

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 with recessed lights. In the foreground, there is a glass-enclosed area, possibly an elevator or a transit station entrance, with people walking around. 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 modern architectural complex. The buildings are white with a grid-like facade of windows. One building has a prominent cantilevered section. The complex is surrounded by a landscaped area with trees and a paved plaza. The sky is clear and blue.

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

→ The market in the near term and long term

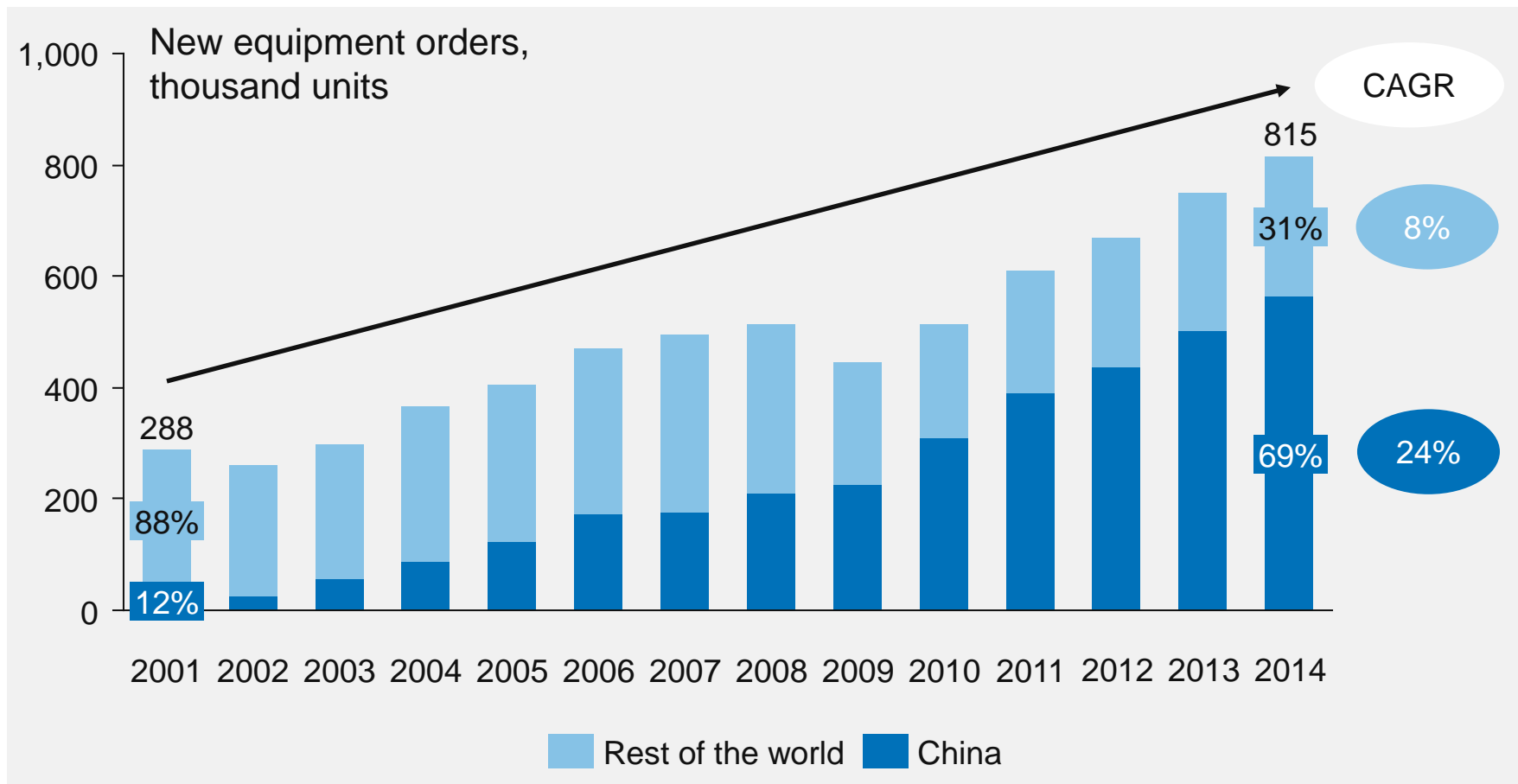
→ Our competitive strengths today

→ 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

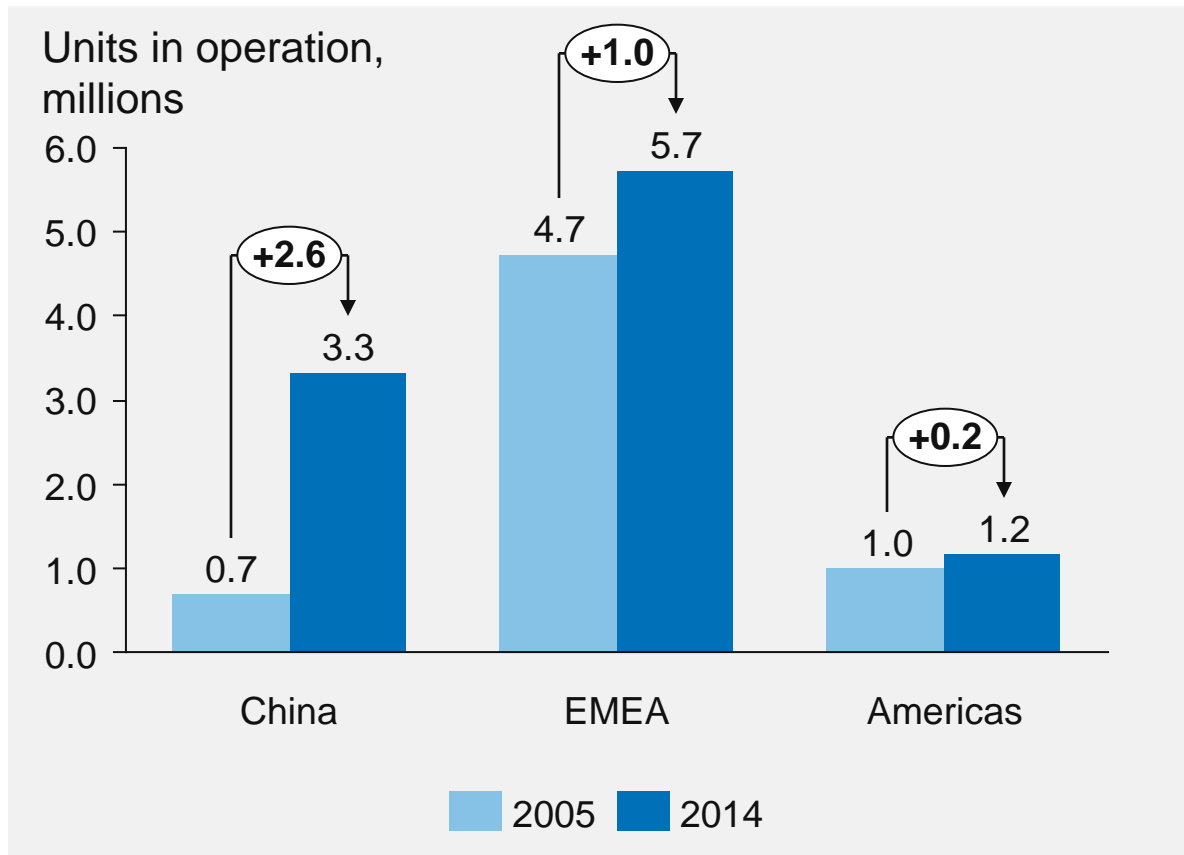


Based on KONE estimates

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 a photograph of a city skyline at dusk or dawn. The sky is a deep blue with some light clouds. Several tall skyscrapers are visible, with their windows reflecting the ambient light. The buildings vary in height and architectural style, with some having distinctive facades. The overall scene is a dense urban environment.

