

Capturing the opportunities in China

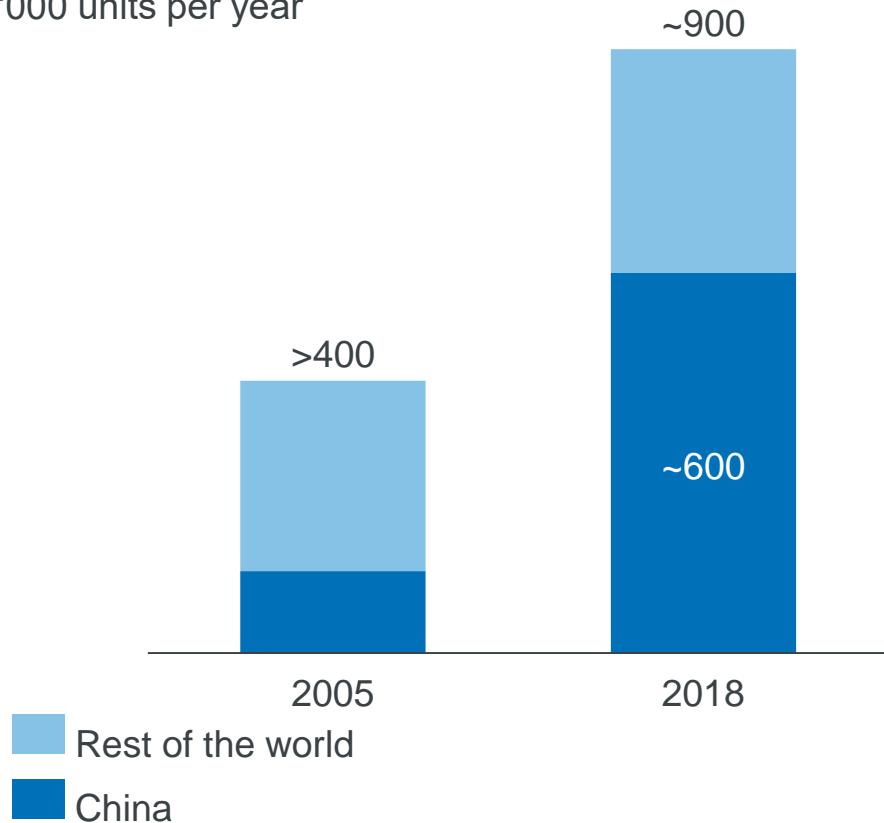
WILLIAM B. JOHNSON, EVP, GREATER CHINA
JEFFREY LIANG, VP, SERVICES, GREATER CHINA

Welcome to the world's largest E&E market



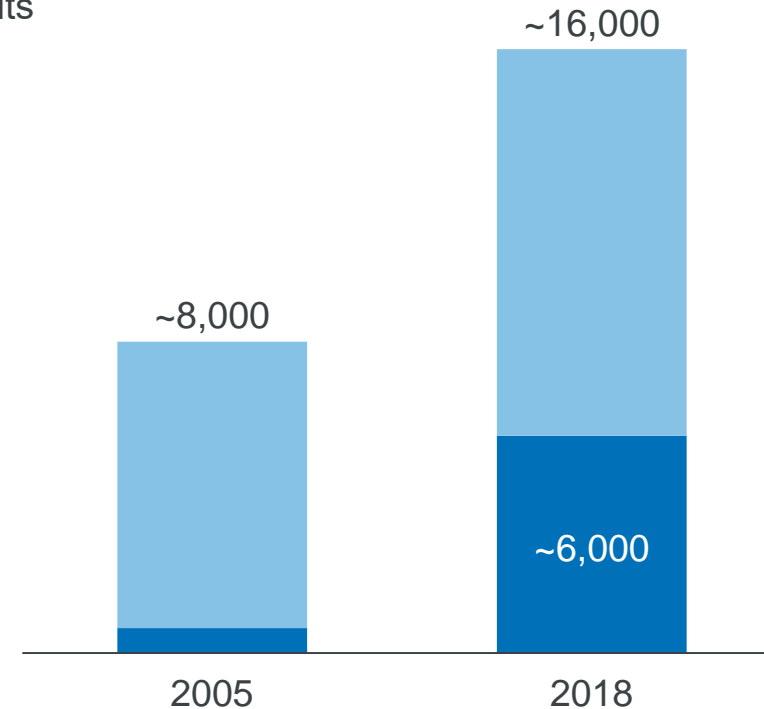
China doubled its share of the new equipment market

