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# Kone Oyj (KNEBV.FI)

Capital Markets Day

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## MANAGEMENT DISCUSSION SECTION

### Sanna Kaje

*Vice President-Investor Relations, KONE Oyj*

Welcome to KONE's Capital Markets Day 2024. I'm Sanna Kaje, Head of KONE's Investor Relations. First, I would like to say a huge thank you to everyone who's made it to the slightly rainy Helsinki today, but also a warm welcome to everyone who is following us online.

So the topic of today is going KONE's strategy 2025 to 2030. In the first part today, you will hear about the context for the strategy, the strategy itself, and what it means for us in terms of the financials. After the first part, we will have a Q&A where we will first ask questions from the audience, but there's also an opportunity to send your questions online.

After the first part, we will have a 15-minute break. The second part will then look at the strategy in a little bit more detail from the point of view of the Areas. And we will also share a little bit on how the Areas are different from one another. After the Area section, we will have another Q&A with opportunity to ask questions and then the webcast ends. But those who are present here today, they will then after the webcast part, there'll be some demos and a lunch where you can have more informal discussions with the management.

Next, I would like to introduce to you today's speakers. So, in the first part, we will have our President and CEO, Philippe Delorme; and CFO, Ilkka Hara. And in the second part, we then have our dear Area EVPs, so Ken Schmid from Americas; Nicolas Alchal from Europe; Joe Bao, Greater China; and Samer Halabi from Asia-Pacific, Middle East and Africa.

But with that, I would next like to hand over to Philippe to go through the strategy. Philippe, please.

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### Philippe Delorme

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

Good morning. A warm welcome to all of you. I was talking at the coffee break and I understand some of you are coming from far away, many of you from Europe, some from some other. So we'll try to keep you awake and excited about KONE. A warm welcome to everyone that is following us digital.

Our last CMD was two years ago and two years ago feels like a long time. A couple of things have changed, especially from an outside in perspective with our market, and some things have changed relative to KONE. You've noticed that some faces and some name have changed, including the leader, including the CEO. So I've seen many familiar faces. But for the one who don't know me, a few words to introduce myself.

So my name is Philippe Delorme. As you can hear from my beautiful British accent, I'm not exactly neither from here nor from the UK, I'm from France, and I've been 30 years in this industry but not in elevators. I've been 30 years in energy, which Schneider Electric. 15 years in the executive committee in different role. And I decided to join KONE early January this year. So I'll be now nine months into the company and coming into the company, I really wanted to do two things in the first six months.

First one was to learn and discover KONE, and I've been travelling quite a bit. So people were asking me, where do you live? I don't know. I live more on the plane than in Helsinki, but my office is in Helsinki, but many, many great interaction with KONE people, KONE customers, learning a lot.

Second goal was to define our strategy in six months, which when I started to ask this to the team, the people were telling me that's not the way we do at KONE. In KONE, we do a strategy in 12 months. [ph] I said, yeah (00:04:14). We're going to try to make a difference and this time, privilege speed to perfection. So, we are, and we've defined our strategy in six months. And here we are very happy to share with this community what is our plan for the coming six years.

Now, I was telling you that the world has changed quite a bit in the past two years. Who knows what will happen in the coming six years? But we are making our best bet, knowing what we know today, and again, privileging speed to perfection to make the best bet we can out of what we know at this point of time. So that's the exact intent that we have.

So, really, today is an important time for us and hopefully for you to have a quality time where we can, not online, but physically exchange, really explain and share where we see KONE today and what has been our trajectory in the past years with one point in mind, which is what brought us here in the past 10 to 15 years and we've not had yet question on China, I'm sure they will come, but clearly China has been a big engine of the company for the past 15 years, will probably not bring us there. So, meaning in this strategy, we are coming with different set of tools to drive profitable and scalable growth and we'll try to be explicit and practical about this.

So, we have a wonderful time together. And really, if – I want you to stay with three key points of this day. The first one is this team, this team and the whole executive team of KONE is focused and committed on accelerating the growth and the profitable growth of this company towards – and the transformation towards the modernization and service enabled company with a very resilient model, number one. Number two, to do this, we believe we have to adapt our culture, adapt our culture pretty strongly towards more courage, speed and simplicity and we try to illustrate this. But there are people who say culture eats strategy for breakfast. Yes, it is. And we believe that working on our culture is indeed important so that we would deliver the financial, which are the third point we would like you to – and I suspect you've noticed what we've given as mid-term guidance, which is mid-single digit sales growth across the cycle with the margin corridor mid-term 2027 of 13% to 14%.

These are the three points that we would like to go through and substantiate face to face as we are in beautiful, sunny Helsinki today, which, basically, if you wrap it up in one page, tells and details a bit more, so I got the resilience here. I got the growth, I got the profitability. Of course, we'll talk about cash and capital, and we'll talk quite a bit also about innovation, which actually we are ramping up even further with this strategic plan. And of course, we're going to talk about sustainability. That's the plan. Ready to go? Very good.

Now, as I told you, first of all, before we talk about the strategy and I know you want to hear about what we're going to do, I think it's really important that we understand really well where we are coming from, both from a market standpoint and what has been the trajectory of the company. Because I'm not sure it's always fully understood. So, let's take time on that. Then we'll talk about the market and then only we will be talking about our strategy.

So, let's start with the market. So this market is actually made today of 25 million elevators. And that rectangle is actually growing or has been growing low-single digit. Out of those 25 million units, 10 million units are 15 years old. And if you would compare an elevator to a car, a car after 15 years, you would say either you change or you have to do quite a bit of work. When you look at an elevator, so it's sort of a car with very similar technology,

except that instead of going sideways, it's going up and down. But it requires maintenance, it requires modernization. So there are 10 million units here, and we're going to see that we are scratching the surface of that market that are 15-year old and that thing has been growing high-single digit and will keep growing high-single digit.

And then there are new elevators because, though, there has been a bit of a roller coaster in construction in the past years, rest of the world, meaning non-China to be clear in our jargon, 400,000 new units every year, low-single digit growth, while indeed China 500,000 new units still, which is significant, but clearly in high-single digit decline. All of this makes a market of €80 billion, €85 billion, growing low-single digit. This is our landscape. This is our playground. And you can see that very often when we describe our market, we talk about new construction, but we miss a big part of the point, which is the pink and the blue. And that's really important because this is exactly a big part of our strategic focus.

Now, let's look at our sales and let's look at how our sales have been changing and evolving in the past years with those different blocks. Let's start with Services. Services in 2020 was 32% of our sales. Now, it's close to €4 billion, 40% of our sales. And it's been growing a little less than 10% in the past years. Fantastic business. Modernization was 14% of our business in 2020, now is 20% of our business, has been growing beyond 10%, €2 billion sales, fantastic business. New Building Solution in rest of the world has been stable in percentage, has been actually growing low-single digit because in many of those markets and we're going to talk about it, there are many opportunities. India, Middle East. And finally, NBS Greater China clearly has been decreasing, was close to 30% of our sales in 2020 and is now around 15% of our sales and has been going down on average around 10% or beyond 10%, depending on the years.

Profit. 90% of our profit is coming from 60% of our business, which is Service and Modernization. And 80% of our sales, meaning the blue, the pink and the green, Service, Mod and New Building Solution in rest of the world are being operated in stable to growing market. So that picture is very important because if that picture is clear, it clarifies a lot where we're standing and what we're going to do as a company. Hopefully that helps.

Good. Now, people would say, yeah, yeah, yeah, it's all good, but have you really been growing in Service and Modernization? Yes, we have. And that whole strategy that we're going to be talking about it is somewhat not totally new. I think what's probably reinforce on you is the extreme focus and clarity that we're going to bring forward. But I would say the team has done in the past two years a wonderful job to accelerate the growth on Services and to accelerate the growth on Modernization. So we have momentum. And the point with the strategy is about fueling this momentum to make sure that we keep driving profitable and scalable growth. Very good.

This was where we're coming from market sizing, market opportunities. Now, let's try to take a bit of a more forward-looking view so that it helps framing our strategic directions. Megatrends. We've been simplifying a bit our story when looking at the outside, selecting three trends. Some of them are kind of similar. Some of them have changed a little bit. Urbanization was there. I think the point here with urbanization is to realize that it's not as one size fits all as it used to be. In cities, still after COVID, there was back and forth, is it really happening and so on.

What we see is there is still a trend of further urbanization that is not one size fits all, that depends on the geographies. There is clear one thing that is very, very important, which is much more urban renewal, modernization, building renovation and a trend in affordable living pretty much everywhere across the world, which actually is pushing some residential opportunity on, let's say, fit-for-purpose type of elevators.

Number two, digital. If there is one point to retain and one point of focus for us, that's AI and how AI will fundamentally transform the way we operate our business, especially in Services and we'll talk about it.

And sustainability is still here. And actually, you might be surprised or not, but our customers are more and more explicit and vocal about setting ambitious targets and delivering on those targets, because many companies in the past years have said, okay, I am going to do that, [indiscernible] (00:14:54) Scope 1, 2 and 3. Now, we have to deliver and now we have to be practical and try to illustrate what's happening here and now we are very practical in that thing.

Markets. So let's have some further quantification about our markets. So I was telling you roughly €85 billion, if you make the mass of those four blocks, which are the markets by our different geographies, so roughly €85 billion. Blue is Service. Yellow is New Building Solution. I'm a bit color blind. So Modernization is a pink. And gray is our market that we don't cover, like Japan, South America and Korea.

So what we see here is that the first market in size is Services, Services. And that's good because that's a place where we do €4 billion and where we can do further growth. Second market is New Building Solution where actually a piece of it is in China, fair enough, €10 billion, but €10 billion out of €85 billion. And then you see Modernization growing more than 10% in most of our geographies and a big opportunity. So, you look at this, you look at where we're coming from, and things are starting to point very, very clearly towards more service and more modernization. Just make sense.

Now, let's go into one-by-one Service, Modernization, NBS, so that we understand a bit better what's happening more from a qualitative standpoint. Service market. Service market, so I said 25 million units, you need to service those elevators. If you don't, those elevators are failing, because by design, there are rolling parts, power electronics, stuff like this. So what's happened in this pace? One, digital is fundamentally changing the rule of the game. And we tried to illustrate the opportunity and there is a big opportunity, both for customers and for the industry, to be more efficient.

Second, there is still an opportunity for consolidation, not the same by geography and you have here the four geographies and how much concentration [indiscernible] (00:17:15) with the top four OEM. And the last point to retain is this business works. You are really good in that business when you combine three things, which is digital capabilities, which requires big investments, skilled people and density, and having the three together is really complicated. So if you are a small ISP, independent service provider, or a startup and many are saying, we're going to disrupt the market and do this and this, and that's very good, but very hard for them because they don't have the skilled people and they don't have the density in the service base, which is really important to deliver the value.

Modernization. I love that slide because it's very visual and it stated the points. We call it the [ph] blue-dot syndrome (00:18:04). So you got here that big 10 million units that, by the way, by 2030 will probably be 15 million units because you have a mountain of elevators that are now getting old. Back to my point of the car. A car after 15, 20-year old, you need to do stuff. You need to do either partial modernization or fully change. Today, our best assumption and maybe that figure is not exactly right, but the industry every year is addressing at best 3% of that big blue ocean, 3%. Well, actually, those elevators needs to be maintained, needs to be modernized. So it's a big opportunity. And today, the industry has probably not been paying attention or in the past, because the industry was awfully busy with new construction. Now is the time where there is less opportunity in new construction, therefore, many of the players are now moving more to modernization. Regulation and policies are getting more favorable. I think Joe will give a great example out of China. And market needs are clear: sustainability, safety, reliability. That all go in the way of more modernization.

And next is New Building Solution. So, here, the market is a bit polarized. China, 500,000 unit, two-third residential. Clear structural decline. You've seen some news this week and we'll be happy to take any question and actually hear your views about this. Still challenging market, 500,000 units. And then 400,000 units in the rest of the world with actually very different trends. Asia-Pacific, Middle East and Africa, the place where Samer is operating, very strong growth. Country like India growing much more than double digit. And we'll try to illustrate these. So, opportunities, but here you have to be precise and segmented because it's not one size fits all and that's where strategy is, which is defining the place where you really want to play, play hard, play focused and committed, and make it work for the company.

So back to my initial point on the fact that markets have been changing and you have to be precise. Yes, market have been changing. By the way, they will keep changing. And we permanently are trying to look outside to adjust ourselves. But in those adjustment, there are big lines of sight. Service is a big opportunity and a digital opportunity. Modernization, which is growing double digit or which is growing close to double digit, which is a very exciting opportunity with that famous [ph] blue-dot syndrome (00:20:57) that actually we are going to try to cover in the different presentation.

Now, let's talk about the strategy and hopefully that setting the stage is helpful so that you understand our reasoning and you understand why we're making those choices, which actually, with everything I've said so far, are going to be very, very easy to understand. So, our new strategy is called Rise, Rise to lead. And the first point in this strategy is about putting the bar high. We're talking about courage to lead in our industry, first, to lead with employee and customer satisfaction, because everything starts from here. Lead in innovation and sustainability, these are two places where KONE has been historically very strong, but we don't want to stay happy with where we are. We want to keep raising the bar, raise the bar on innovation. You'll see great stuff today. Raise the bar on sustainability, especially with our customers to, in the end, deliver superior growth and profitability.

