



KONE CMD 2016 Leading in a new phase in China

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Agenda

- New equipment market in a new phase
- Opportunities in the growing service market
- Leading in a new market environment



China is KONE's largest new equipment market and the fastest-growing service market



- > 600,000** Equipment delivered in China since the 1990s
- 35%** China's share of KONE's total sales
- 20%** Market share in new equipment, #1 position
- 25%** Growth in service in 2015, from shared #1 position
- 2** Wholly owned strong brands, KONE and GiantKONE



In a changing market environment, we have continued to solidify our presence



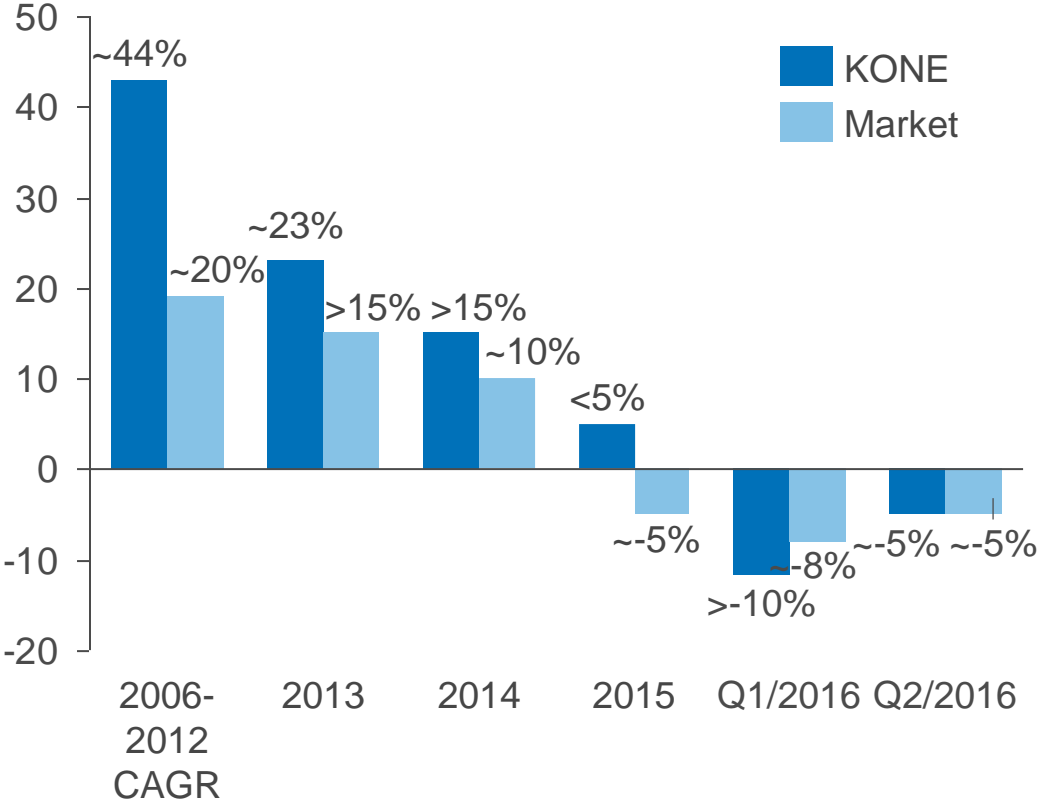
H1 / 2016 in new equipment

- The new equipment market declined and saw intense competition
- We have actively been looking for the right balance between pricing and volumes

H1 / 2016 in service

- Service has continued to grow robustly and we have expanded our operations
- Share of maintenance technicians reached 50% of the total >14,000 China employees by end of H1

KONE's new equipment orders received in China vs. market development
(units)



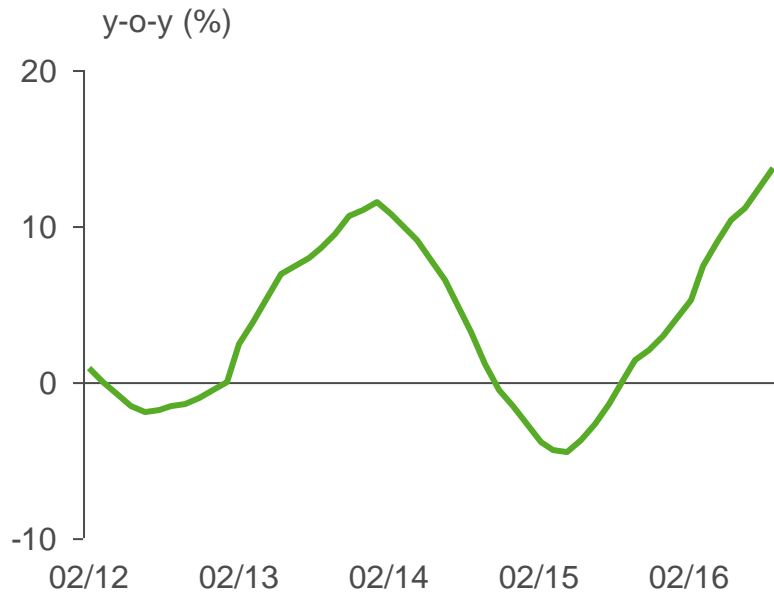
New equipment market
in a new phase



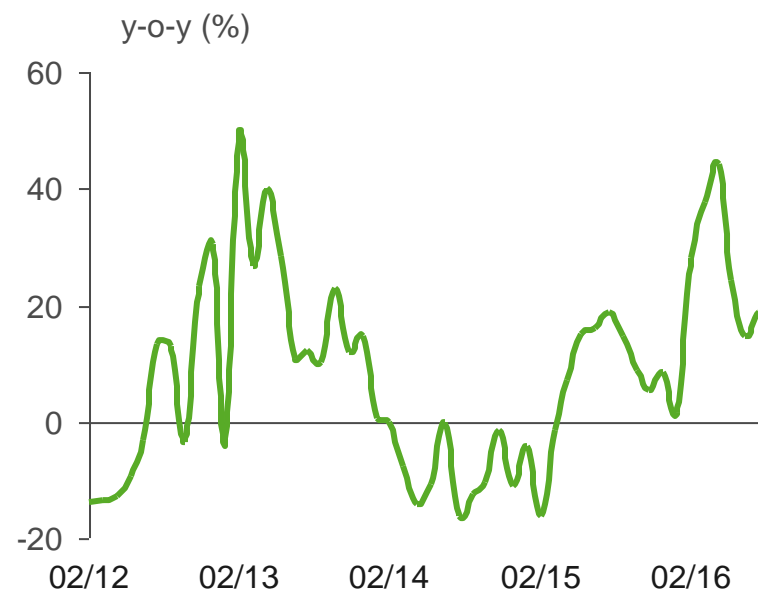
Overall stabilization seen in the property market this year, clear differences between regions