'000 units per year



... and even more of the global installed base

'000 units



KONE is a true market leader in China today



China contributed for **>25%** of total sales in 2018

>18,000 employees located across China

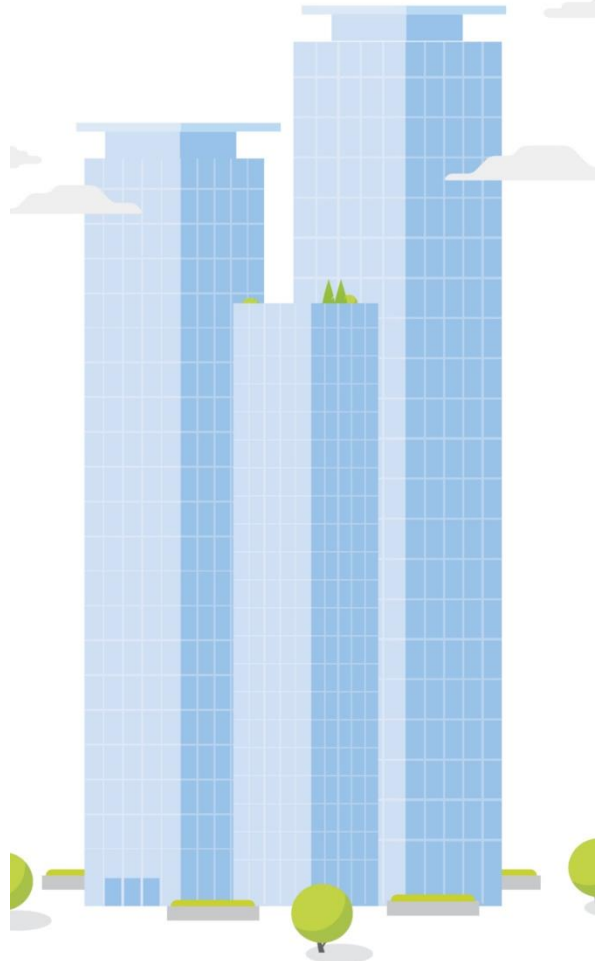
#1 in new equipment and in maintenance

~50,000 customers, including 9 of China's top 10 developers

Two factories in China, in Kunshan & Nanxun

>900,000 units delivered in total

Awarded for **#1** Brand Value in Elevator Industry by ACSIQ



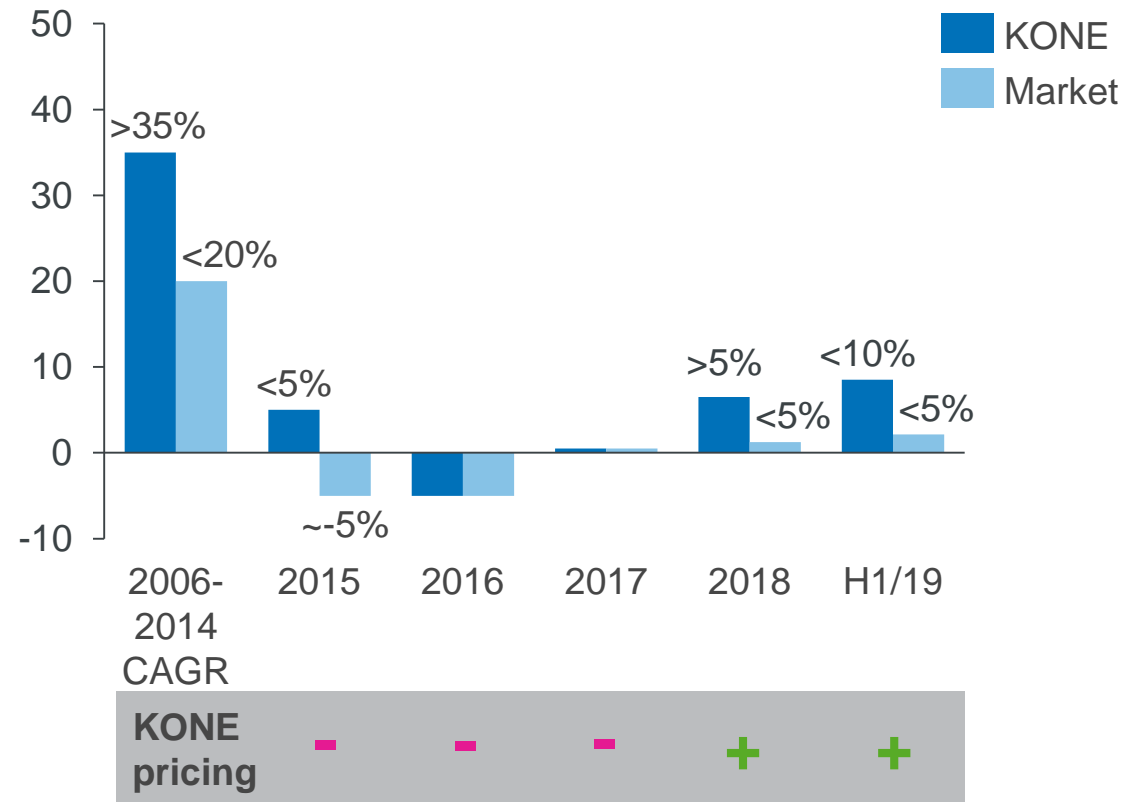
We have continued to strengthen our position in China



- Faster than market growth with positive pricing
- Continued double-digit growth in service business
- Our strengths:
 - Strong project execution
 - Service mindset
 - Competitive offering
 - Solid position among the big developers
 - Wide geographic coverage

Faster than market growth in new equipment

New equipment orders received in units vs. market development



What we will cover today

- CHINA MARKET OPPORTUNITIES
- SERVICES AS A DRIVER OF GROWTH
- OUR STRATEGY IN CHINA



Several trends are shaping the market



URBANIZATION CONTINUES

Expect 200 million people moving into cities in the next 10 years

CITY CLUSTERS EMERGE

Guided population migration to city clusters

“HOUSING FOR LIVING NOT SPECULATION”

Strict controls and restrictions to remain

TOP DEVELOPERS GETTING BIGGER

Top developers tend to favor OEMs

SERVICE MARKET REMAINS ROBUST, YET FRAGMENTED

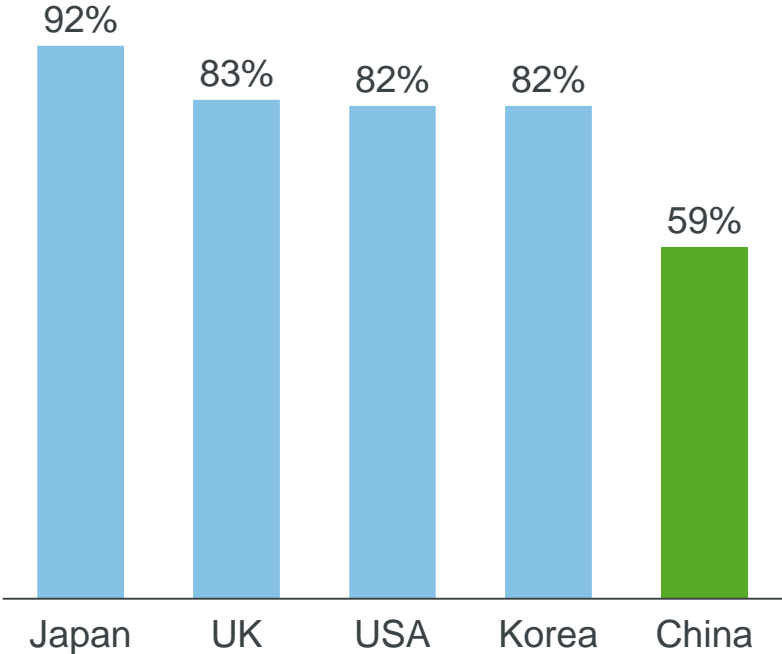
Double digit growth in installed base



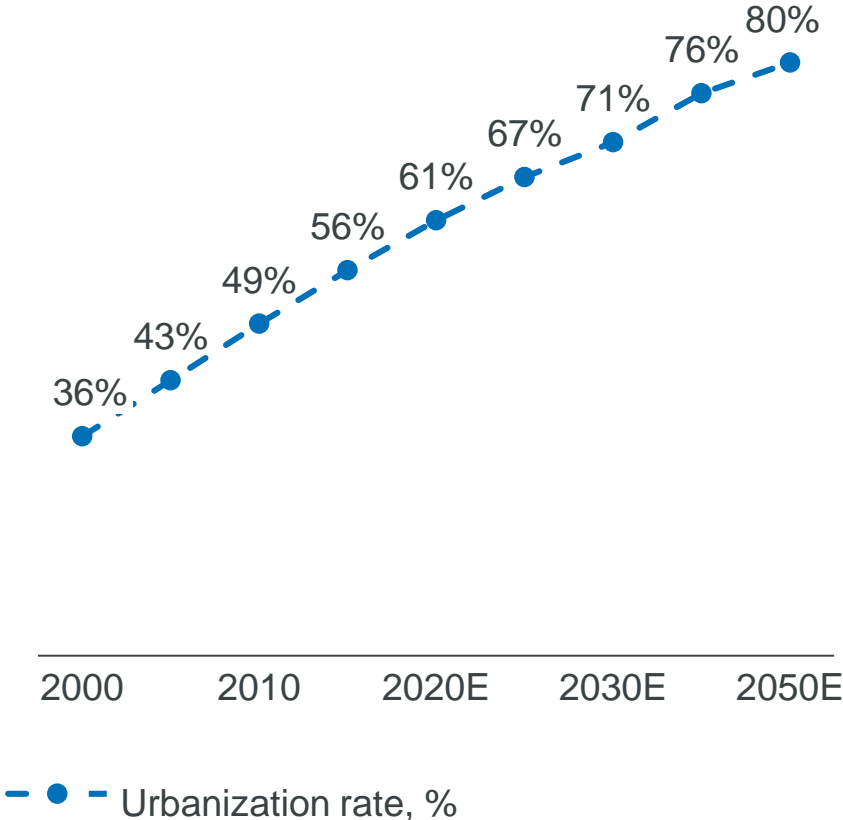
Urbanization continues: housing sector to remain a pillar industry for the next decade