Second point with this strategy, we want focus and simplicity, focus and simplicity. We are coming with four operational priority that we call shift, because they call for a more radical shift on how we execute, how we allocate resources, make clear agreed upon choices across the company on four things, accelerate digital for services. Number two, drive modernization. Those two, with what I've said, hopefully makes just ton of sense and they are things that we've started to ramp up, but that we want to accelerate further. Win in residential and we'll expand what we have here, cut carbon, which relate to sustainability, but especially with our customers and in the back, very, very important, our culture and our process, we call it our core where we want to be the easiest company to work for and to work with. And then, seeing a culture of courage, speed and simplicity. And I'll try to illustrate what we have behind. But that core is very important because it's an essential enabler of everything, all the wonderful things we're going to talk about.

So, let's go one by one. Let's start with accelerate digital. There's been tons of great stuff that has been done in KONE in the past. I think that whole journey of digitization started in 2016. A lot of good stuff, but now we want to make it the by default norm. When you say we want to make it, we want to connect all our elevators. We want all our elevators to be cloud enabled with predictive capabilities. We want all our field technician to be digitally enabled and having their phone that will help them be more efficient and we'll try to explain this. So, in the end, we drive more customer value and those customer values are about transparency, safety and uptime. And you would say, but what's in it for us as investors? Very simple, higher conversion and higher retention rate, better business, better margin. And we'll try to give you very practical example about this. And we said customer value, Joe is going to show what we are doing in China. We are doing fantastic things across all geographies, but China is probably the place where we have the most speed to do amazing things. And hopefully, what Joe is going to show is going to be very exciting for all of us.

The second path around Service is driving more productivity, making sure that our 40,000-plus field technician operate very efficiently. Because if they do, they can service more customers and we can grow that €4 billion business faster, which is good for customers and good for KONE. In the end, we believe we have an opportunity to get to 10%, close to 10% sales growth, while improving our profitability. That is a major driver of our plan.

So, a few more details here. These are big picture detail and then we'll give you more detail by – I think, also you have some good stuff to mention, Poland, for instance, which is one of our most impressive country. I think we have Singapore, so if I'm not mistaken. So, a few data point about where we stand. So, we stand today with around 35% connected elevators within our 1.6 million, 1.7 million lift in service. Some are full real time, some are simpler connectivity, but we believe in both, we actually can leverage them quite a bit to deliver tangible customer value, clearly better predictive and fewer callout, 40% fewer callout and, in our best case, 70% predictive capabilities, which translate into 10-point higher conversion rate and 5-point higher retention rate, which are visible impacts in our P&L.

Let's move to number two, Modernization. So, remember the blue dot, the big pink things, the 10 million elevators that's going to be 15 million. The first point that we have to do is reach out to our customers and activate them and make them understand that actually their elevator needs work and that if they don't do their service, bill is going to go inefficient and is not the best balance of investment they'll have. We have a work to do to be even clearer with our customer value and actually we've ramped up quite a bit of stuff in the past months and it's working pretty well. And we've also work to do to industrialize this value prop so that it's not a custom made all the time, but it comes more standard so that it's easier to deploy and easier to understand for customers. In the end, we believe we can deliver and we have the potential and we've done that in the past two years of delivering double-digit sales growth, while improving profitability and, of course, contributing to service because an elevator [ph] we modernize is ripe for service (00:27:27), of course.

In that one, a few more data points. Today, 50% of our modernization comes from the service base. So the point is, how do we expand this on the 1 million unit that are maintained by others, for instance, on the non-KONE units and on major project? And Ken will have fantastic example out of Americas where we probably have here the best area when it come to major project of modernization and very important having in mind that modernization for very old elevator, you have no choice but to change everything. But for actually elevators that are a bit younger like 10 to 20 years, going for partial modernization, which is simpler to deploy, which is faster, meaning less disruption for customers, better for sustainability and better for return on investment. And here, we are doing a lot of work to standardize partial modernization package that make it simple for customers. A lot of innovation here.

Let's move to number three, win residential. So the residential segment is very important for KONE. It's a segment that has always been very, very important for us. Now, the point where we think we can do an even stronger job is more on the fit-for-purpose application, the lower part of the residential market, where today, we've tested the market with more fit-for-purpose offers and we see a great traction. We're going to talk about Europe, what we are doing – what we've been doing here. I think, Ken, you're talking about this. We are showing India, which is doing fantastic things. It's about fit-for-purpose and it's about also looking at the full cost of deployment to drive efficiency in sales and delivery. And all the time when we sell in residential, making sure that we capture the service because the vast part of our service is basically in residential and it's sort of the fuel of the future for Service. So, in that context, we want to increase market share and improve our profitability, meaning we're going to be attentive on our cost and we're going to be growing that business.

Last, but not the least of our four shift, cut carbon. We've been very detail, and I'll give you a few specifics about the fantastic job that has been done to reduce our Scope 1 and 2. We were the first company in the industry in



2018, 2018 to take commitment on Science Based Targets and we'll be delivering those Science Based Targets by the end of 2030. But now, what we want to do on top of this is making sure that we also exposed all this good work to our customers so that we help them save carbon and cut carbon. That's really the point, the biggest point of the pivot we want to do on the cut carbon shift.

And on that one, I think it's good, many people talk sustainability and it's a bit of a theoretical discussion. I've learned one thing being in Finland for nine months, which is Finnish engineers likes to be precise, so they like figures and they like to be very grounded, which I like. This is a diagram of Scope 3. So we are at 71 tonnes of CO2 equivalent by orders. We want to decrease this to 43 tonnes by 2030 baseline and we have all categories of the action we are going to do and we are following this every quarter. There's one thing here that's pretty important, which is upstairs here. This is our Scope 3, which is a vast majority of our carbon footprint and counterintuitively, two-third of our Scope 3 emissions is related to lifetime energy consumption. So what does it mean? It mean that if we provide energy efficient elevators, it's going to drastically reduce our Scope 3 and it's going to be great for customers. Fantastic news because now sustainability is not just about commitment and the company commitment to be a good citizen in the planet. It's also a great business opportunity, and what we're going to do going forward is track our business that is enabling our customers to reduce their carbon footprint. And there are three things here that I wanted to single out.

First one is what we call regenerative drive. So, as we are in the car analogy, so a regenerative drive is a bit like an hybrid car. The elevator will store energy at the time when the elevator goes up and down if there is energy harvesting possibilities and serve it back either to the building or to the elevator to make sure that we save energy. Energy efficiency potential of up to 60% using those devices and carbon associated, of course, because energy is carbon. Partial modernization is a circular economy opportunity, and we've done a lot of work here and more work to come because we believe it's a big differentiator of modernization. And digitally enabled services, very obvious things. If people don't travel, we are saving carbon. So we're going to be following this and actually be much more explicit to our customers to explain actually the do more with less and how it's impacting them, both from a cost standpoint, speed standpoint, but carbon standpoint to make it a win-win with our customers and make it something that is a differentiator for KONE as a company. Makes sense?

Last but not the least, culture eats strategy for breakfast. And we are very conscious that doing those things with the speed we want will require a cultural change. Courage to set the bar high, speed in execution, and I would say what we are doing here with our strategy in six months to build it has been the first proof point in KONE that KONE can be really fast, and simplicity in everything we do to really remove all the inefficiency we have in the company. And we have and I've had many discussion with you, we clearly have a job to do to be more efficient. So, we've launched, some initiatives were launched before, but we are amplifying the set of initiatives to make sure that we drive the right efficiency in the company. All the right margin improvement. First one is sales and operational excellence and pricing. I think, Nicolas, you're going to be talking about this in the context of Europe. We've launched this a couple of months ago and I see a major opportunity here that actually can activate pretty fast EBIT improvements, procurement efficiency that was launched a year ago. But we think we can accelerate it further. Functional efficiency to make sure that we always keep the right level of efficiency from our global team and end-to-end process improvement to make sure that we don't go silo-by-silo, but look across the company. We think here and Ilkka would be much more explicit than me on this one. We think we have an opportunity of 150 basis points within the coming years and we'll try to go a bit more in detail about this. And we are committed to this. We are committed to this.

Now, how we're going to be – measure – how we will be measuring those things? Some new things here and some things that you were used to employee engagement, customer net promoter score are things for which we were communicating already. So we'll keep doing this. Innovation and sustainability of few new things we would

like to share to follow the share of new solution in our sales to make sure that we make innovation more visible inside and outside the company. And on sustainability, we think we have an opportunity to simplify a bit the way we report building an index or a barometer of sustainability that will take four factors: carbon emission, back to cut carbon; safety, which is very important in our industry; diversity, mostly gender diversity at this point; and cybersecurity as a [ph] fore factor (00:36:24). That substantiate the most the focus we want to have on sustainability. And growth and profitability, I guess, you know, those indicators, they are not changing. What's changing is we are putting a mid-term target here, which was something that out of the different interaction that [ph] I've been having with (00:36:44) many of you was something we heard was required or was – that was something that many of you were asking for.

So, let's come back to where we started. I told you in my introduction, we are focused and committed on three things. The first one is we are committed and focused on accelerating KONE transformation into a more resilient, service, and modernization based business. We have momentum. We've had momentum in the past two years, but we think we need to fuel this momentum further to make it a very clear and a sustainable profitable [ph] growth avenue (00:37:32) for the company. Number two, to do this, we are very clear that we need to drive or to evolve the culture towards more courage, speed and simplicity, and we'll try to illustrate this across our different presentation. And the endgame, the endgame will be to deliver mid-single-digit sales growth and 13% to 14% adjusted EBIT margin by the end of 2027.

So I said, we because it's not just me having all that good stuff with you. It's a full team that have been working rather hard right, in the past eight months to build this plan and to be very joined by the [indiscernible] (00:38:21) to make sure that we would deliver this plan. So there are a few circle, blue circle here, who are going to be the speaker. But when I say we, it's a full leadership team that have been working very, very hard on this plan and that is extremely aligned. We launched this strategy last week with our 60,000 plus people. There is a fantastic energy in this company to deliver this and a fantastic buy-in on what we are asking the team to go through and to go for. So I'm very confident and I'm very committed that we will get it done.

With this, I'm going to pass the mic to Ilkka so that we can go into more detail into the wonderful plan. Ilkka, the floor is yours.

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## Ilkka Hara

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

Thank you, Philippe, and a warm welcome on my behalf also to this Capital Markets Day here in Helsinki. Great to see so many of you today. I will today talk about the roadmap towards our ambition. Take the strategy that Philippe was sharing the focus strategy and built a roadmap for our financial ambition with this presentation. You will actually hear much more detail through the areas on the initiatives as well. So it is linking well between all of the presentations. But as Philippe said, clearly what we see with this strategy is that it is very much focused and we're committed and setting new targets for the company with the mid-term targets to measure our success in delivering it.

So, I guess this is a very obvious place to start. We now set a new ambition to the company. Philippe talked about in detail about how we measure it. It is about being the number one choice of our employees. Number one choice for our customers. How we want to lead in innovation and sustainability and how we want to lead in growth and profitability. We have our long-term financial targets. They continue to be relevant. We want to grow faster than market, reach EBIT target of 16% and improve our working capital rotation. But in addition to that, we set the new mid-term financial targets until 2027, which saw the mid-single-digit annual sales growth, as well as 13% to 14% adjusted EBIT margin.

And to me, this is recapping it well what Philippe was talking about. Look at where we are today this year how we see the growth in the services business, close to 10% growth. Monetization being the highest growth opportunity for us as a company with a double-digit growth opportunity. And then, in NBS, in the rest of the world, we see an opportunity to have urbanization driving low single digit growth. And in China, we are expecting the market to decline further in 2025 and the visibility to the market is low. But that's what we are planning for, that's what we are gearing up the team to. And with this, we are aiming for mid-single-digit growth as a company. And then, of course, continuing going forward.

Second, it's about profitability. Now, our guidance is between 11.5% to 12.2% and we are improving our profitability with this target to 13% to 14%. Clearly, some of the things I will talk more in detail will continue to accelerate towards the 2027 and actually carry us forward towards the ambition in 2030. But I will start with profitability before I dig deeper in the business lines and how we see those performing. Clearly we see opportunities to improve profitability across all the business lines. We see a natural business mix positive impact with their strategy with both service amortization leading to growth, but we also are taking initiative. So actions we can take to drive improvement in our margins. We call them performance initiatives. But let's start with the business lines.

So, in newbuilding solutions, clearly, especially in China, market has been very competitive and also the pricing has been in – pricing pressure has been intense. But we do see product costs reductions that are able to mitigate and actually help outside of China as well, where the margins have been more stable or improving. We are today able to drive product cost reductions three times more than we've done in the past. Clearly, making choices in very much focused and if you think about what the win residential shift is about, it is about offering cost effective, cost competitive solutions to the segments where we need those. But it is also something we can harvest in the rest of the business. We see an opportunity to drive further efficiency in installation across the whole NBS business and of course, that's what Philippe also talked about when looking at the end-to-end business as a whole.

