



KONE CMD 2015

An attractive business model with a high return on capital

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September 25, 2015

Agenda

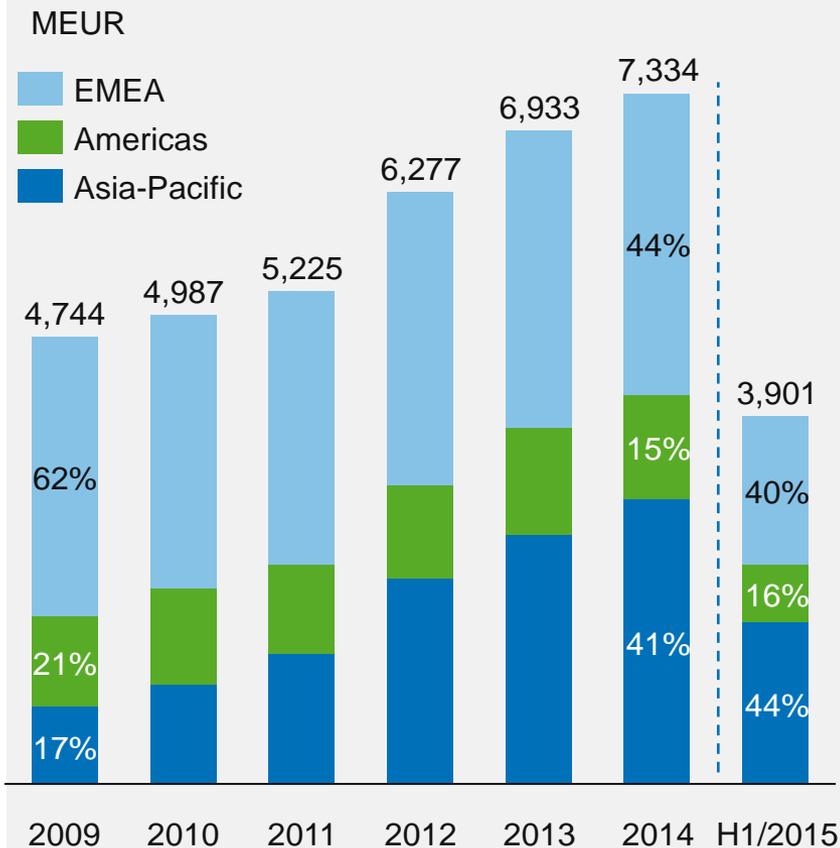


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- The background of the slide is a blurred photograph of a modern building interior. It features a wide staircase with multiple escalators. People are seen walking on the stairs and on the ground floor. The lighting is bright and modern. In the foreground, the legs and feet of people are visible, suggesting a busy public space.
- Global position in a life cycle business
 - Strong order book combined with recurring revenues
 - Flexible cost structure
 - Good cash flow generation
 - High return on capital

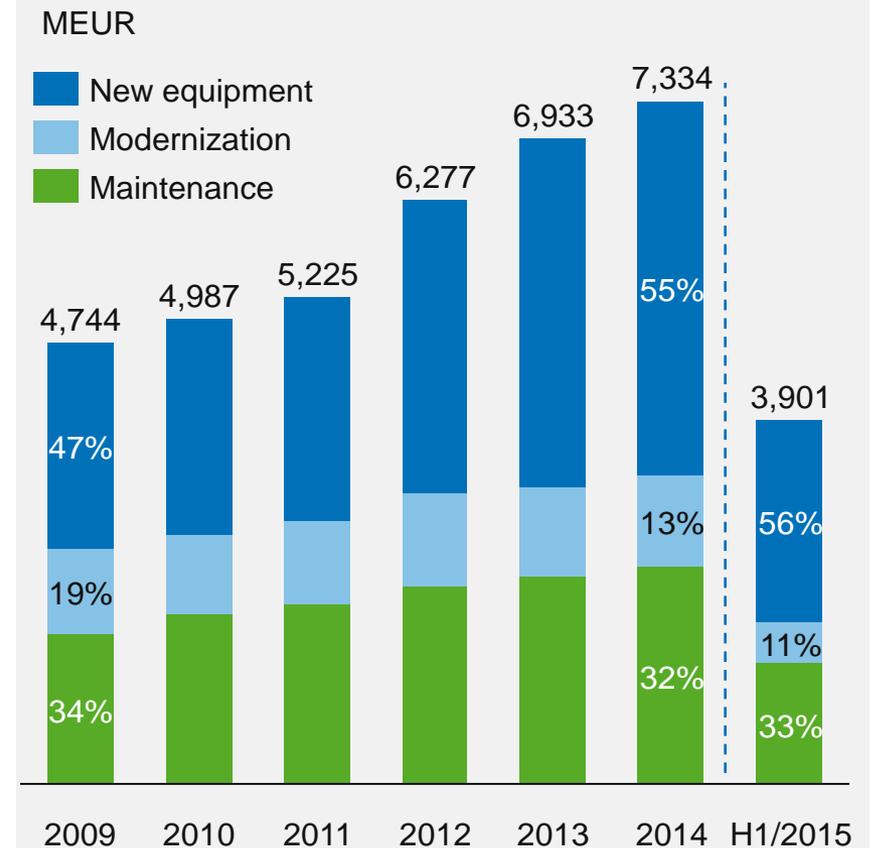
We have strengthened our position globally and grown profitably



KONE sales by area 2009-H1/2015



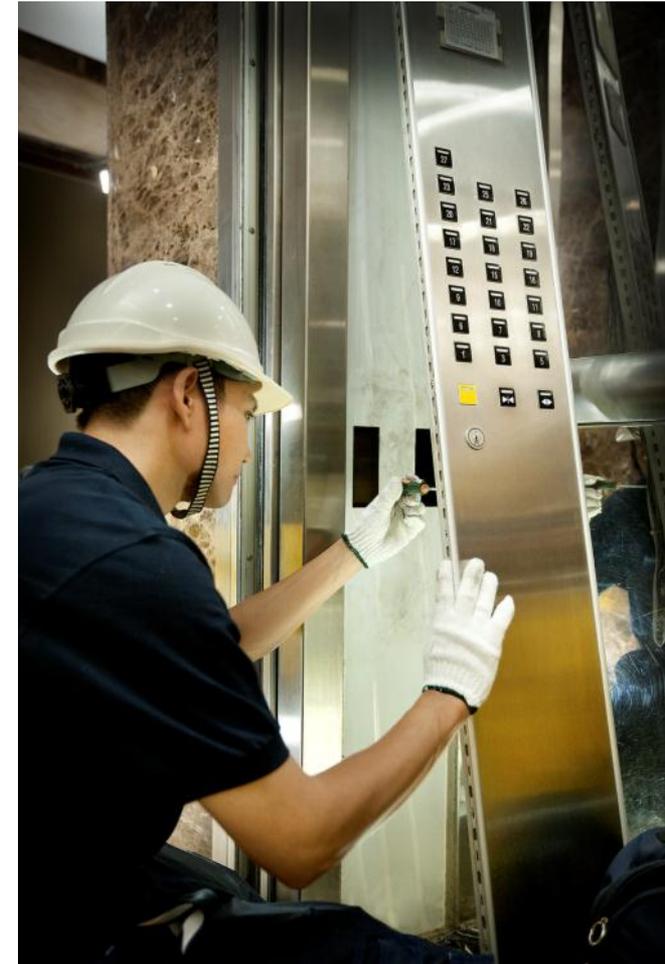
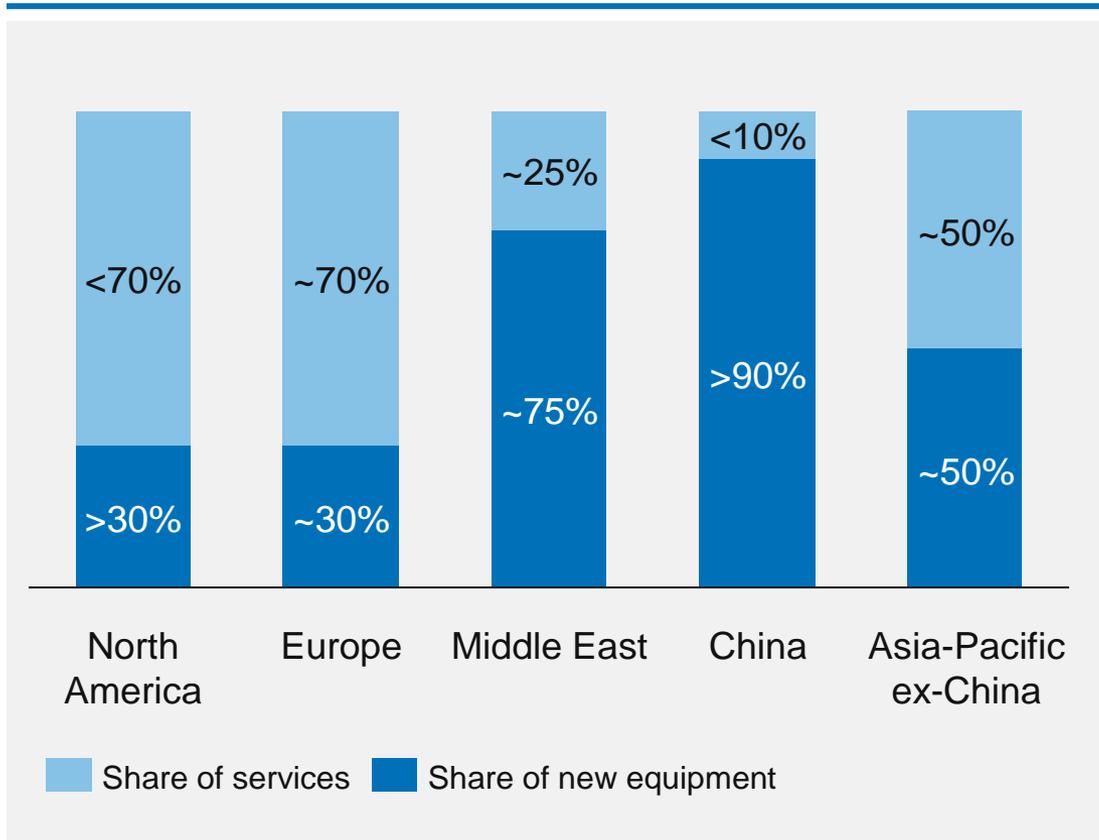
KONE sales by business 2009-H1/2015