Urbanization rate* comparison



China urbanization projections



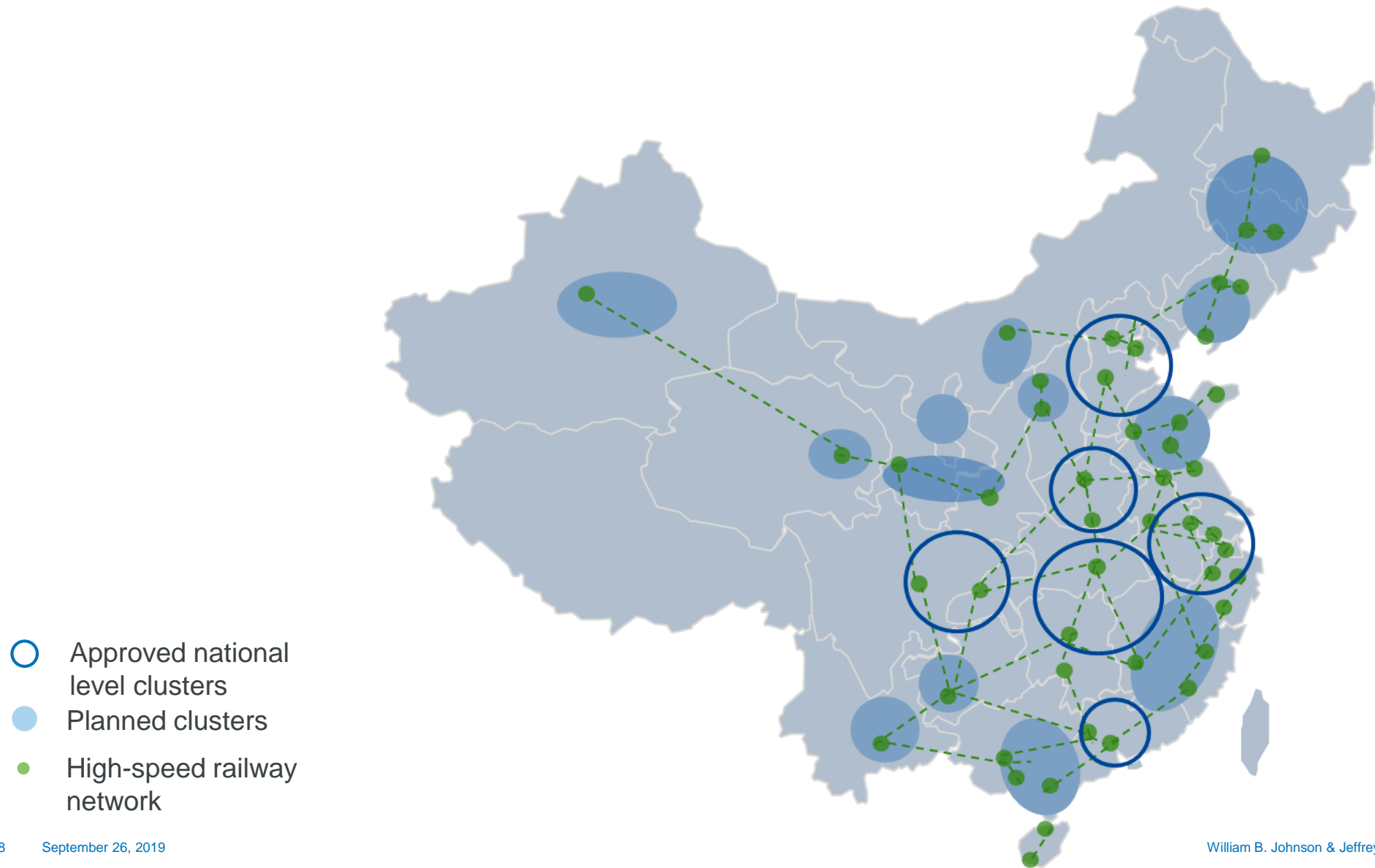
Urbanization in the next decade likely to differ from previous decades:

- Lower tier cities to grow faster
- Aging population to drive more infrastructure investments to make cities more accessible
- Urban migration to be guided to the clusters

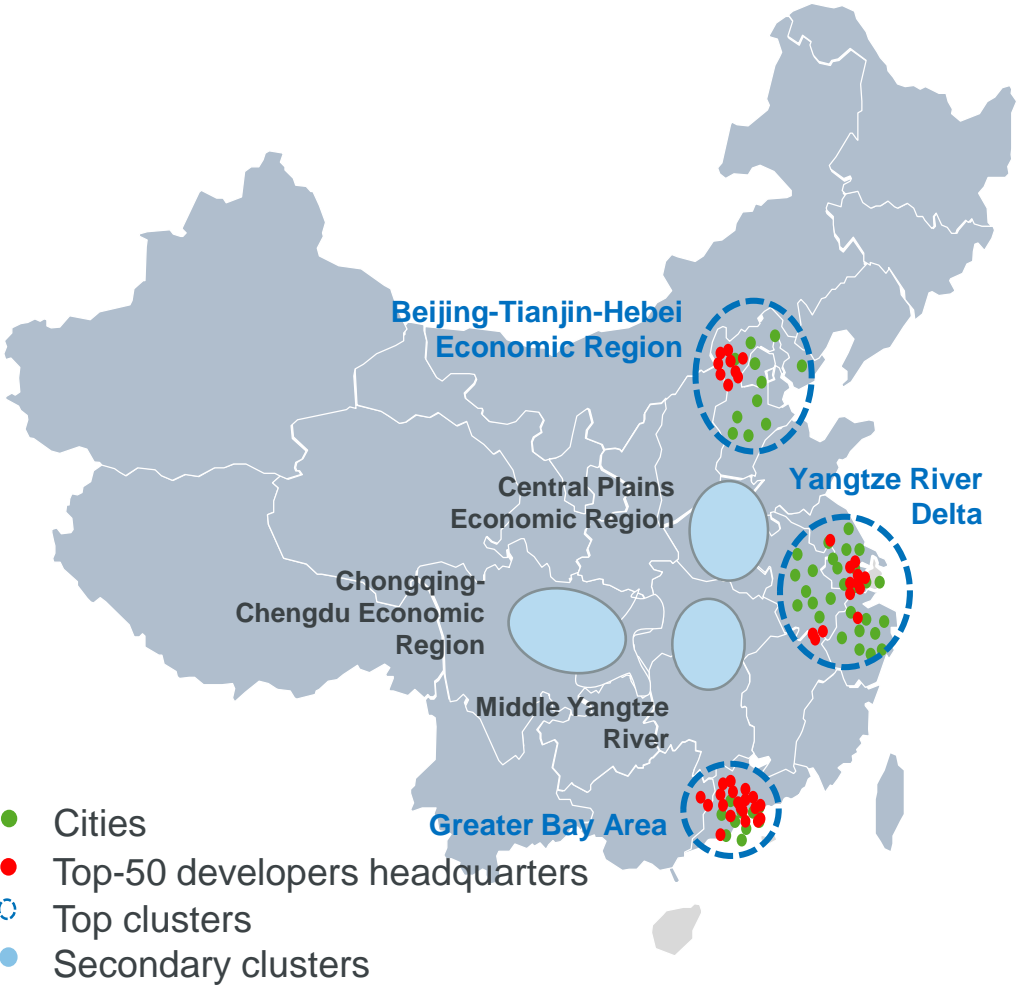
* Urbanization definition:
- China: density >1,500 km²
- US: communities >2,500 people