In Services, we have a very, very exciting opportunity with the digitalization. I think this is a game-changer for the industry. When getting it right, we can drive field productivity, field efficiency. Using our time wisely in a way that we haven't been able to do in the past as an industry. And I'll talk a bit more about that. And then lastly on Modernization, which is the business where we're actually seeing the profitability improving as we've been scaling up the business in the last years. But there's an opportunity to really industrialize our delivery, making it from art to really a factory mode and also Philippe talked about the partial Modernization. So actually provides a lot of scalability for the business. Instead of having that art, we can [ph] max (00:45:10) customize the offering to our customers. And across all the business lines clearly, pricing is a lever that we see and opportunities with and Nicholas will talk more about that in the context of Europe, but it's applicable to all areas. We just started with Europe, so that's the focus in Europe today.

[ph] Then asset (00:45:30) by growing Services and Modernization, we have an opportunity to see a business mix positive impact about 50 basis points with this plan. Those two businesses are the more profitable businesses than NBS. So the more we can grow, the more we can add to our profitability. But then coming back to the performance initiatives. So we are having an opportunity of 150 basis points of improvement in profitability. We also want to invest some of that back door shifts. That's a decision we can make going forward. Sales and operational excellence is clearly one of the most interesting opportunities we have. We made changes in the organization, about a year ago, we call it OMR or operating model renewal, where we've shifted the focus to the four areas that gentlemen here are representing it, driving our focus to customer and the market needs, but it is more on the higher level.

Now we see an opportunity to really improve the performance of the organizations in the respective areas to really be able to service our customers better and use the best practices that we have across the business to do that. Second, procurement efficiency. We clearly see an opportunity into improving here. Talked a bit about the product cost, which is more a R&D effort, but it is also about sourcing our – components more efficiently. But it's much wider than that. We have sourcing procurement that happens everywhere in the business, how can we tap to that indirect opportunity and clearly see that as a positive lever going forward. And then functional efficiency with operating model renewal, we have now global functions such as my finance team, where we really want to drive efficiency across the company. And then, as I said, we will make some investments through strategic shifts on the other hand side. But clearly, with this, we see an opportunity to achieve 150 basis points of improvement and here we have about 100 basis points towards our mid-term targets of 13% to 14% growth. We clearly are committed and focused on improving our profitability going forward.

That clear? Then to business, I'll start with services. If I look at our past record of growth, in the last years, we've actually accelerated, Philippe showed the graph where we were about 5% now we are at 9% in our services growth. Less than 1% of that is inorganic and so majority of the growth is organic growth that we've been able to achieve. That's fantastic. We aim to continue that. That's the target of close to 10% growth. The positive thing is that we see the services growth accelerating across all areas and you'll hear some examples today on what does it mean in practice. Of course, looking at the service base, which is the asset we have. We've been able to grow that, I'll take that historical perspective and say few words about what does it mean in practice looking towards the targets in 2027?

So, first, acquisitions, as I said, less than 1 percentage points of contribution to our revenue growth. It has been a positive contributor, but actually not as big as some of you think. We actually have a solid pipeline of acquisitions. We see that the same trends that Philippe was talking about, technology so digitalization, access to labor, access to skilled labor particularly are meaning that many of the independents are actually looking for other ways to continue with our business. And the pipeline continues to be solid. So, acquisitions will likely contribute going forward to our targets. Conversions, we were at 65% in 2023. We are expecting higher conversions rate to offset the lower new equipment volume, so less new equipment being sold, less conversions, but actually a higher conversion rate will help with that.

One from competition, clearly, the focus on Modernization is helping us to improve on competition. Then my favorite number, the most important number on this page, its retention. So, at the end of 2023, we were at 92%. The fantastic thing with digital is that we see digitally connected elevators having five points higher retention. That's huge, huge. I'll actually come back to that on the following page. But clearly, for services, yes, there will be less pricing tailwind from inflation, but opportunity to continue to grow at the mid-single digit growth, sorry, at the close to 10% rate going forward. So few words about digital. Philippe talked about productivity. It basically means that we can spend the time our field technicians have more wisely going forward. We can add more units to our maintenance base without adding resources. There's a huge opportunity there. It's about how we do the work, how we are equipped to do the work. And how are we actually completing the visits in one go. It is not a linear function.

So if you think about the services sales growth, growth, the more we connect, the more we will see the benefits. And hence the comment earlier that when it comes to product productivity, we will continue to see that accelerating towards the 2027 in the mid – towards the mid-single – mid-term targets. And the more we connect, more we see the benefits. Today you will hear about one country, which is very far, and how we see the benefits already materializing in that context. So productivity with digital is a great opportunity. I of course talk about the productivity part, but you could say the same with customer experience because it means that we fix elevators faster. We do it. We provide better uptime and so on. But he also clearly has a productivity component to it.

I always talked about retention, retaining a unit. It's the most important thing. So what does it mean? 5 points improvement in retention with digitally connected elevators. So let's do an illustrative math. With that 5 points let's apply it to a – our global maintenance base. [ph] Don't connect everything with connected (00:53:10) less than half of them. So we get a 2 points bump in global retention. That in turn will mean that our annual services portfolio growth rate is, of course then 2% up. If I do the math for the next five years, that's €500 million of sales. It's a great opportunity to accelerate the growth with digital. But the fantastic thing about it is the profitability. Retaining a unit, it's fantastic for profitability. You know the unit, provides you density, and the more you use digital to do the work right, the less work we also have going forward because you fix things before they happen. So not only is digital about productivity, customer experience, it is also about retention and stickiness. Both growth and profitability. This is a great opportunity for us.

Then to my next favorite business. Maybe you guessed it. It's Modernization. It is our fastest growing business. And our margins are actually improving as we are scaling it up. We've been able to now growth our Modernization sales for the last four years at the rate of 11%. We expect to be able to accelerate that further. So remember the small dot, the blue dot, Philippe had. That's how little we modernized as an industry. There's more to be done. The good thing about Modernization, as I said, we've been able to improve profitability for the business now, 4 points since 2020.

As we scale it up, we learn to make it more as a machine, more as a manufacturing factory. And we see opportunities to continue doing that. How to do it? I already talked about the industrialization about the offering and the way we deliver the Modernization work, we clearly need to find new ways to do sell to our customers. Philippe talked about the value proposition, but then how do you deliver it? How do you actually induce the demand? There's an opportunity for further improvement in profitability. And then lastly, pricing excellence. Remember when there was a supply crisis few years back. The first business to react positively with pricing was Modernization. It is the business where you can really talk tangibly about the value we create with not only what we do, but also how we do it. So great opportunity for us to drive further growth, accelerate the growth going forward and improve the profitability of the business.

Then the New Building Solutions which by the way, is also my favorite business. So all of them similar to my children I love equally. We are seeing a tale of two stories. So Philippe talked about the opportunity in the rest of the world, where we see urbanization, people moving to cities, needing affordable housing, providing us a growth opportunity. Low-single digit, but it's fairly stable. And we also then see China, where the market continues to be challenging and the visibility to the market is low. But it is a business where we now have 55% of our revenue coming from outside of China. And I think that's also good to remember, it's not only that we make our money majority of the sales are coming from Modernization and Services, but also that the New Building Solutions business is not only China, it's the rest of the world as well. Our profitability in China has declined, but it's been more stable outside of China. We are aiming to improve profitability also in New Building Solutions and there's clear opportunities to do so. We talked about the Win Residential. That's a segment where customers are looking for good quality offerings that are safe, but are also cost effective. And clearly at the center of our attention is this frugal innovation for cost effective designs, optimizing how we procure and how we sell and install our equipment. Clearly an opportunity there.

Then I guess we've gone through three of the businesses, now the real favorite. So working capital and I'll get to cash flow which is at the end, where it matters. So, we continue to focus on improving working capital. The lifecycle business we have with New Building Solutions, Service and Modernization continues to have a good opportunity for continuing to have negative working capital. There's a slight business mix headwind we're facing, so we get more advances with NBS business. If it's not growing as fast as the other businesses, then that's a

headwind. But we also have opportunities to improve our working capital. Clearly, especially in the services, where we have so many customers, the focus on collection, the technologies and tools we use gives us an opportunity to drive the accounts receivable down. We have not stretched our muscle with payment terms much with our suppliers, and I think, there is an opportunity to do that going forward. And then lastly, our inventories actually increased. They're very low, but they increased from that low level with the supply crisis few years back and it actually has taken us time to get them down. But there is a clearly opportunity to find some positive contribution from that as well. So not so much just in time, but not just in case only somewhere in the middle. And there's an opportunity to drive that further.

So with that, about the capital allocation. So we have a very good capital like business model. Talked about the net working capital already, but also from a CapEx perspective, we have an ability to have a low capital expenditure in this business. We continue to invest to our factories, we've invested to modular production capability across all of our factories. But at the end, the CapEx levels are still fairly low. That's what we have done already and continue to do in the coming years. We have a strong net cash position and we've been able to have a very high return on capital employed and actually improving in the last year. That continues to be the foundation for the business. Then looking at our cash flow, so our cash flow at end of 2023 was €1.1 billion. And if you look at the first half of the year, we are flat compared to last year. Clearly with that, we have an opportunity to continue to have a healthy capital allocation. First as I said, CapEx is relatively low in this business and continues to be quite stable. Acquisitions have actually provided us more opportunities than in the past. They yield a good return. We continue to look for opportunities there. But then the rest, we've been able to return to our shareholders through dividends and that continues to be a stable rate at dividend return in some years, like 2021 and 2023, with extraordinary dividends, but the base dividend has been quite stable.

So what does it mean for the future? The main driver for cash flow is of course, improving our profits. For both growing the business but also improving their profitability. That's the key driver for the cash flow. We expect the CapEx on tangibles to be recent years' level so, quite stable as a part of the business and we continue to have an appetite for those bolt-on acquisitions that we've been able to now accelerate. And of course, as I've always said and we've said, we have an appetite for larger acquisitions as well, and we have a balance sheet that supports that. And we don't have a dividend policy, but as I said, stability of the dividends has been considered important, if you look at the past and our choices there.

So, I'll bring this all together to summarize how this new strategy, how we're focused and committed to delivering it. First for this year. So our guidance for the year remains unchanged. We expect our sales to grow between zero to 4% when measured at the comparable exchange rates. Our adjusted EBIT margin is expected to be in the range of 11.5% to 12.2%. So stable are growing sales and improving margins. We have transformed the business and continued to transforming it going forward. So first, looking at the business mix. 60% of our sales are coming from Services and Modernization. That's the key number to remember, 60%. 90% of our profits are coming from Services and Modernization. So 60% of the revenue, 90% of the profits. Clearly a change compared to the past, and it provides us with a very resilient business model. We continue to see services being very stable, growing at a stable rate. And also in the Modernization, we have an ample opportunity to induce demand. Actually, it's also a very resilient business that we've seen in the past. It is the one which rebounded the first. After the financial crisis, throughout the changes we've seen that being stable in the recent years as well provides an opportunity to continue to have a resilient revenue and business model for the company.

Then areas and you have an opportunity to hear my colleagues talk more about them. I'm sure you will sense Asia Pacific, Middle East. I'll summarize seeing the opportunity for growth in this market is probably the source of the growth of the NBS, where the opportunity is huge. You will see Joe talking about China. Talking how we're actually pivoting the business for Service and Modernization. Ken, the emotion and passion for profitable growth.

And then, of course, Nicolas will talk about Europe, where we see all of the businesses growing and really opportunities in Service and Modernization. But I think the key takeaway from this slide from an area perspective is that we have a balanced geographical footprint. It is balanced between the four areas and all are contributing to the success of the company. And then second point is that, China now represents a bit more than 15% of our profits. So also our profit footprint from an area perspective is balanced. And that's clearly a transformation that we've gone through as Philippe started the presentation.

So bringing this all together, talked about the focused strategy that helps us to make choices, really centers all of our efforts. As a company, both our efforts, but also the capital to really drive the four shifts that we've been talking about forward and how we are now with the new mid-term targets committed to delivering those. I don't have to repeat how the business model is resilient. 60% of sales, 90% of the profits coming from service and amortization. We now set new mid-term targets, that's the midpoint, where we value or evaluate our ability to continue developing the company positively going forward. Mid-single-digit annual sales growth and a 13% to 14% adjusted EBIT by 2027. And we are clearly focused on create – having a strong cash generation and a balance sheet that ensures the flexibility for us in capital allocation. So thanks for your attention. I'm super excited about this, but I think we have some time for Q&A now.

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## QUESTION AND ANSWER SECTION

### Sanna Kaje

*Vice President-Investor Relations, KONE Oyj*

A

Yes, indeed. We have time for Q&A. Thanks, Philippe, and thanks, Ilkka. Let's first take questions from the audience and then we have time for some online questions as well. I think you're first.

### John Kim

*Analyst, Deutsche Bank AG (UK)*

Q

Good Morning. John Kim from Deutsche Bank. Thanks for the opportunity. Could you spend a little time talking about Modernization? If I remember correctly on the slide, there was a partial to full Modernization offerings. Could you help us understand your book-of-business today called the last four years, the mix between the two and how you think that would change or evolve as you penetrate against the aged fleet? Thank you.

### Philippe Delorme

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Do you want to start?