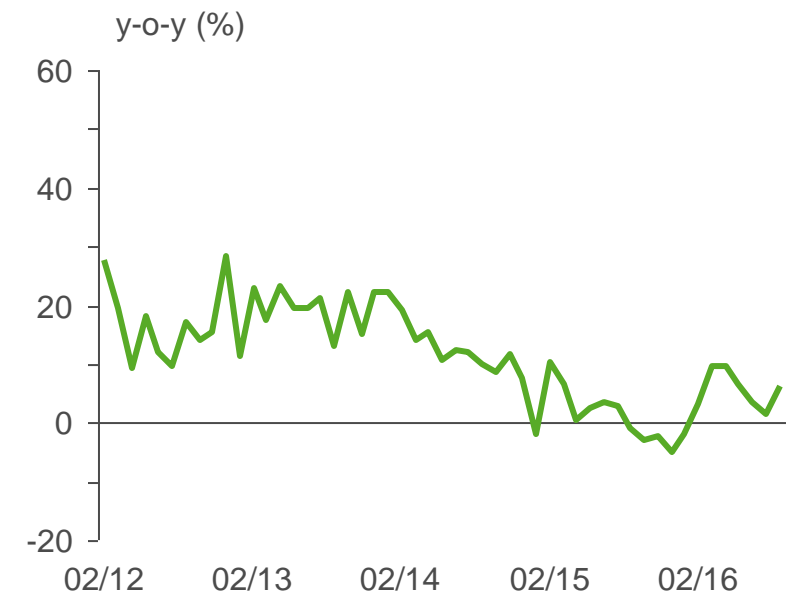
Price/square meter growth



Sales area growth



Real-estate investment growth



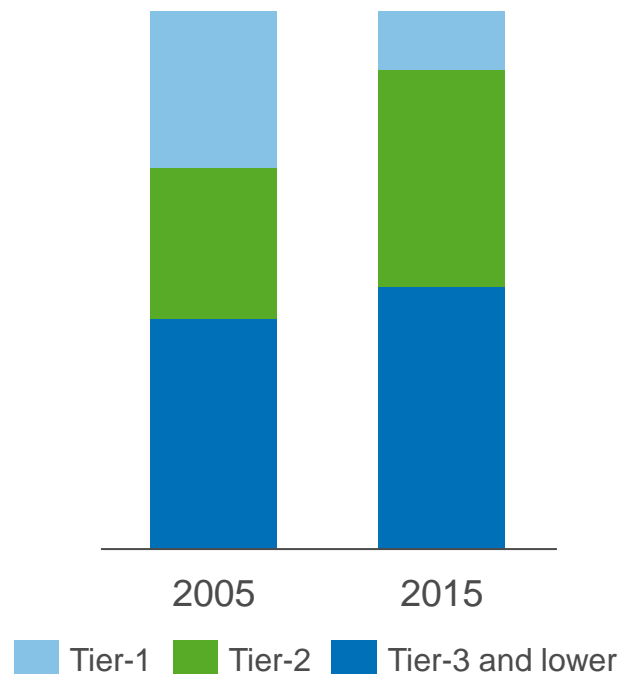
Key indicators showing some recovery, but developers remain cautious.

Source: CREIS, National Bureau of Statistics of China

Clear heterogeneity among Chinese cities continues, actions taken to balance supply and demand

New equipment market demand by city tier

(share of total units)



Real estate market development

Tier-1 cities

- Property prices are high and sales growth has slowed down somewhat
- Restrictive actions by the authorities aiming at cooling down the market

Tier-2 cities

- Property sales has been strong in a significant part of tier-2 cities
- Some restrictive actions in a handful of cities, mostly neutral