Source: UN World Urbanization Prospects 2018

19 clusters planned to drive future growth



Six clusters approved already, top 3 represent 41% of China's GDP



	Number of cities	Top 50 developer s HQs	Share of market in 2018		
			GDP	Population	E&E market demand *
Yangtse River Delta	26	13	20%	11%	20%
Beijing-Tianjin-Hebei Region	13	10	9%	7%	8%
Greater Bay Area	11	18	12%	5%	7%
Total	48%	41	41%	23%	35%

* Share of units
 Source: National Bureau of Statistics of China; Local Statistics Bureau; official website, KONE estimates, National Quality Inspection Bureau

“Housing is for living not for speculation”

- government restrictions continue



Developers	Buyers
<p>Land purchases and land use Controls on type of development, strict idle land penalties, payment terms</p>	<p>Purchasing restrictions Controls on number of properties and eligibility to buy</p>
<p>Financing Bank loans and bonds controlled</p>	<p>Down payment, mortgage interest Very strict mortgage terms for second and third property</p>
<p>Selling process Pre-sales controls, selling price controls</p>	<p>Re-selling Varying local controls on re-selling the property</p>

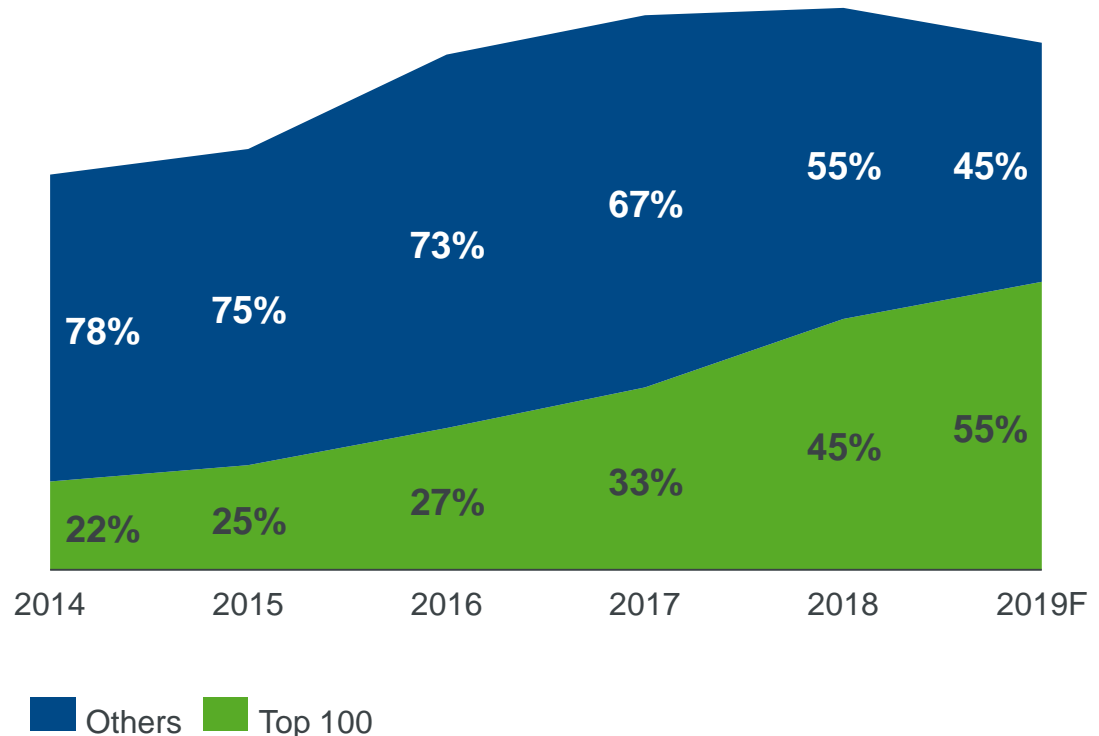


Top developers getting bigger

- Regulations + tight financing + increasing costs → developer consolidation
- Big developers prefer working with large OEMs:
 - "One-stop shops"
 - Wide geographical coverage
 - High-quality maintenance
- Developers have more purchasing power, OEMs need to differentiate
- KONE well positioned with big developers