### Ilkka Hara

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah, I'll start and maybe you can talk about the future. So, if you look at the Modernization business, it's actually not one or the other. We clearly see that the growth opportunities in the partial Modernization. So it's much faster to our customers to do it. Philippe talked about what can we do in one day, one week and so forth. Full Modernization is really rebuilding the whole elevator. It will take time and disrupt the business. But clearly the growing part, where we see the biggest opportunity is on the partial side, but it is a grey area. It's quite often we do also Modernizations where we do quite a lot of work, but then leave for example, the doors in place. So we haven't been very clear on the split between the two, clearly the opportunity is on the partial Modernization to accelerate that.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

And maybe to complement this, one thing, which is sort of a [ph] third (01:09:08) Modernization, which are – what we call major project: airports, railways, stuff like this, where actually I think we'll have great example in the US, but we have it pretty much everywhere and these are big ticket items, which then drive a lot of services and so there is really, let's say a normal building, where you would have that full mode, partial mode, and then the major project, which still is a big opportunity and just one thing we were this week, some of us in the console for tall buildings CTBUH. I'm getting used to the acronym and one of the learnings I had from that meeting is people were saying you can't build vertical if you don't build your – in cities, your infrastructure in the city to move people on the ground with transit system and escalators and stuff like this.

So that part within the urban renewal is actually pretty significant and as we see real estate markets going here and there up and down, there's one thing that we see everywhere, which is a move on infrastructure to make sure that you make infrastructure more easy to use. You don't like to have an escalator that doesn't work when you get and still there are some old machines that you need to replace. So that part is also pretty interesting.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Sanna you need to choose.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Yes. It's difficult.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

[indiscernible] (01:10:38).

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Let's take from the front row. You are so brave, Daniela or Klas, first okay.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Let's do ladies first. How about that?

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Okay.

**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

All right. Thank you. Two questions actually from my side. The first one just on the conversion rate on the 65%, can you help us understand where that stands outside of China? Because I guess China brings the number down and how that has evolved? You talked a lot about the digital impact on retention, but I would have thought the



conversion rates would have now been higher on US because it's been a few years doing it? And then I'll ask the second one.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah. So conversion rates outside China are clearly higher than the average 80-plus percent. And we do see an opportunity to, especially for the digital elevators, to be converting at the higher rate than we have in the past. So it is positively trending. But also you have to remember that when we install elevators, we sell them first, then we install them and then we have the first service period. So when we launched the DX few years back, it still have a – has an overall limited impact to the conversion rates. So clearly, that's why I was highlighting that there's an opportunity there.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

And maybe to complement. There's one thing which is the more digital the elevators are becoming, the tougher it is for independent service provider to actually really get into the brain of that thing and make sure that they would service it well. And we really see actually in many of our geographies actually including in China, some of our installed base coming back to us because at some point, the service provider that are independent they say, sorry, I can't do it because that software upgrade and that thing is kind of complicated and I got 15 people, I can't get it.

**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

Just a follow-up on this. DX was launched maybe what, two or three years ago...

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah.

**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

...already. And I thought outside of China, the free maintenance period thing was like one year. So have we seen already that a material step up when we look at those units?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

For the individual elevators, yes, but not for the total basically. If you think about how many we add, then you take the time. So it doesn't impact so much the totality.

**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

Understand. Thank you. And the second question is regarding I think some years back you commented like for example, China service, margins were much lower than elsewhere. And I don't know if the same applies to modernization, but if you could give us like our all service units and all modernized units across the regions created equal basically in terms of profitability?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

So – as we like to keep our profitability reporting on as a life cycle business, but I can give you a few hints on that one. So clearly in China, the service's profitability is lower than outside of China. And in China, the highest profitability business is the Modernization, followed by Service and then NBS. Outside of China, clearly Services is the most profitable business we have. Modernization is followed by that and then NBS, where we've seen the best improvement actually is on the profitability of the Modernization as we've been scaling it up in the recent years.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Klas, yes?

**Klas H. Bergelind**

*Analyst, Citigroup Global Markets Ltd.*

Q

Thank you. Klas at Citi. So I totally get the Modernization growth and the drivers. I mean, it's very, very compelling, that little blue box, et cetera. But just in the Service growth where you say, slightly less than 10%, which would be basically keeping the current rate. I want to dig this dig a bit deeper on this because and a little bit to Daniela's point on Service profitability within that number that we have 9% now, there is a negative mix shift from obviously China having lower ASP. What do you assume here going forward? Because we get a lot of questions from investors that the price pressure discussion is moving from equipment on to ASP service in China. So do you assume sort of that mix shift to be stable or to go down with it? And then number two, the ISP contribution, which has been on M&A around 1 percentage point, should we assume some sort of similar level? Thank you.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Of course, on the last question on M&A, so we have the appetite. It's not so much about our choice, it's also finding the right sellers. The pipeline looks good. It really looks good on a short-term but going forward, it's not a major driver for the growth. If you think about the past, less than 1% is a growth coming from acquisitions. So it's much more important to get the organic drivers right. But yes, I'm hungry. Then on second part, so with less NBS in China, and we are seeing the market negatively also for next year there will be less conversions. So the mix shift in that sense is positive if you compare the past, but if I think about still the Services business, to me the most compelling thing is the digitalization. So you wait for Nicolas to talk about Poland and how we're seeing that as one of the key markets where we're seeing the fastest adoption to digital services. There's really a big opportunity there. And Philippe talked about this retention clearly see 5 points higher retention for the units that are digitally connected because we can do the work better, we can show the data to our customers and also the outcomes are better. So that's a big change going forward.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

By sustaining a 9% to 10% Service growth. You've probably noticed that this performance is not bad when you look at the overall competitors might be good, actually, we need to sustain it over years, there quite a bit of focus and attention.

**Klas H. Bergelind**

*Analyst, Citigroup Global Markets Ltd.*

Q

Thank you. My second one is on the Modernization margin and I think Philippe or you Ilkka said 4 percentage points of improvement, I think from 7% to 8% to maybe 11% to 12% sort of over a three-year period. You talk about further improvement. Talk through this sort of Modernization, the cost side versus pricing. What's more important in improving that margin more going forward?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Well, I think if you would ask Phillippe, he would talk about pricing and sales and operational excellence. And actually, it's true that we had great opportunity to sell differently, [indiscernible] (01:17:32) you have to change the way you do it to really scale it up. And I see definitely opportunity there. But a big part of it also is what we sell and this partial amortization. It's once you start to get from [indiscernible] (01:17:48) customizable offering, it is a key driver for the profitability going forward. And of course, pricing is part of all of those topics, so you can't take it out. So I think it's really about taking this been able to scale the blue dot in a very different way that we've done in the past.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

But, take a practical example. So out of what we learned on Modernization, the first thing when you look at an elevator that is 15-year old, the first thing you want to do is [ph] and I'm tainted by (01:18:23) my electrical background, but you want to change the full electrical chain because you have electronic bolts, you have drives, you know, that drives are failing and so on. So the first thing is changing that, which by the way is good for energy efficiency, good for reliability. You are putting a gateway into that so you can remote monitor. So basically you the muscle and the brain of the elevator is the first thing you change. You call it the electrical block, right. For most of the industry today, that thing is custom made all the time. So you come with box like this and the box like this and all kind of wires, and you go inside and you wire the thing, it doesn't work. So you rewire the thing, it doesn't work. What we are doing here is, we are coming with set of boxes by type of elevator where the field technician comes. There is a box. There is no additional worrying that just that box. And with that box, in a matter of hours and day, you are upgrading the muscle and the brain of that elevator. Just make sense and you save loads of time because not only the cost is about the cost of that box, but the time of the field technician is so important. So with innovation like this, which looks like, okay, that's obvious, but who is doing this? Very few people are doing this. So coming this very clear, very simple, [indiscernible] (01:19:47), now do it. There is big, big output here in term of margin upgrade and selling more.

**Klas H. Bergelind**

*Analyst, Citigroup Global Markets Ltd.*

Q

Thank you.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Okay. Let's take from the next row.

**Panu Laitinmäki**

*Analyst, Danske Bank A/S (Finland)*

Q

Thank you. It's Panu Laitinmäki from Danske Bank. I have two questions on Modernization. Firstly, you said that 35% of sales is coming from Americas, which is like [indiscernible] (01:20:09) bidding solution and services. So I wonder why US is so big for Modernization. And then secondly, do you see like geographical margin dilution if fastest growth will come from China? You just said that modernization margin is actually highest among the China businesses, but it is like above what you do in modernization now?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

So first on the Americas, I cannot steal the thunder from Ken. He will talk about that. But clearly, if you think about if you think about where the older elevator bases are, it's in Europe and in Americas contribute into it. But I think Ken will talk more about that.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Plus, we have slightly more major projects.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah, that's true.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Your mix of Americas is more major project also.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

[ph] Yes I think you need prices clearly (01:20:56).

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah, clearly higher. You have – now we're starting to steal the thunder.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Yes, sorry.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

And then in China so, of course, today, when you look at and now I'm not stealing your thunder, Joe, but the portion of our sales coming from Modernization in China is still relatively low and we see that continuing to grow at a nice pace. But it is a good business for us in China. So I don't see the mix shift, negative mix shift in terms of profitability as such.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

And it's driving Services, the point because somewhat of the bias of people we think you basically in that business need new building [indiscernible] (01:21:45) Services. That's true. Modernization drive equal number of Services and it's a unique game here, which is again, one you need, maybe you build less with partial Mod, but you get the Service, which in the end matters a lot.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

Let's take the next one from the back.

A

Q

Hi. Thanks for giving color on the retention rate. The first question is really just to clarify. So you're currently at 92% retention rate and one of the slides I think I saw 2 percentage points. Is that a correct interpretation that your goal is to improve retention rate by the end of 2027 to 94%?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

No.

A

Q

Okay.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

It was an illustration.

A

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

So simple answer is, it's just an illustration of how the math works.

A

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

Yeah.

A

Q

Okay.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

So if you can do 2 points more for the total base, then you get €500 million in five years. So then if you think about today, connected elevators, they are 5 points higher retention. So if we connect all and have the same math work and then it's 5 points, but we haven't taken a view on the retention going forward. But clearly that is the key number.

A

Q

But the key but your goal is to improve the retention rate and mostly through digitization rather than you're not competing with your ISPs in terms of how close they are to the customer. The key driver is more on the digital side.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Well, actually digital is also helping on that one.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Yeah.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

So with digital, we can actually get closer to the customers just in a digital means. If you think about your personal life, it's quite personalized to what you use.

Q

Yeah. And my second question is, I can see a lot of optimism in your presentation. So it brings me to ask the question a year medium term targets, a bit conservative.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

I don't know what to say to that.

Q

Thank you.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Okay. Andre next.

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

Good morning. It's Andre from UBS. I wanted to first follow up on the Modernization margin. Is it in double digit?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

It's not that different than KONE average.

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

Thank you very much. And much broader question, Philippe. I was just going through slides and what you said, and I think one of the areas that we thought you'd address and talk about would be opportunities for more lateral market expansions for KONE, maybe into broad areas of buildings or something else. Is that something you've thought about and decided not to address, or is that just not a priority right now, because there's so much to do internally?

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

I love focus. Focus and committed on one industry where I think we have so much to do. And if I can just say, so I've been in a parallel industry for – to elevators, which is electrical. There is a thesis that, okay, you're going to be a service – or there are people who believe that you can be a service provider in buildings of HVAC, electrical, all of the above, all together. What I've learned in my previous life is that it requires focus to do well in HVAC and electrical, and that actually doing an elevator, you need safety, you need quality, you need to understand what's going on that thing and the generalists would have a very hard time to do this. So I think we have a lot of job to do already with focus on those four shifts. We're going to do it well and the rest will follow.

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

If I just may follow up, your previous business kind of built on low voltage into medium voltage, into specific applications like data centers. You acquired industrial, [indiscernible] (01:25:38) software assets into it.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

[indiscernible] (01:25:40).

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

So it was focused and it is focused...

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Yeah, yeah.

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

...but it explored adjacencies quite aggressively, I would say.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Yeah.

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

Is there scope for this at KONE or you think those verticals are absolutely silo-ed?

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Focus. Focus, which again does not prevent us to drive some innovation, making bridges and see how things could be optimized, for instance, with a building measurement system. So we are making a few trials here. But I think really there's one thing we really cannot miss, which is the digitization of the business to start with. It requires a lot of work and I really want to make sure that we have the speed and intensity here, so that we don't let the train go without us and we are in the train today, but I want the train to go faster.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Thank you.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Yeah. Let's take a couple of questions from the online audience as well. First one is on modernization. So all the other large companies of the sector have been very focused on the opportunities in modernization as well. Do you think your capabilities are superior to your competitors?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Maybe you want to take it.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

We think we are good in modernization and we want to be great. Now, where competitors will be is their choice and their execution. What I can say, I mean, I've been now nine months, so I cannot say any more, [ph] I'm out of this company, I'm within this company (01:27:02). But what I've seen in this company is what I call is dominant hand, which, when you don't push the company consciously, things always come back to New Building Solution because that's what has been driving what KONE is today so much. So, what I can say is, we are really working hard to make sure that the dominant hand of the company becomes Modernization and Service. I think we are good at that, but we need to be very, very good. We need to be great at that and the rest will follow.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

And competitors, I suspect, are also working on it. But it's not for me to judge whether they are doing better or worse than us.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A



Yeah. Then another one on digital. So, can you give a tangible example of measures done to improve the scale up of digitally enabled services? This was discussed a few years back as well, but I presume the progress hasn't been great. Can you share some examples of how this can and has been done better? Thank you.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

So, I would ask for some patience and you are going to see a few example very soon from the areas which people who know their business much better than me. I think those examples are extremely compelling.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

So, we'll take the question in the next presentation.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Okay. Let's take from that side then.