Our regions are seeing different development phases and opportunities in the market



SPLIT OF KONE'S NEW EQUIPMENT AND SERVICE SALES PER AREA



Europe and North America: We focus on further improving our field productivity and delivery capability

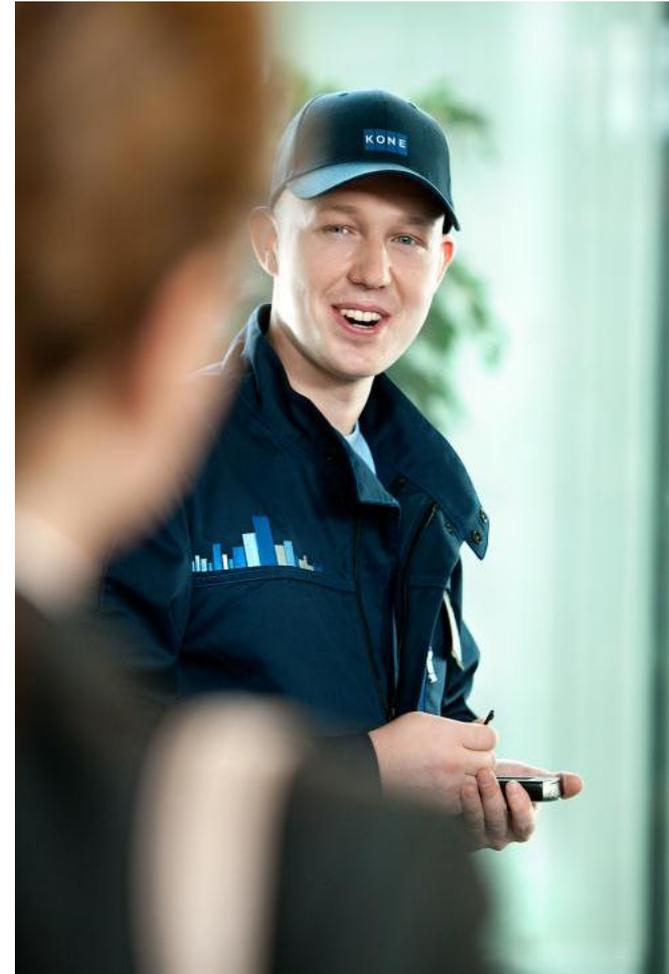


New equipment and modernization

- Decrease cost with installation productivity
- Further improve sales management and product competitiveness
- Invest into the delivery capability of our strong order book in North America

Maintenance

- Improve productivity of field operations with new technology
- Continue building pricing capabilities



Asia-Pacific and the Middle East: We continue to invest in our delivery capabilities and processes