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.

- 
- The background of the slide is a photograph of a modern architectural complex. It features several tall, white buildings with a grid-like facade of windows. One building has a distinctive cantilevered top section. The buildings are set against a clear blue sky. In the foreground, there is a courtyard area with some greenery and a paved walkway.
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The Chinese economy has showed softness since early 2014

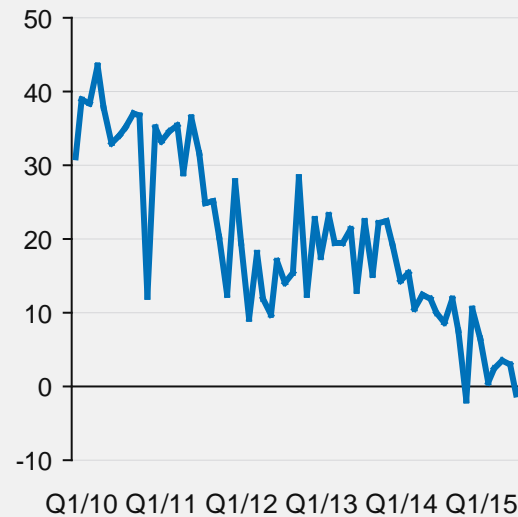
Soft manufacturing

Industrial production growth (%)



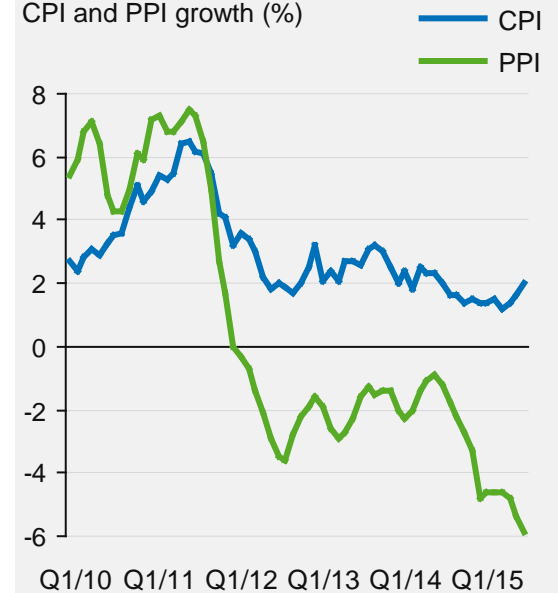
Weaker real estate

Real-estate investment growth (%)



Moderate inflation

CPI and PPI growth (%)



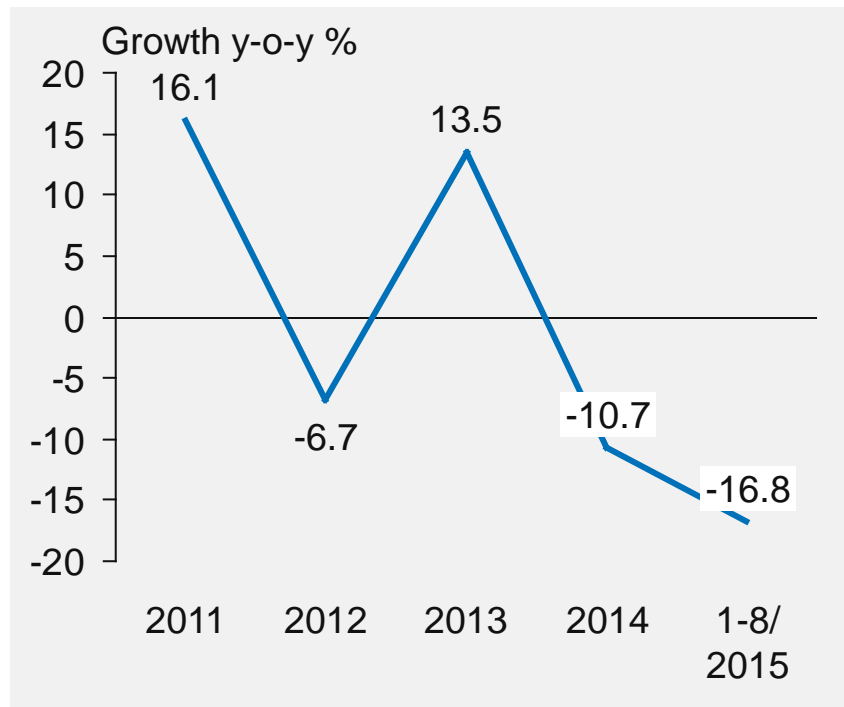
The slowdown has been visible in the moderating new equipment market in H1 2015

Source: National Bureau of Statistics of China

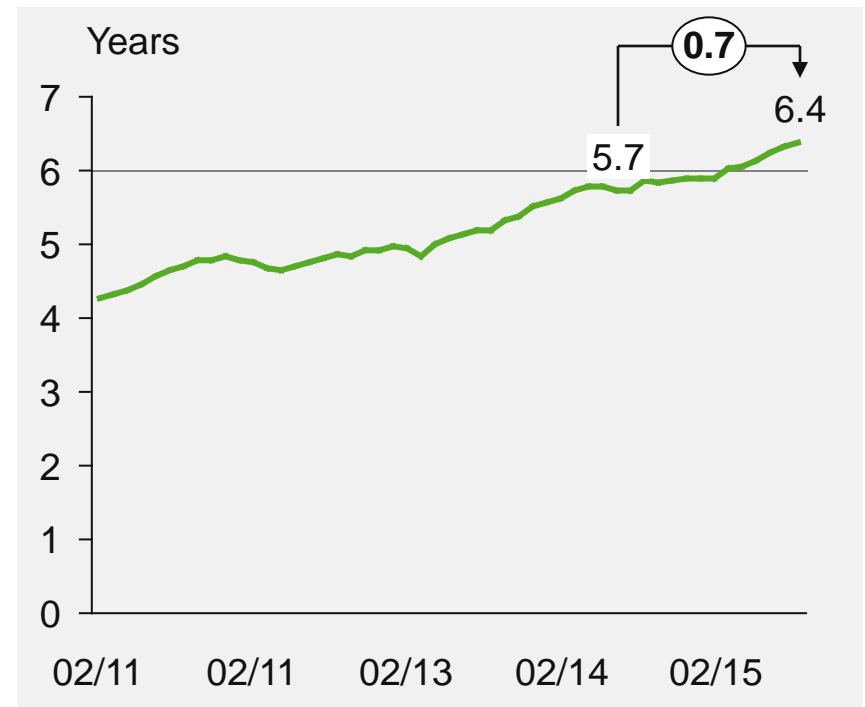
Starts are down; developers have a large work-in-progress stock and land banks to draw from