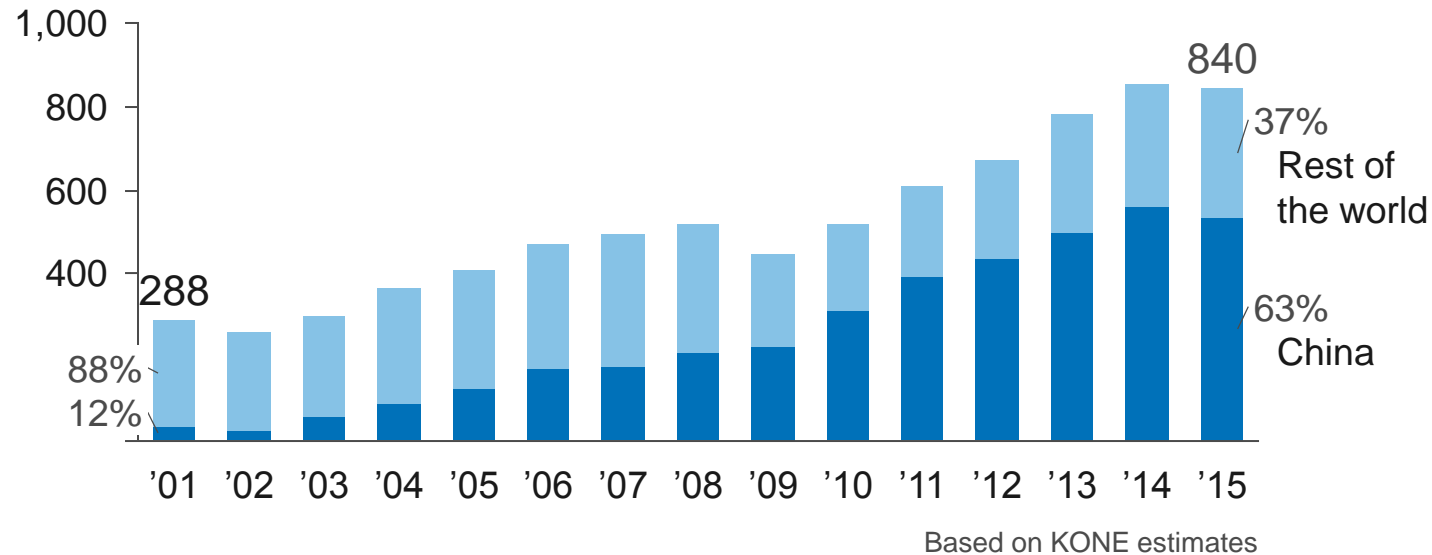
Tier-3 and lower cities

- Mixed development, sizeable inventories in many cities
- Mostly encouraging and stimulating policies

After years of double-digit growth, the new equipment market is declining



New equipment orders ('000 UN)



- We expect the Chinese new equipment market to decline in units by 5–10% in 2016
- Price competition and mix change put pressure on the average selling prices
- Going into 2017, the rate of decline in units expected to moderate and competition to remain intense

Recent development

- Infrastructure is the strongest segment, decline in commercial
- Residential segment declining as affordable housing programs sized down

Three “U’s” build our confidence on solid demand in new equipment

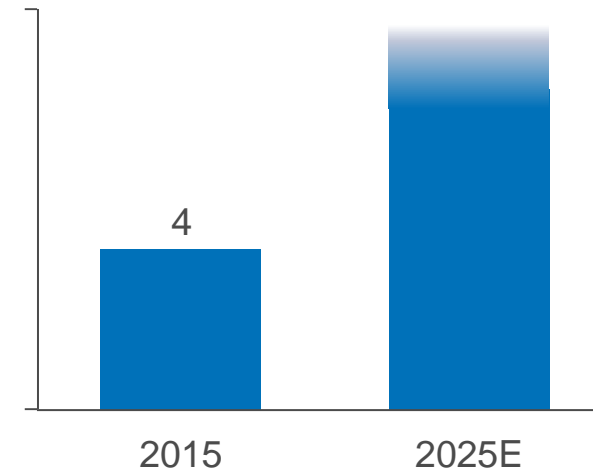
Urbanization

Upgrading

Urban renewal

Scenarios for E&E equipment in operation, China

(in millions of units)

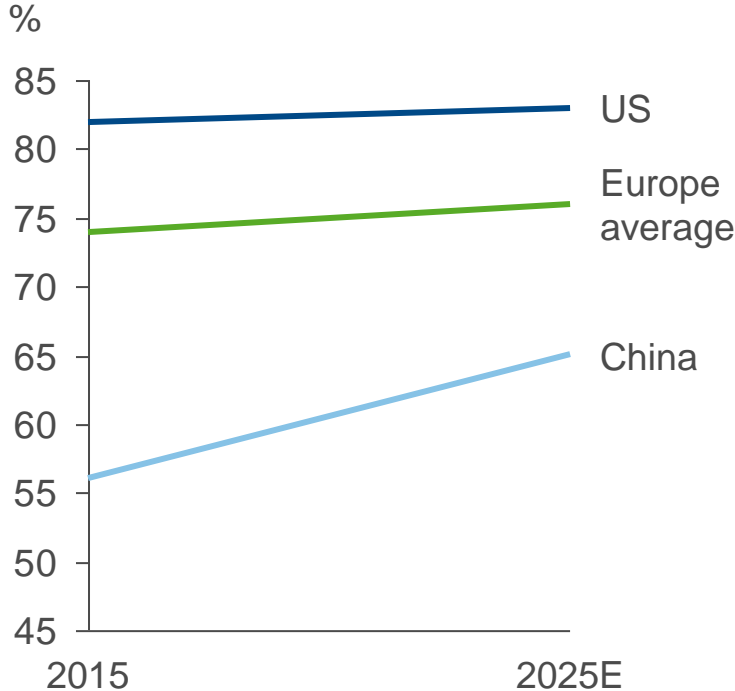


Based on KONE estimates

Urbanization: China's urban population will grow by >160 million in the next 10 years

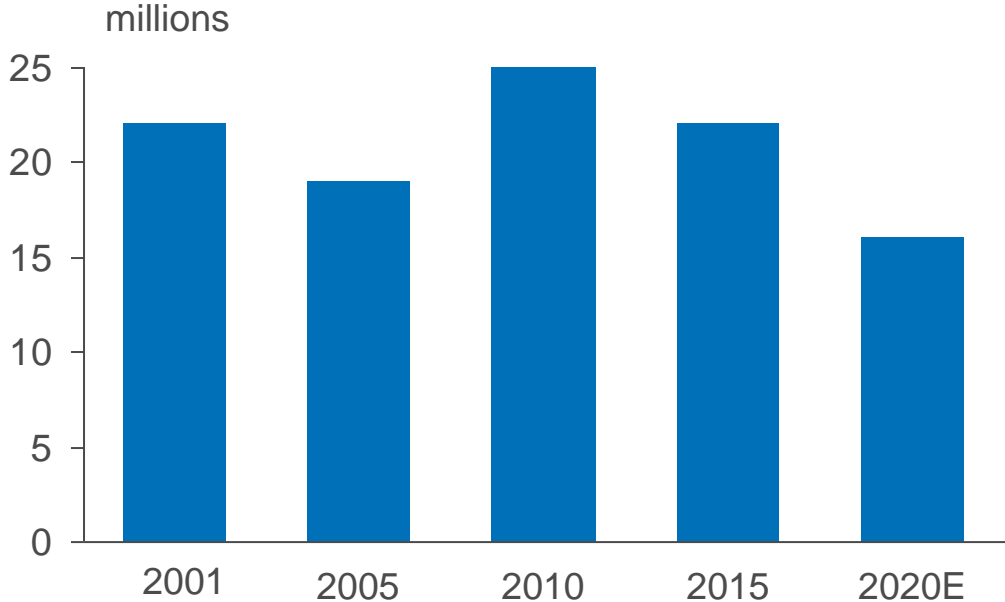


Solid growth expected for China's urbanization rate – still clearly behind Western markets



