

The background of the slide is a photograph of a modern building's interior. The most prominent feature is a large, curved ceiling made of numerous parallel, white, rib-like structures that create a sense of depth and movement. The ceiling is illuminated from within, casting a soft glow. In the foreground, there is a glass-enclosed area, possibly an elevator or a transit station entrance, with people walking through it. The overall atmosphere is clean, bright, and architectural.

KONE CMD 2015  
Building on our strengths in  
the world's largest E&E market

William B. Johnson, EVP, Greater China  
September 25, 2015

The background of the slide is an aerial photograph of a large, modern architectural complex. The buildings are characterized by their white, grid-like facades and unique, angular designs. One prominent building has a cantilevered top section. The complex is surrounded by landscaped grounds with trees and walkways. In the distance, other city buildings and a clear blue sky are visible.

→ Welcome to the world's largest E&E market

→ The market in the near term and long term

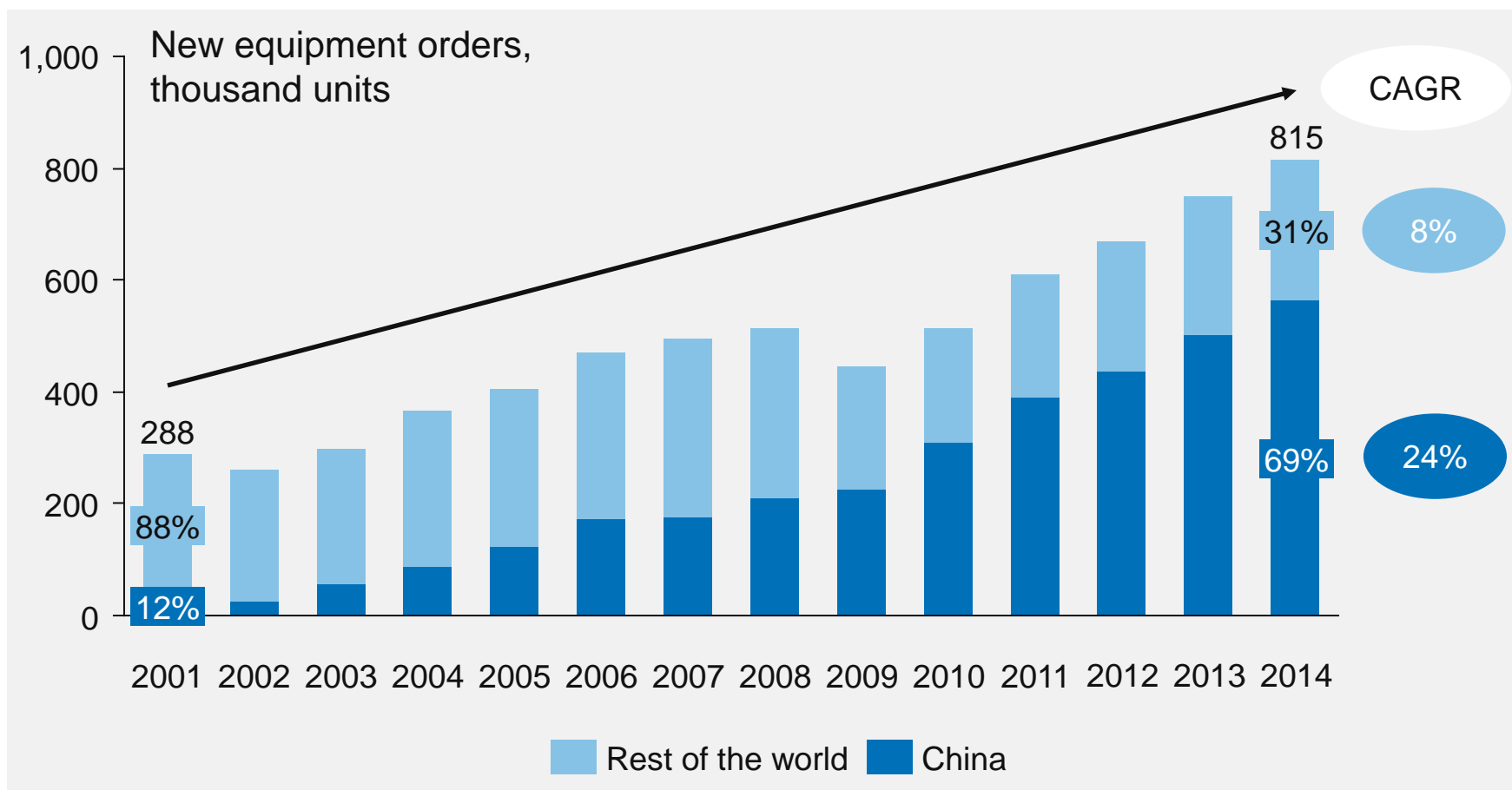
→ Our competitive strengths today

→ Our way forward in China

# China accounts for 2/3 of the global new equipment market volumes



## CHINA'S SHARE OF THE WORLD NEW EQUIPMENT MARKET 2005-2014

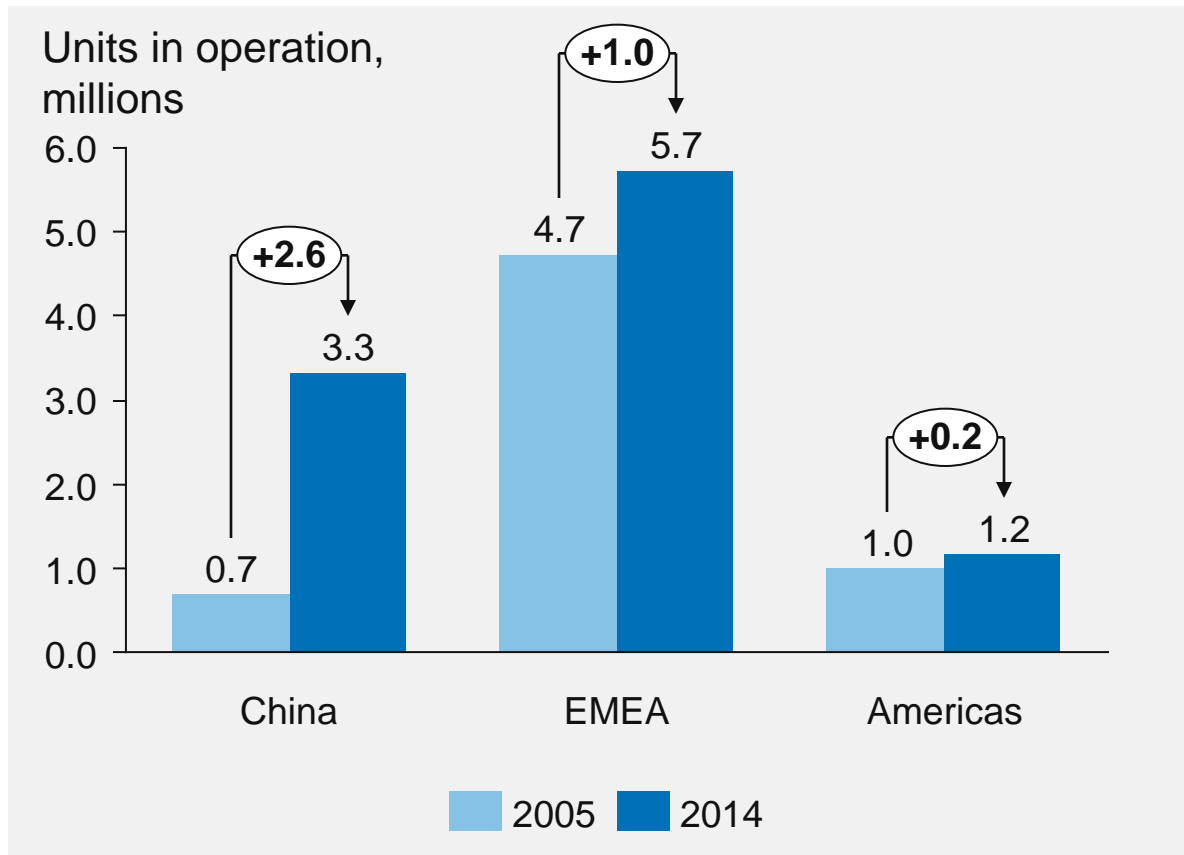


Based on KONE estimates