**Nicholas J. Green**

*Analyst, Bernstein Autonomous LLP*

Q

Thank you. Good morning. Nick Green here from Bernstein. A question on your capital allocation, please. You indicated probably a flat dividend, it sounded like, or at least a consistent dividend. But you have a higher growth story. You have EPS growing faster than your top line. Would it be – could we be optimistic and hope that dividend would move with that kind of growth or are you counseling that it should really stay flat?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Well, of course, at the end, it should be a question to our board. If you look at the past, when we've been able to improve cash flow and have had very strong balance sheet, then we've paid more dividends and the growth of the dividends has been important for the board. So I would look at the past as a proxy of the future. But I said we don't guide or have a policy for dividends, but the past seems to look more like that.

**Nicholas J. Green**

*Analyst, Bernstein Autonomous LLP*

Q

Okay. Thank you. And as a follow-up, please, on your slide 44, which I think was your margin bridge, I think you'd indicated that partial modernization is a margin accretion story. Could you just tell us that again why is the partial modernization margin accretive as opposed to the full modernization?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

So I think Philippe actually told the story with this box already. So if you think about modernization of an existing elevator, it actually takes quite a lot of time and effort. And if you're able to modularize it, so do it partially with the

packages. It also is something that you can scale up and make it much easier for our installers to do it, do it faster. And that's also then contributing positively to margins.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

And probably higher share of the value add there overall.

A

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

Yeah. Yeah. Exactly.

A

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A question here.

A

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

So let's go to the front row.

A

**Miguel Borrega**

*Analyst, Exane BNP Paribas*

Hi. Miguel Borrega from BNP Paribas Exane. You mentioned connected units went from 7% in 2020 to currently about 20%. And digital has 10 percentage points of higher conversion and retention. At the same time, the bridge in slide 6 shows recaptures, net of churn, is negative. So just maybe you walk us through how and if that will change going forward.

Q

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

So, first, it's I said 5 points higher, not 10 points higher for the impact on digital in...

A

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

Retention.

A

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

...retention. So we are seeing so improving benefits and see a great opportunity going forward. But like Philippe already said, also in digital, I think there's a lot we can do better going forward as well. But clearly, we are seeing that positively.

A

Then to your competition balance question and churn, actually, the churn is much more with equipment that are older and those relatively are actually then connected less than the newer elevators. So the competition balance is more reflecting the past than the future. But for example, Europe is a good example where we now are having a neutral to positive competition balance as a result. And it's one of the leading areas in terms of the digital. So, clearly, it is starting to have an impact and we see that in the numbers already.

**Miguel Borrega**

*Analyst, Exane BNP Paribas*

Q

And my second question on the business mix, [ph] Ilkka, you (01:31:57) predict 50 basis points throughout the three years. Can you give us some color on how that's being calculated? Does it assume stable margins on each segment and then you calculate on the growth, or does it imply that new equipment margins continue to decline?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

So, I guess, what I was commenting and trying to be very explicit is how we drive the individual businesses and then how the mix is then taken out separately. So, it's more margins as is basis.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Let's go to Tom here next.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

And I'm sure I'm going to get a lot of mix questions with the profitability of the individual businesses going forward.

**Tom Skogman**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Yes. Hello. This is Tom Skogman from Carnegie. The whole industry goes after service growth. It's quite natural. But how can we kind of be confident that you will not – and the whole industry will not fall into losses in the equipment business. I just saw in China in Q2, sales down 19%, but flat number of employees also there. I mean, how large part of employees are in service and how big part is in the equipment business, because it sounds like you should cut back costs a lot there.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

So, I guess, you're asking different things with that question. So, clearly, in all markets across the globe, we adjust the business based on the environment where we operate. And also in China, it's good to remember that for the NBS business in China, which is a declining business, we use subcontractors to do the installation. So the relative size of the employees for NBS business is fairly little and most of the people are in the Services side and that is continuing to grow quite nicely. So I expect that people number to continue to follow more the Services business than NBS business. But Joe can clarify as well.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

And on the point on taking NBS at loss and driving Services, I repeat what I said, which is modernization also drive services. So we just have to integrate that. The whole operating model of the industry as modernization is growing is changing from NBS to service to also modern service. And when you look at the unique number, if we do the job we want to do, it should be a big service provider, too.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah.

**Tom Skogman**

*Analyst, Carnegie Investment Bank AB (Finland)*



But does China becomes like Europe or so, are there pockets in Europe and the Western world where you have sold elevators at a loss the last five years just to grow the service base? I mean, is that the habit of the industry somewhere?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*



For KONE, if you think about the three businesses separately, so you're optimizing a decision by a customer to choose an elevator and then the different customer that is choosing the maintenance partner. So you get two bites on the apple, and we definitely want to optimize also the profitability of our NBS business. And yes, I look at the life cycle opportunity, but if I sell at the loss to NBS, only thing I know for sure is that the lifetime profitability goes down. So, at the center, win residential, we want to make money in that business. It's not a business where we want to give away money.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*



And I have actually a question on that. So, let's take one from online. So can you please explain why residential is highlighted as a focus area in NBS as compared to, say, commercial and industrial new builds, which also contribute to your service base? What is different in resi that makes it critical for you?

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*



It's a bigger segment that's pretty simple, and I think for people who are in Europe, they're a bit tainted. And I think the example in India is going to be great to understand that there are places where actually residential segment can bring great margin, so – and great margin and great growth. So it's really about precision of how to bring the right thing in the right context. But with all of this, the point is, we think in the lower part of the residential market, we have an opportunity to be coming with more fit-for-purpose elevators with optimized installation and sales cost that allow us to take market share. And we've – in that space that we think is pretty big across the world, we think we can do an even better job than what has been done in the past.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*



Yeah. And...

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*



That's why we put win residential.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*



And it's also – remember, you shift – as you said it, it is a shift where we want to focus our efforts to make a shift in what we do. It doesn't mean that we're giving away from the other businesses, but that's where we see the opportunity.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Yeah. And you'll see in some of the presentation, we have a fantastic high rise, for instance, offer where I think we really have a competitive advantage in term of innovation. Here, we're good. On the lower part of the residential, there is indeed a shift of work to be done to make sure that we are also great in that space because we want to lead. We want to be the best in innovation where we target to be the best.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Okay. Let's take from the back next from this side.

Q

[indiscernible] (01:37:33). There's a quite nice acceleration in Service's sales growth from 5% to 9% and it sounded like that you outperformed competition there. So, I mean, beyond retention, what do you attribute that to, the step up in growth?

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Well, so if you think about unit growth, that has been a key source, 5% to 6% unit growth, of course, helps a lot. And then, on top of that, in the recent years, there's been a tailwind from pricing. So with higher inflation, you get a tailwind from pricing. But also digital has contributed positively and then you start to be able to offer a better service. So, with digital units, also, pricing is better at the end. You're able to differentiate differently. So, it's not more complicated than driving the unit volumes in what you install, what you convert, what you retain, and then getting the pricing right. Clearly, going forward, pricing tailwind from inflation will be lower, but we see opportunities in being better at pricing also. So, there's clearly room for improvement.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

In my view, there is one more thing on what drove superior performance, which is our people and it's hard to copy, but in all the trips I've done and meeting customers, meeting our people, there's one thing that stand out in my view, which is the culture and the customer culture of KONE, which is fair enough, we are here to make money and so on, but the customer proximity that we're showing in most of our geography seems to be very strong. And it's a people business enhanced by digital, but the people attitude, which has been years and years of training, seems to be very strong at KONE from what I've heard from our people, from our customers, and I think it's a part of what made us better to drive the profitable growth.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Yeah.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Let's take one final question as you finished your presentation early. That was great. And then we have the other session as well. So from the front. Let's take [ph] Maxim's (01:39:54) question and then we'll continue later. Yes, there.



Hello. [indiscernible] (01:40:02). First of all, thank you very much for additional disclosure. Much appreciated. My question is that KONE recently or a few years ago had a go in thyssenkrupp transformational M&A. You said you're still hungry. What is your appetite for such deals like thyssenkrupp today?

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**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

Our appetite has not changed.



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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

That was short and punchy. Thank you. I guess, next, we have time for a break, so 15-minute break, and then we have another longer Q&A session, I say, for example, all of the – most China questions so once we have the Area EVPs together with us on stage. So 15-minute break and then let's be back here. Thank you.

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**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

Thank you.

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**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

Thank you.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

Okay, let's continue. So as I promised in the beginning, next, we will hear a little bit more from the area perspective on how we're going to execute on the new strategy. And the area colleagues are also going to share a little bit about the basics on how the areas are different from one another.

First we will talk about Americas. So I would like to welcome on stage Ken Schmid. Welcome, Ken.

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**Ken Schmid**

*Executive Vice President-KONE Americas and Member-Executive Board, KONE Oyj*

It's great to be here today and finally have an opportunity to see the audience face to face. COVID and complexities prevented me from being here in past years, but it's really great to be with you and those that are with us virtually today. I'm really excited to talk about the Americas today. If you've attended multiple Capital Markets days for KONE, maybe the Americas hasn't had much prominence. But as we've heard today, the Americas is contributing second most in revenue to KONE globally, and our profitability is driving the global group profitability up. So we're very happy about that and have high responsibility and expectation to continue that trend as we move forward.

I've spent my entire career in this industry. I don't want you to start trying to do the math of what that means quantitatively. But today I stand here and never, never have I seen market dynamics, along with KONE's

competence and capabilities in the Americas converge to accelerate our opportunities to grow Service and Modernization. But before we talk about moving to the future, let's understand the composition of the business today.

We have a very balanced business across the three business lines in terms of revenue, as you can see here. Our market, very mature, very old and aging installed base, which is that opportunity for Modernization. Non-residential is our largest segment as we look forward in the geography. The US accounts for 80% of the total revenue. So the big part of the Americas. We are number three in the New Building Solutions segment and we are number four in Service.

In the past, you've heard us talking about being a challenger. With the new strategy, we're shifting from a challenger mindset to a rise to lead mindset. That means speed, it means courage, and it means simplicity as we move forward. So we'll be moving our culture, our leadership and our organization in this direction to capture these market opportunities.

Let's see how we have been growing over the years. So clearly in Service, the last three years are growing at a clip much faster than what the five year cumulative is, 13% in Services. You might say, where is that coming from? I think Ilkka did a very nice job of articulating that, growing the organic base, increasing price, expanding the repairs and the digital element that's adding to the revenue in service.

Modernization, in the Americas, Modernization has always been a part of our DNA. We've been a first mover on many fronts in terms of innovative solution development and I'll share a great example of that with you in a few moments. But Modernization growing 18% over this three year period. And the good story around New Building Solutions, though there's been a little bit of volatility in the market contraction and growth, KONE in the Americas has continued to grow share and get price in New Building Solutions market. So very stable market. Looking ahead, we see it somewhat tempering balancing and maybe we saw the Fed lowering interest rates, it's going to take time for the interest rate, inflation and availability of resources in construction overall to come back, be available and demand, obviously, in certain segments of the market to come back.

Great growth opportunity in Modernization. It is what we make it. The demand is there. The opportunity is there. We have to strategically come, make the value proposition and deliver on that.

Moving to the strategy. Philippe did a great job of articulating our vision here. So we have the four shifts. Each of the leaders from the areas will pick a few of the shifts to go in a bit more granular fashion as to what we're doing specifically to capitalize on that shift in our geographic areas. The core, the core is our people and our customers. The core, and you don't see it here is our unwavering commitment to safety and quality of our employees and the public. And what hasn't changed are our KONE values, customer, courage, collaboration and care. These will drive our strategy forward along with courage, speed and simplicity.

The first case I'd like to talk to you about is a Modernization major project in the infrastructure segment. So we had a question earlier about the difference between partial and complete Modernization and what that means. This is a great example. Dallas metropolitan area many of you wouldn't associate transit with Dallas, but it's there and it's happening in a lot of the major cities in the US as Philippe said, it's hard to grow vertically until you have an efficient and effective horizontal transit capability to move people.

This was a three-year collaboration with a customer in a very complex environment, 50 meters below the ground, high traffic area above ground, logistic challenge, material handling, constraints in terms of the equipment that was already there. How do we get things out? How do we get things back down there? KONE has a proven track

record for handling infrastructure escalator Modernization in the transit space. After three years of collaborating with the customer to minimize disruption understand traffic flow, what are the alternatives that we have? KONE was awarded this project because of our unique solution, technical capability, collaboration and recognized leadership in the marketplace of delivering on these types of complex projects. And these projects come at good monetary value per unit and good level of profitability. So that's one of our focuses along with winning in residential, in Modernization as well. But let's shift over to winning residential.

