at the – you talked about the tailwinds into 2019 about services; are we going to wait beyond 19 until we see digital hitting P&L basically?

Ilkka: Well, maybe I'll take it on a high level. We can also come back to it. We have still a Q&A with Henrik. So, first, it varies a lot country by country how long the contracts are. So, it does have a bit of an impact. And Hugues talked about a example that where we've been earlier with this offering in Italy and in Germany. We actually are double the 5%. So, we're at the roundabout 10% already. But it will take time and not only all of the contracts we actually want to renegotiate immediately. So, that will take some time. But to your question when are we seeing that impacting P&L, so it does impact already today. It's more the question when is it more visible and that's maybe later than right now. But it is clearly positively contributing already today.

Speaker: I have more questions but I'll take them later.

Sanna Kaje: Okay sure. Any other questions for Ilkka? At least here in the corner of the front row.

Mattheus: Thank you. Mattheus Sunberg[?] from the [inaudible] markets. You have a quite strong balance sheet today. So, if you could just elaborate a bit of one sort of what type of gearing you will be comfortable with and where do you see the optimum[?] balance sheet at. Thank you.

Ilkka: Well we have a strong balance sheet and for the business we're, well, cash flow generative business that we mostly get paid upfront, so in that sense we don't need much capital to operate the business. But at the same time, we've seen value for having the lever – or the strong balance sheet in case we need to act fast for something more strategic – that's been the decision by the board. So, in that sense, we can – we could have a lot more leverage but at this stage, it is the capital structure that we have.

Mattheus: And what would the sort of maximum gearing or do you have any type of target for that?

Ilkka: We don't have a target for that.

Mattheus: Thank you.

Sanna Kaje: There is one question.

Tom: Tom [inaudible] I have a couple of questions but I can save also something later. But just on the margin development and the pricing. Steel prices have actually continued up somewhat at least year on year. Are the price increases enough even for the continued raw material prices? Or is there a risk that if the raw material prices continue to move up, you have not been able to catch up with your price increases?

Ilkka: So, what we comment is that what we know. And let's see how the raw materials will evolve going forward. But if they start – continue to go up then we need to work further on the pricing. So, the

comment when we are commenting the margins, it's what we know today.

Tom: And then just on the savings. Is – this 50 million for next year, is it the run rate or absolute annual 2019 number?

Ilkka: It would be the impact for P&L in 2019.

Sanna Kaje: Take from that side for a change.

Speaker: Great thank you I just wanted to follow up on raw materials. Can you give us any indication for 2019 at the current rates? Even ballpark figures versus 100 million for this year. Is it half? Is it less than half? More than half?

Ilkka: It will be less than you're seeing this year, but let's see how it develops and when we're closer to actually giving guidance in January 2019

Speaker: Got it. And just a much more broader question, the interesting slide on arrows of how pricing unrelated to raw materials or not – have you rolled it out further back like to look maybe at a ten-year history and what is this – how does it look for you or for the industry? Is it passed through industry or does it always struggle with that sort of four five quarter lag between raw materials moving and pricing following?

Ilkka: We haven't rolled that picture. It is already quite state of the art. We did the picture trying to summarise many moving parts to be honestly into one picture to have an informative picture. But there's natural lag. I mean we have an order book where we book orders and depending on the market we deliver them later. So, there is lag both ways. How long it is then also a question where we need to see how the pricing work between us and the customer works and that's – there's no rule for that.

Speaker: And the final one. Did I hear right that you said that there is more work to do on bringing margins back to where they were and therefore kind of the pricing exercise is not done, i.e., Potentially indicating the intention to keep pushing for price to be positive in 2019?

Ilkka: Definitely we aim to continue improving prices. But then let's see how it happens. It's still forward-looking if we still have to case by case be able to do that. So, ambition is clearly there.

Speaker: Great thank you.

Sanna Kaje: There is one here. Almost in the middle.

Speaker: Thanks. Just I understand correctly, when Konya[?] talks about margin it seems to me that you are not including raw materials in your margin because you say that margin has fallen and then you talk about raw materials having increased as separate issues. And now when you talk about 2019, what you've said is that your margin – order intake margin has stabilised, but then you are saying that raw materials costs will increase also next year. So, in fact, this seems to me to mean that your revenue margin will fall. Is this correct?

Ilkka: Why we are specifically commenting on raw materials is that we try to give a more clarity on what are the key drivers for our results. And in 2018, that impact from raw material prices alone is 100 million. And financially, it's in the margin but we try to take it out and to explain our performance more clearly by disclosing it. And the reality is that it's an estimate, so it's not something which I easily get out, so we try to estimate how much of the performance is coming from raw materials and how much is then other things such as improved productivity that Mikka talked about.