Robust urbanization will continue in China, albeit at a slightly lower rate than previously

New urban citizens per year



Source: U.N. World Urbanization Prospects 2014 revision, China National Bureau of Statistics, KONE estimates

Tier 1 and larger tier 2 cities are emerging as hubs, supporting growth in the wider regions around them

Most active emerging hubs

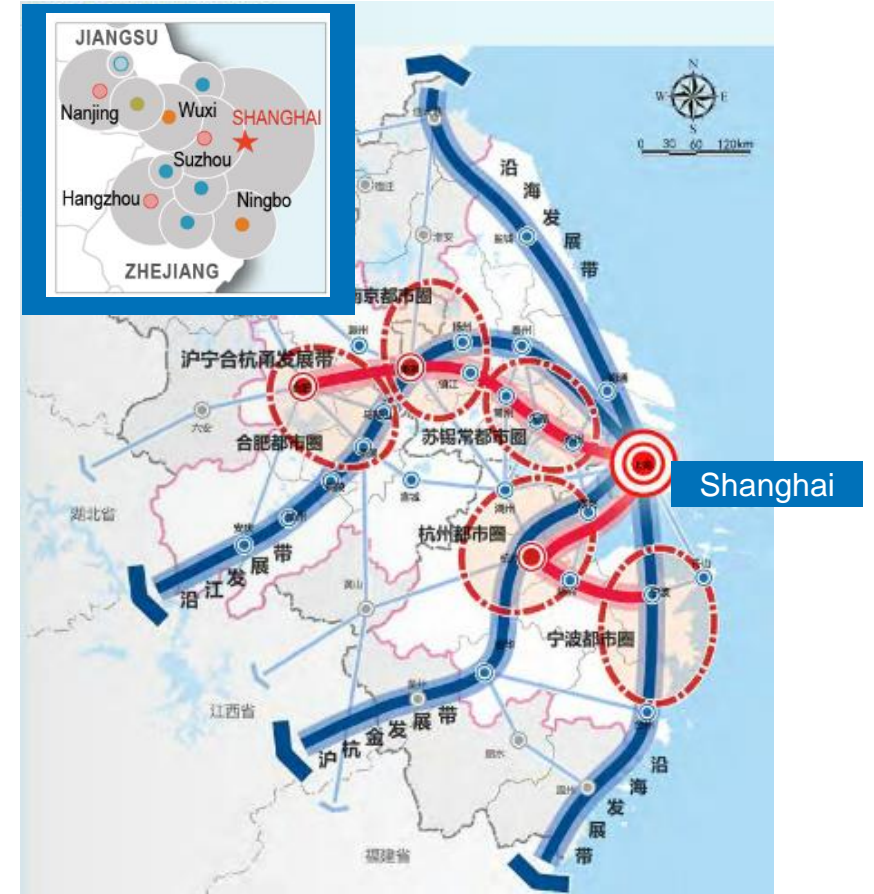
- Tier 1 cities have become less affordable and accessible
- Regional development planning is focused on tier-2 and smaller cities in the hubs
- Around 20 emerging city hubs



	Emerging city hubs	Core city	Pop. (MN) 2014
1	Yangtze River Delta	Shanghai, Nanjing, Hangzhou, Suzhou, Wuxi, Hefei, Ningbo, Jiaxing	150
2	Peal River Delta	Guangzhou, Hong Kong, Shenzhen, Macao, Foshan, Dongguan, Zhongshan	60
3	Capital Economic region	Beijing, Tianjin, Shijiazhuang, Tangshan, Qinhuangdao	90
4	Triangle of Central region	Wuhan, Changsha, Nanchang	170
5	Chengyu city group	Chengdu, Chongqing, Deyang, Mianyang	90
6	Central Plains Urban Group	Zhengzhou, Luoyang, Kaifeng	40

Yangtze River Delta region is the biggest hub consisting of five mega-cities

	2015 Population (M)	2015-2020 Population addition (M)	Housing price (RMB/m ²) (8/2016)	Housing price growth (m-o-m%)	2015 GDP growth %
Shanghai (tier 1)	24	0.8	43.4	3.9%	6.9%
Nanjing (tier 2)	8	1.3	18.9	3.4%	9.3%
Suzhou (2)	11	0.4	15.3	-0.3%	7.5%
Hangzhou (2)	9	1.0	18.3	3.7%	10.2%
Wuxi (2)	7	0.7	9.7	6.8%	7.1%