Property sales area by developer size

Share of sales area

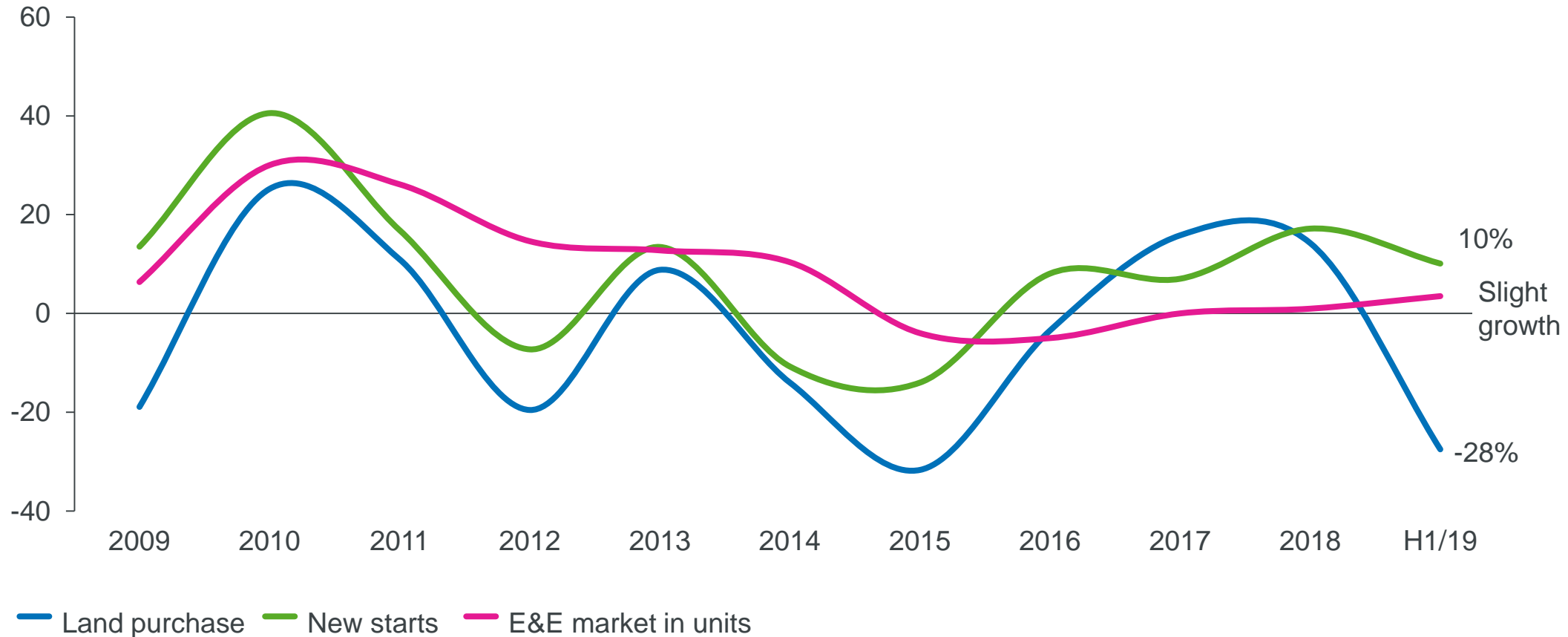


The E&E demand in China is more stable than property market indicators



Growth

y-o-y, %

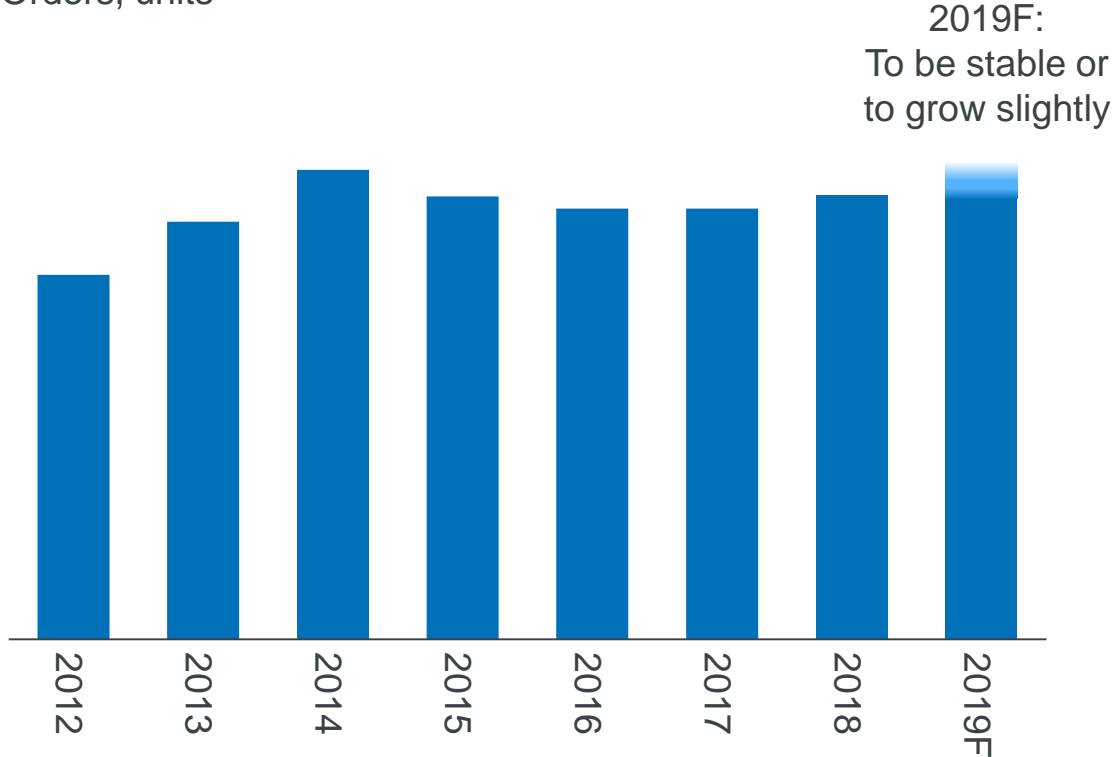


Services have the biggest growth potential



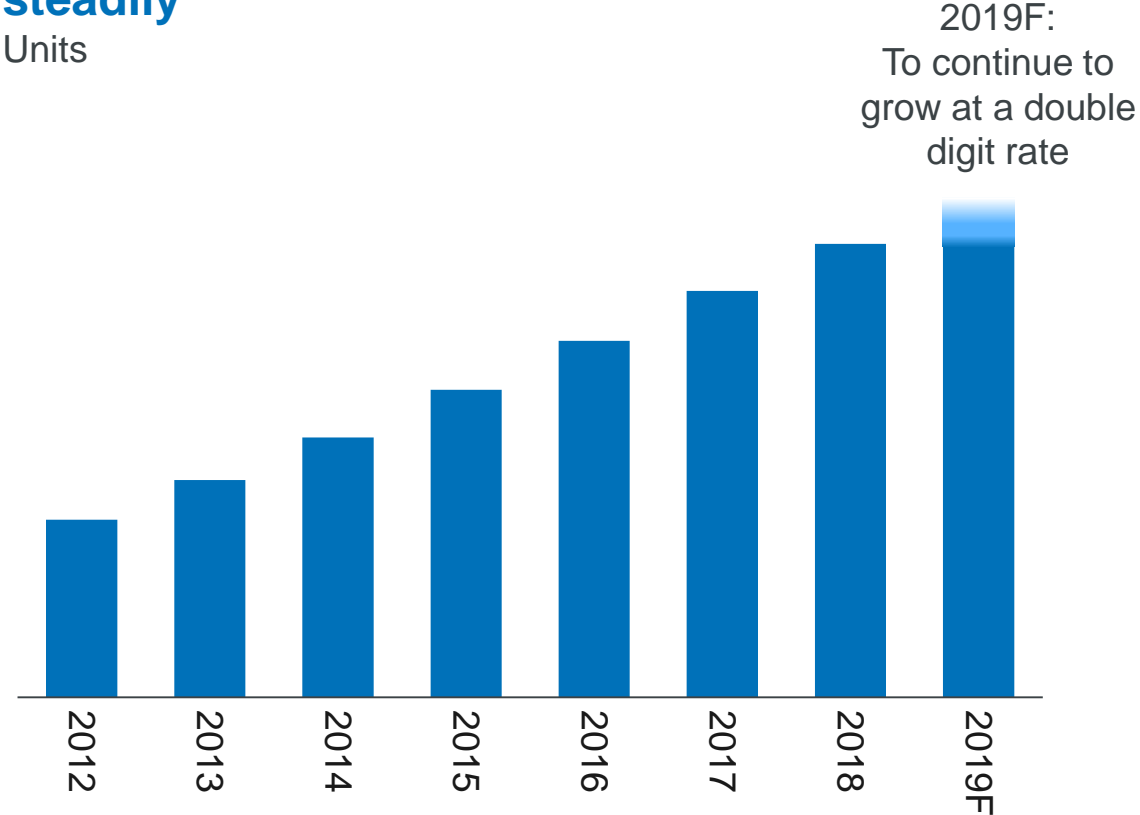
New equipment market expected to stay on a high level