Speaker: But what does this mean for 2019 then? I mean if you say that the order intake margin is now stable does that statement include raw material costs which you already know that will

increase?

Ilkka: So, for those – when I saw – we say stable for the orders that we've taken in it's based on what we know today for the raw material prices.

Speaker: And you know that they are increasing.

Ilkka: I know where they are today. I don't know where they will be tomorrow or the day after.

Speaker: But you just said that in 2019 the cost – the bill will be higher.

Ilkka: Ah, sorry. So, where they are today there will be a headwind for 2019. That's what I said.

Sanna Kaje: If they stay where they are.

Ilkka: If they stay where they are today.

Speaker: So, the margin will go down then. Is that the correct conclusion?

Ilkka: No, for those orders it's stable.

Sanna Kaje: So it depends how we do in the pricing of the orders that we are still taking. So, we know that if the raw materials would stay where they are today, that's a headwind and that let's see how successful we are with the pricing actions.

Speaker: Right. Okay. Alright.

Ilkka: There's still many moving parts when it comes to the outcome and that's why we also guide our

results in January 2019 then.

Speaker: So, you need to improve your order intake margin in order to deliver a flat sales margin given that you already know that the raw material bill will be higher next year?

Ilkka: For the orders that we've taken in, we've said that we've stabilised the margins. Then how the order book rotates depends on the area and the orders. So, it's much more complex than that.

Speaker: Okay.

Sanna Kaje: Okay, I think we need to move on. We can take that also – well, we can take it now because we have then questions and answers also after Henrik.

Erik: I think you, it's Erik[?] from [inaudible] a little bit earlier Henrik talked about labour shortage in Europe and the US. Could you a little bit elaborate what kind of salary increases should we prepare ourselves for in 2019?

Ilkka: Yes. So, we are starting to see in Europe maybe there's been less salary inflation in the past now starts to pick up as Susanne was talking about as well. In North America, the tightness has been there a bit longer; but it's still difficult to see how big of an impact it will be next year, but clearly a bit more than it has been in the past. It is a bit different dynamics; so new equipment business and maintenance business when it comes to what the impact is. In many cases, in maintenance side, if we're able to see both salaries and overall inflation moving towards the right – same direction, then we're able to more escalate our prices and the net impact is not necessarily negative on that one. In new equipment, it's more about us getting the prices then to reflect that inflation, so there's a lag to it.

Erik: But you're not kind of worried about insufficiency of labour force? Labour work. Or labour force in

going forward.

Ilkka: It's already quite tight. So, we continuously overall in the construction industry are seeing some of the projects having more flexibility, so they're not being delivered as according to the timetable. So, it is continuously something we need to work on.

Erik: Okay, thank you.

Sanna Kaje: Thank you Ilkka. I would next like to invite Henrik on stage to wrap up.

Henrik Ehrnrooth: Thank you, Ilkka, Sanna, and thank you all for your active participation so far today.

The idea of course of Capital Markets Day is to give a better incite for everyone on how we are developing Kone going forward. That is of course the main thing looking forward; how we see our markets, how is our business developing. Also, an important thing for us is to enable you to meet some of our key leaders. And every year we tend to have a few different [inaudible] we rotate them just to make sure that you also know better who is leading this company. That is of course important to everyone and I hope you have good opportunity during the lunch and the breaks to talk to them and get to know them a bit better.

But to wrap up today, what we've been talking about? Clearly, we've been talking about our strategy. We are now about halfway through this strategy phase that we call Winning With Customers. Where are we? I started today by saying I feel that we are in a good spot. We can see the way we're developing is bringing concrete differentiation in many parts of the business. Also, very important measures for us are the fact that we can see that our customer loyalty has continued to improve. And we have also seen that our employee engagement and motivation if you compare it to external benchmarks is in high performance category. These are absolutely critical strengths to have in a fast-changing environment. Those are some of the most important forward-looking indicators we have for the business. So, we take them very seriously and focus a

lot on them.

If I then think about our performance. We all know that we have been putting in a lot of effort into turn our margins back to an improvement trend. It's clear that we're not happy with the fact that they have now declined or are declining second year in a row. And here we can see also some good progress. The fact that we are back to growth in our orders received, the fact that we have been able to stabilise our margins, and yes, they do include the costs that we see. And that is of course has only happened through the fact that we've been able to increase our prices to weather some of the headwinds on the cost side. Also, the fact that our service business continues to show industry-leading growth rates and clearly fast on the markets. Those are very good things.