China

Rest of Asia-Pacific & Middle East

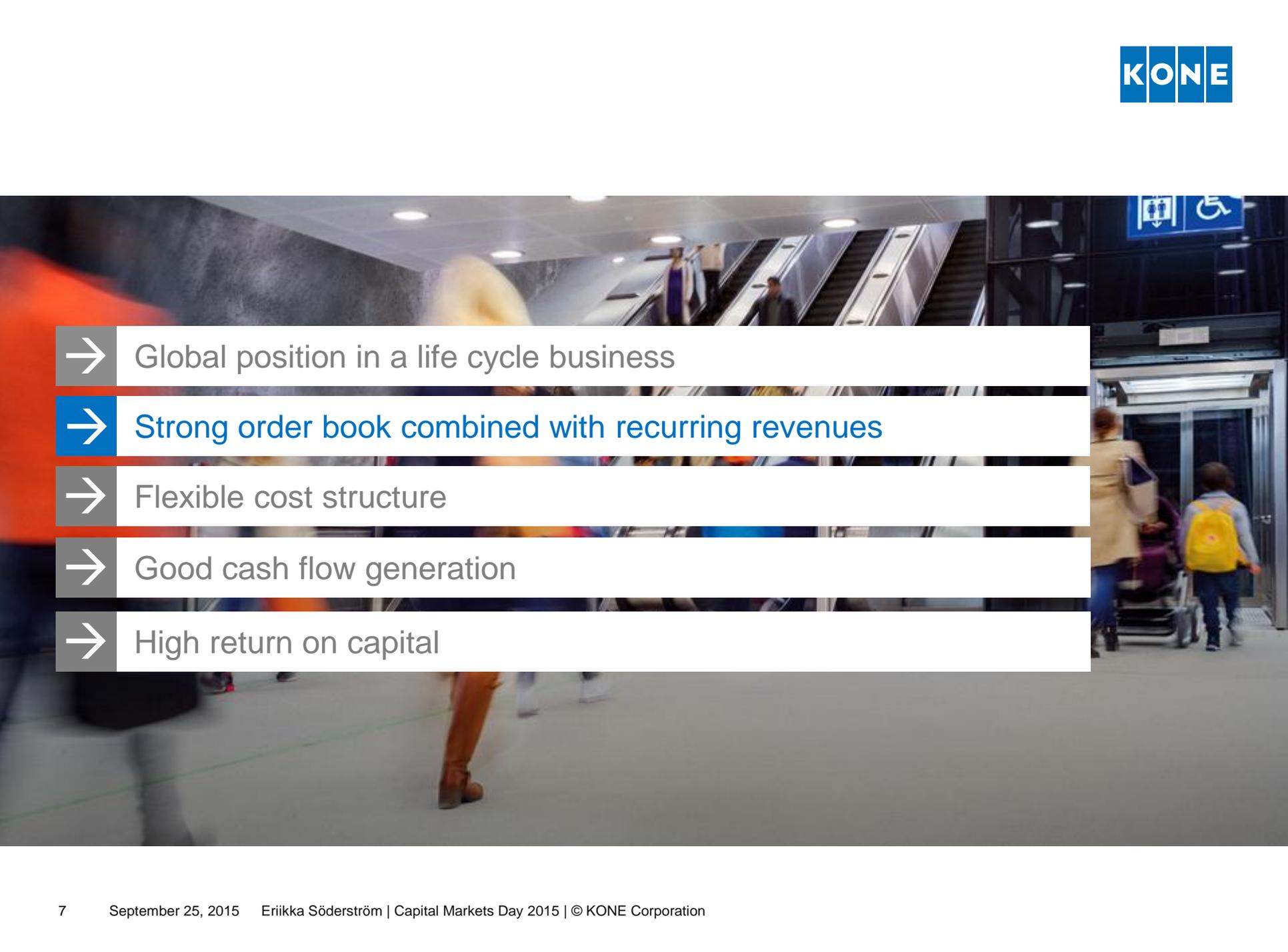
New equipment

- Further improve product competitiveness and installation productivity

- Ensure high quality execution of strong order book

Service

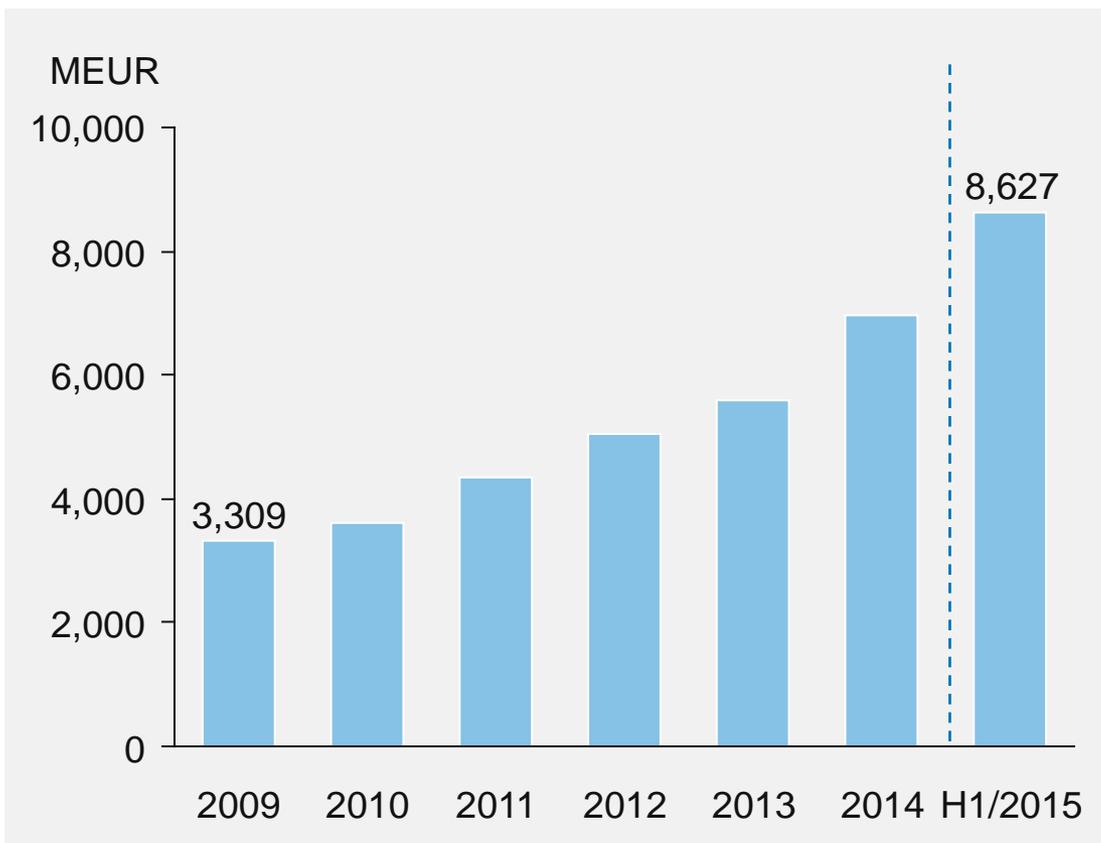
- Continue expanding our service footprint and capabilities
- Implement global best practices

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- Global position in a life cycle business
 - Strong order book combined with recurring revenues
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Our order book is at a record-high level following solid growth in orders received



ORDER BOOK 2009-H1/2015

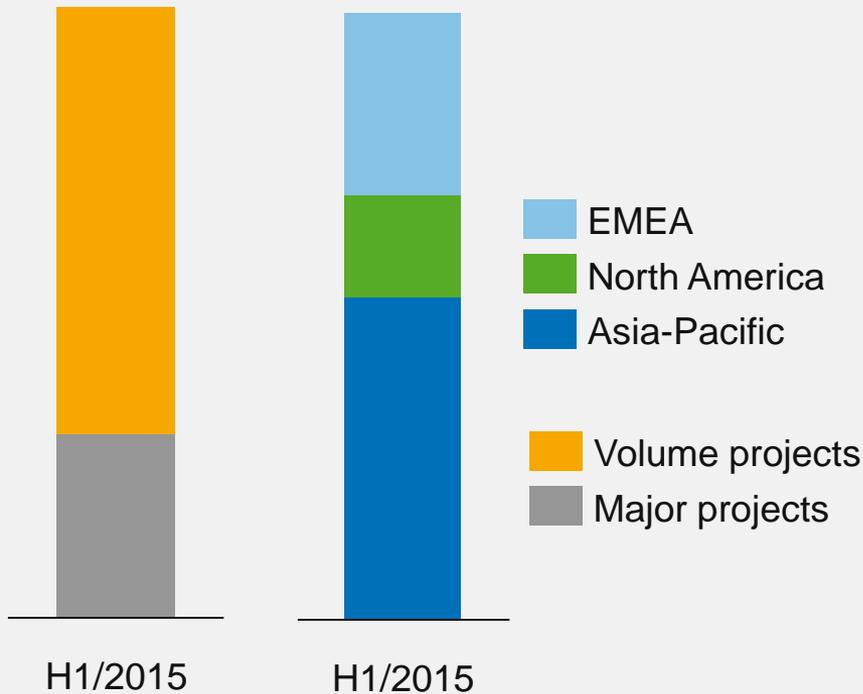


- The order book consists of new equipment and modernization orders received
- A strong order book gives us longer term visibility

The share of major projects and North America within the order book has increased



Indicative breakdown of KONE's order book



Order book rotation (new equipment)