Orders, units



Installed base to continue to grow and age steadily

Units

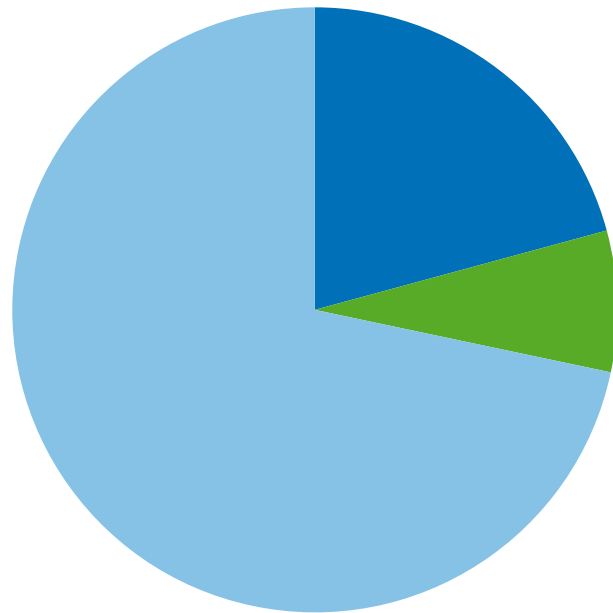


Source: KONE estimates

The maintenance market is still very fragmented

There are more than 13,000 independent service providers

% of maintenance market, units, 2018



- Top 4 OEMs
- Mid-sized
- Others

- Reasons for the fragmented market
 - OEMs traditionally less focused on services
→ a lot of small independent competitors
 - Cost-focused property managers between building owners and elevator maintenance companies
 - Current regulation focusing on quantity of visits
- In the long-term, changes in regulation, emerging new technologies and developer consolidation could increase the level of consolidation

Current regulatory framework in maintenance

- National regulation implemented by local governments + local regulation
- 2 visits per month for each unit by 2 technicians
- Safety remains the key priority for the regulator
- Local rating systems for maintenance companies
 - Based on performance and capabilities



Evolving regulation & digitalization expected to shape the business in the long-term



REGULATION

- Central government encouraging local authorities to pilot condition-based maintenance → connectivity enables less regulatory visits
- Stricter enforcement by adopting new technologies



DIGITALIZATION

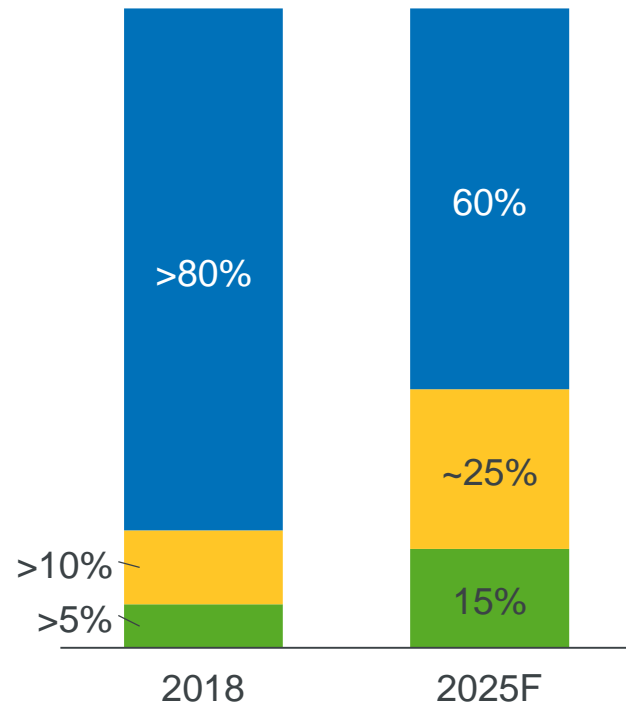
- Both authorities and developers drive development of smarter cities
- Digitalization offers opportunities to create value for customers in new ways
- Digitalization likely to change the competitive landscape, top OEMs well positioned to address the changes

Great growth opportunities in modernization in the long term



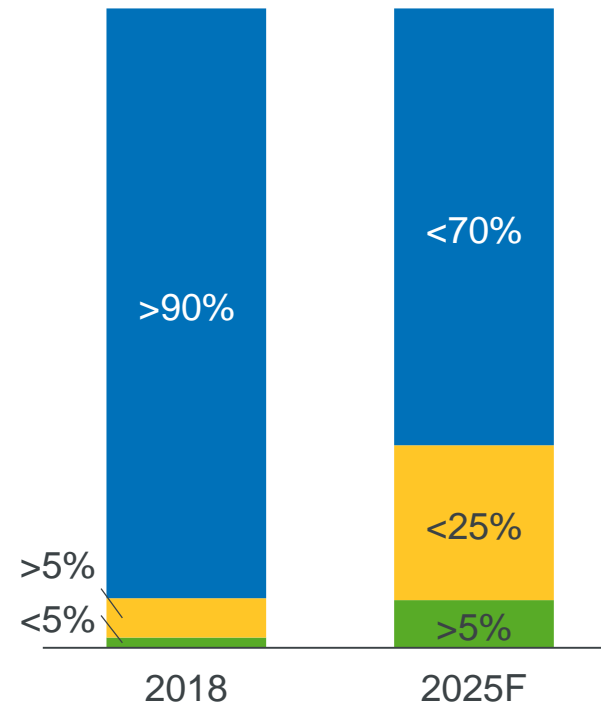
Age of the total installed base

Indicative



KONE's installed base is still young

Indicative



■ ≤10 years
 ■ 11-15 years
 ■ >15 years

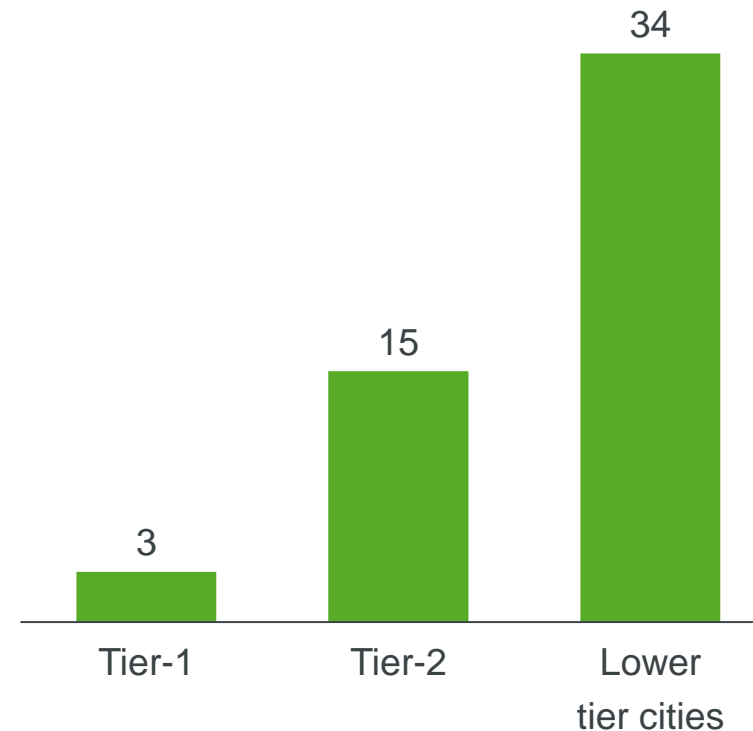
Source: KONE estimates

- In China, modernization need appears after 10-15 years due to high rise buildings with intense elevator use
- We are currently capturing modernization opportunities mostly in non-KONE equipment
- In a few years, we will start capturing more of the modernization potential of our own installed base