But clearly, we have work ahead of us. We continue the work ahead of us to improve our performance to get the margins up. But of course, that's something we are very, very focused on. And I think we're pretty clear on how we expect this year to develop. And for next year we have a lot of good things in store that we have developed already, but clearly there continues to be some headwinds as well. But perhaps, when I look at the business longer term, again highlight why I'm very positive about it, is that in the business we continue to have our traditional growth drivers that are very much intact. There is the fact that urbanisation continues to be a very strong megatrend around the world that is driving good growth in new equipment business. That growth in new equipment business continues to fuel the installed base, creating opportunities in maintenance. And the equipment base is aging all the time. If you look over the past 20, 30 years except for few blips we can see that the new equipment business has been growing constantly. That means that every year we have more equipment that comes to [inaudible] that needs to be modernised than the prior year. And this we don't see a stop to this. So, a lot of opportunities there.

So, the basic growth driver of this industry – install, maintain, modernise, repeat; install, maintain, modernise, repeat. It's there. On top of that, we have some very interesting business opportunities emerging. We're still at an early phase. You heard from Axel, from Bill, from Hugues and Ilkka as



well how we're working on capitalising on the opportunities that are coming through changing expectations, changing needs and changing environments for our customers and how we can serve them better through new technologies. Then the technology is not the important, it's the outcomes we can provide to our customers where we can help them in certain parts improve their business. That is what we're focused on.

So, the fact that we have the traditional growth drivers, and now as you can see we're very focused on developing new opportunities in the business. We are early on here, but what I'm very focused on all the time looking at is the direction the right one. And if the direction is the right now which I feel, then you can create momentum in it and drive more. The great thing with our industry is clearly that we have lots of customers, a very broad service base. That means it takes time to roll out these new services to our customers. But you know what, I still think it's a huge benefit for the industry that we have a very large customer base that doesn't rotate very fast. But when I look at when we sign up new contracts for example new Kone Care[?], what the momentum is there, how many percent we're selling with this new method, then the situation looks very good.

So, we look with good confidence and we look with excitement forward and we know that also we have work to be done and we continue to work in improving our margin because it's clear that we are very committed to grow profitably over the long term. So, with this, I think can open up to questions again. And we should have now good time for your further questions here.

Sanna Kaje: And now you can ask questions from all of the presenters. Fast, please.

Speaker: Thank you [inaudible] the other question for Bill. Coming back to China and the volume outlook. I think you previously said that land purchases or housing starts nowadays can be sort of a misleading indicator because obviously, you have the inflation of the land bank or of the land and then you have also consolidation that have created sort of false starts if you like. The key driver instead is real estate investment. So, here is my point really. If we back out land prices from real

estate investment, we can see that prices – volumes, pure volumes are basically flat year-to-date compared to 5.5% growth in the first quarters. It's a quite sharp slowdown here during the year. And the trajectory when we look at 2019 seems like flatter down. A little bit the same outlook as you have in 2018. So, with that in mind and the perfect correlation that we see between installations and pure real estate investments, not price, volume, how would you comment on 2019? Is it – how is the probability of the market being up or is this going to be a similar year as in '18?

Bill Johnson: Hard to say specifically what's going to happen in 2019, but I think you do point out with what your statistics are is that there's still a lot of variation that we have to watch. There is some land banking, so some land comes up. So, that's why there are multiple moving pieces which you know give us a little of a pause when we look at our forecast what is going to happen for the – even for the balance of this year. But we still say it's at a high level. It will remain at a high level and – but we're watching all this you know month to month quarter to quarter as well as you are.

Speaker: But you would agree that we, from a pure volume point of view, excluding price, we have slowed through the year on real estate investment.

Bill Johnson: Slowed on real estate, I'm not sure but I can say that the impact on the elevator escalator business – let me be more specific to our industry – is still at a high level, still pretty solid but maybe slightly downing, coming down. Remember there's still a lot of downward pressure. There's the potential of a property tax coming up in 2019-2020. So, there are a lot of other extraneous factors that may be influencing this as well.

Speaker: Okay. Follow up to you as well. Is on ASPs. Given that tier 1, tier 2 is sort of maturing and the growth is now in tier 3 and tier 4, what kind of ASP implication do we have on that? Is it lower tier – low-rise buildings? So, you have a tough comp bond[?] on the ASP or is that not impacting value for Kone?

Bill Johnson: Not really. We still have a very solid average selling price and our margins remain fairly steady.