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

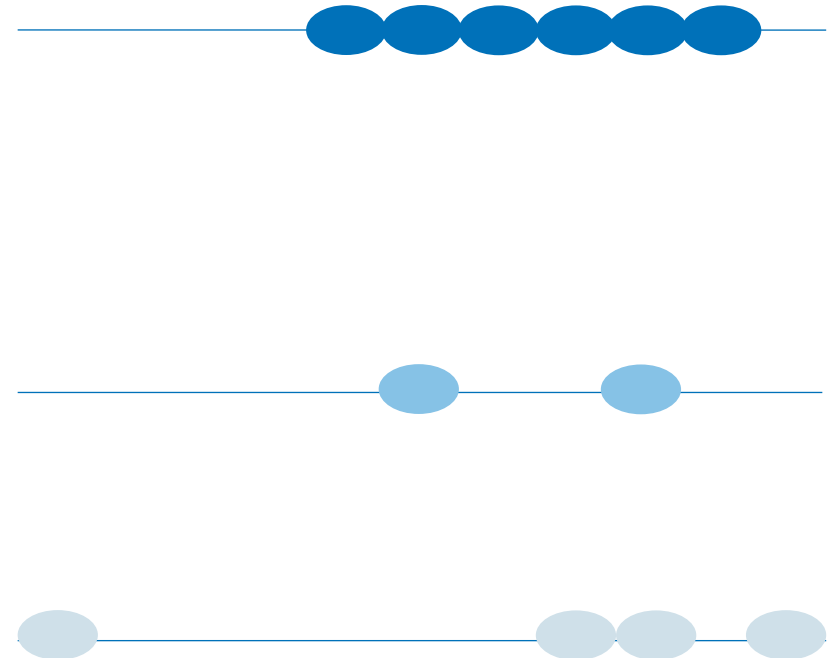
Source: National Bureau of Statistics of China, KONE estimates

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



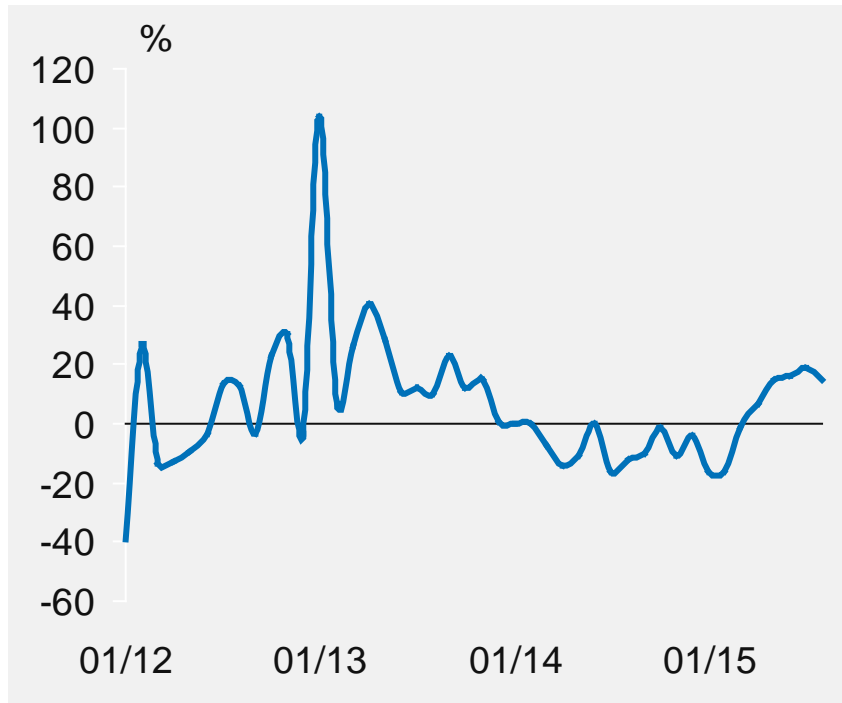
Monetary stimulus	Interest rate cuts
Monetary stimulus	Reserve requirement ratio cuts
Fiscal stimulus	Infrastructure and govt funded development
Fiscal stimulus	Supporting local govts' ability to invest
Property market	Changes in mortgage policies and property taxes