Mono 300 DX (sic) [MonoSpace 300 DX] (01:48:14) the hydro killer. What does that mean? KONE was the first mover to bring the machine room-less elevator to the market. We're very proud of that innovation, introduction in the Americas. The Americas in KONE was a first mover in sustainability, believe it or not. In 2007, we made the commitment, we are no longer going to manufacture hydraulic elevators, why? Potential contamination of the environment. You have a piston in the ground that holds oil that potentially can rust, leak, contaminate the soil. High energy consumption, noisy consumes space. We were moving proactively to get the market to move towards the machine room-less elevator space.

Now the challenge is we were very competitive on certain applications of MRL, but the broadest part of the market in the Americas was this two and three landing building, and that tends to be pretty resilient under all economic cycles. So this great whitespace, this great accessible market, because of the lack of cost effectiveness in our offering, we weren't there in the marketplace. So we said we need a new solution. And who did we go to help develop that solution? Our technicians. Our technicians comprise 80% of our workforce in the Americas. These technicians have a very high hourly rate. In addition, the average cost per unit in the Americas, as you can see, is much higher than the rest of the world due to code requirements, bigger sizes and the cost of labor there

So the cost of labor, the efficiency was critical. Getting the voice of these technicians designing KONE MonoSpace DX 300 (sic) [MonoSpace 300 DX] (01:50:05) by technicians for technicians. Reduce the number of tools, reduce the complexities with different sizes of hardware. We standardize the mode of operations, the sequencing, the packaging, everything that would facilitate the most efficient installation through the entire full chain, not just once equipment is delivered to the front line, but starting with engineering to procurement, to manufacturing, to packaging delivery.

So this Mono 300 DX (sic) [MonoSpace 300 DX] (01:50:40) allows us to access whitespace, broader coverage, new markets, new customers with a cost-effective product that adds units to our portfolio that bringing those into the surface portfolio at much higher margins than those if we were going out and trying to win from the competition. So a great opportunity and win residential, as Philippe said, the biggest segment, growing segment will help continue the great growth pattern in the Americas.

Something, maybe you didn't come here today to expect, hearing from an Americas industrial company leader, cut carbon. I am personally passionate, emotionally committed to my family, to the environment, to my community, to my corporation and to the Americas to do what KONE can possibly do to reduce carbon for all of the right reasons for the environment. But because this also adds value to our customers, though we might not see it today in terms of decision making of awards, our customers are highly passionate and this is going to grow.

In addition, as we recruit high caliber talent today, this is one of the first things they ask us about. What is your commitment to the environment? Is this the kind of place? Do you have the values that I'm seeking in a company that I want to live and grow with? So the Americas is equally passionate about cutting carbon, aggressively moving our fleet and lower energy consumption, EV where possible, and doubling in some cases the range that some of our vehicles have using gasoline, moving our facilities to be very efficient, avoiding gas and moving to electric wherever we can and finally, the Scope 3 emissions. The regenerative drive. 40% reduction in our full



operations, which impacts our customers' carbon footprint as we move forward. And the regenerative drive is a great way to do that. The recycling of materials through Modernization, reusing materials on Modernization wherever possible. So we have a broad list of opportunities to proactively address some of these issues.

There are really four key levers as we look forward that are going to drive this continued track record for profitable growth in the Americas. First is pricing. We can be much more sophisticated, much more targeted to assess what is the value proposition that KONE is providing in this geography, in this segment to these customers. And we must do this. So pricing is a great opportunity for us as we move forward. Productivity. We've talked about this already in terms of the Mono 300 DX (sic) [MonoSpace 300 DX] (01:53:43) but it applies across our entire offering.

By the way, all of the lessons learned from the Mono 300 DX (sic) [MonoSpace 300 DX] (01:53:53) in terms of reducing the installation time, industrializing the process, we are going to apply retroactive to other parts of the portfolio, which bring other great productivity opportunities. But it's not just the productivity in the field, it's the simplicity piece, reducing waste, leaning processes, applying Six Sigma principles to our administrative processes, so we can act more effectively, more accurately, with more speed, which brings me to industrializing Modernization. We have rationalized what was historically a rather complicated Modernization offering down to a few core offerings. Now the key is to industrialize that process. Get the bills of materials so that they're repeatable, executable. Now, we can leverage procurement, our scale to get better prices.

Now, we're manufacturing in a very common way across this rationalized offering and when it arrives at the field, they already know what is in this box for this point in the Modernization process with aids and facilitates transparent, effective, timely communication with customers. Because the most common thing we hear on Modernization, I never know what's going on. My tenants were unhappy. Now we're communicating proactively, effectively, oftentimes visually in the elevator lobbies. This is what we're doing today. This is what you can expect next week. So, the industrialization of the Modernization process as we grow in this business line is critical to achieve greater levels of profitability.

Finally, the operating leverage. We have had a multi-year track record of performance in the Americas where our profitability is increasing and our fixed cost percent of sale is decreasing. We will continue both of those trends into the future.

I'd like to leave you with just a couple of facts. We will continue to target moving to mid-single digit revenue growth and continue to improve our profitability, pushing KONE's overall profitability up over the coming periods. We will strengthen our culture as we move forward and we have a very good KONE culture in the Americas.

To take advantage of these opportunities in the marketplace, we must act with more courage, more speed and simplify. Our colleagues in the Americas are proud parts of KONE. We're very proud to our contributions that we make to this global corporation, and we're very proud of all the contributions that we will make to the environment as we cut carbon and deliver on our sustainability commitments.

I thank you for your time and I would now like to welcome Nicolas Alchal to the stage to talk about Europe.

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## Nicolas Alchal

*Executive Vice President-Europe and Member-Executive Board, KONE Oyj*

[indiscernible] (01:57:01) Ken. And good morning, everyone. So few words about me before we get started. So I've been now 20 years in the industry, 13 years in KONE, working across different markets in Europe, but also in Middle East and Africa. I have joined KONE Executive Board in the beginning of this year responsible for our

Europe business. But when I reflect on my journey in the last one year, I have transitioned from my previous role where I was responsible for our business in Middle East and Africa for the last two years to Europe. Whereas you know, the construction markets in Middle East and Africa and Asia-Pacific have been very strong and growing double digit.

And when I joined Europe, as many of you, of course we are hearing about the downturn in the construction markets in Europe in the last few years and that the markets have been really challenging, which is, of course, partially true. But in reality, I have joined the Europe market, which has been growing very strongly, especially in Modernization and Service. I think Philippe in the beginning shared that there are 10 million units globally that are more than 15 years old, 5 million out of the 10. So 50% are actually based in Europe.

The Service business in Europe has been growing also very strongly. So I'm very happy to share today that our story for Europe has been a story of growth in the last few years and accelerating the growth recently with clear focus on Service and Modernization, which has yielded to profitable growth over the last years.

But let me get started and give an overview about our business in Europe. So Europe is a sizeable contributor to KONE business overall, with total revenue of around €4 billion. We are present in 37 markets in Europe, most of them being mature markets with very old and mature installed base, which makes it that Service and Modernization account for around 70% of our total sales. The Service market alone accounts for around 50% of our total revenue.

The Service market in Europe is still highly fragmented, so around 40% of the Service base in Europe is in the hands of independent service providers. We are positioned and number two in New Building Solutions and number three in Service or still opportunity to lead and rise to lead with our new strategy.

Now, now the residential segment is by far the biggest customer segment that we have in Europe, as you can see. Now, we have seen in the last few years an increasing demand from our customers in the residential segment for more competitive, no frills solutions. And we expect this trend to continue in the future in Europe. So how do we address to this customer need? I think aligned with the win residential strategy that Philippe explained in the beginning, we are introducing in Europe new fit-for-purpose solutions that will help us to be more competitive in the residential segment, increase our share of market in NBS, but also in other business lines and boosting our life cycle profitability.

And we will talk more about it throughout the day. If I deep dive into the different businesses, I think what's clear is with the downturn in the construction markets, as I mentioned earlier, our growth has been driven by Service and Modernization. So both Service and Modernization markets in Europe have been growing in the last few years. We have been growing our share of market. And as you can see, we have accelerated our growth in 2023. And in the first half of 2024, we have actually achieved double digit growth in both Service and in Modernization.

Now in New Building Solutions, what we see is that the markets are starting to stabilize in Europe in the first half of the year. We are regaining market share in the New Building Solutions and our orders have grown again in the first half of the year in Europe. So our new strategy Rise to Lead will help us to achieve our ambition in Europe. And I will share with you next three examples of how we bring our strategy to life within the context of our business in Europe. But I will start with our most exciting opportunity, which is Modernization, which will be our growth engine in Europe. So we talked already about the 5 million units that are more than 15 years old in Europe, which makes it that Europe has the oldest installed base with an accumulated Modernization depth.

If I take an example, Italy, which is one of the biggest Service markets in Europe, 40% or more of the installed base is actually more than 30 years old. And as you can see, the blue dot here, we are currently modernizing as KONE around 20,000 units per year in Europe. So the opportunity is really as big as we make it in our region.

Now, one of the key drivers in Europe that is driving Modernization is actually the strong sustainability agenda that we see driven first by EU with clear targets for greenhouse gas emissions by 2030 and climate neutrality by 2050. There are regulations that are already in place and that are coming in the next years that will drive also the sustainability agenda, there are country plans, there are cities plan, but there is also a customer demand for making their buildings certified and also for helping them through this sustainability agenda that will be driven.

So sustainability is one of the key drivers. But there are also other key drivers clearly in the market with a need to upgrade to the newest technologies, with more demand for connectivity and digitally enabled solutions, but also with a clear trend in Europe to upgrade and modernize different buildings. But let me share one example or a case of how we can make really the opportunity for Modernization exciting and bigger in Europe.

So, this case is about upgrading the first-generation of MonoSpace elevators. So what's MonoSpace? so MonoSpace is our standard machine room-less platform that KONE has first introduced in the market in 1996. It has become since then the industry standard with all competition following with the machine room-less platforms and what we see now is actually around 150,000 units of KONE MonoSpace units in Europe are more than 15 years old. So, as you see there, the size of this blue dot and then the KONE MonoSpace opportunities being 150,000 units, so this gives us one of these opportunities to increase the blue dot and accordingly contribute to improving on the Modernization depth in Europe.

So what solution are we offering to the customers related to this? So, we have launched already a KONE MonoSpace upgrade solution. So this offers with a partial Modernization and attractive alternative to a brand new elevator where you actually get the latest technology with the ability to connect your elevator, to also enable it with digital solutions, to have new designs, but very important as well to contribute to the sustainability improvement where actually the MonoSpace upgrade offers 50% lower carbon emissions versus a full replacement.

And the beauty of this solution is that, it's easy, it's cost-efficient and it's fast to the customers. So, we aim to reduce tendering actually from hours to minutes and the delivery from weeks to days. When we compare this with a full replacement of an elevator, which takes a much longer period, of course, is more expensive, you can see clearly the benefits of this solution. And it's already a proven solution because we have already delivered several thousands of these upgrade solutions in Europe. So this is just one of the case examples why we are really excited about the Modernization opportunity and the potential in Europe.

But if I move from Modernization to Service as well. So we are aiming in Europe and we have the ambition to grow our Service business by close to 10% year-on-year. And we believe that digitalizing our service portfolio will clearly accelerate this journey and contribute to the growth. I think we explained already a lot in the morning about how this brings value to the customer. But what's most important is this opportunity to improve both on the conversion and the retention rates. We have already achieved in Europe in 2023, a retention rate of 95%, which has been a clear improvement from the previous years. But also what's very important and I mentioned earlier that it was not – it's not only about our Service portfolio, but it's also about wins from outside our Service base by modernizing elevators for digitally-enabled services.

And I think we are very happy to share that we have turned a traditionally negative competition balance in the last few years in Europe to a now neutral or slightly positive. And our clear aim with Accelerate Digital is to turn it to clear positive in the coming years.

And to complement our organic growth story, Europe, as we mentioned, offers also big opportunity when it comes to consolidation of the Service business with bolt-on acquisitions. I think we see this trend in Europe continuing in the coming years with the need for newer technology, with the need to meet the sustainability regulations and drive it forward in Europe. So we see that this will continue and we want to continue our journey there. We've already had success in the past. So the bolt-on acquisitions have contributed to around 40% of our Service unit growth in Europe in the last four years. And we aim to continue that journey with the opportunity in the coming years.

But to come back to the Digital Accelerate and I think you've heard a lot about Poland before the break and I'm really excited to share the story of Poland that have started a few years back and now happy to share this finding. So today in Poland, we sit with more than 80% of the units being connected. The clear advantage of having this high percentage of connectivity with enablement of 24/7 connected services, it gives you the advantage that we talked about in the morning, the predictability, the transparency to the customers, a clear improvement in the service delivery quality that leads obviously to the customer value. So what we see in Poland, the retention rate is 5 percentage points higher than KONE average. And the Net Promoter Score has improved now 20% versus four years back when we started that journey. So clear customer value.