Speaker: Thank you

Sanna Kaje: We have one – now two questions here as well. So, how is innovation in services impacting the customer's need for the density of your engineer network? So, are greater proportion of callouts preventive rather than urgent? And in summary, is innovation replacing engineer density as your key competitive advantage?

Bill Johnson: I would say maintenance business density would continue to be a very important aspect. Let's put it in perspective; elevators, escalators are mechanical equipment that will need in the future as well, physical maintenance by people. Density here will continue to be an important factor. I think what is critical with these new services when we think from this perspective is that we can service the equipment at times when it's more convenient, suits our customers better so they don't have any interruptions during busy times or so forth. So, I believe that density will continue to be a very, very important factor here.

Sanna Kaje: Okay let's take another question from the room. Over there.

Speaker: [Inaudible] from [Inaudible]. The first question would be for Bill. If we come back to the slide, we briefly touched upon number 16 on how the Chinese market will mature in the coming 10 years or so. If we think about how new equipment will probably evolve, what would your base assumption would be how would the absolute monetary value in China 2025 will compare to 2017?

Bill Johnson: That question was also asked to me during the break. And what we wanted to get across was that, you know, the aftermarket business is still very small business and not as profitable let's say as mature markets for the OEMs. So, the OEMs need to still make a good margin on the new

equipment. And that's why I'm quite optimistic about the future at least for the time being that modernisation and aftermarket service is not yet substituting enough margin or profitability to allow let's say the industry to bring pricing down. I think pricing still will remain at a good level.

Speaker: And so, the incremental services will be additive to what we see in the new equipment. Is that your basis?

Bill Johnson: Or there will be some gradual shift, but it's hard to predict. It's very hard to predict at this point but it is – I think in the near future we're not going to see service and modernisation yet as a significant enough business to offset good, you know, normal profitability in your new equipment side of the business.

Speaker: Okay. And a second question would be more general. And I would like to touch upon the connectivity services that your are providing now. What degree of modernisation would you need for an existing elevator? Like simple component replacements to establish the full connectivity or is this like a major modernisation that we see only every 20 years that you have on your side?

Ilkka: Hugues, do you want to address that question?

Hugues: Yes sure. We actually don't need modernisation happening on the equipment to install the connectivity. So, the connectivity is a device that we have been designing and we can actually install this device that we are selling as a service on any type of equipment I would say a Kone one or an equipment coming from another manufacturer.

Speaker: So, is the retrofit exactly the same as the full connectivity of a new –

Hugues: The technology can be different. More sensors from I would say a technology which is not ours but still it's something we can retrofit relatively easily on an existing equipment, even a older

equipment. Then of course the data collection can be different and the way we collect data. But at the end of the day then the analytic we're applying is also a bit different in order to create these rules in order to – I would say activate the predictive maintenance efforts.

Speaker: And the last question I have is on tailoring the service contract for customer. It sounds to me like cherry-picking is now enabled for them. When you think about absolute revenue that is coming from customer, there's switching from product bundling to cherry-picking. Is the absolute revenue bigger or less than before?

Hugues: It's bigger.

Speaker: And can you explain a little bit how that is working, because most likely they will choose some of the service and will decline to accept some of the existing services. How can then be the total ticket bigger than before?

Hugues: Well, actually what we see is that it's not always – actually we see relatively distributed curve between the customers who are choosing for more services than for the customer who are choosing for a bit less services. And actually, when the coverage is less, it's also sometimes in the spare parts coverage for example. So, the number of spare parts which are included in the contracts which then are re-invoicable if we need to change them during the course of an intervention. So, the total picture is actually better for us. That it comes only to the maintenance contract or through the combination of maintenance contracts and repair works but still it's positive.

Speaker: Thank you very much.

Ilkka: I would just build on this when you said that previously it was service and product bundling. We have to remember that very seldom is it bundled in our industry, because the customers who buy the new equipment are very – tend to be different from the ones who buy services. So, why we did

– went to this tailor-made services, previously we had three different packages. But very often customers need something in between or a combination of these. And this is really when customers say to us hey, now I can buy something that I need not something that you want to sell. This is totally different. And I think, you know, if you think about the services we get as individuals nowadays, that's much more in line with that and that is a [inaudible] customers they get what they need and it helps them in their business. So, it's a good thing.

Sanna Kaje: Let's take another question from the wall. So, what is your view on the new tech start-ups looking to disrupt the elevator maintenance business? How credible is their offering?