Further opportunities in existing buildings without elevators

- Government emphasizing renovation of aging residential buildings -> expected to increase installation of elevators to existing buildings
- The amount of cities offering subsidies for these renovation projects is increasing
 - Subsidies can be <math><1/3</math> expense of the total expense
- Complexities related to financing slowing down the decision-making
- Still a small part of the market (<math><3\%</math>)

Number of cities granting subsidies



KONE is well-positioned to capture the growth opportunities in services

- Large and aging installed base, life-cycle offering
- Wide service coverage
- Skilled and motivated service team
- Scale and capabilities to develop new services and solutions by deploying new technologies



A woman with long dark hair, wearing a white turtleneck and a dark vest, is sitting at a glass desk in a modern office. She is focused on her laptop, with her hands on the keyboard. On the desk, there is also a glass of iced coffee with a straw and a smartphone. The office has large windows that offer a panoramic view of a city with many buildings. The lighting is bright and natural, suggesting daytime. The overall atmosphere is professional and productive.

Our strategy in China

Our focus areas in China



1

**CUSTOMER-
CENTRICITY**

2

**OPERATIONAL
COMPETITIVENESS**

3

**SERVICES
GROWTH**

4

**WINNING
TEAM**



Winning with our customers in China

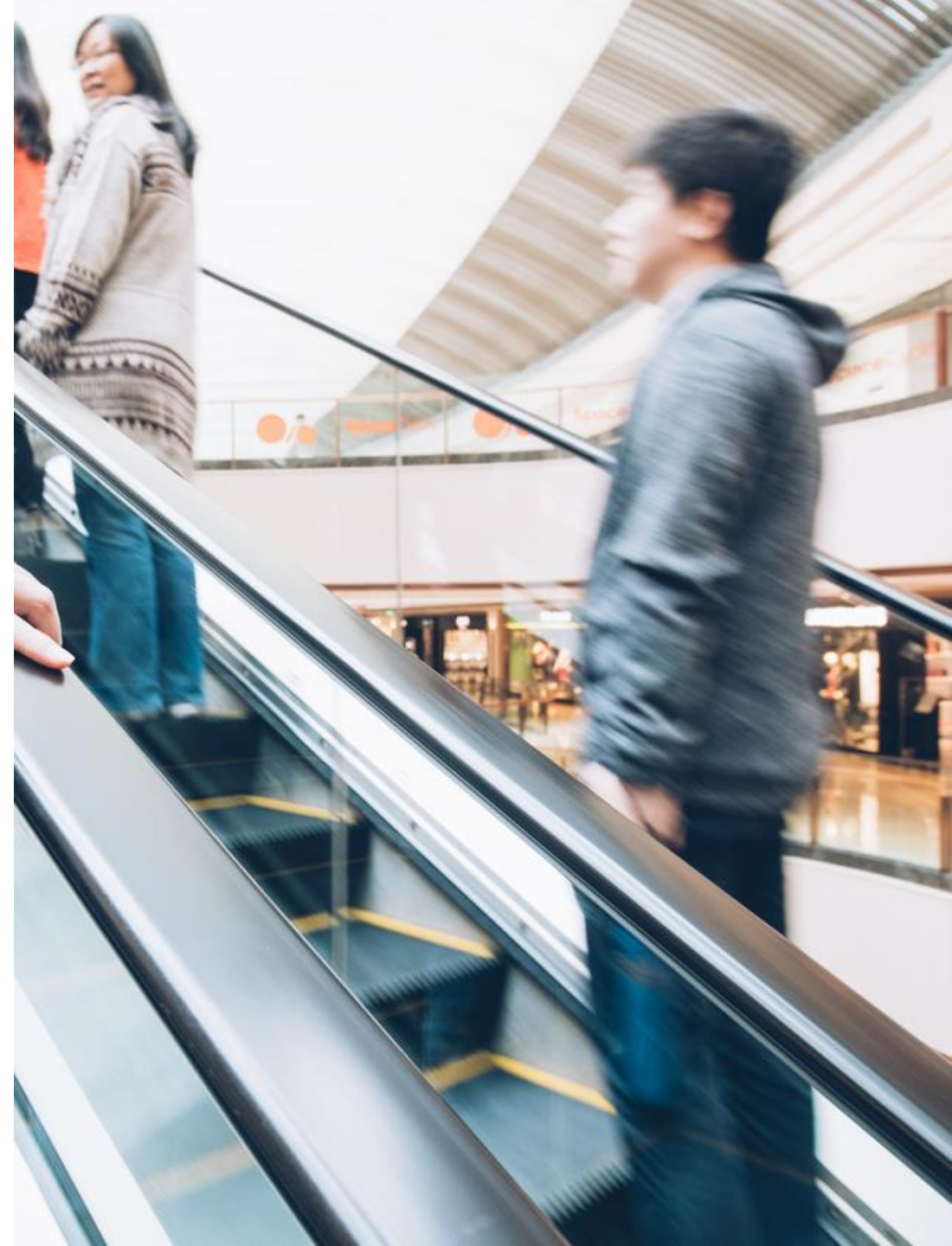
- Strong collaboration with strategic customers
- Two-brand strategy: segmented approach to serve different customer needs
- Customers most often mentioned “co-operation and responsiveness” as positives for KONE