Estimated lag from new equipment order to completion

Major projects

Globally
Up to 5 years

Volume business

Europe
~1–1.5 years

North America
~1.5–2 years

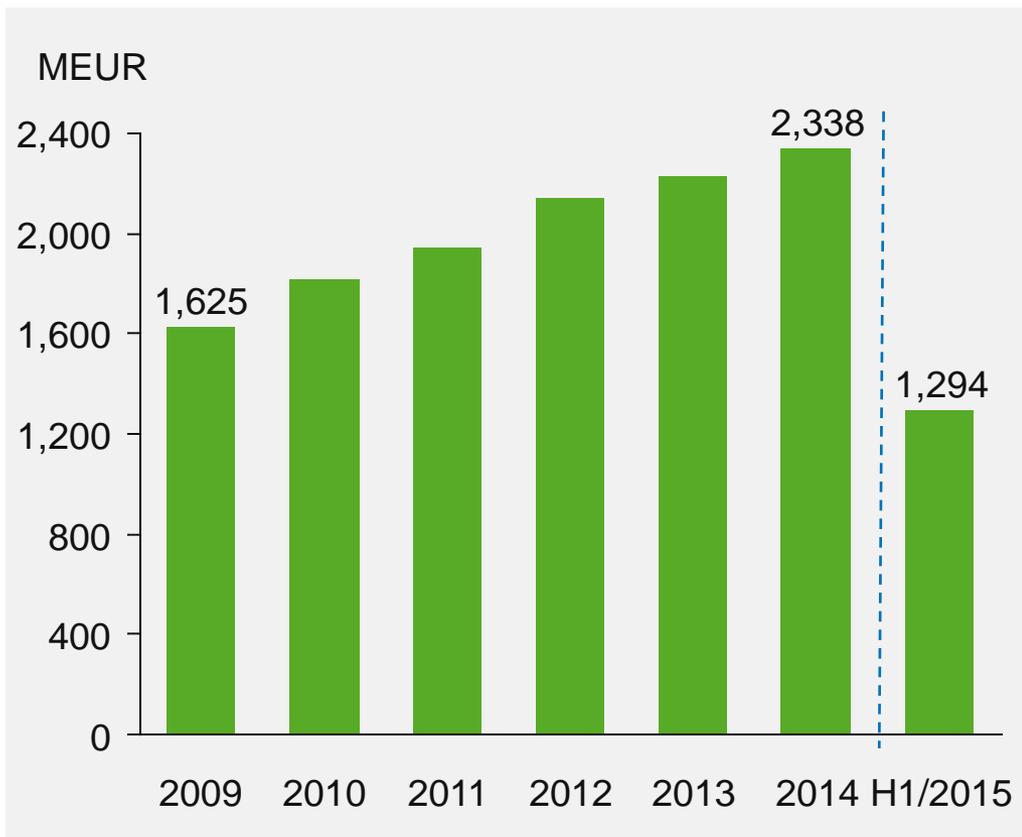
Asia-Pacific ex China
~1.5–2.5 years

China
< 1 year

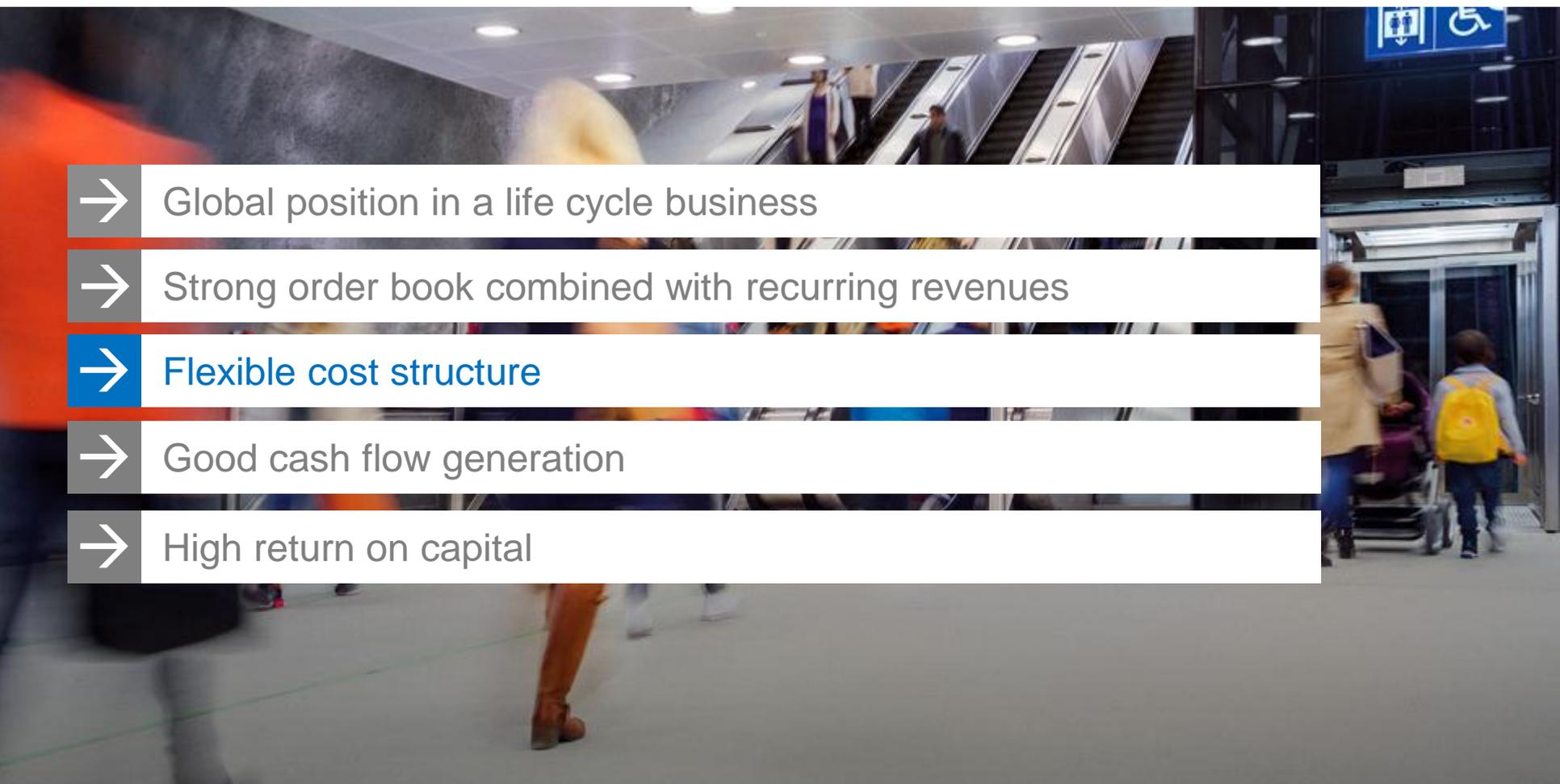
Maintenance provides a solid foundation for the business with recurring revenues



MAINTENANCE SALES 2009-H1/2015



- Retention rates for existing maintenance contracts 90-95% globally
- Growth in the business is scalable and requires little capital investment
- Maintenance revenues form a stable foundation for the business through economic cycles

- 
- Global position in a life cycle business
 - Strong order book combined with recurring revenues
 - **Flexible cost structure**
 - Good cash flow generation
 - High return on capital

Our cost structure is flexible and scalable



Sourcing and manufacturing

- High share of outsourcing to component suppliers

Installation

- Subcontracting used in installation

Service

- Expansion of footprint requires little investment

Flexible cost base,
with a low share of
fixed costs

Pricing is a headwind in many markets; cost environment on a favorable trend



There are both headwinds and tailwinds in the cost environment

Pricing environment

New equipment

- Price competition continues intense in many markets

Services

- Modernization pricing environment improving in growing markets
- Regional variation in maintenance pricing

Cost environment

Sourcing cost

- Favorable raw material price development in key component materials

Labor cost inflation

- In mature markets low single digit
- Higher but manageable in emerging markets, trend slowing

We have several ways to address the challenges and opportunities in pricing and sourcing



We are addressing the pressures and also looking for opportunities

Pricing actions

- Strengthen sales management and further improve sales data analytics

Sourcing actions

- Ensure competitive prices from economies of scale
- Ensure benefits from favorable raw material prices

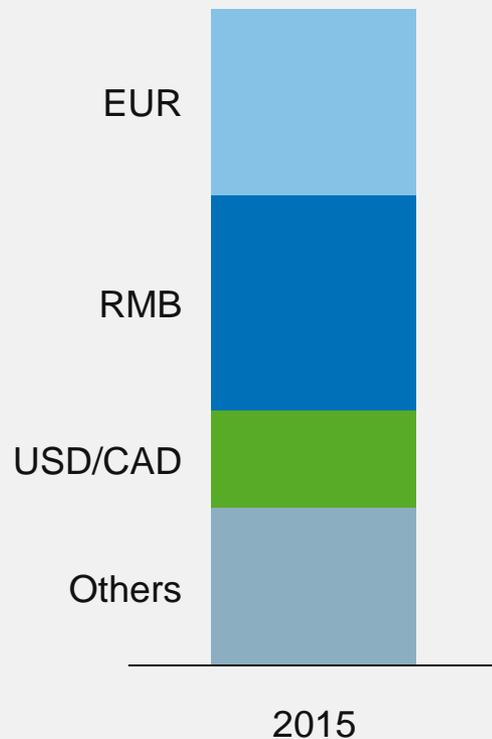
Product cost development actions

- Numerous ways to improve product cost competitiveness:
 - Optimized use of components
 - Simplicity in manufacturing, easier installation process