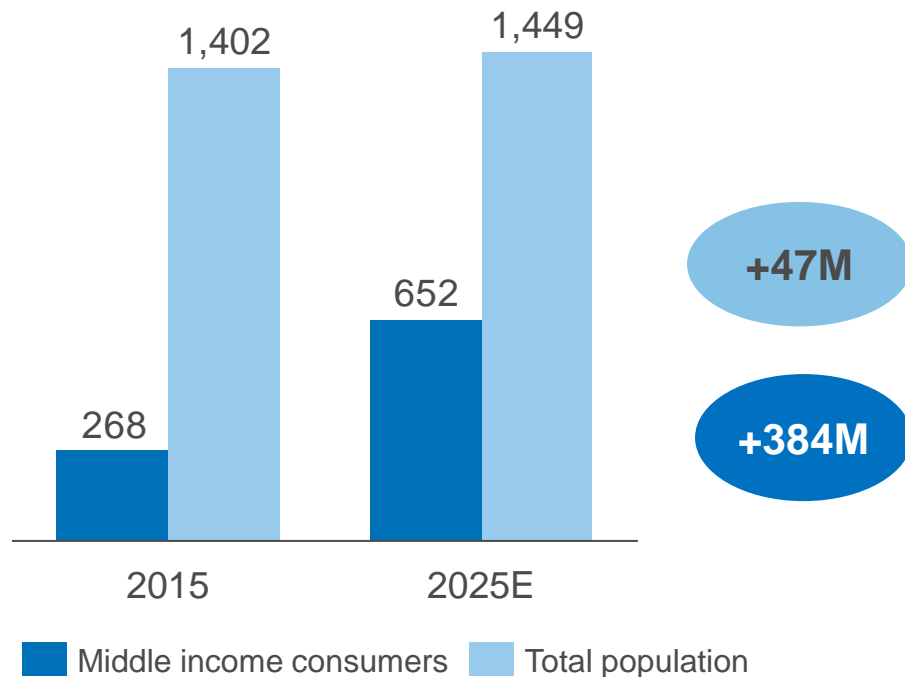
- Large-scale investment in infrastructure is required: in the Yangtze River Delta only, ongoing and planned metro railway construction totals 1,400 km vs. < 1,000 km in operation currently.

Sources: CREIS, Jones Lang LaSalle, China Merchants Securities (HK), China Association of Metros

Upgrading: the growing middle class in urban areas sets new requirements to standard of living

Middle income consumers

Expected growth in millions



- Wealth of citizens driving the increase in floor area per person
 - Households have high savings little debt and real-estate is considered a good investment
- Share of modern mid and high rise buildings is constantly increasing

Source: UNDP Human Development report, data from Brookings Institution
Middle income consumer group earning or spending \$10- \$100 per day (2005PPP)

Urban renewal:
old areas
systematically
developed into
more modern urban
environments



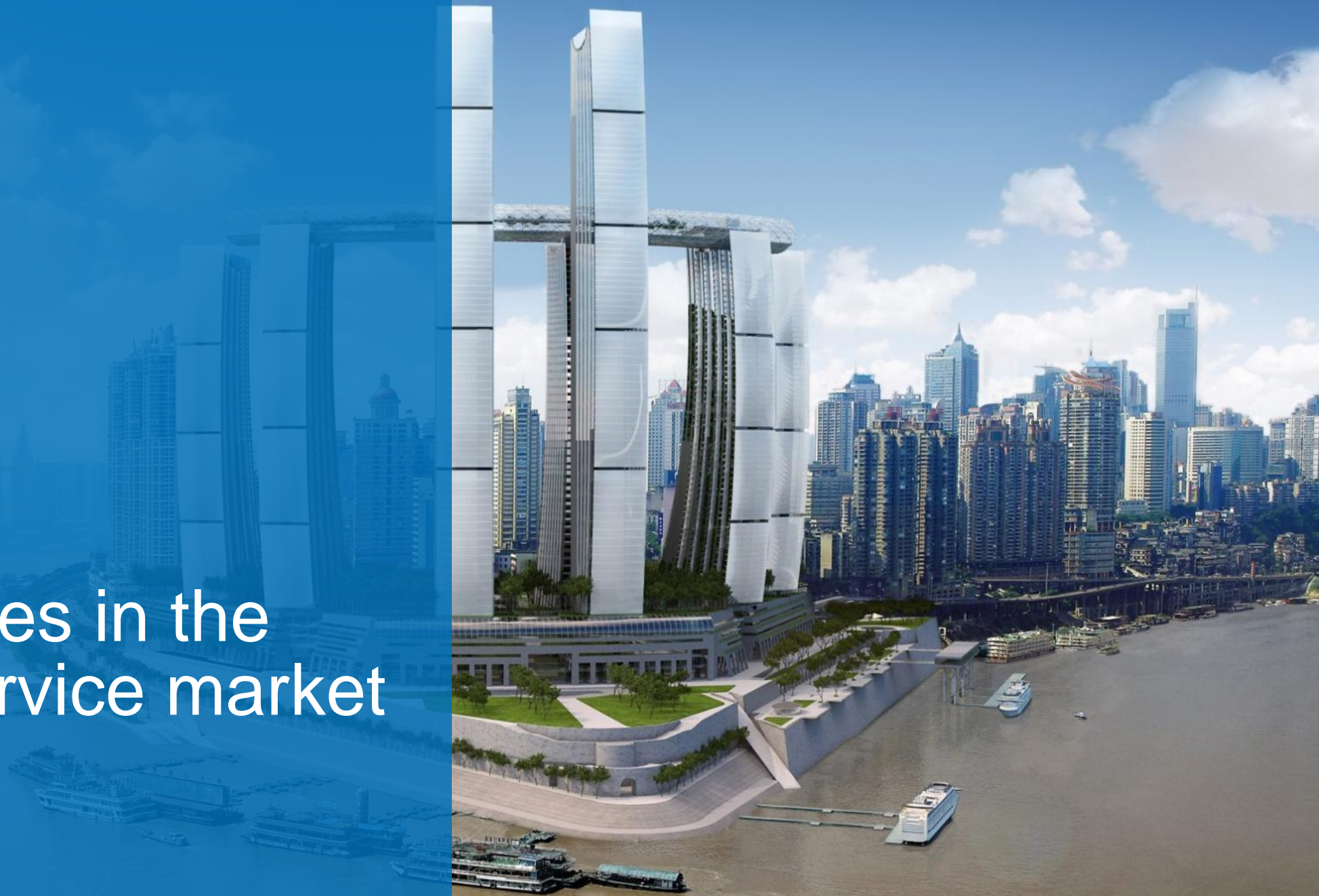
China will be the world's largest elevator and escalator market for years to come