# China is also seeing the largest absolute maintenance market growth




## GROWTH OF UNITS IN OPERATION IN SELECTED MARKETS




Based on KONE estimates



The background of the entire image is an aerial view of a modern city skyline at dusk. The sky is a deep blue with some light clouds. Several tall, modern skyscrapers are visible, with their glass facades reflecting the ambient light. The buildings are illuminated from within, and some have external lighting. The foreground shows a mix of greenery and urban infrastructure, including roads and parking areas.

To succeed in the E&E industry,  
one needs to succeed in China.

We continue to strengthen our  
presence and build our  
competitiveness in the China  
market.

- 
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# The Chinese economy has showed softness since early 2014



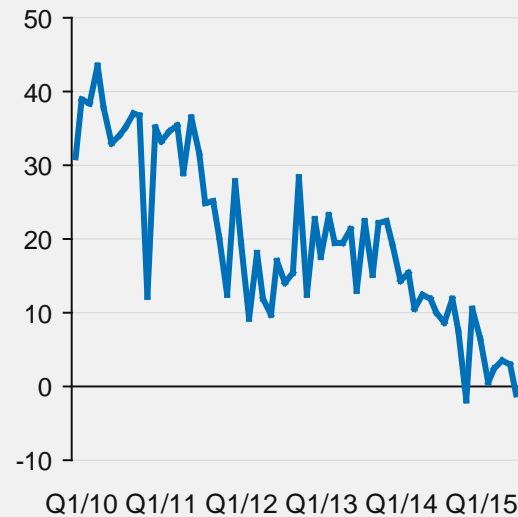
## Soft manufacturing

Industrial production growth (%)



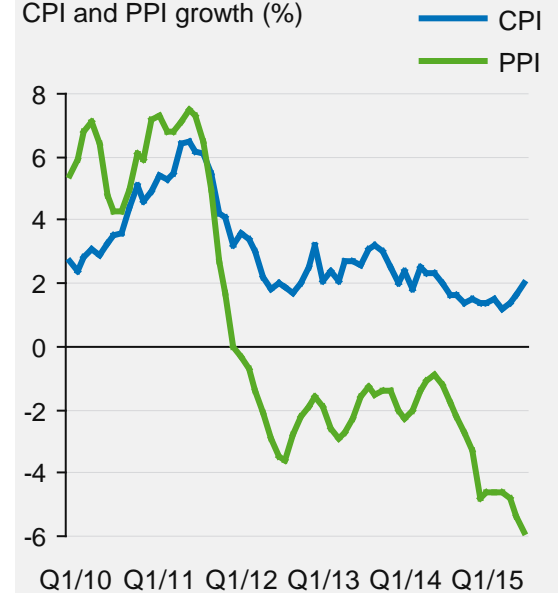
## Weaker real estate

Real-estate investment growth (%)



## Moderate inflation

CPI and PPI growth (%)



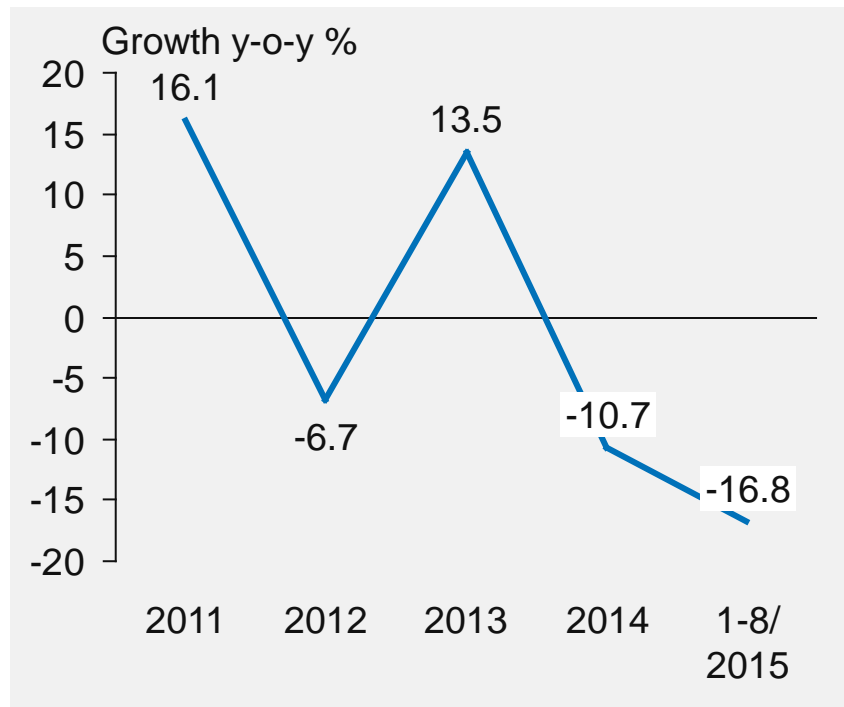
**The slowdown has been visible in the moderating new equipment market in H1 2015**

Source: National Bureau of Statistics of China

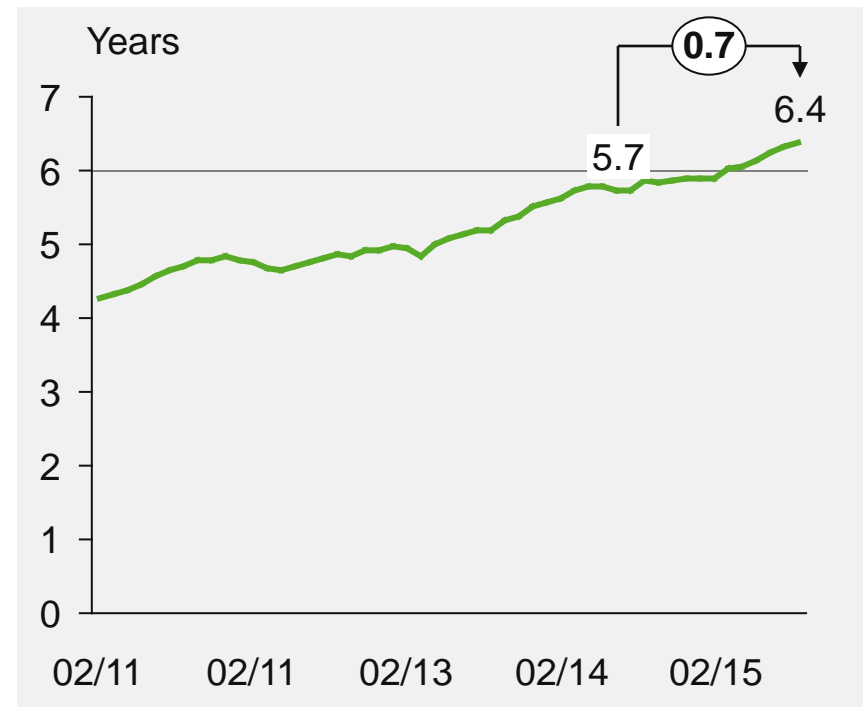
# Starts are down; developers have a large work-in-progress stock and land banks to draw from