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

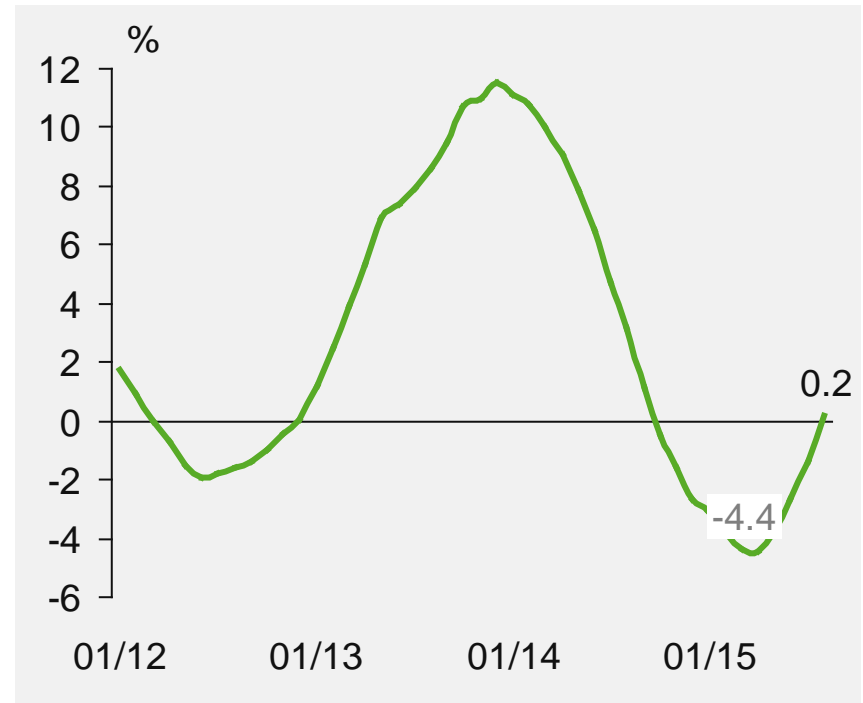


Some early positive signs in the property market indicators

Sales area growth y-o-y



Price/sqm growth y-o-y

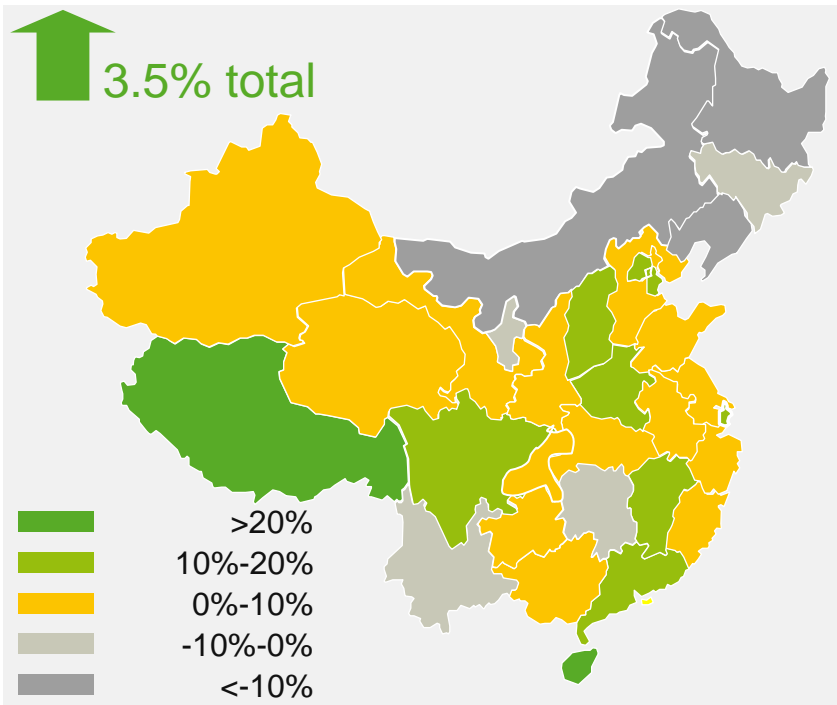


Trends are not uniform across the country. We continue to focus on understanding the market granularly

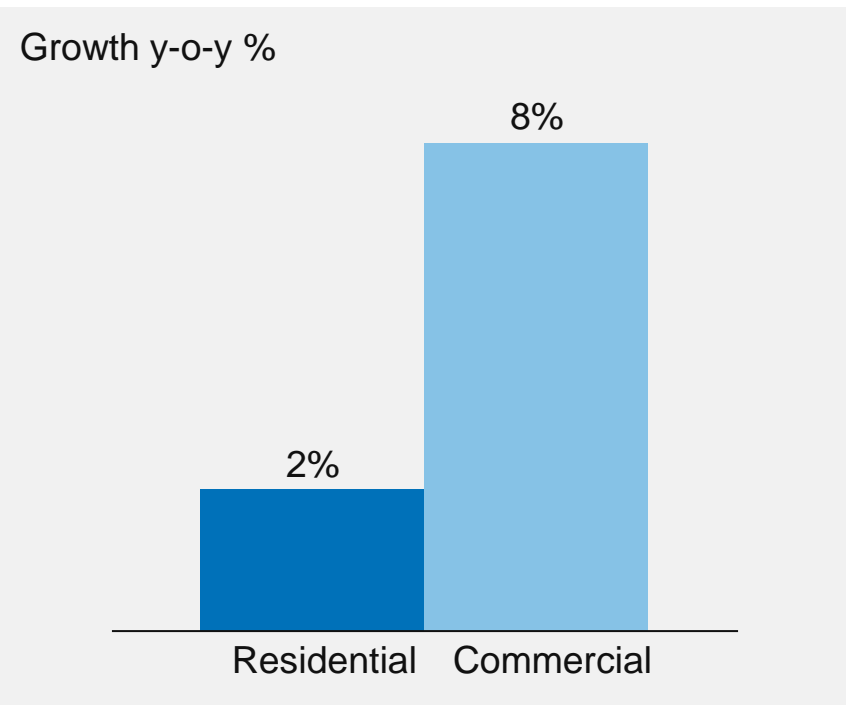
Sources: National Bureau of Statistics of China, CREIS. Sales area growth based on nation-wide statistics; housing price development includes top 100 cities.

There is clear variation between segments and geographical regions

Real estate investment growth Jan-Aug 2015



Real estate investment growth Jan-Aug 2015



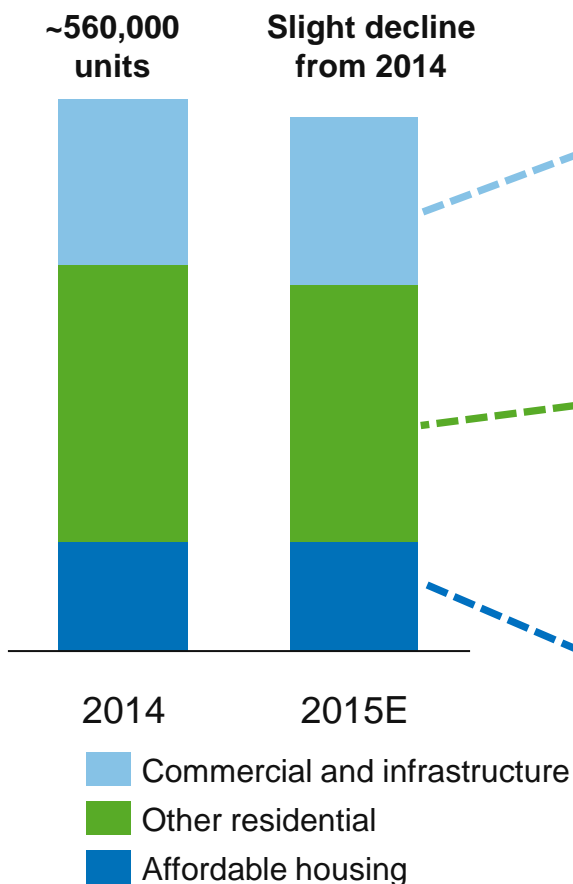
With the varied market environment, a granular understanding of the market opportunities is required