- Strong fundamental drivers for equipment demand are intact
- The era of fast growth in new equipment is over, but volumes will remain substantial
- The construction industry continues to form an integral part of the Chinese economy



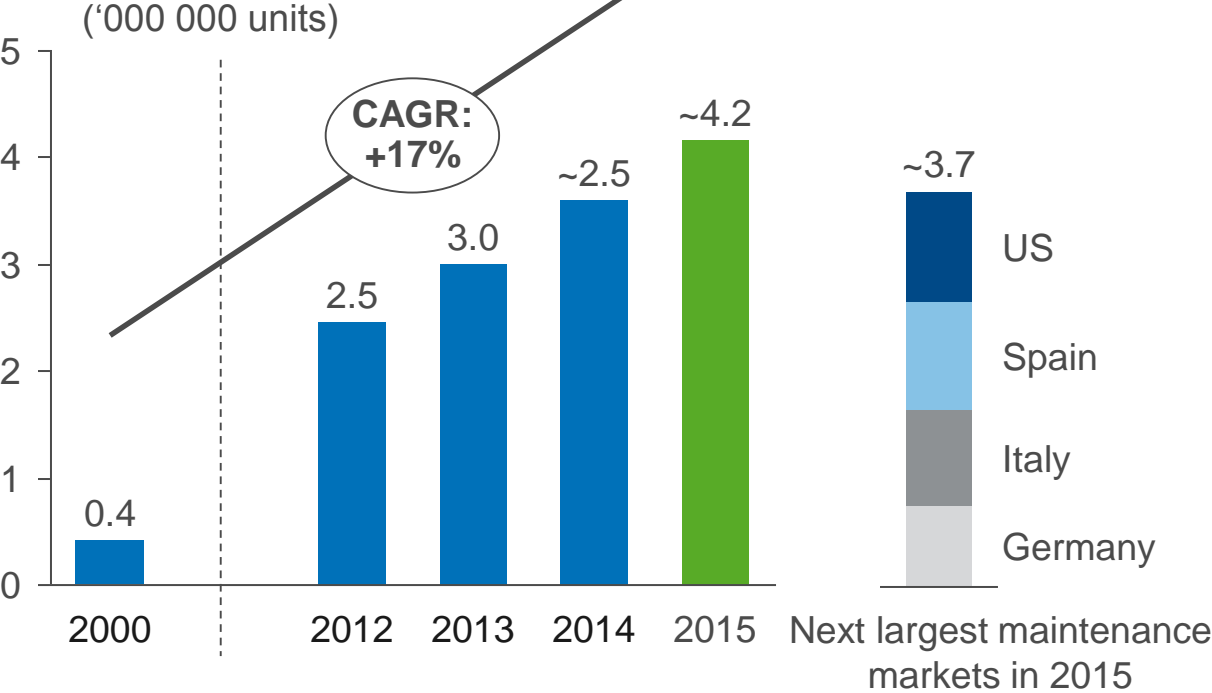
Opportunities in the
growing service market



China's installed base is growing in double digits, clearly surpassing in size other markets



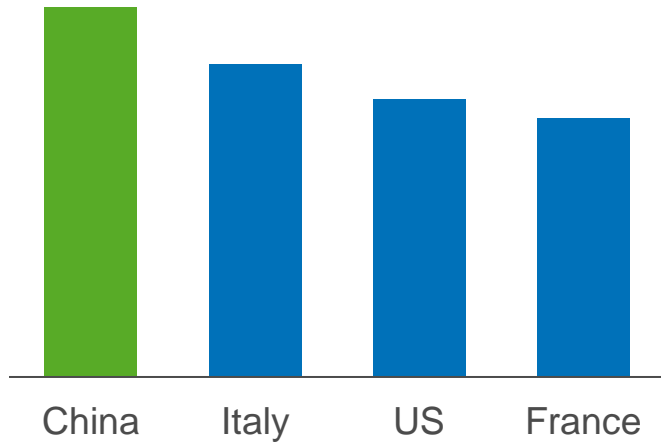
China's elevator and escalator base is growing in double digits



China's installed base is already larger than the four next largest maintenance markets combined

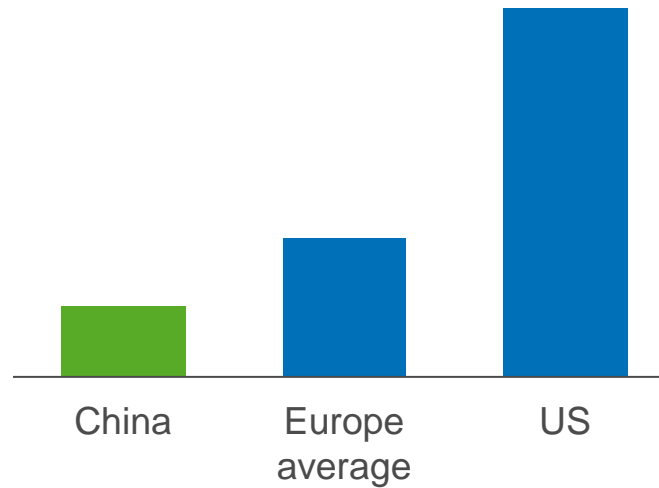
The opportunity is large; sales per unit still less than in Western markets