## New construction starts have declined since 2014



## However, there is a large WIP under development



**With the large WIP under development, developers can easily ramp up construction in response to a pick-up in the market**

Source: National Bureau of Statistics of China, KONE estimates

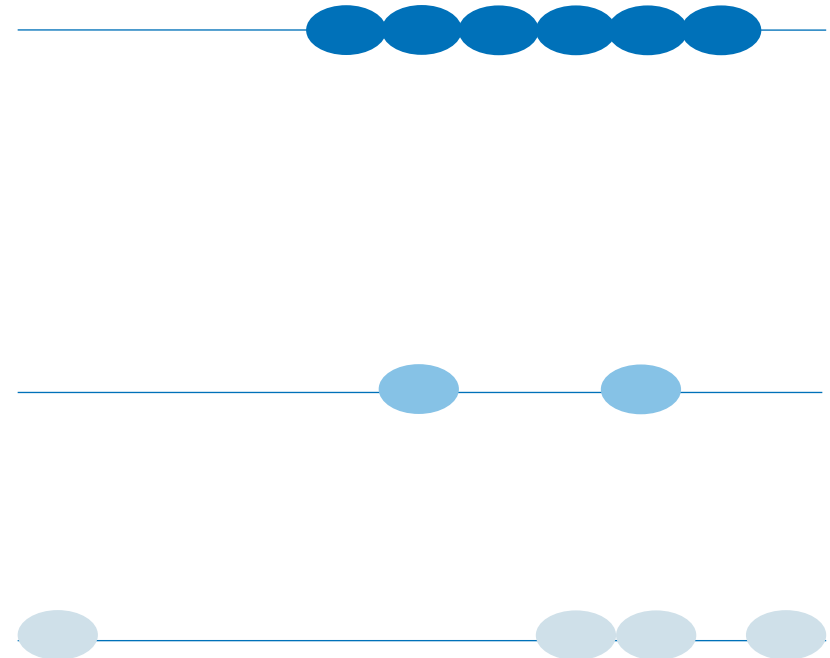


# The Chinese government has a versatile set of tools at its disposal and the pace of actions has been increased



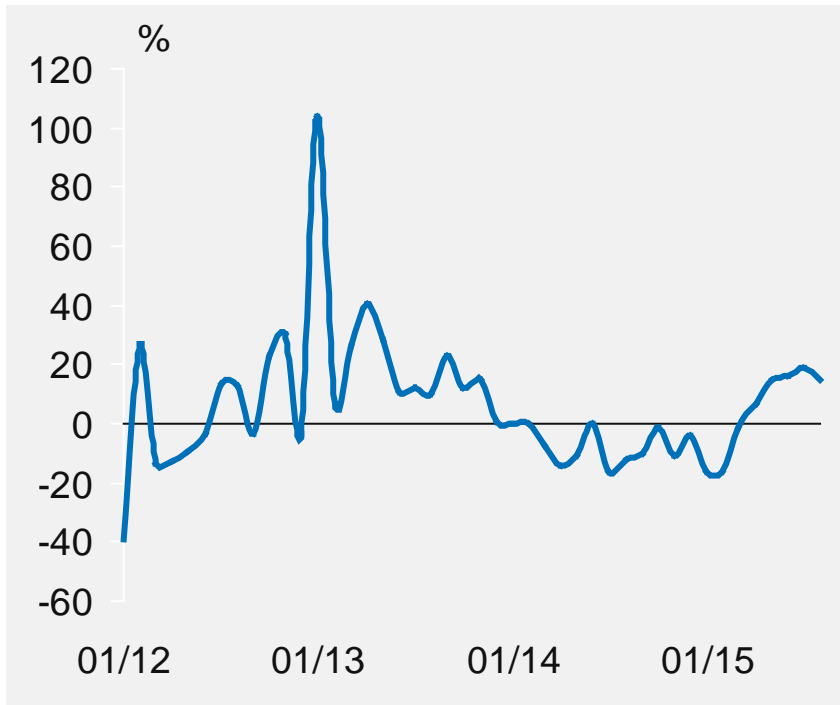
Monetary stimulus	Interest rate cuts
Monetary stimulus	Reserve requirement ratio cuts
Fiscal stimulus	Infrastructure and govt funded development
Fiscal stimulus	Supporting local govts' ability to invest
Property market	Changes in mortgage policies and property taxes