But then also when it comes to the our own operations, the – achieving this high level of connectivity have enabled us that more than 80% of the units are equipped with dynamic maintenance plans. So this means that we are able to focus on less physical visits and a more proactive approach to service needs, knowing with the data that we collect what are the exact specific requirements for every unit, and accordingly adapting our service requirements in a dynamic way to plan the visits and the maintenance plans. And this has led to clear productivity improvements. These are two measures that you can see, which gives you a clear idea. The onsite hours per equipment have reduced by more than 25%, while the number of units per technician has improved by more than 20% on the Service portfolio.

And now, when we achieve all this, the next step, which we have already started since last year, is with the new remote services. So we have enabled more than 1,000 units in Poland with remote services allowing safe interventions remotely for remote rescues or remote resets to improve the performance of the elevators. All of this and all this journey has contributed clearly to the business results, where we see our Service profitability in Poland has improved by 3 percentage points and the monetary value per service contract has increased by more than 20% with, let's say, the additional value-added services and the connectivity top ups.

So this is an example of how Accelerate Digital can help us also in very mature markets in Europe. But productivity as we drive it of course and the Accelerate Digital and other shifts we see also opportunity when it comes to our core as part of the new strategy. And one of the key initiatives that we have already started in Europe in the last few months is the sales and ops excellence, which we believe will enable us a step change in profitability.

So Ilkka shared in the beginning that last year, one year back, we have done the operating model renewal and we focused there on the structure for the areas. So the areas have been enabled and have been taking more ownership related to driving performance, in first the areas but then in the countries. And now what we are focusing on is on improving the business performance even on a regional level, because what we currently see is there are variance in the performance, but also in the results.

So, what is the aim of this sales and ops excellence? The aim is actually to standardize and cultivate the best practices that we see from our best performing regions across the different teams in the different regions to

improve both productivity and pricing. As an example, I think we've started two months back with clear measures on pricing. So, we have collected the best practices that we have on pricing when it comes to pricing routines, pricing plans and actions that we take in the best performing regions. And now, we are standardizing these practices across the regions and we believe that this will bring benefits for the performance for both customers by improving performance, but most important on the productivity. And we are targeting substantial margin uplift from this initiative over the mid-term.

So, what does this all mean for us in Europe? I talked about accelerating growth in service and modernization is our key focus and will be our key priority in the mid-term, but also on the longer term. It's driven again by digital, by a large and old installed base that we have in Europe, and a very strong sustainability agenda across all our marketing – our markets. We're targeting mid-single digit plus growth over the next years in Europe, which will contribute to boosting our group results, but we do all this by strengthening again our culture, our culture of courage, of speed and simplicity, which we are committed to drive in our largest area and one of our most mature markets there.

Thank you very much. And now, I hand over to Joe to take us through the story of Greater China.

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## Joe Bao

*Executive Vice President-Greater China, Kone Oyj*

Good morning. It's great to be here today. This is my first Capital Markets Day as I joined KONE in late 2022. Prior to KONE, I spent 18 years at Microsoft, five in headquarters in the US and 13 years in Greater China, where I helped a lot of our customers on their digital transformation journey to cloud and AI. In the last two years with KONE in the region, it's been tumultuous times, but we're committed to the long term. And I'm confident that with our strategic shifts, we're going to adapt the new market realities and build a sustainable and resilient business going forward.

Let me spend a couple of minutes talking about where we are in Greater China today. We'll spend some time on the market outlook and then we'll look at our strategic shifts and our strategy in totality. In 2023, we represented roughly 25% of KONE sales, 70% in newbuilding solutions, 20% in services, and 10% in modernization. This is already representing a shift towards services and modernization. We were highly, highly dependent on NBS in the past and actually for 2024, the shift is even more pronounced.

We've shipped cumulatively 1.6 million elevators and escalators from our factories in China, and we service 650,000 in the region today. 150,000 of that is in the first service period. If we look at the last five years, we can see we're already on the journey to services and modernization. Services is growing at 11% CAGR over the last five years and modernization is close to 20%. Of course, those businesses were small in size relative to our NBS business, which has seen a decline, 4% over the last five years on CAGR, but accelerating decline over the last three years. Our peak was in 2021, and you can see here 17% decline over the last few years.

And why is that? It's really because China is undergoing a rapid rebalancing of the elevator and escalator market. There are structural adjustments happening in the real estate market. In 2019, prior to COVID, this business was growing double digits. But in 2024, a short five years later, you can see for the first time actually services and modernization as a mix of the entire market split is higher than NBS and we expect that to continue to happen.

And by 2030, actually, we will be very much like a mature market composition where NBS and services will be roughly the same size and 20% to 25% coming from modernization. And this is really because there's an asymmetrical supply and demand. As China was growing very quickly across all the Tier 1 to Tier 5 cities, demand for residential was really coming in and supply was coming online to support that.

But we're now in an adjustment phase and governments are pivoting from land sales to urban renewal. And that's obviously a great story for modernization. But we're in the early activation phase of the modernization journey. 3 million units will exceed 15 years of age by 2030 entering the renewal cycle, but we are just starting. The industry is just starting here. And policy for the first time, the government policy has explicitly called out elevator in the renewing equipment list. And this is, I think, a very new trend this year and this bodes very well for us in modernization.

At the same time, let's not forget the service market. There's 10 million elevators and escalators in use in China today, and that number is growing by 500,000 every year as we think about new equipments coming online. So, safety is a top priority for local governments and this really necessitates early warning systems in IoT, and I'll touch on that in the coming slides. So, when we come to strategy, today I'm going to really spend time on three of the shifts, but I don't want to leave out cutting carbon.

We operate the biggest factory for elevators and escalators in the world in Kunshan, which runs 100% on green energy and 40% actually coming from solar. We're very proud of that. At the same time, when we talk about modernization and as the government talks about modernization, it's really about cutting carbon. There is a lot around how do we save energy costs? How do we save time? And these components really impact how our customers talk to us about cutting carbon. So, unfortunately, I won't spend too much time on that shift today, but it's critical for our journey in Greater China.

Let's start by talking about NBS. And I talked about that this market is in a structural decline. I want to show a couple more data points here. So, from the peak in 2021, we've dropped roughly a third in terms of units on an annual basis, and we expect this market to further decline in 2025. We, however – the market, however, is composed roughly the same globally as two thirds is residential, and we maintain our leading position in residential. But our goal now is focusing on product cost competitiveness.

It's about simplifying our product portfolios, and it's about building supply chain efficiency. At the same time, we are targeting projects in segments with better lifecycle value. And I show an example here of metro infrastructure, where we've grown 3x over the last three years, where conversion and retention rates are 98%. And finally, our focus is on cash flow. Cash is king. And this is very important as we optimize our channel strategies to address our cash flow situation in China.

If I move to services, I mentioned it's a 10 million market and it's very fragmented. We talk about Europe being fragmented, China's ultra-fragmented. No single player has over 7% share of this market. It's dominated by 16,000 independent service providers, managing 70% to 75% of this market, but there is increasing pressure to consolidate and the reason is these ISPs have difficulty in meeting increasingly stringent government regulatory policy requirements, both from a labor perspective, as well as a reporting perspective, and there's a lack of management and technical expertise as ISPs get bigger. So, there's actually no nationwide ISPs in China. It's actually very, very localized.

Let me give you an example of this consolidation change or the need to consolidate. In Shanghai, a few months ago, there was a safety incident on an escalator. And when the government went to investigate, they found that the ISP servicing it was actually using the licenses from another ISP. So, doing it improperly and actually caused damages. As a result, the Shanghai government did a survey and said, how many ISPs do we have managing elevators and escalators today? And their assumption was 200 or so.

The result came out over 300 and had increased over the last three years and the government basically said, I want that reduced by a third over the next 12 months. So, what does that – how does that impact us as KONE? We've already started to see units coming back to our service portfolio. Customers are saying bring in the service contracts back to KONE. And if you notice on the screen here, I have this blue circle. KONE units serviced by ISPs, I term it KONE orphan, the KONE unit that ISP service, that opportunity by itself represents 500,000 units. And if we're able to bring that into our portfolio, it effectively doubles our business.

And how do we do that? We do that by accelerating digital and building digital tools and platforms. The first thing we've done is helping our own service technicians. We've increased productivity by 15% over the last two years. We're also building platforms for customers and I'll show you an example where IoT connectivity enables transparent service activity to PMCs and end customers ending in a reduced call out rate of 35%.

And finally, for China, what's very important is spare parts management system. We have a great delivery system in China, but we haven't translated that into our industry. How do we enable authentic parts delivered directly to customer sites and we're starting to do that and reducing the lead time here by 30%. But if I take you to Kunshan virtually here, if you're in our Kunshan customer care center, you would be seeing this big screen and this is really new for us.

And it's broken down in three parts. The left hand side is really operational status. We have 650,000 units. How do we understand what's happening every minute to those units? These are key indicators for our technical help desk and they are real-time data coming in for entrapments and call outs. The middle is how we manage our teams. How do we drill down to understand by project what is happening with our service units? And the right is super exciting. It is what 24/7 and digital predictive maintenance will give us. So, even if there is no call out, even if there is no issue, we are able to detect it and we're able to trigger.

Now, this is super important because this allows us to do condition-based maintenance. And right now, government regulation in China still stipulates every 15 days you got to go service the elevator. But we have 5,000 units today leveraging IoT, leveraging this that the government has said you no longer need to go every 15 days. So, we've gotten the authority to run those pilots and build that base. And we need to continually prove to the government that we're able to do that effectively and safely.

So, if we are able to drill down, I'll just take you to the next slide, this is what you would see. So, if we're a service supervisor today, I'm able to click on each of these project dots. Anything that has a Wi-Fi signal means there's 24 connected. Anything that's purple means it's a strategic customer of ours or a major project of ours where we have particular focus. And then, when you go into that, we can see the status of every elevator and escalator.

Why is that important? Say, there's a call out that happened. Okay, we're in escalator three of this major project. That elevator is a three-floor building. It would be great to understand where the elevator stopped. So, that data that we know is the door open or closed? Is that an entrapment? Which floor has it stopped? All that data is available for us to review real-time. So, all of this has allowed us to improve stickiness and customer satisfaction. By the way, this is what we have in Kunshan. But every customer that wants it has a customized portal for their units delivered to them in their data center in some cases.

The other part is that we grow service margin and we increase productivity. I touched on this big screen, but behind that there is also AI, a technician that is servicing an elevator. If they don't – if they have a question instead of needing to call, where the signal is not good, you're in the shaft, they're able to use that – where we're able to use a discussion tool and using AI, using natural language processing to be able to give that data to them,

information to them. And finally, reducing call out rates and improving the lives of our over 18,000 service professionals and technicians in China today.

So if we take that from services and we talk about modernization, so service business growing 11% on a CAGR basis, we're talking about a business now that's growing 19% on a CAGR basis. And we are taking more than our fair share. Why do I say that? KONE actually has the youngest fleet of aged elevators in China. In 2024, we represent 5% of the aged units in China over 15 years, and you can see that from 2024 to 2030, both the market is growing, but our base of that market is growing. So, we need to take, first of all, our own share. But today, our market share is actually over 10%. And how are we doing that? 80% of our modernized units are coming from non-KONE equipment. Only 20% is coming from our own installed base today.

So, we need to further our capabilities to drive modernization. The first point is enhancing non-KONE equipment competencies. Customers have three needs in China for modernization. The first, increase my speed. Every day, we're waiting for an elevator. There's too many people waiting for elevator. We need this – the elevator move faster. Second, ride comfort. And third, you got to install it for me in a period of time which I think is reasonable.

Imagine you live on the 16th floor of a residential building and somebody tells you, it's going to take you a month and a half to do a full refurbishment. And in the summertime, in Shanghai, you have to climb 16 flight of stairs up and down every day. You're not a happy residential customer. And so, can we leverage flexible partial mod offerings to take that from that month and a half down to a week? And those are the opportunities ahead of us to drive speed for delivery.

And finally, it's a different set of customers. We're teaching our teams that we do a great job with NBS, we know where the property developers are. We own 17 of the top 20 property developers in our customer base. But for modernization, these are different customer sets. So, how do we go to market, how do we find different distribution channels and how do we empower ourselves through digital platforms. Finally, how do we build brand recognition?

Last year, of all the high-rise buildings in China above 2,000 meters, we are in more than 30% of them and that gives us brand recognition and we are supported by government policy. As Philippe mentioned, the government policy to drive urban renewal, the first wave of that RMB 300 billion has been approved, has been approved, fully approved by the government. And you are starting to see trade ins.

Now, some of that is cars. Some of that is appliances. But part of that now, the elevator is in that terminology and in that product set. And this is super exciting for us. So, we've already seen projects sponsored by government where, for instance, a project is RMB 200,000 per elevator, they will sponsor \$60,000 to \$80,000. The rest, the tenants of that building need to come up with that money. So, our target is to grow our modernization business to €1 billion by 2030.

To summarize, we are transforming our business in Greater China. We need to adapt to the challenging NBS market. We need to respect our legacy. We have great R&D resources. We have a great supply chain. We have the biggest factory in the world. How do we adapt that for modernization? How do we lead our industry in digital service transformation? How do we grow margins there? But how do we really help the lives of our 18,000 professionals every day? How do we build \$1 billion modernization business? And I'm very bullish on this. And finally, how do we get everybody in China to show the courage, speed and cost consciousness in order for us to get there? That is what is ahead of us and we're committed to doing so.