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

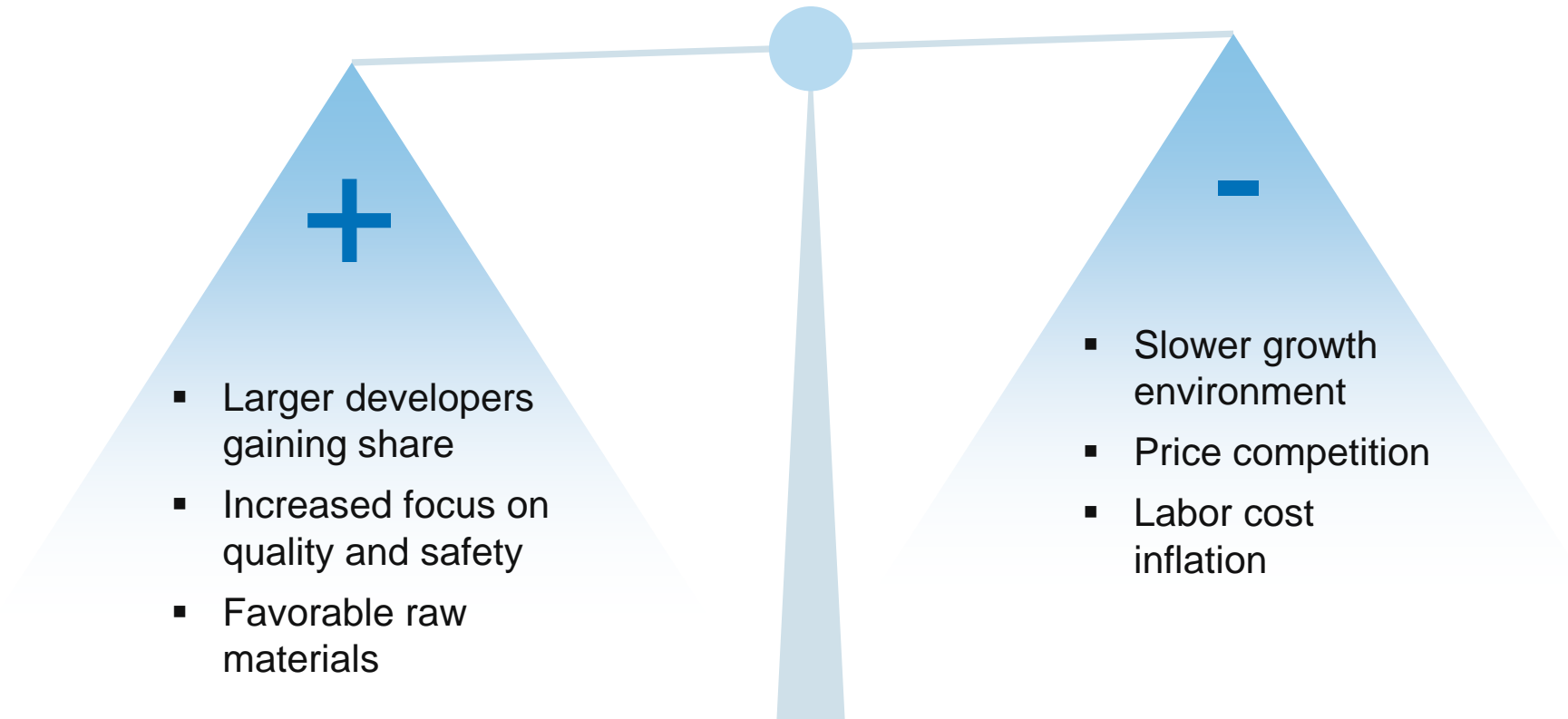
Residential segment (excluding affordable housing) developing in line with the market, in slight decline

Affordable housing activity is relatively stable

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

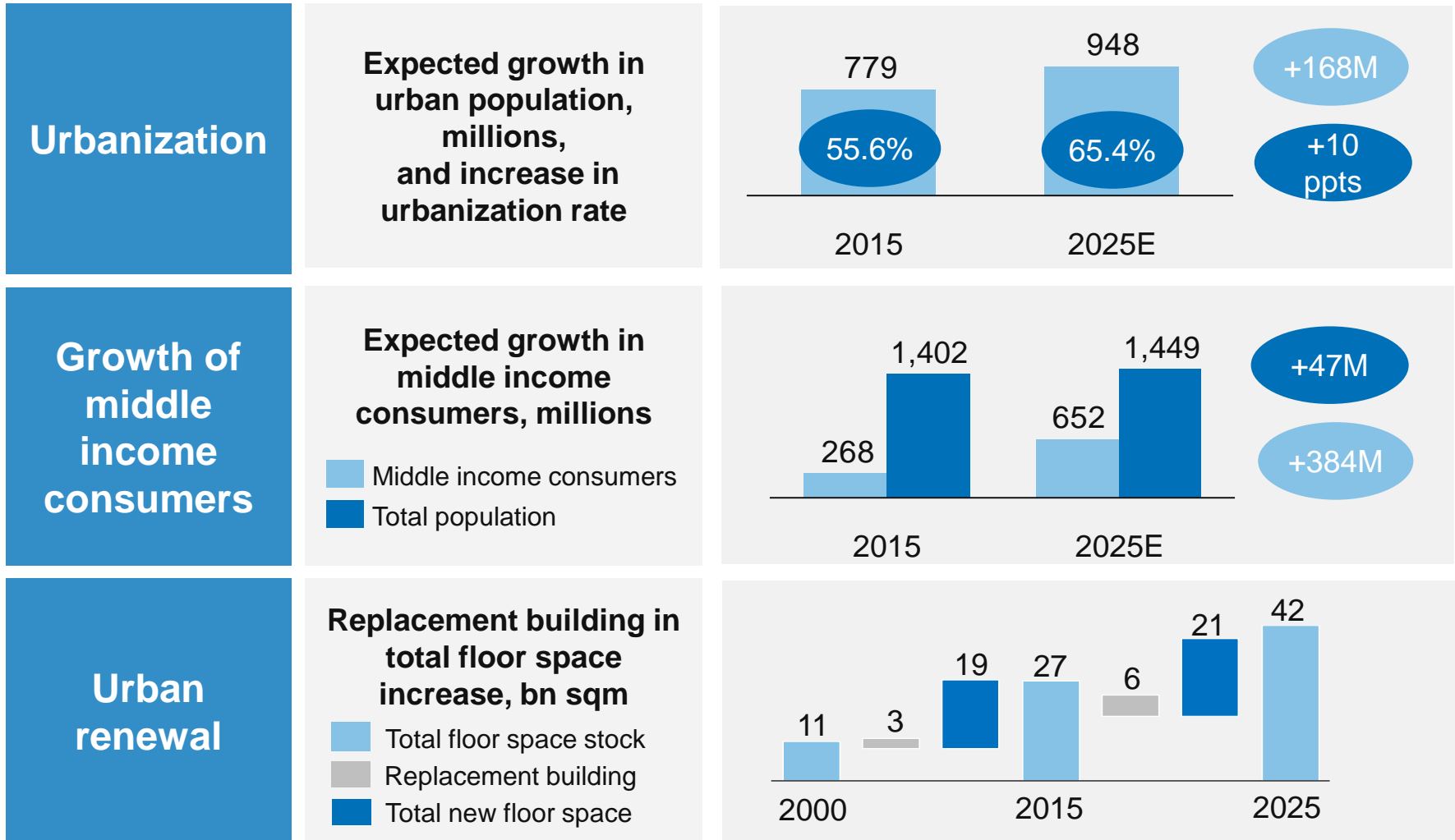
Based on KONE estimates

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.