Nov 2014 Dec Jan Feb Mar Apr May Jun Jul Aug Sep 2015

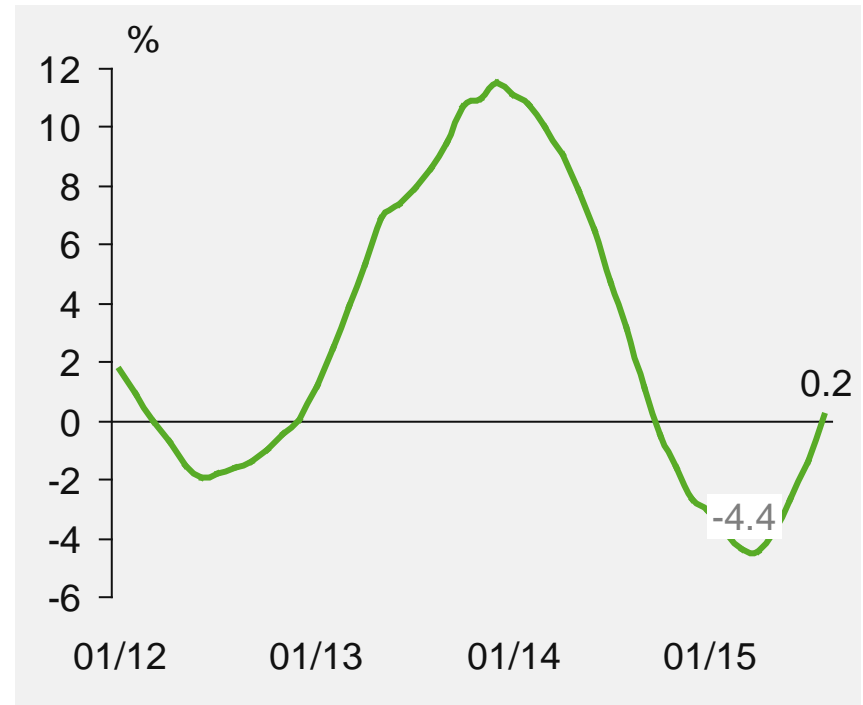


# Some early positive signs in the property market indicators

## Sales area growth y-o-y



## Price/sqm growth y-o-y

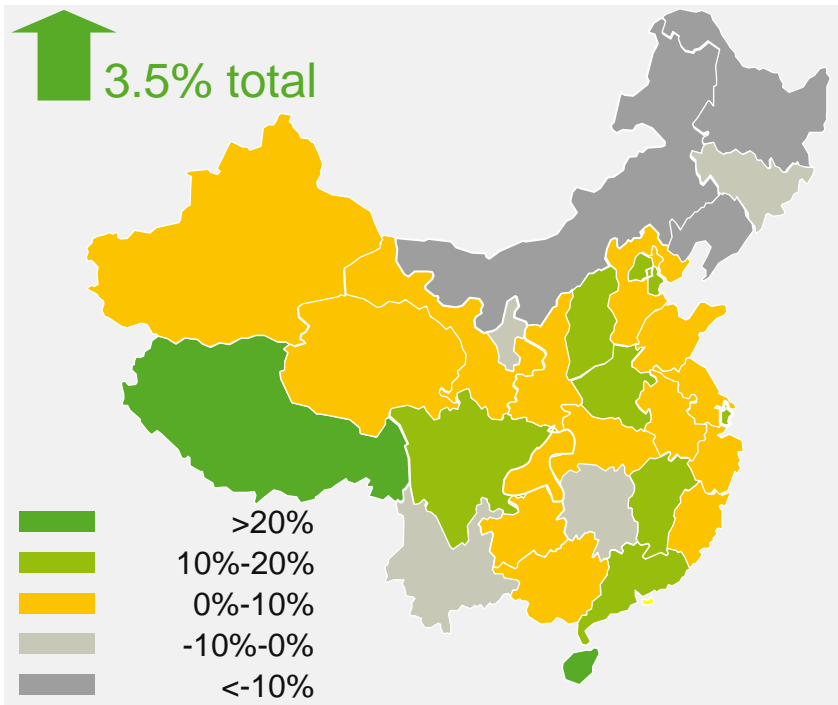


**Trends are not uniform across the country. We continue to focus on understanding the market granularly**

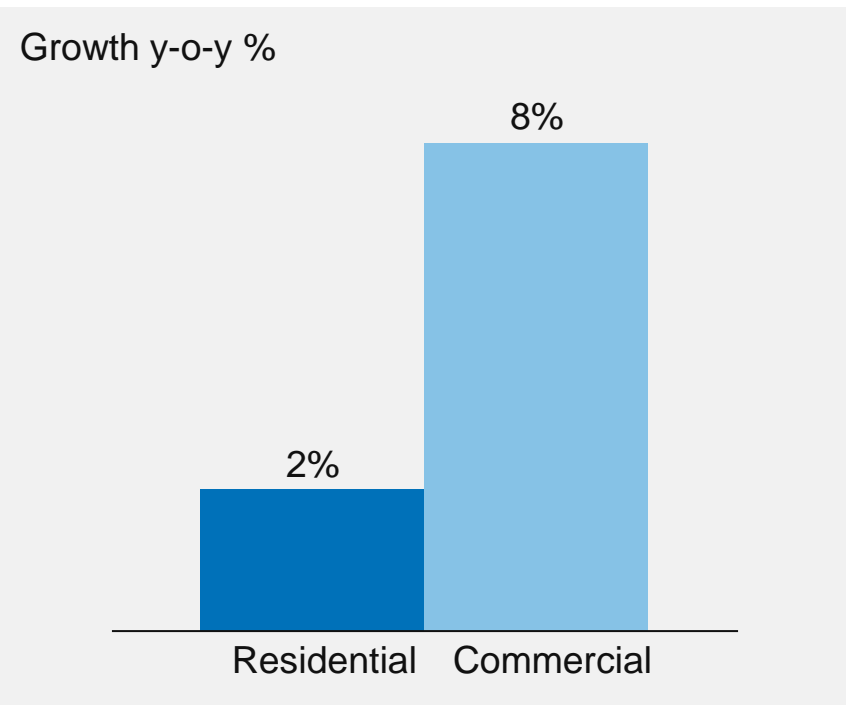
Sources: National Bureau of Statistics of China, CREIS. Sales area growth based on nation-wide statistics; housing price development includes top 100 cities.

# There is clear variation between segments and geographical regions

## Real estate investment growth Jan-Aug 2015



## Real estate investment growth Jan-Aug 2015



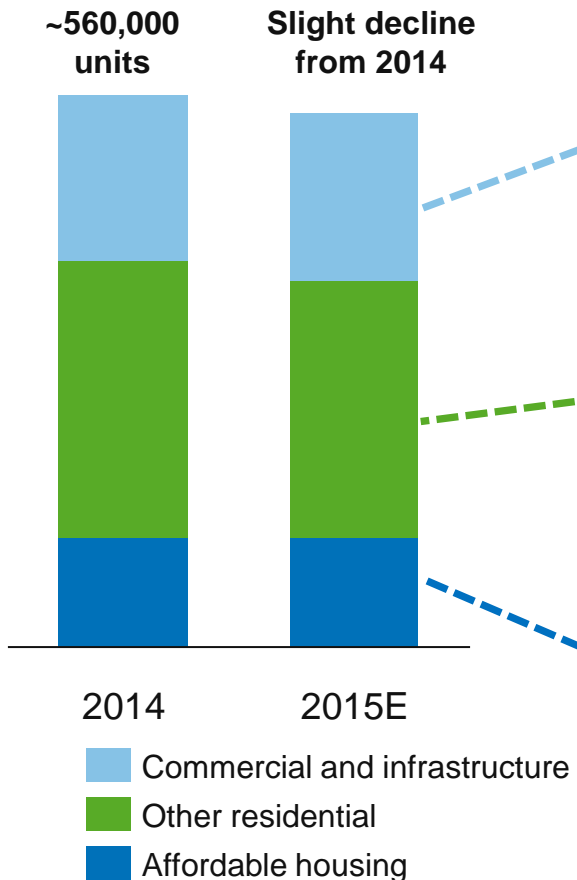
**With the varied market environment, a granular understanding of the market opportunities is required**

Source: National Bureau of Statistics of China.

# We expect the Chinese new equipment market to decline slightly in 2015



## E&E indicative market growth, 2015e



## Segment-specific development

**Commercial and infra segments** seeing some growth

- Retail segment flat or declining slightly
- Office segment stable or growing slightly
- Strong growth in infrastructure thanks to stimulus