Ilkka: We see a few start-ups that have started to look at entering the elevator maintenance business. Is this something new? No. We've seen a lot of companies enter the elevator business over the years and it tends – there are a lot of small ones. Perhaps the difference here is that there are a few now that really are talking about using technology to drive productivity. And better customer experience. And we see them establishing some markets. You know, I think we have always had different types of competitors coming into our market. We are not complacent about this. We look at them a lot. In the end, we think that with our density that we have, customer base that we have, the ability for us to provide these new services that we are in a pretty good spot as well as the other large OEMs to compete here. I think in our industry, there will always be a market for the small independent players. Let's remember, the small independent players build show the situation in China. In Europe, probably half of the market is still served by small independents. They will continue to be there. There's a market for them and I think these players are probably going to win more from that side. So, let's see.

Sanna Kaje: Any other questions? From the back.

Speaker: Yes, one year ago you made a pretty big push at the Capital Market Day for your offering in smart buildings and you have not discussed that too much today. So, I wonder what, you know

– have you made any significant changes or decisions about your future in this quite exciting opportunity?

Ilkka: I think we've talked about quite a lot how we provide services to – smart buildings 24/7 connective services typical such – residential flow is such. What we've now packaged it's our Kone digital platform how we can better connect into also smart building platforms because that is – it starts to be more and more of a need. So, I think on the contrary, this is what we're talking very much this whole day and something we continue to be very excited about.

Speaker: Well I'm thinking more about you know smart lobbies, you know, changes there, you know, partners in the lock industry and the air conditionings and, you know, going out of your you know traditional scope and – you have talked about you know developing these with partners before, etc. So, I just wondered what you have you know – if you have concluded new things during one year?

Ilkka: So, when we talked about smart lobby, that's really has – we have now made it into a full service and it's much broader now. That's what Hugues talked about the people for planning and consulting services. That is really a further development of that. When we look at working with partners, it's clear that when we look at our access, destination, information package, the access control, yes, we have partners who provide it. And that definitely that is the second layer that I talked about in our offering for smart buildings. But we didn't spend so much time on it but absolutely it's there. That's why we created this structure for our offering that it's the basics, then we have the second layer which is offering for smart buildings and then we have the planning and consulting services.

I think we have...

Sanna Kaje: One question here still.

Ilkka: Yeah, we have one here and then we have back there.

Tom: [Inaudible] M&A you don't usually comment but maybe you can do an exception and this time and comment where are you with the talks with [Inaudible] for example?

Ilkka: Well, I'm sorry to disappoint you but we never comment on, you know, specific cases or rumours. I think what I can say and now I'm talking much more broadly that, you know, we continue to be interested in driving consolidation as industry, like we have been doing for many, many years. We buy you know around 20 companies a year, sometimes about up to 30 companies a year. And we think that there's definitely space for further consolidation industry. You have all the Japanese players, you have a lot of Chinese players, you have very big local German players, Spanish players and some of the global ones. All of these are interesting to us. There nothing has changed.

Hugues: Hi. It's Hugues again. This one goes to Bill. Could you briefly discuss about the competitive dynamics in times of the escalating trade war and its potential impact on Kone's relative position in china vis-à-vis and unnamed competitor? I mean is this an issue when discussing with customers?

Bill Johnson: Not really, the trade situation is external to the China market, to the China elevator escalator market. Our market is within the national boundaries. We don't really face any big issue. There might be some slight impact on exports, but I'd have to leave that up to Henrik to comment on that because we really only are focused on the internal China market, so there's really no direct impact for us.

Speaker: Okay, thank you.

Ilkka: Thank you. Well, then, I think my behalf again thank you all for active participation. Very much look forward to continue the discussion in smaller groups that we have here. And also, I'd like to thank everyone who has been following us online and posting question from there as well. So,



thank you on my behalf and then handing over to –

Sanna Kaje: Yeah, a couple of important things still on practicalities. You have this paper on your table and on the other side you have the feedback forms. So, it would be really, really important for us to get your feedback. So, we would very much appreciate if you take two minutes to fill in the feedback form. So, you can leave them on the tables. We will then collect them. And after you've done that, we hope you will join us for lunch next door in the same room as we had the breaks and you still have time to learn how to install an elevator, for example.

After the lunch, we have the small group meetings. Those of you who are joining you have this colour tags on your name tags. We will gather you in three different groups at about 13:30 if I remember correctly. And we hope that when we move to the small group meetings it will be one flow down. You will take all your belongings with you at that point of time. But with that, thank you for your active participation again. And let's continue the discussion over lunch and in the small group meetings. Thank you very much.