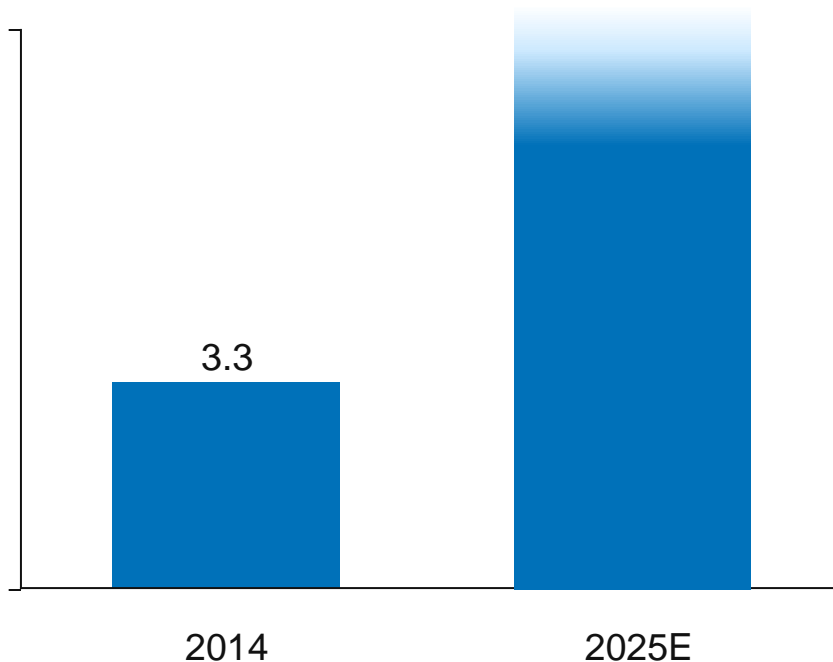


The service opportunity will continue to increase in significance



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

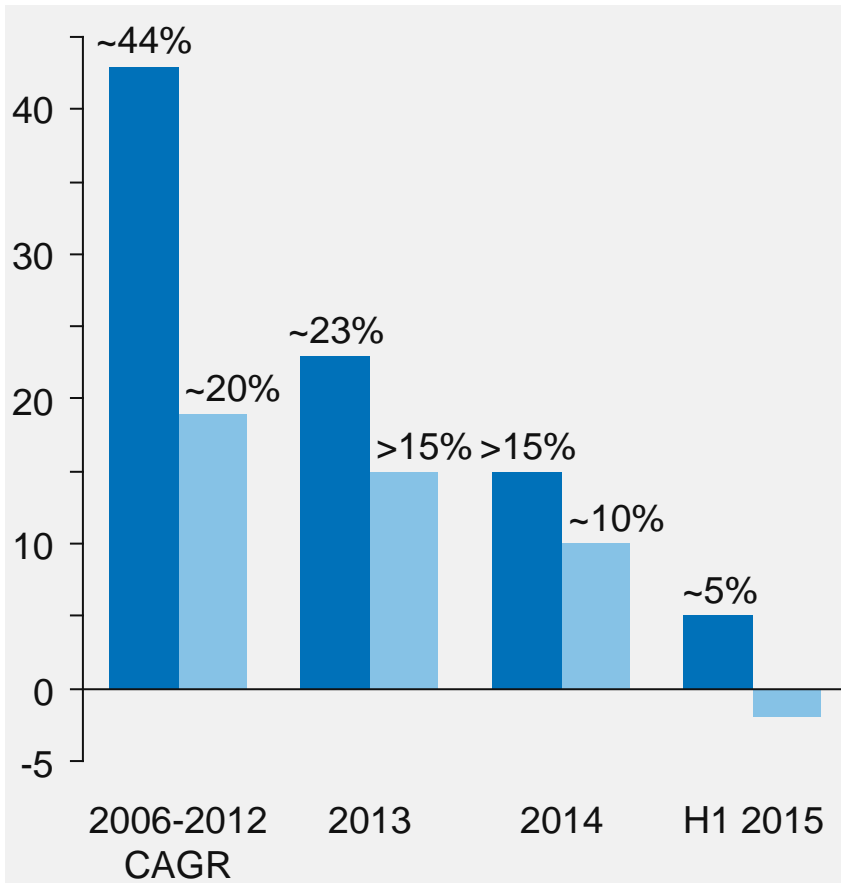
Market size and future scenario based on KONE estimates

- 
- 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
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 - **Our competitive strengths today**
 - Our way forward in China

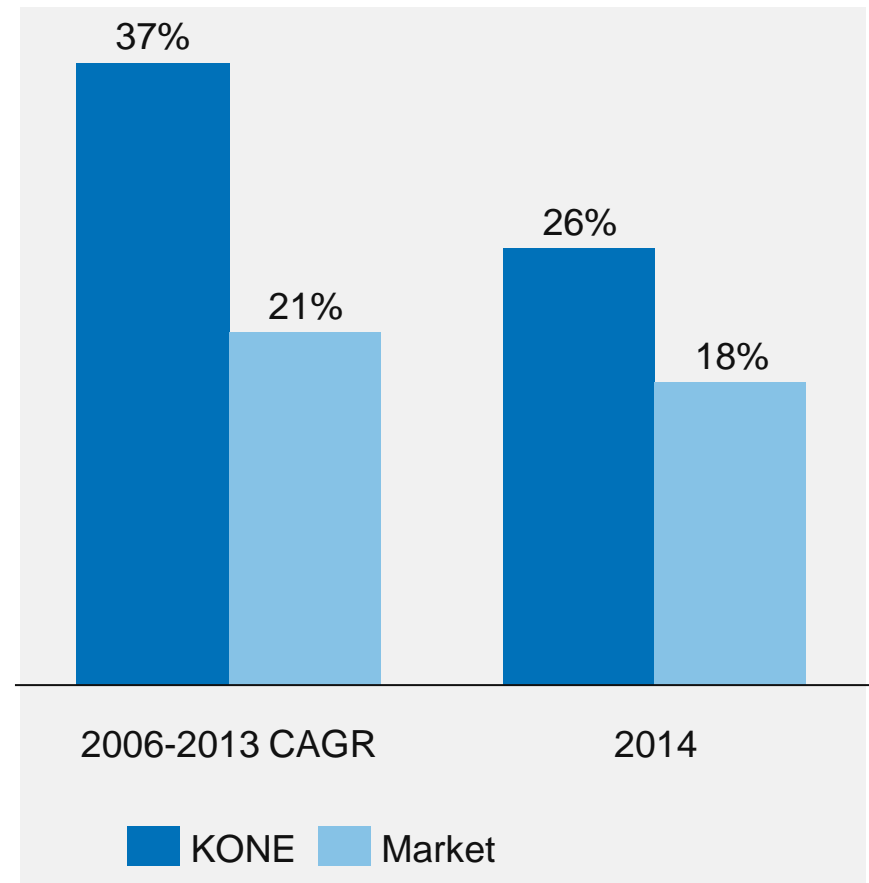
We have sustained our momentum in the China market