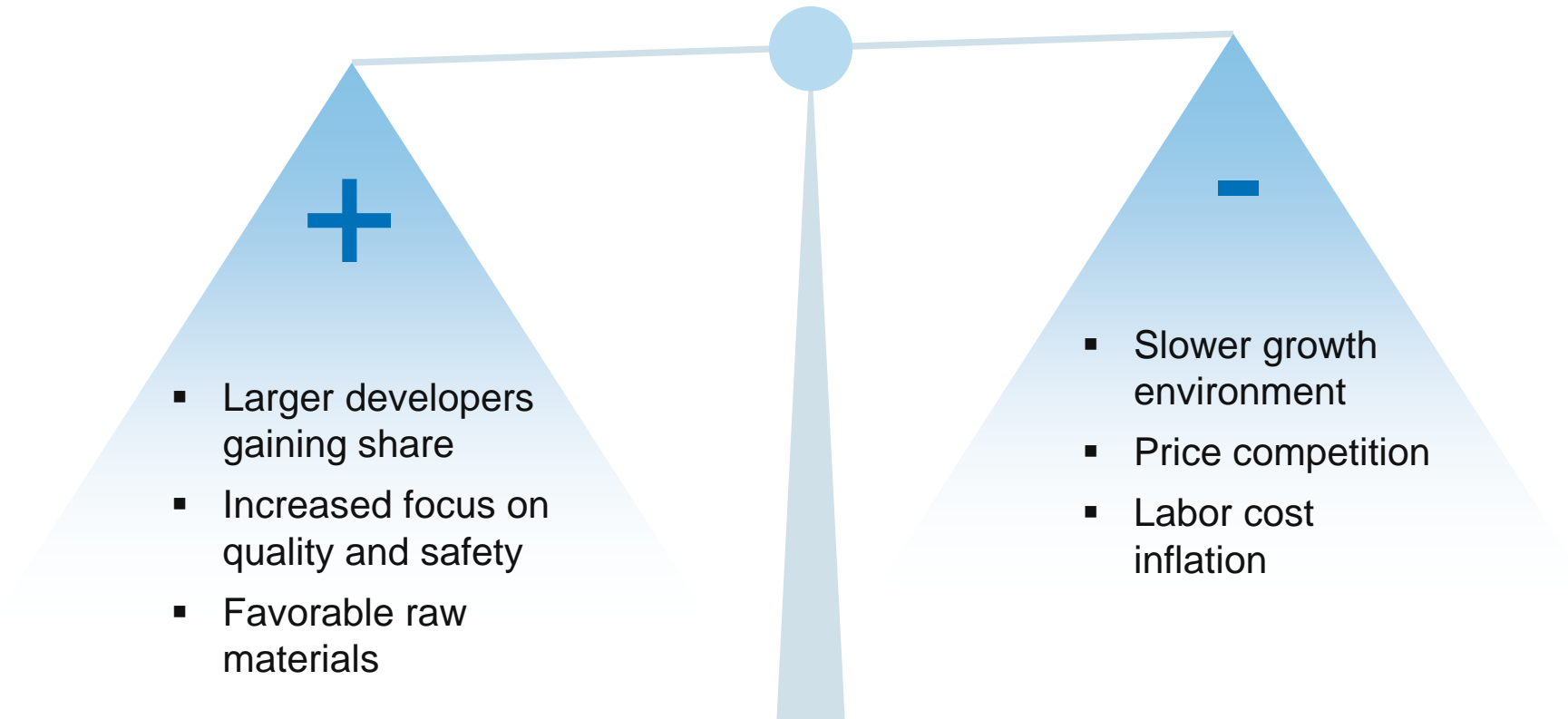
**Residential segment** (excluding affordable housing) developing in line with the market, in slight decline

**Affordable housing** activity is relatively stable

- 7.4 million planned starts for 2015
- Focus on urban renewal and shanty town reconstruction

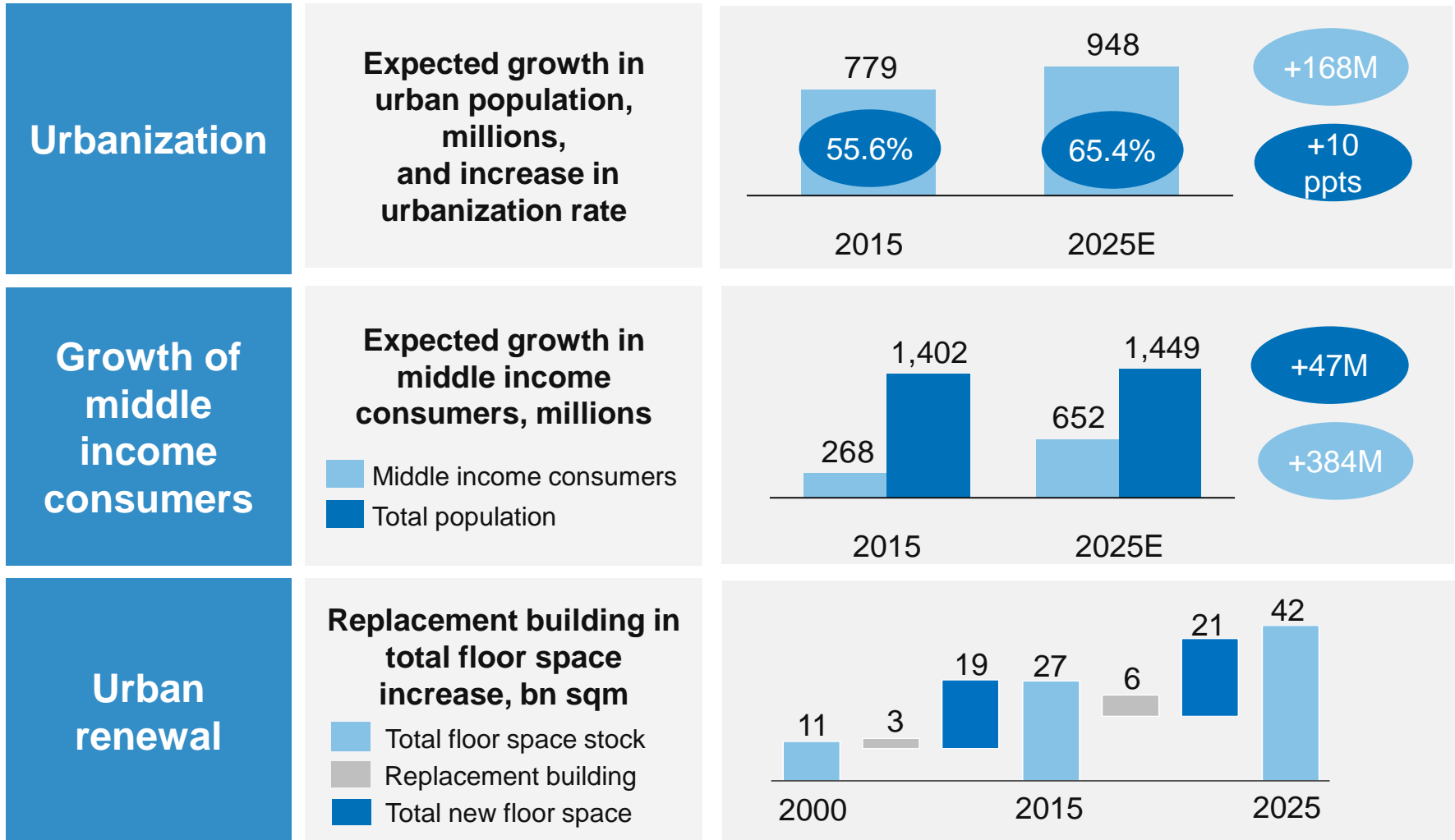
Based on KONE estimates

# There are both headwinds and tailwinds in the market environment



**Trends in the market environment are in favor of the larger OEMs**

# We are confident on the long-term demand drivers in the Chinese market



Sources: U.N. World Urbanization Prospects 2014 revision; UNDP Human Development Report, data from Brookings Institution. Middle income consumer group earning or spending \$10–\$100 a day (2005 PPP). KONE data; expert interview

Even the largest cities will continue to see changes in the urban landscape.