Our foreign exchange exposure is mostly limited to translation risk



Sales by currency H1/2015



Foreign exchange impacts

Transactional

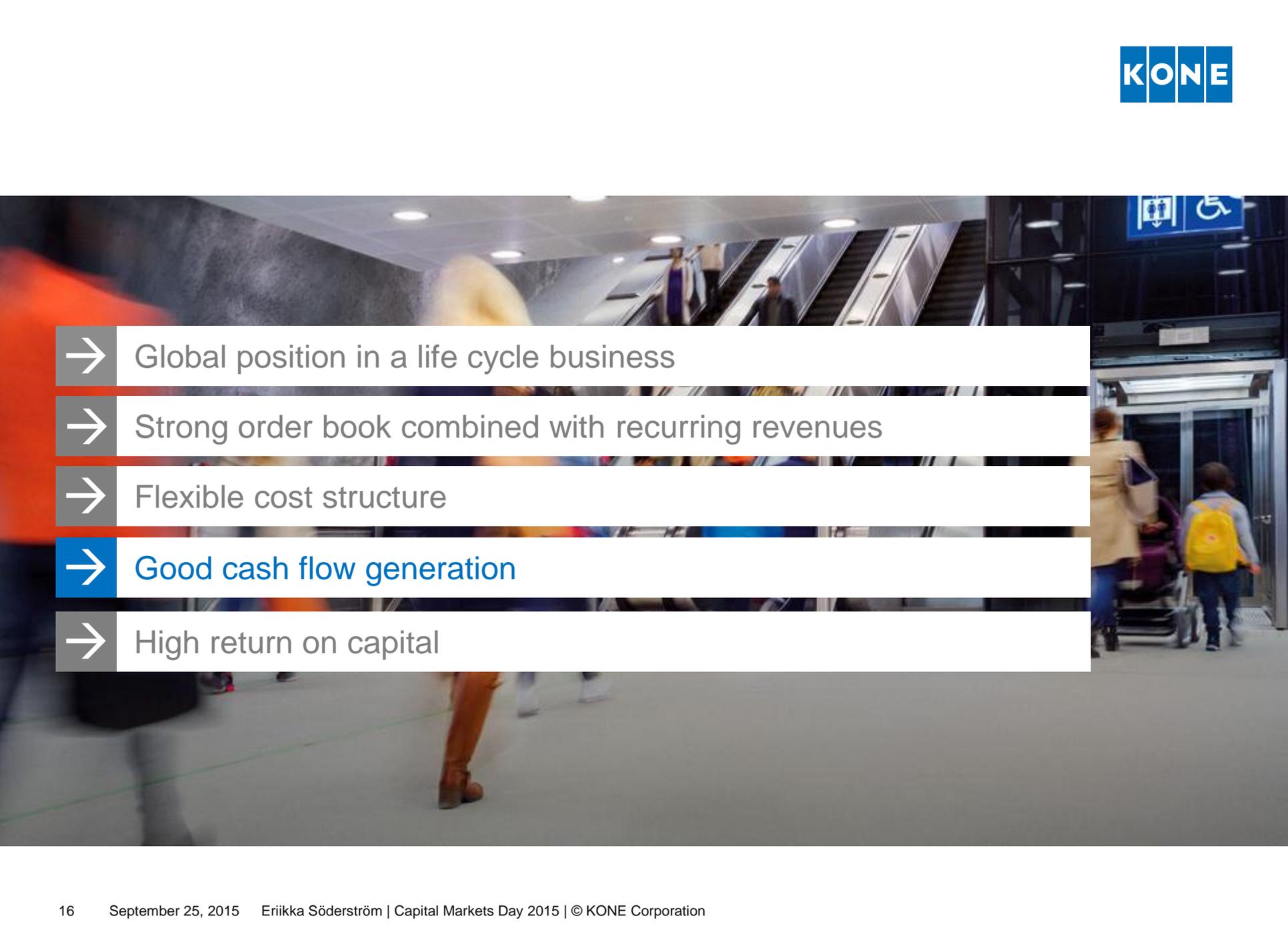
- Balance between sales and costs provides good natural hedging

Translational

- Changes in translation rates have an impact on sales and EBIT
- Full-year EBIT guidance includes a positive impact of 100-120 MEUR, assuming that translation exchange rates would remain at the average level of January-June 2015

Economic

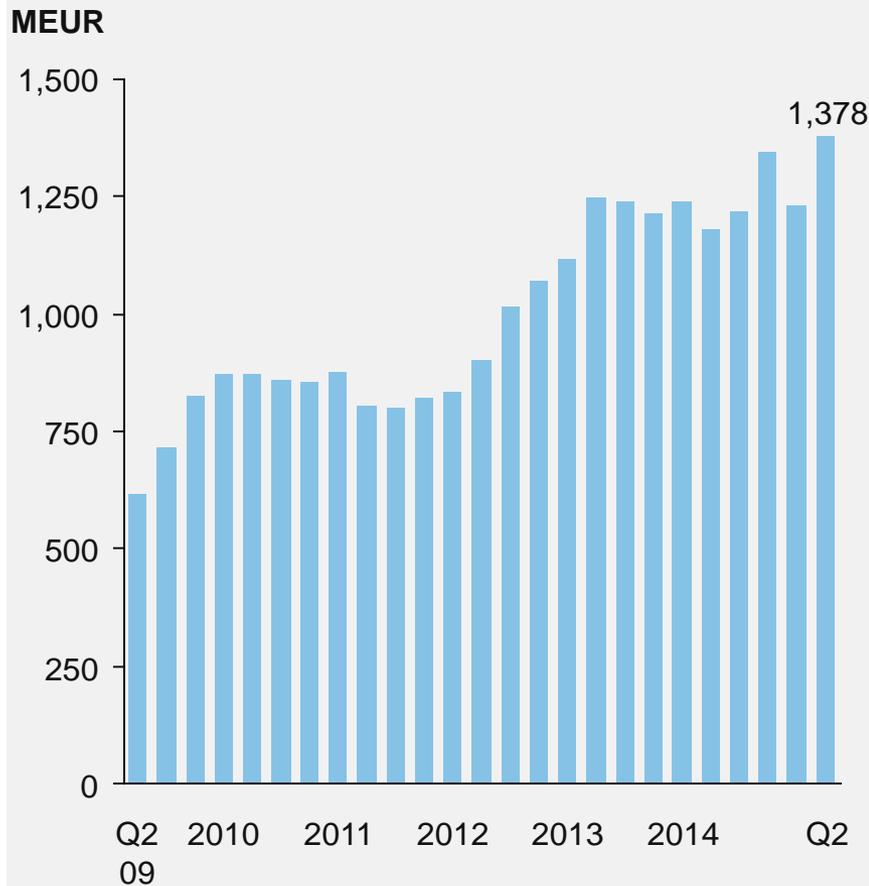
- No major implications on competitiveness

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- Global position in a life cycle business
 - Strong order book combined with recurring revenues
 - Flexible cost structure
 - **Good cash flow generation**
 - High return on capital

Our working capital has remained at a very good level, supporting the strong cash flow

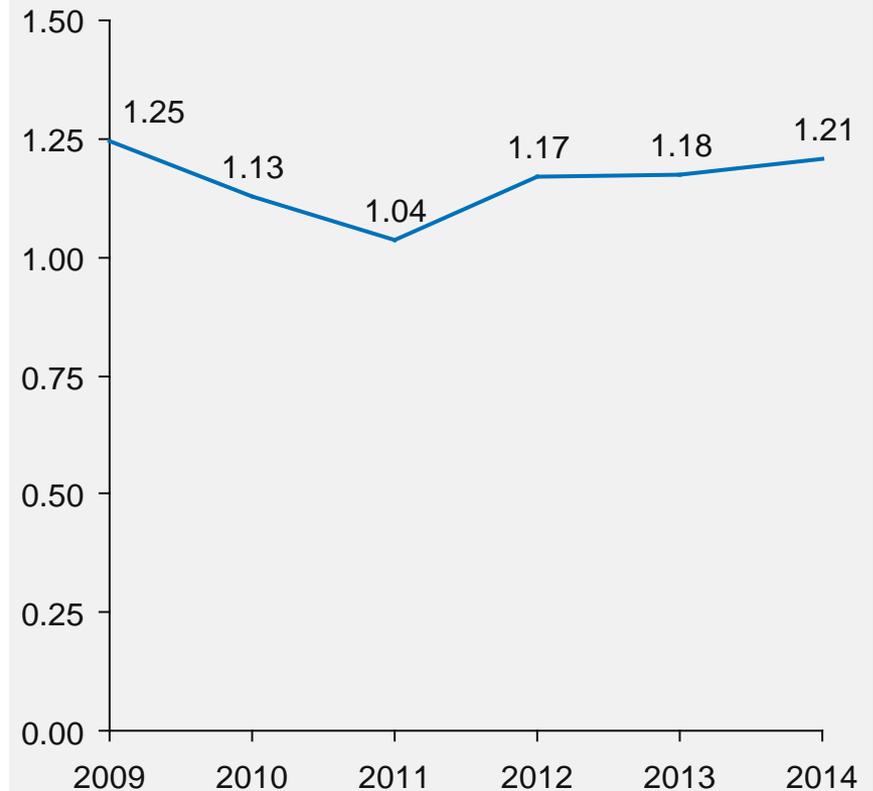


12M rolling quarterly cash flow



12m rolling quarterly cash flow from operations (before financing items and taxes)