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

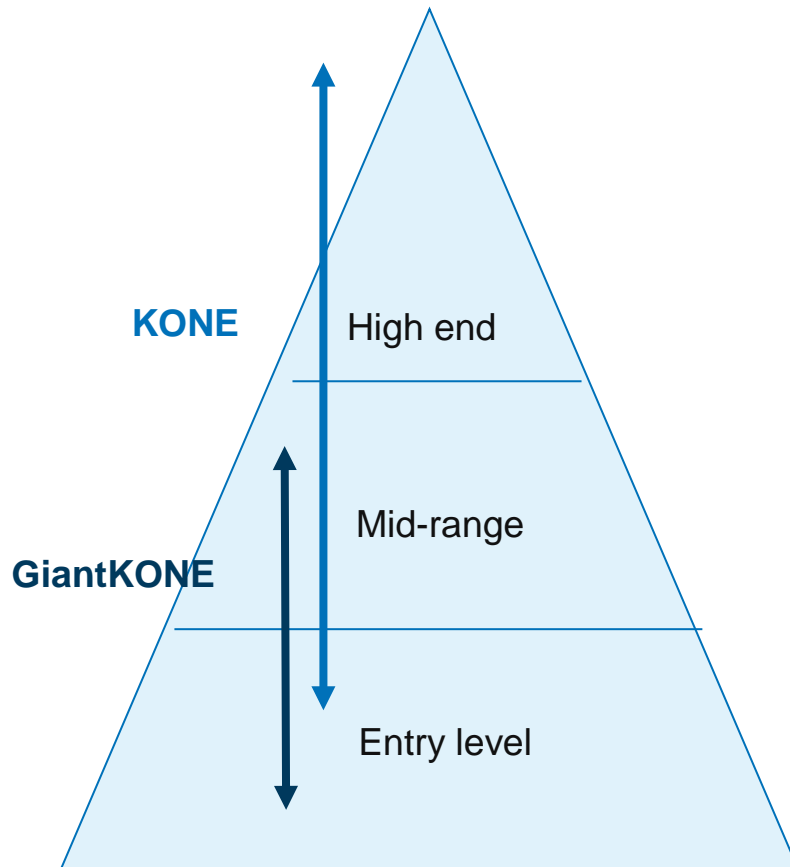
- Best-in-class solutions
- Strong dual brand strategy: KONE and GiantKONE
- Wide geographical coverage
- World-class field force



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



We have a broad offering ...



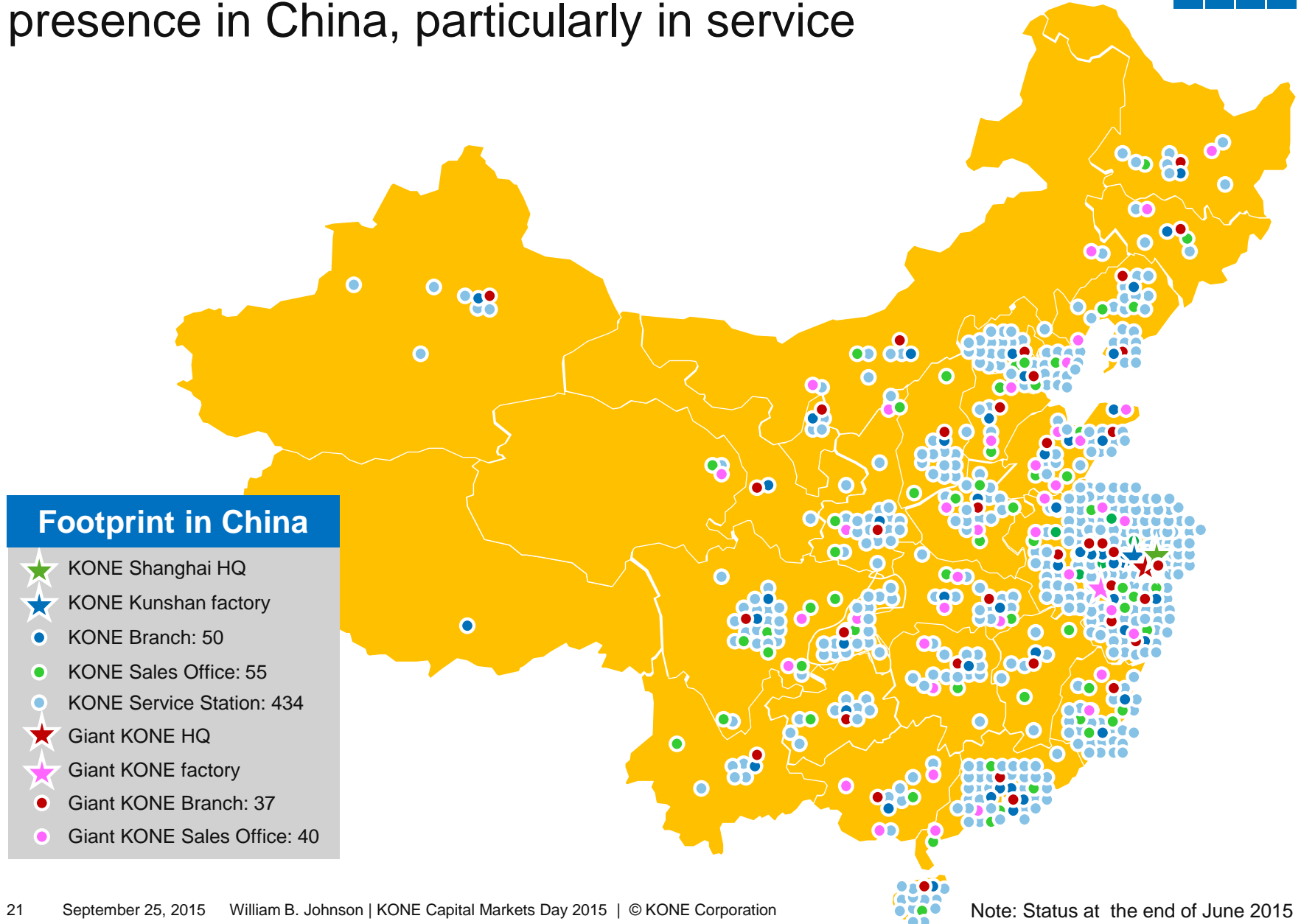
...and we differentiate with our delivery