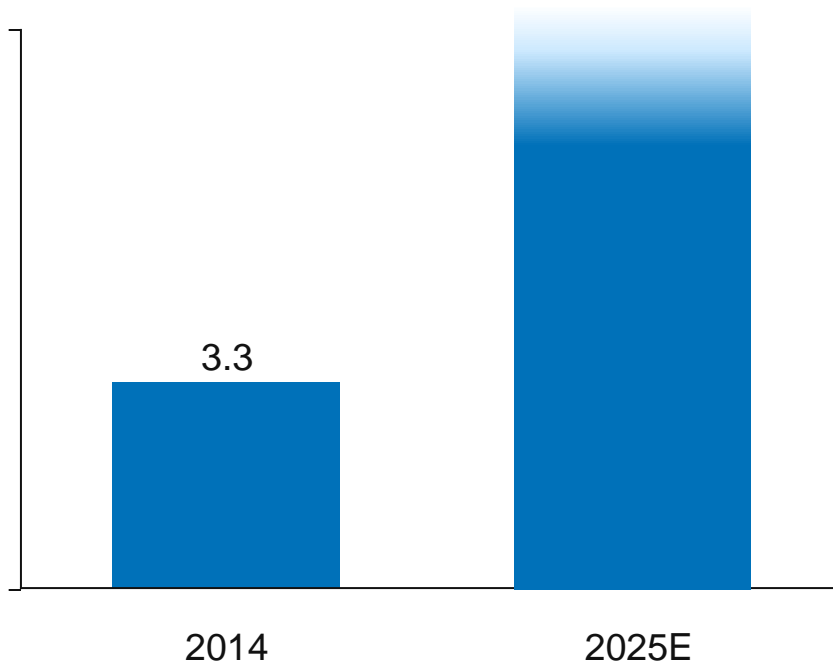


# The service opportunity will continue to increase in significance



## The installed base will grow...

In millions  
of units




## ...and the market will continue to mature

- Competitive landscape still very fragmented today: OEM share ~25%
- Landscape will consolidate in response to regulation and technological change
- OEMs are in better position to
  - respond to new regulation that aims to improve safety and reliability
  - develop and adapt new technologies

Market size and future scenario based on KONE estimates

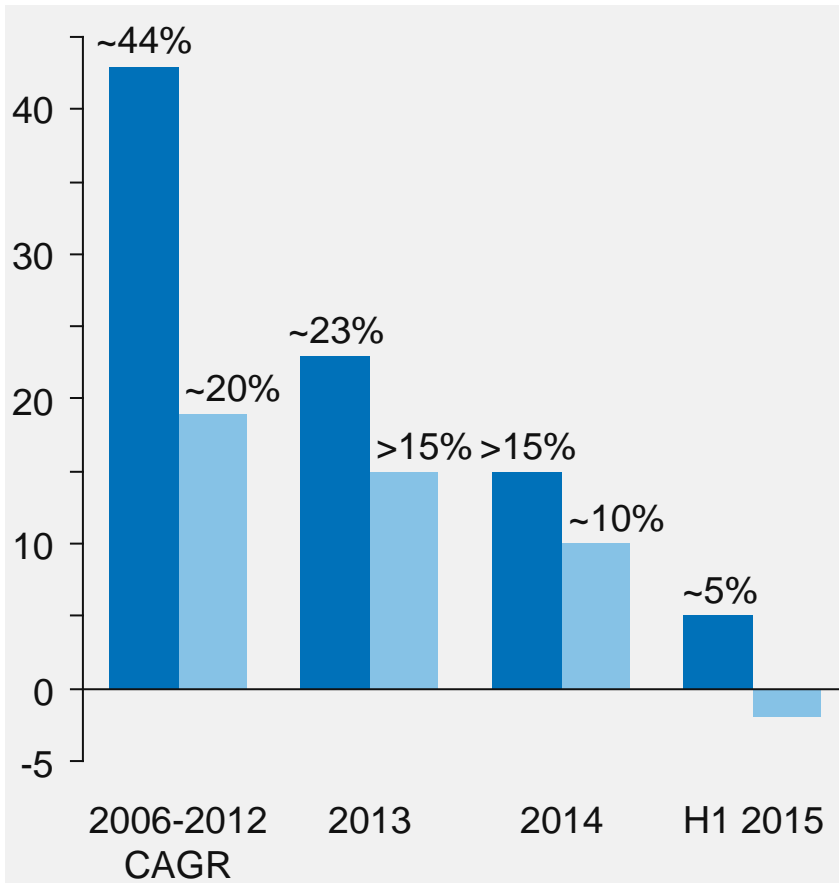


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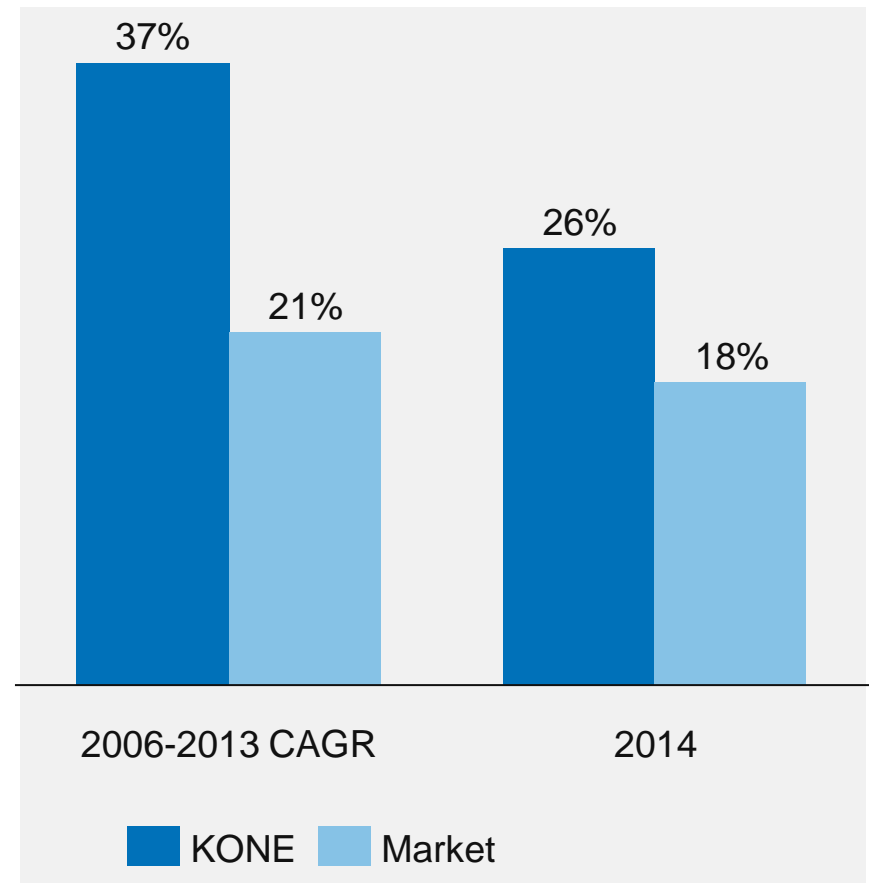
# We have sustained our momentum in the China market



**New equipment orders received (units) vs. market growth**



**KONE's maintenance base vs. total installed base growth**



Note: KONE figures 2006-2014 include GiantKONE from December 2011 onwards. Market growth based on KONE's estimate.