RAFFLES CHONGQING
83 KONE elevators and 113 escalators

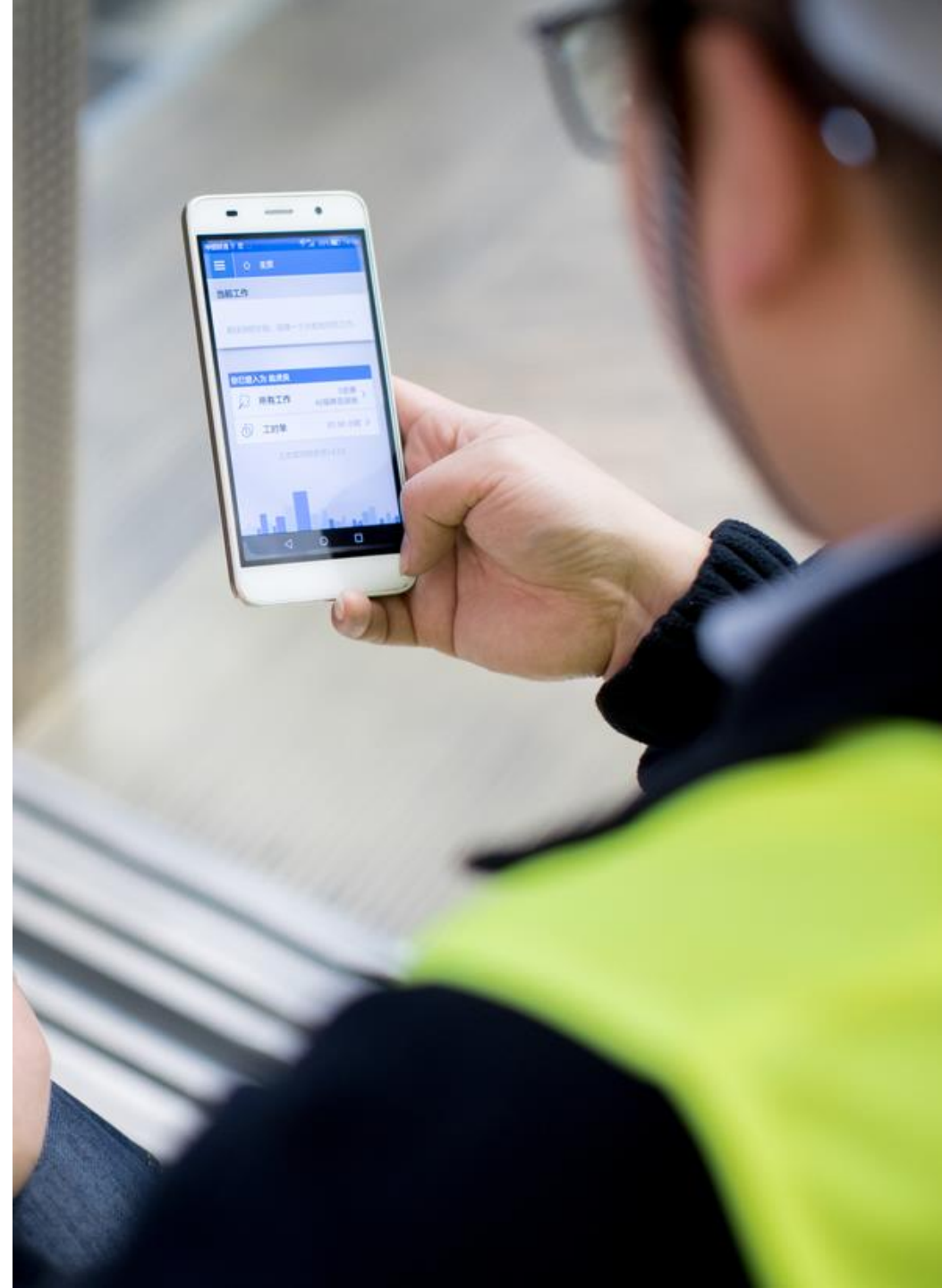
Faster than market growth without compromising profitability

- Product differentiation: focus on quality and reliable solutions
- Pricing excellence: provide value to customers
- Constant focus on field productivity & cost optimization

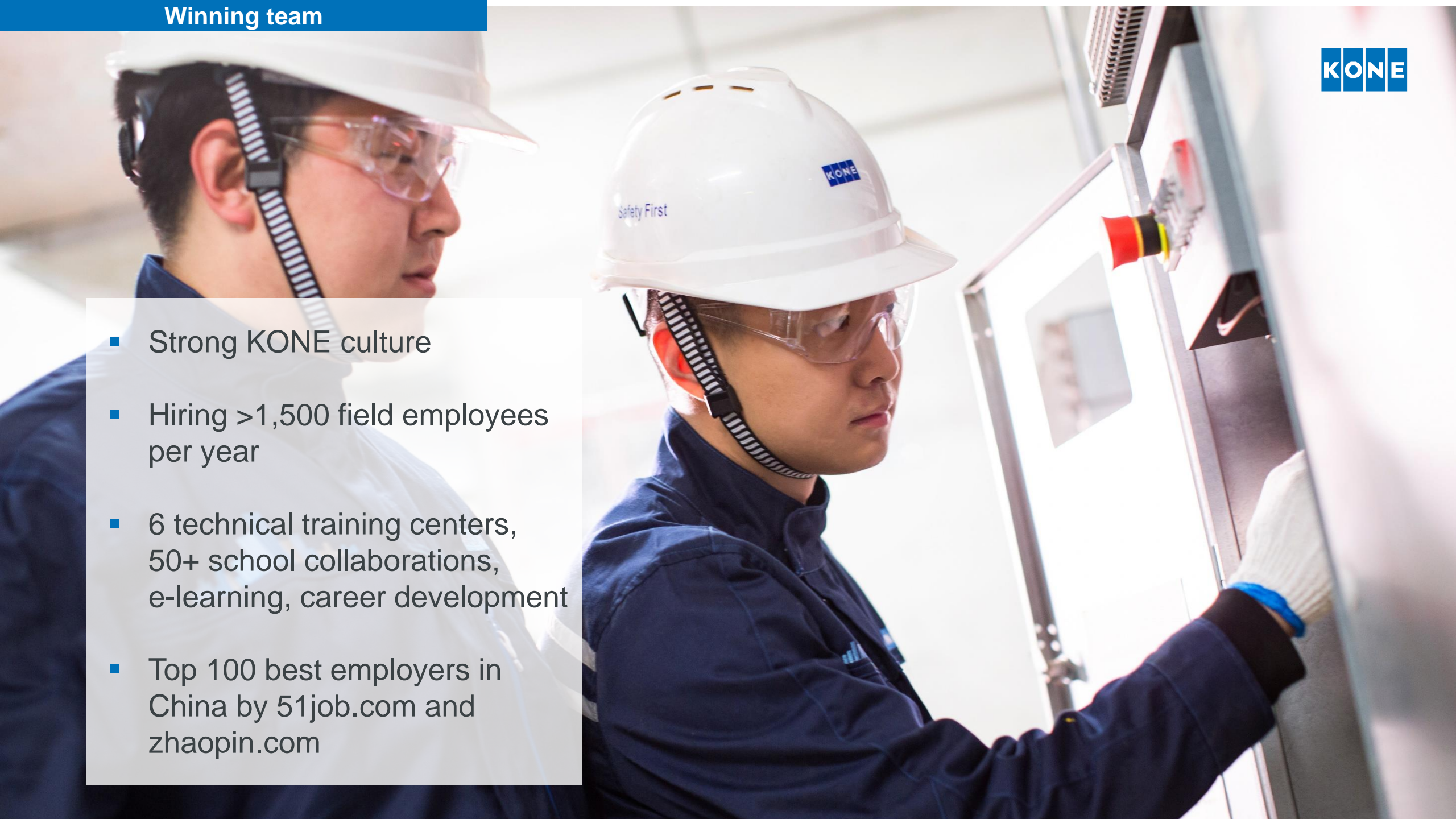


Investing in services to capture the growth opportunities

- Expand coverage on service and modernization sales networks
- Continuous development of sales and field competencies
- Leverage new connectivity and digital solutions as competitive edge



- Strong KONE culture
- Hiring >1,500 field employees per year
- 6 technical training centers, 50+ school collaborations, e-learning, career development
- Top 100 best employers in China by 51job.com and zhaopin.com



KONE China operations are contributing to KONE's strategic targets

KONE STRATEGIC TARGETS

Most loyal customers

Great place to work

Faster than market growth

Best financial development

Leader in sustainability

Net Promotor Score on a high level

Employee engagement on a high level

Orders received and maintenance base have grown faster than market

Pricing continues to hold firm in a highly competitive market

Most energy efficient product in the market

Our future

- The market in China continues to offer great opportunities
- KONE well positioned to capture these opportunities



Dedicated to People Flow™