Easy to do business with

Delivering on our promises

High-quality service capabilities

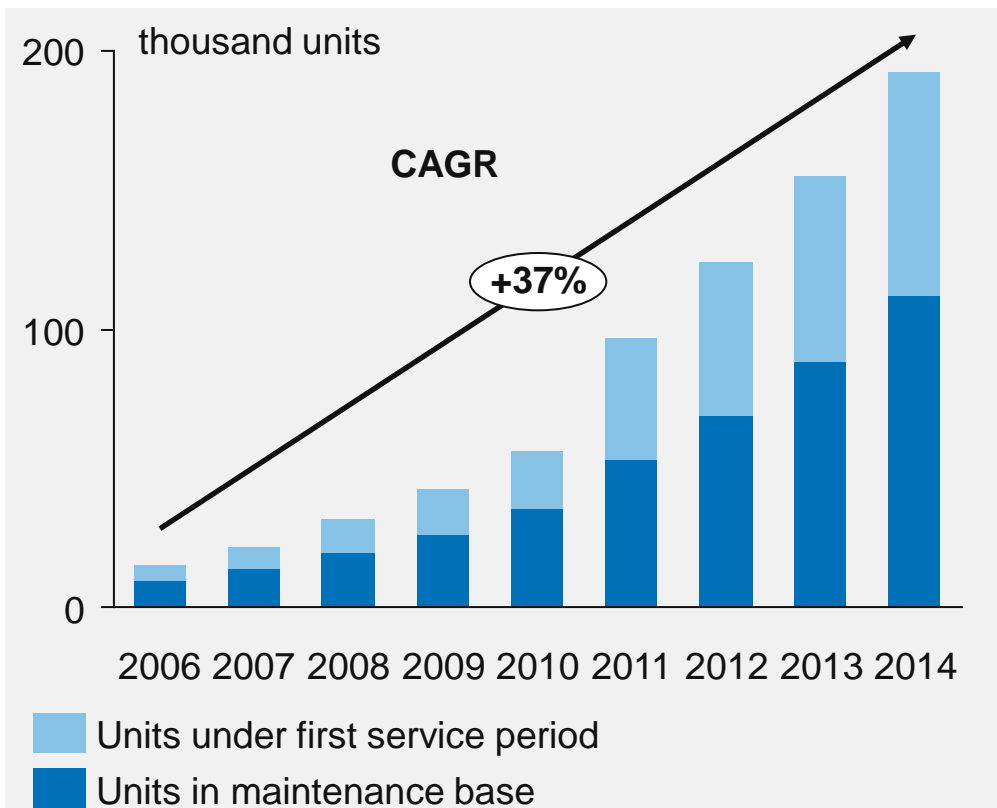
We have continued to expand our geographic presence in China, particularly in service



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



UNITS MAINTAINED BY KONE IN CHINA 2006-2014



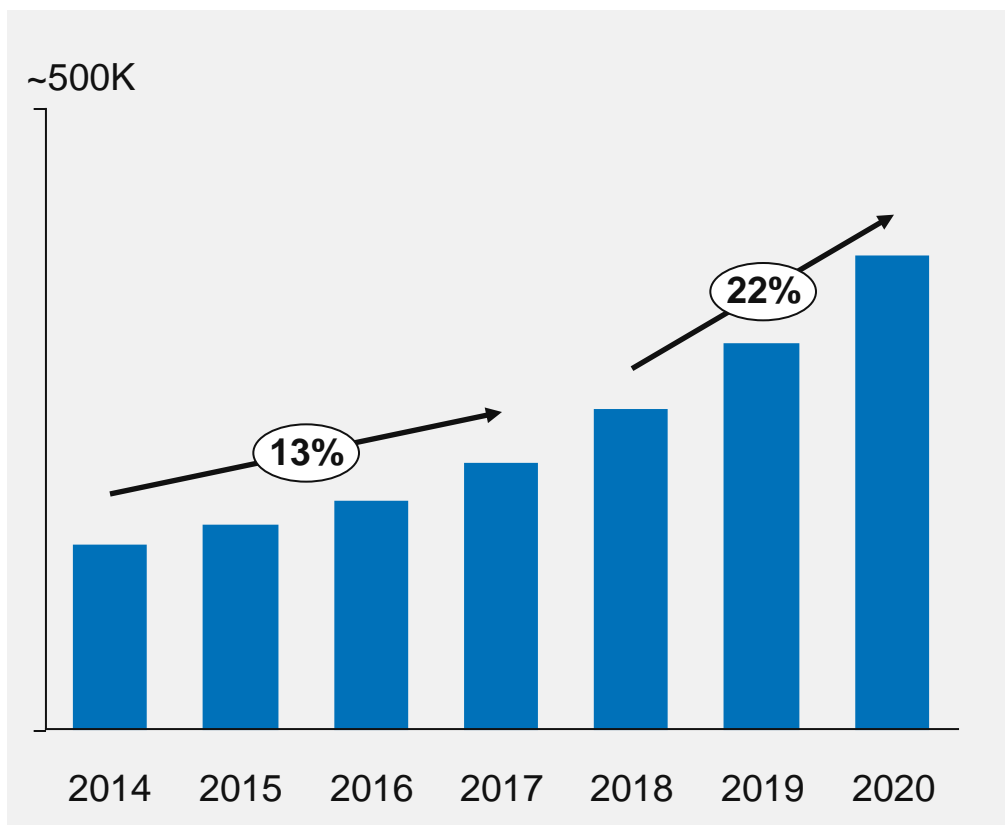
- Widest coverage in maintenance across China
- Large number of units under first service period provides a pipeline for growth through conversions
- Industry leading conversion rate

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...



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

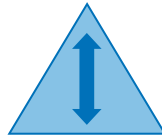
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We have been able to grow faster than the market and our growth has been profitable



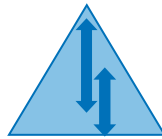
Focus areas in developing our business 2005 →

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



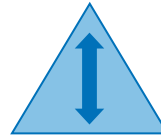
KONE seen as a desirable employer with high employee satisfaction

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

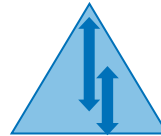


With our competitive assets in China, we will...

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