Cash conversion rate 2009-2014

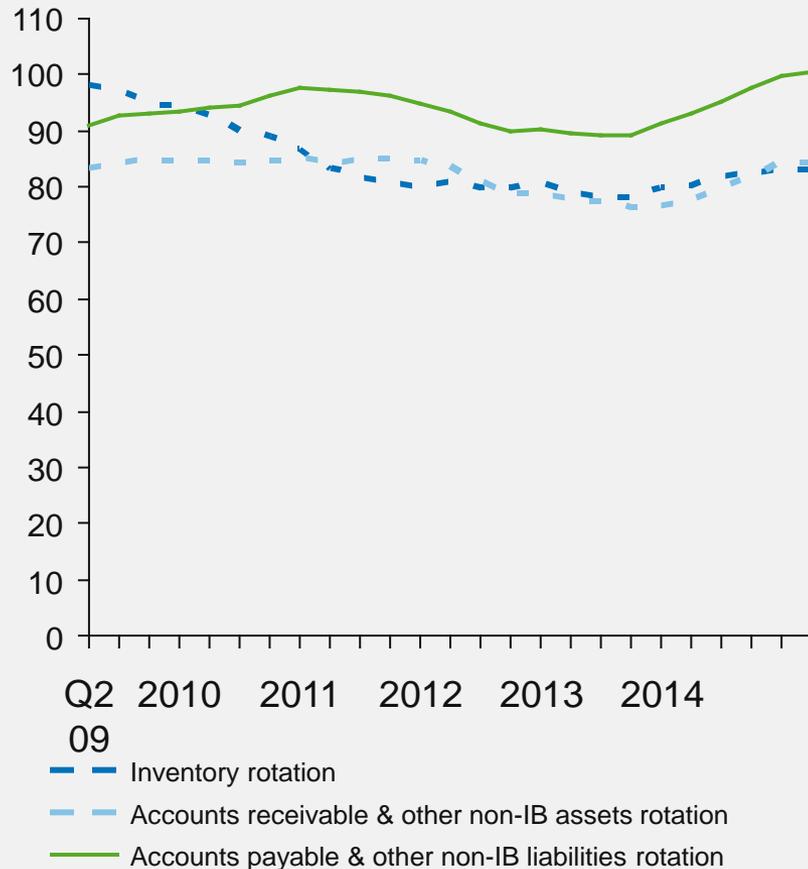


Note: Cash conversion rate calculated as cash flow from operations before financing items and taxes / EBITDA

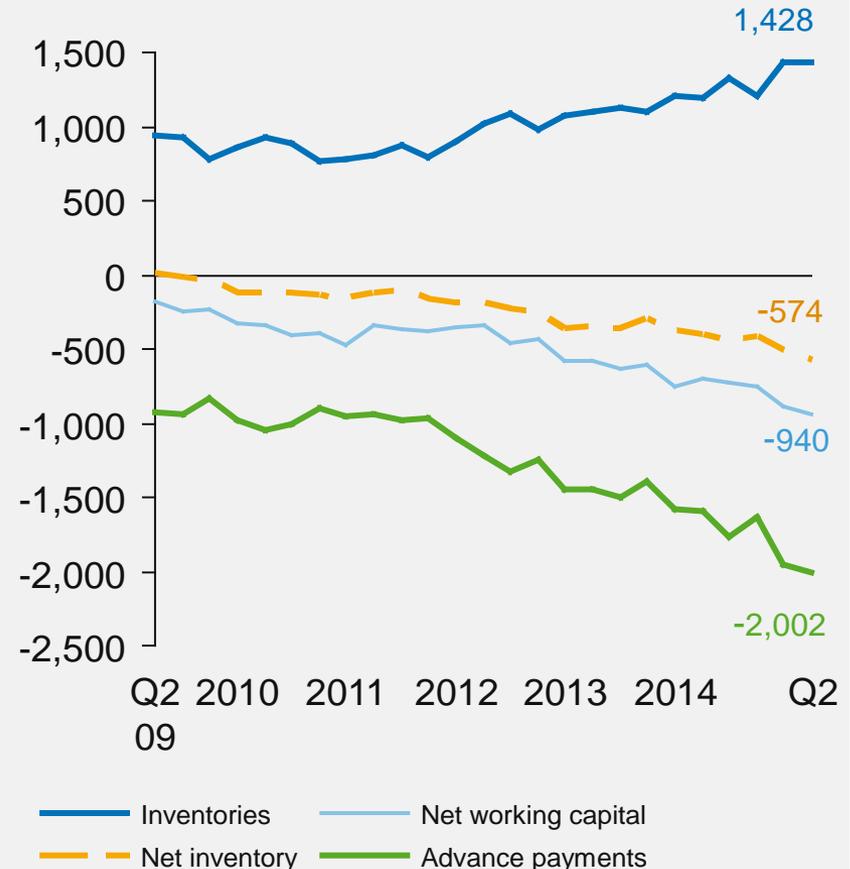
We are focused on maintaining a good level of working capital