# This has brought us to a leading position in the world's largest E&E market



**# 1**

**Largest OEM in new equipment**

**# 1**

**Joint leader in maintenance**

## **Our competitive strengths**

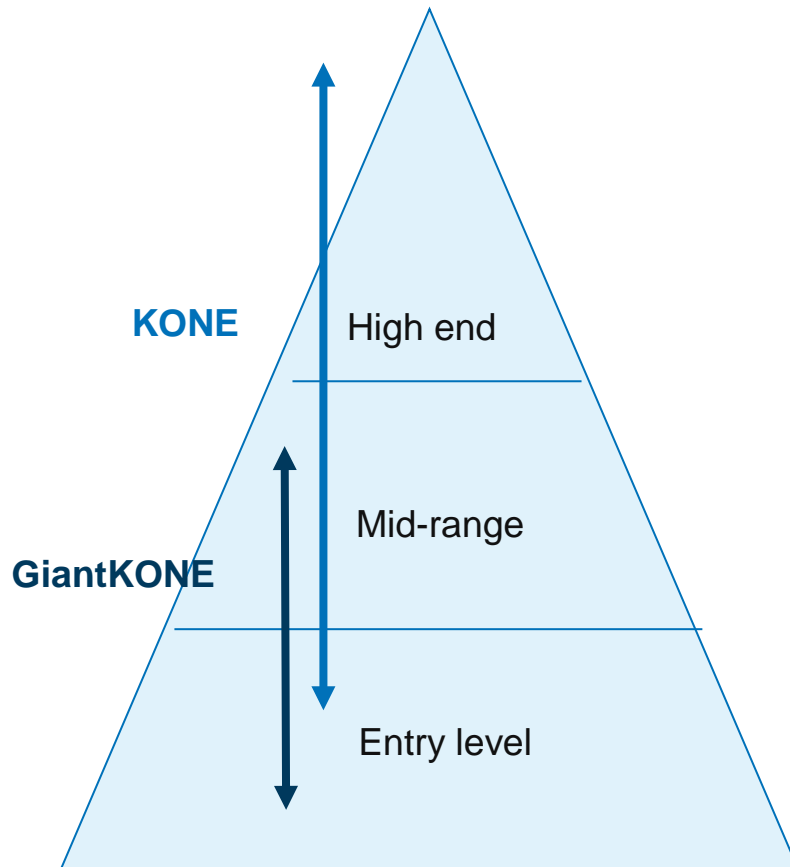
- Best-in-class solutions
- Strong dual brand strategy: KONE and GiantKONE
- Wide geographical coverage
- World-class field force



We have a comprehensive offering and we are constantly developing our service capabilities



**We have a broad offering ...**



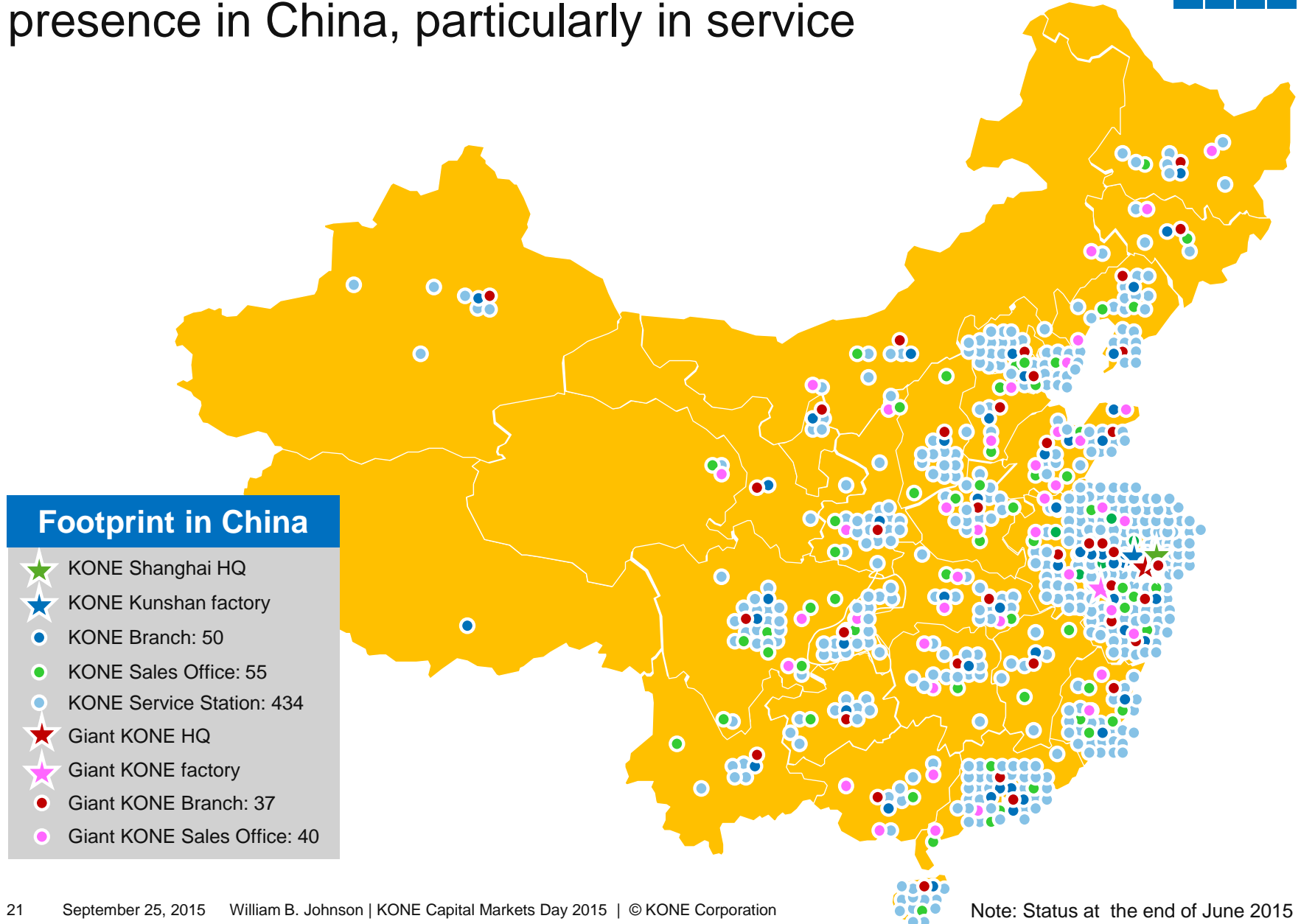
**...and we differentiate with our delivery**