Units in KONE's maintenance base



- In units, the maintenance base is already exceeding the next largest market

Sales per maintenance unit for KONE



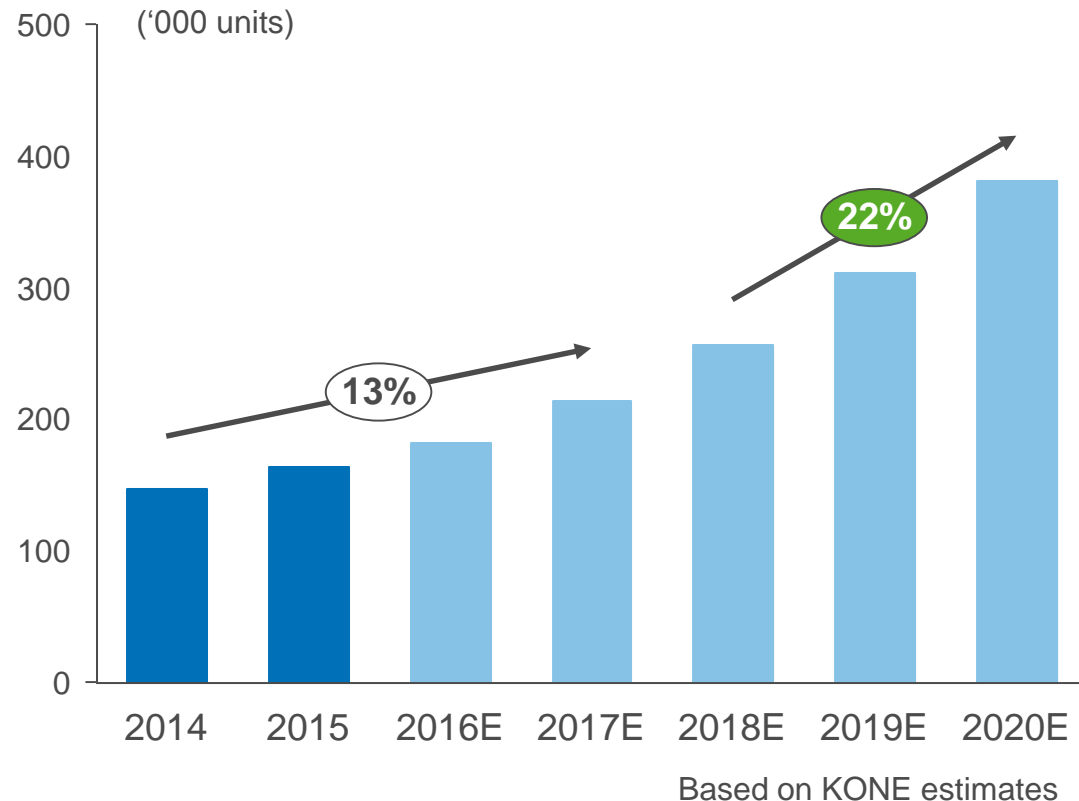
- Today, service accounts for 10% of China sales
- Costs per unit are low, therefore profitability is good



Growing modernization opportunity is emerging in the big cities



Number of units older than 15 years growing in double digits



- Aging equipment concentrated in tier-1 cities – good starting point for building a strong business
- Attractive opportunities in office, hotel and infrastructure segments
- The government has taken a more active role in modernization regulation

The need for higher quality services adds to the potential of the Chinese service business