WC rotation relative to sales



Negative working capital



Figures include new equipment and modernization

Our capital expenditure needs remain low



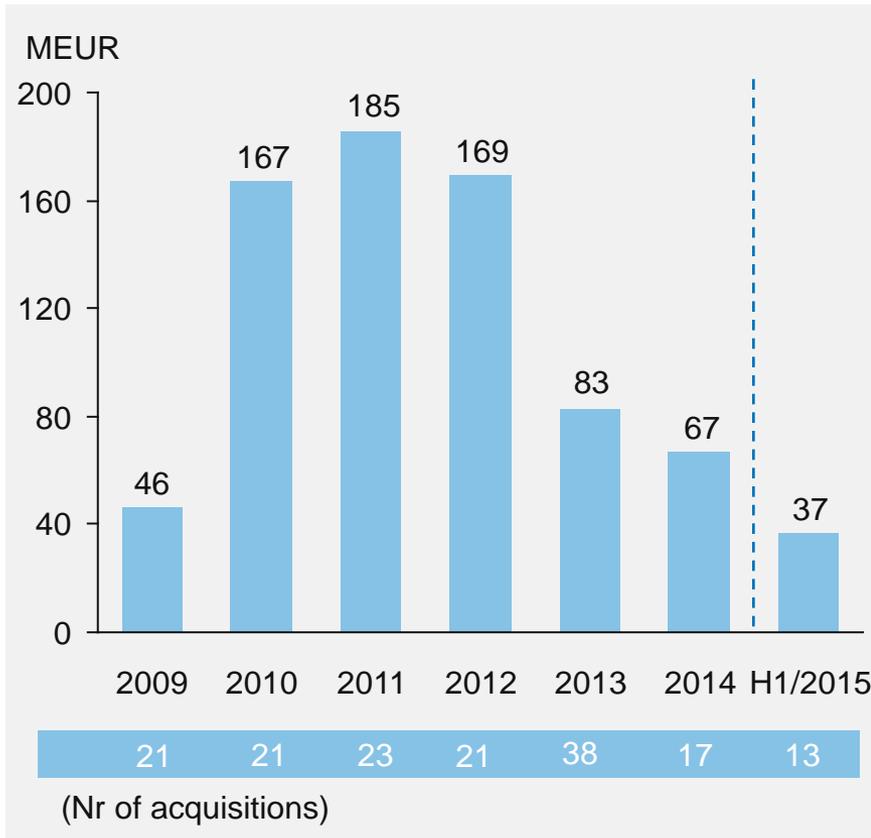
CAPITAL EXPENDITURE AND DEPRECIATION EXCLUDING ACQUISITIONS



Activity continues with acquisitions and we aim to further accelerate this



ACQUISITION SPEND 2009-H1/2015

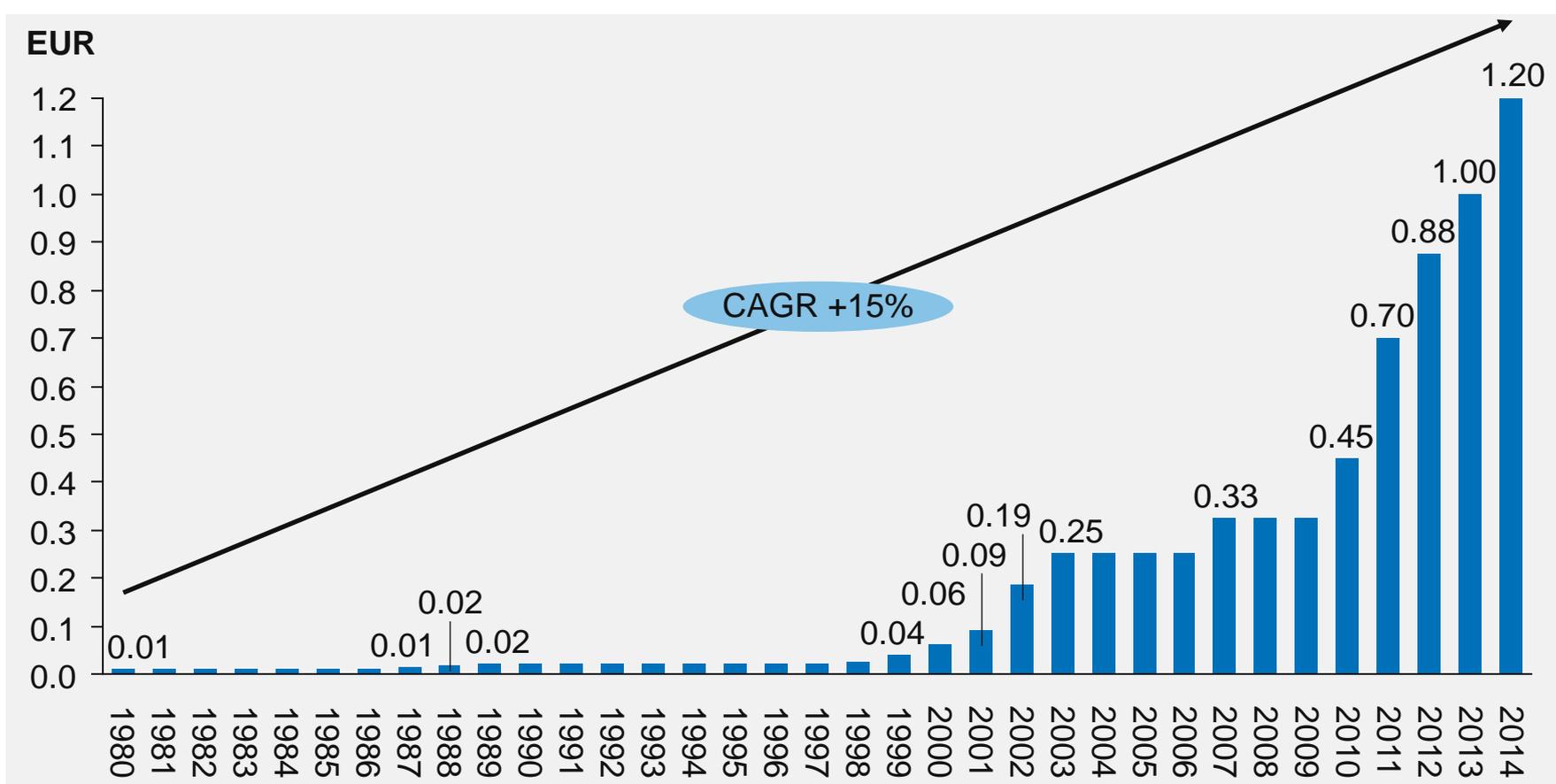


- We mainly acquire small local maintenance companies to strengthen the density of our maintenance portfolio
- In addition, we have acquired our distributors from time to time to expand to new markets
- We make acquisitions within our business scope of providing the best People Flow™ experience

KONE's financial performance has enabled increasing dividend payments to shareholders



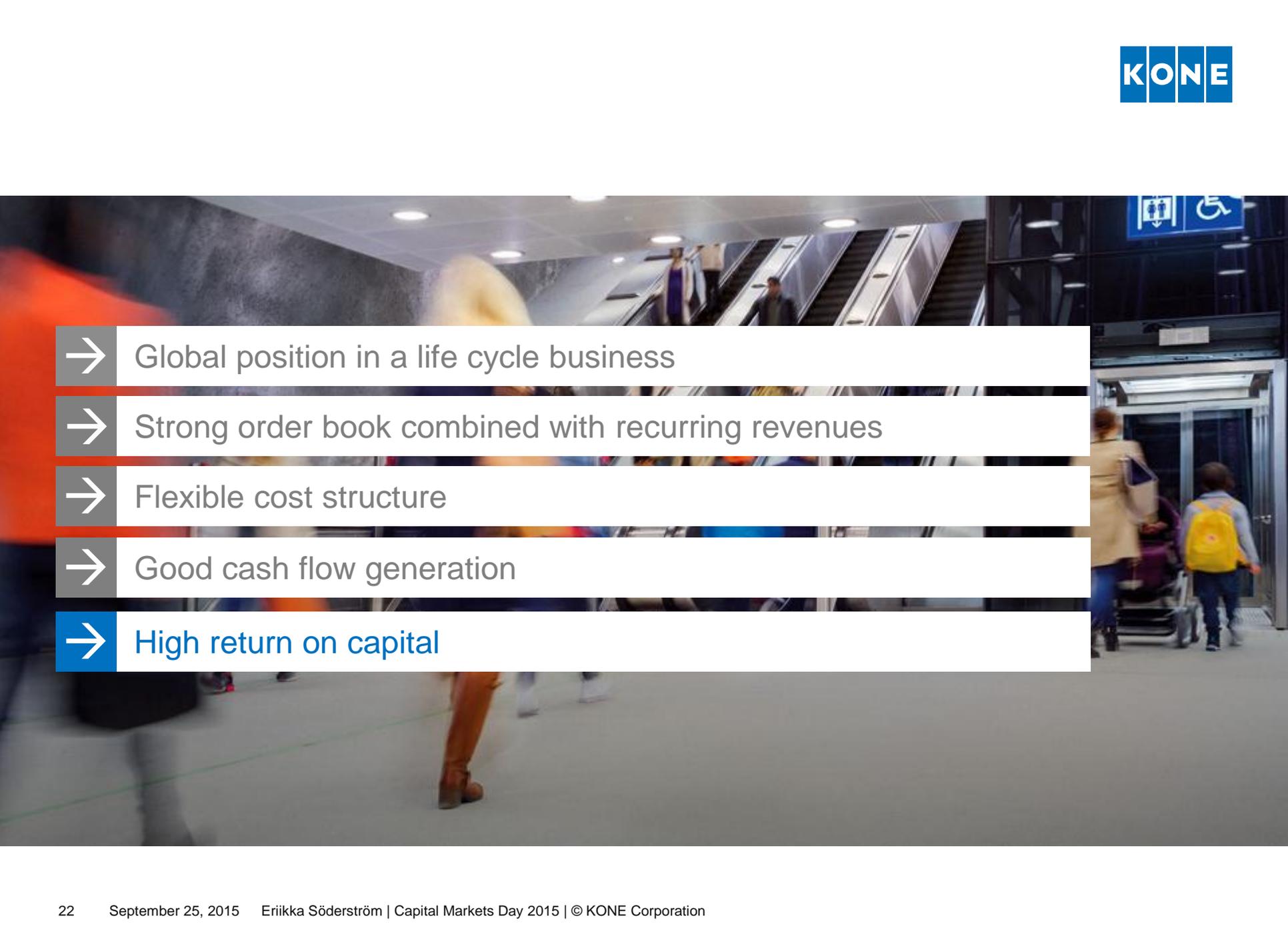
SPLIT-ADJUSTED DIVIDEND PER CLASS B SHARE, 1980-2014



Note: Includes the basic dividend. Adjusted for share splits in 1999 (1:3), 2002 (1:3), 2005 (1:2), 2008 (1:2) and 2013 (1:2).