**Easy to do business with**

**Delivering on our promises**

**High-quality service capabilities**

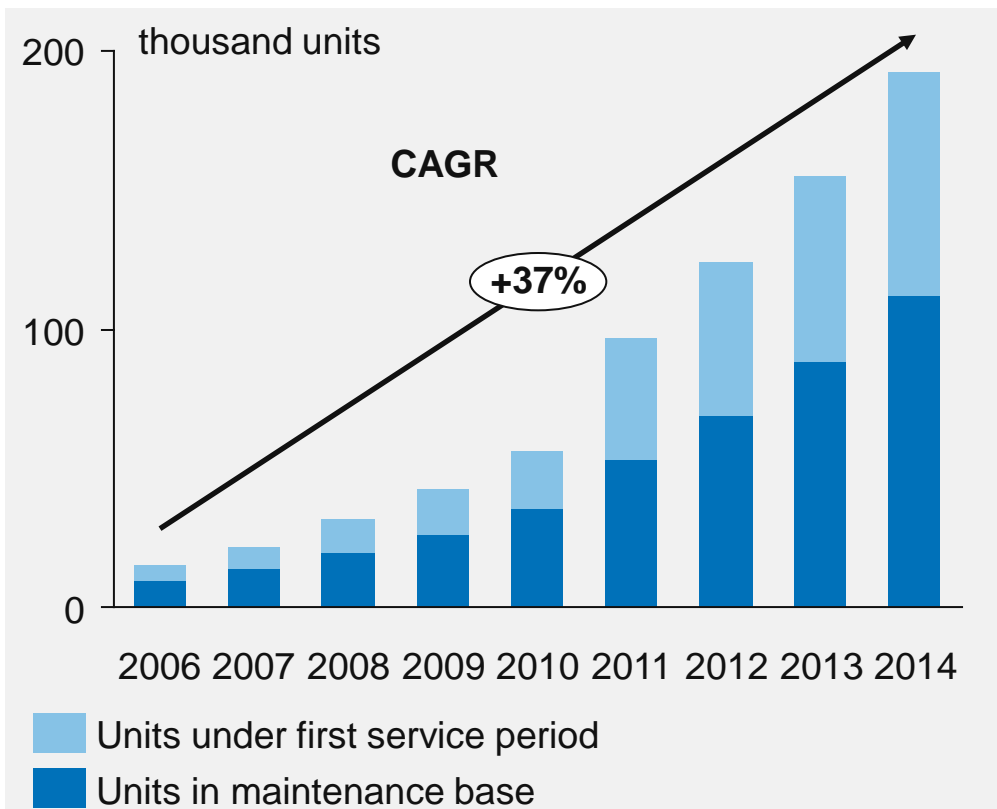
# We have continued to expand our geographic presence in China, particularly in service



# We are leaders in maintenance and continue to ramp up our coverage



## UNITS MAINTAINED BY KONE IN CHINA 2006-2014



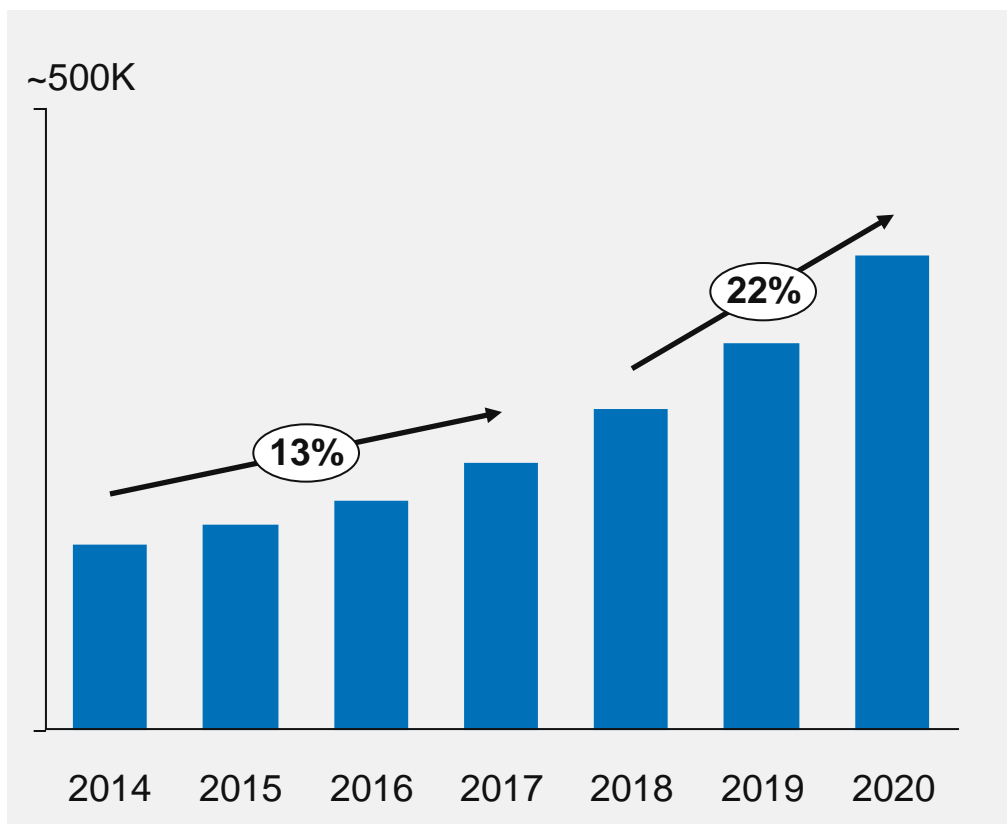
- Widest coverage in maintenance across China
- Large number of units under first service period provides a pipeline for growth through conversions
- Industry leading conversion rate

Based on KONE estimates. Figure includes GiantKONE from December 2011 onwards.

# We are building our capabilities in modernization rapidly to address the growing opportunity



## ELEVATORS IN CHINA OVER 15 YEARS OLD



- There are modernization opportunities already in the largest cities
- Locally many cities are taking action to inspect the safety and condition of existing equipment
- Lifetime of elevators will be shorter in China compared to Western markets due to higher usage rates of equipment

Based on KONE estimates



KONE will modernize Plaza 66 business center in Shanghai, which includes 18 elevators in office towers 288m tall. The new elevators will reduce waiting times, improving the efficiency of People Flow with the latest technology.



# We have made significant progress in our field productivity



Improvements in installation cost achieved with the roll-out of advanced site installation methods


New installation field management and competence development tool

Structured training and skill assessment program for new maintenance technicians

Our scale in the market is an asset.  
A normal Friday for us in China means today...



<b>400-600</b>	<b>Orders received booked</b>
<b>4,000</b>	<b>Installation sites with our equipment</b>
<b>9,000</b>	<b>Elevator packages going through our distribution centers</b>
<b>22,000</b>	<b>Service visits made by our 5,000 service technicians</b>

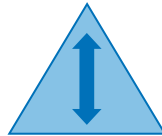
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We have been able to grow faster than the market and our growth has been profitable



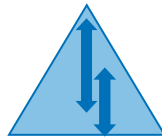
**Focus areas in developing our business 2005 →**

**Segment coverage**



Development of competitive offering to cover all segments

**Two-brand strategy**



Second brand GiantKONE broadening offering coverage

**Geographical coverage**



Presence across the country

**Building a leading service business**



2005-2014 maintenance base CAGR over 35%

**Talent management**



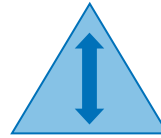
KONE seen as a desirable employer with high employee satisfaction

# We will continue to target profitable growth, while retaining a challenger mindset

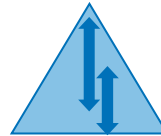


## With our competitive assets in China, we will...

**Segment coverage**



**Two-brand strategy**



**Geographical coverage**



**Building a leading service business**



**Talent management**



**Leverage our scale and delivery capabilities**

**Increase field productivity with new technology and processes**

**Accelerate the growth of the service business**

## We are excited about our future in China

- No. 1 position
- Best team
- Great offering
- Fast-growing service business