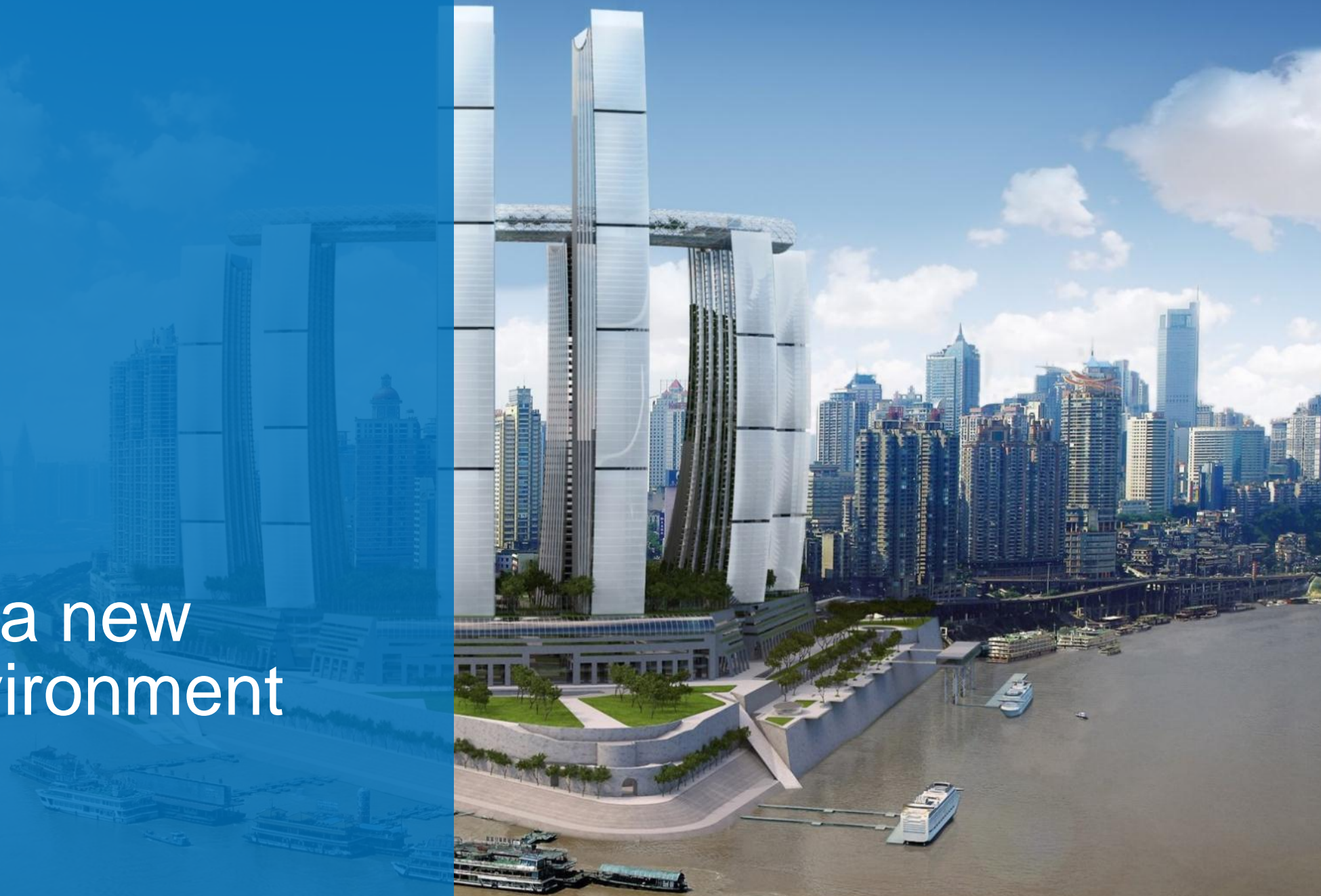


Reliability and ride comfort seen as increasingly critical and fundamental

Developers have an increasing interest in brand and the quality of service

High-quality service is a prerequisite for smoothly operating megacities

Leading in a new
market environment

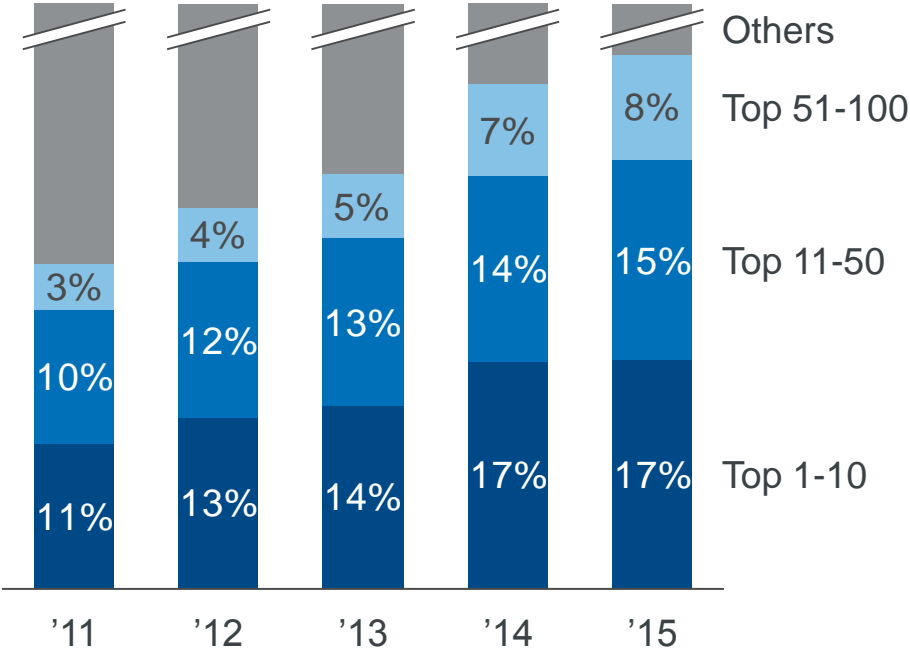


KONE and other more established OEMs have an advantage both in new equipment and service



- 1. **Developers' consolidation:** larger developers are gaining share and prefer working with more established OEMs for convenience and brand
- 2. **Scale:** benefit of sourcing scale in production and maintenance base density
- 3. **Technology:** big OEMs able to differentiate through technology and innovation

Developers' share of property sales MV (BRMB)



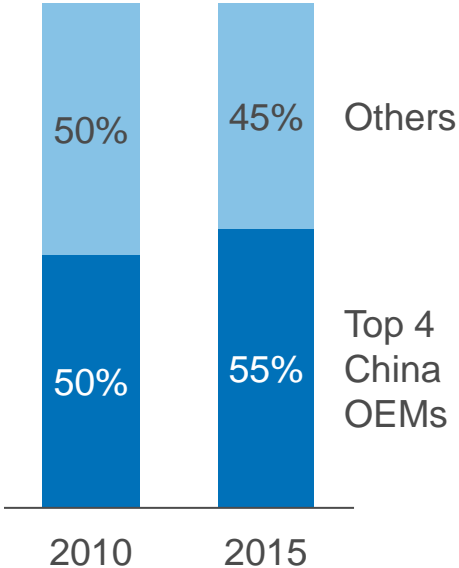
OEM: original equipment manufacturer

We expect consolidation to continue both in the new equipment and maintenance markets



Largest OEMs' market share has increased steadily in new equipment

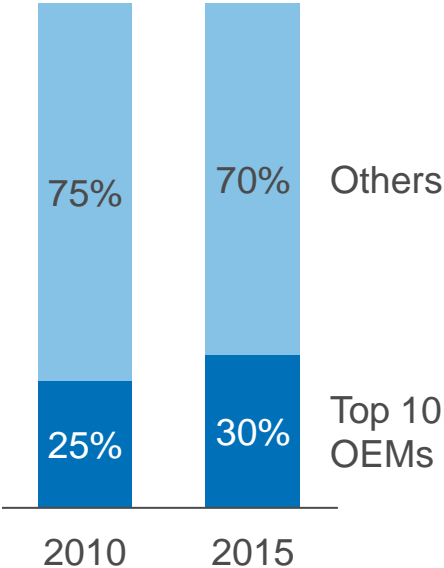
Market shares in new orders (units)



More established OEMs with sophisticated technology are strong in the new market environment

Consolidation of the maintenance market continues from a lower level than in new equipment

Market share in maintenance



Maintenance market clearly more fragmented than new equipment market, but strong trends support consolidation

Based on KONE estimates

We continue to strengthen our customer focus in order to differentiate from our competitors



1 Differentiated offering



Continue to develop a more differentiated offering to respond to customers' evolving needs

2 Reliable, consistent delivery



Our customers feel that we get things done and they can trust us. We support them throughout the delivery process

3 Leading in service



We provide life-cycle value to the customer through superior service offering and sophisticated technology

We are developing a winning team of field talent for the next phase of success

1

employer in China

1,800

field talent hired and trained every year

> 7,000

field employees using mobile learning

80%

of senior positions filled internally



Future of KONE in China



New equipment business

Leading with differentiated solutions and delivery

Service business

Continuing our strong organic growth in maintenance and accelerating modernization

Dedicated to People Flow™