1 EUR= 5.9 FIM; not adjusted to constant exchange rate.

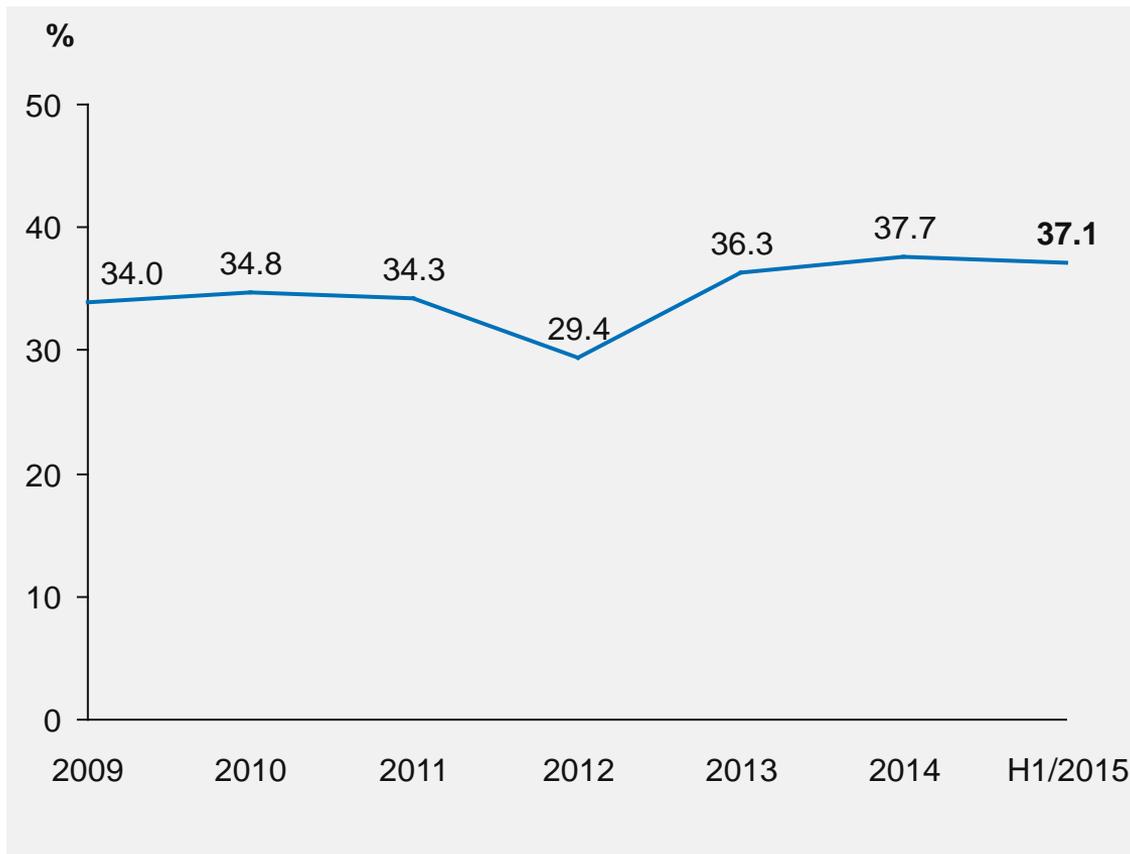
Additional extraordinary dividends: for 2009, a double dividend was paid; for 2011, an extraordinary dividend of EUR 0.75 was paid and for 2012 an extraordinary dividend of EUR 0.65 was paid.

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- Global position in a life cycle business
 - Strong order book combined with recurring revenues
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Our return on capital is very high



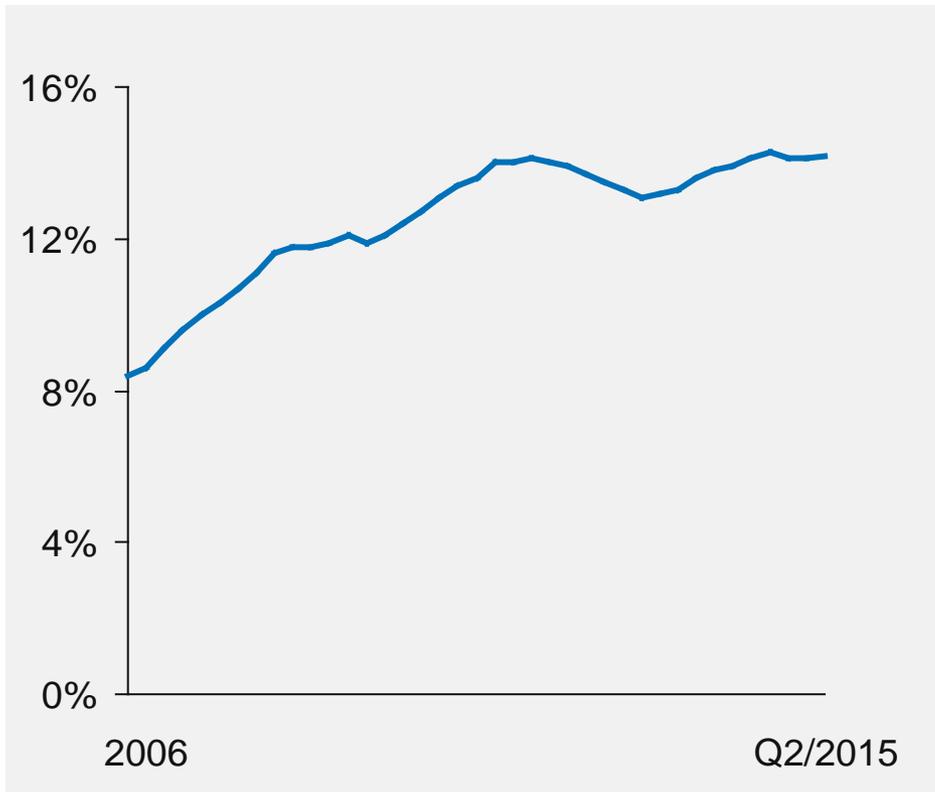
RETURN ON CAPITAL EMPLOYED 2009-H1/2015



We have grown profitably over the past 10 years and improved our EBIT margin at the same time



12M QUARTERLY ROLLING EBIT MARGIN, Q4/2005-Q2/2015



- Improvement in profitability even with the share of new equipment increasing
- Operational efficiency
- Scale and rationalization in sourcing
- Fixed cost leverage

Note: Excluding one-time items.
For 2012, intangible asset amortizations burden the margin.

Our long term targets remain intact



Growth

Faster than market

Profitability

EBIT margin of 16%



Cash flow

Improved working capital rotation

We maintain the 16% long-term margin target

WE HAVE FOUR KEY FOCUS AREAS GOING FORWARD



Growth	Quality	Productivity	Pricing
<ul style="list-style-type: none">▪ Accelerating service business growth▪ Faster than market growth in new equipment business▪ Smart growth investments	<ul style="list-style-type: none">▪ Quality of field operations▪ New product quality	<ul style="list-style-type: none">▪ Maintenance▪ Installation▪ Fixed cost management and leverage	<ul style="list-style-type: none">▪ Granular market understanding▪ Right balance between growth and profitability▪ Processes and tools

Global position in a lifecycle business

**Strong order book combined with
recurring revenues**

Flexible cost structure

Good cash flow generation

High return on capital





Dedicated to People Flow™