Thank you so much. And I'll turn it over to Samer now. Thanks.



## Samer Halabi

*Executive Vice President-Asia-Pacific, Middle East & Africa, Kone Oyj*

Hello and good morning, everyone. It's a real pleasure for me to be today in this special day. And just a quick brief about my background, being in – with the company for 23 years. I joined the executive board back in 2021 to lead the area, and this is the area. The area is Asia-Pacific, Middle East and Africa. What's the specialty of this area? Healthy market, growing market, but we are, at KONE, outperforming the growth of the market by double digit growth in all business lines and we are bringing to KONE, to the group, the highest profitability.

So, great to deep dive now to talk about the market, our performance and how our strategy will help us to further boost the successful journey that we started already in Asia-Pacific, Middle East and Africa. When we look at the market, the market is very special because we have a very diverse area. We have a matured, developing, fast developing countries and we have a huge urbanization megatrend opportunity.

What that means when we look at the business split between our three businesses? We're still in New Building Solutions business 55% when we look at our sales and we have about 30% in the service business, modernization, growing fast at 15% almost. We contribute about 13% of KONE total sales. But very important that we hold the number one position as a market leader in the New Building Solutions and we are number two in the service business.

Important also to look at the segmentation where we participate in the market, 50% is residential, but looking at the other segments are very important as well. We have the commercial, the infra, hospitality, hotel, retails and those needs major project which is a special element in our area. So, we have a volume business, but we have also the major projects.

Let's talk more about this area which widespread, as we see here, geographical wide spread. To simplify it, especially from the geographical widespread, we see here all the way from Oakland to Casablanca, we have four major frontlines and completely different from each others. That's the beauty of this area. When we look at the urbanization, we look at Australia and New Zealand, for example, completely different rate of urbanization when we compare it to India at 37% today, with the great opportunity going forward.

Even within Southeast Asia, we have a big variance between Singapore and Vietnam. The same for Middle East, Turkey and Africa, between the Gulf area like United Arab Emirates comparing to Africa, for example. How do we operate in this large area? 23 countries we are directly presence and we cover a large number of countries through our distributors. And we serve today about, end of last year about 230,000 units in our portfolio.

How did we perform and how the market outlook look like today? As I said, faster growing, outperforming the markets. In the service, we had a double digit sales service from 2020 to 2023. In modernization and New Building Solutions, a solid double digit growth as well, again outperforming the market. This is great because we need all this to generate extra profitability to the group. And when we look at the outlook for this year as a forecast, it seems the growth are quite solid across business lines again.

Then, we have the strategy. Philippe spoke about the strategy. My colleagues referred to the strategy. How the strategy will help us to further boost and put more fuel to this growth in speed, in courage and simplicity? We're talking about the courage, and that's a great example because we need to raise the bar even higher in an optimistic markets like this in our area and increase more the speed. But we need to simplify for our people, for our customers to generate more productivity so we grow smartly.

And I will give two examples here from our shifts, what we call them the four shifts. I'm going to talk about the Win Residential, but I will also touch a little bit important market in our area, which is India. It's a fast-growing market. The highest population in the world, 1.4 billion people and urbanization, it's happening. No brainer. More than 400 million habitant to move by 2050, which will boost the urbanization even further.

The market in the past three years in India was growing at CAGR 30%, but KONE was growing at 40%. And our sales was growing at 36% rate. Big part of this market is residential, 75%. Of course, the Win Residential shift is important for us. We are a market leader. But we want to sustain and build on that. Very important thing in India is those element I will highlight now.

First, we have very high employee engagement rate, very high customer satisfaction rate and very high retention rate, 95%. So, when we see this growth in the New Building Solutions, we have very high conversion as well that's coming to the service and eventually to the modernization. This is a great news. We have the best quality in place among KONE. The call out rate is the lowest in India. And we have great facilities for manufacturing. Today, for the domestic growing market and soon to go even beyond India with all what's happening geopolitical, et cetera. So, this is a great story for us, this shift, to boost further and continue with the double-digit growth and the profitability that we are looking after.

Then another shift is this digital and accelerating digital. I'm going to talk about Southeast Asia, fascinating market for us, appetite of our employees for digital, our customer, the government support on the digital, it's great. This is great, honestly. Today, in this year, we will be crossing the 50% connected service in our units in service portfolio and we are confident we will reach to 100% even before the 2030.

What are we gaining here? As we see in the right graph, we're gaining in one year, this is a one year, 12 months, almost 20% reduction in our call out rate. What does it mean? This is a customer satisfaction naturally with less pain to the customer. Productivity for us, less cost and definitely to the bottom line, the profitability. So, we see a 100 bps improvement in the profitability already in two years.

I mentioned the major projects and major project is important in Asia-Pacific, Middle East and Africa. Philippe referred to the conference happened last – this week, actually, the Council of Tall Buildings, it's a very important element we heard that the number of those buildings that more than 200 meter tall is going to be doubled. And more than 100 of them will be by 2030 under construction. That's for the New Building Solutions.

When we look at the modernization, a great opportunity. More than 600 buildings of those more than 200 meter are in the area and they will need today and in the near future modernization. Are we ready? Yes, we are. And we started this journey. The good news about the major projects, we have close to 100% conversion rate and retention rate. So, this business is a fantastic business for us.

We have a great offering in place and great examples as we see here. We just launched and you will head today more about it, the KONE Highrise MiniSpace DX. It's a new offering for the mid and high-rise buildings, will generate a lot of value for – added-value for our customers, will cut carbon big time, we use the UltraRopes, compact shafts, more space for our developers contractor to use. All these are great things and we use this already in announced project recently by us in Melbourne. This is the Melbourne Square Boulevard. The customer is so happy about it.

Also, we have the JumpLift technology. JumpLift is something that KONE has – came with a new offer to wider this to mid-rise and even high-rise and across the board, and that generate a big saving and big things when we say six to nine-month construction saving, construction time saving, this is a big, big things in terms of return to

the stakeholders. This is where we have also launched Merdeka 118. This is a project that recently opened, handed over. It moves more than 10,000 people in this building. This is the second tallest building in the world. We have 10 meter per second elevators, more than 38 – 37, 38 double decker elevators. Superb.

Then, we have, in the modernization and I heard the question today about partial and full modernization. This is a great example, Dammam International Airport in Saudi Arabia. We have a combination of partial and full replacement, and this is very important, as Philippe referred before, to have those infrastructure projects and we will see them across the area in order to prepare for those high-rise buildings.

So, in a nutshell, I would like to say the opportunities are great. Growth opportunity in this area is definite. We want to continue outperform the market by a double digit growth from our side. This is so exciting for our people, for everyone, even our shareholders, I guess. The digitalization is a big things for us because this is we will leverage from the digitalization and we will generate more productivity which will have increased the scalable growth for us and generate more profitability. And we will continue and we are committed to continue delivering the highest margin to the group in KONE to boost further the commitment that heard today from Philippe and Ilkka.

Thank you very much. And I would like to invite Samer and my area colleagues to take some questions from you and the big bosses as well, please.

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## QUESTION AND ANSWER SECTION

### Sanna Kaje

*Vice President-Investor Relations, KONE Oyj*

A

Thank you. Yeah. Yeah. Maybe you can stand there. There's quite a few of us on stage. I'm sure we can fit. Okay. Let's start with the question over there. You had to wait [indiscernible] (02:45:20).

### Antti Kansanen

*Analyst, Skandinaviska Enskilda Banken AB (Finland)*

Q

Thank you. Antti Kansanen, SEB. Two questions from me. First is on modernization and it would be great to get some regional perspective on this as well. I mean, it's clearly an attractive market opportunity, I guess, for you and your competitors, ability to add units on service base, also to improve the digital penetration. So, is it a concern that if it becomes kind of an ultra-competitive market, how does it differ from New Building Solutions in terms of margins, the sales process, I mean, to prevent overly competitive pricing pressure going forward?

### Philippe Delorme

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

Maybe I can start. I'd like to refer to the [ph] blue dot (02:46:08), so I'm not sure we're going to bring that thing. But when you look at that space, 10 million, and how much the industry is modernizing today, frankly, the competition is not the competitor next door. The competition is this elevator standing still not being modernized. So, fair enough, I guess that you participated Capital Market Day of many others. I suspect some of our competitors are talking about it, but the market is as big as we make it and there is a lot of space here.

### Sanna Kaje

*Vice President-Investor Relations, KONE Oyj*

A

Maybe, Nicolas, if you would like to add, because there was another question on the MonoSpace opportunity as well.

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**Nicolas Alchal**

*Executive Vice President-Europe and Member-Executive Board, KONE Oyj*

A

Yeah. Maybe I can add more related. If I look at it from European perspective, the modernization business has been going on for many years. So, I think it has been all – the competition has been also, let's say, following on that and there has been already a lot of competition. But I think what we have probably not seen in the past is enough proactiveness with focus, I would say, on the drivers of sustainability that will drive that further.

So, when we look maybe at your question related to maybe competition and how it compares with NBS, I would say, I link it here really to the value added that you bring to the customer. I think with partial modernization, you are bringing really an alternative that gives to the customer almost the same benefits of a new elevator, but, of course, more cost efficient. But at the same time, I think what really brings the value of the time, this pain time and I think Joe gave a great example from China about the time and also bringing it with all the added value of the connectivity of meeting sustainability targets.

So, I would say that this value of this partial modernization is clearly higher to the customer than a full replacement and, of course, when we compare to New Building Solutions. So, I would say despite that, all the competitors will be probably focusing on the modernization, we still see that the value and accordingly the margins will be higher in modernization compared to New Building Solutions.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

And Nicolas, maybe to follow up on that, you mentioned MonoSpace and MonoSpace upgrade opportunity, which obviously is a sweet spot for us. So, can you please quantify a little bit what it could mean in euros?

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**Nicolas Alchal**

*Executive Vice President-Europe and Member-Executive Board, KONE Oyj*

A

Yeah. I mean, I talked about 150,000 units that are already more than 15 years old. And this year-after-year will become even bigger because if we think from 1996, we started this technology, it took time to ramp up. So, the number will, of course, increase. But let's say if I take on average, let's say on average, you're talking about a value of the unit that can go from, let's say, [ph] €7,500 up to €15,000 (02:49:02) depending on the application, you can do the math and see that it's actually a very sizable already opportunity there in the market. And this, let's say, will increase year-after-year compared to the more traditional machine room elevators from the past. So, I think this gives an idea about the size of the opportunity.

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**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

And I guess I was also saying from my perspective that we're actually expecting the margins to improve in the modernization business, and it's about scaling it up and making it much more professional to facilitate to scale up a bit. So, it's not the comment on pricing, it's really how we do it.

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**Antti Kansanen**

*Analyst, Skandinaviska Enskilda Banken AB (Finland)*

Q

Fair enough. Then the second question I had is on services and I guess it's to Philippe. If we look at kind of – you have had high growth in past five years, expect similar now in the mid-term. So, how should we think about the

profitability upside? I mean, you talked about the need of a cultural change and the digital. So, going forward, is it more about harvesting the benefits of those investments that you have made in the digital side? That business becoming bigger or is there kind of a need to add to those capabilities and improve on the execution on the maintenance side?

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**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

I think we have a lot of the base to make the digitization, let's say, spread across the KONE. We have work to do with discipline and attention. And I spend personally a lot of time with the R&D team, with the people on the ground to get to the detail of what's blocking a faster speed of deployment of all of this. And in many cases, it's us and the attention we should have.

So, I'm not saying there is no investment that's needed in that space because we need more data scientists, we need more software. We need more investment into cybersecurity, into cloud and so on. So, there will be investment here. But I think we have already a lot of base of what's needed to make things work in the right manner.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

And maybe if I can follow up, because there's one related question here for Samer, is there enough takers in the emerging markets for digital, because you had an exciting case there? So, how do you see?

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**Samer Halabi**

*Executive Vice President-Asia-Pacific, Middle East & Africa, Kone Oyj*

A

Maybe I mentioned that at least the appetite we see in big part of this, there's a young population. There is really many people they want to see – to touch and feel the digital and the benefits of that. Absolutely there is. And there is also from our side a big benefit because the more we use the digitalization, I think we will generate productivity and profitability naturally. So, yes, there is.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Delphine?

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**Delphine Brault**

*Analyst, Oddo BHF SCA*

Q

Yes. Hello. Delphine Brault, Oddo BHF. I have two and will do one at a time. You mentioned neutral competition balance in Europe. Can you provide a bit more color on the drivers to turn it to clearly positive?

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**Nicolas Alchal**

*Executive Vice President-Europe and Member-Executive Board, KONE Oyj*

A

Yeah. So, I think when we talk about competition balance, I think there are two factors that I would say are very important, are very basic. But I think what we wanted to do really is, first, to reduce the losses there. And, of course, I think accelerating digital has been really key there. So, by enabling the connectivity and accordingly these digital services, like I mentioned in the case of Poland, immediately improved, I would say our retention and accordingly seeing less losses to competition.

And then with the downturn in the construction market meant automatically that the pipeline of conversion is getting less in Europe. So, we focused really more on the wins. We decided that we need to go also more from a reactive approach to proactive, seeing the opportunities in the market. And clearly, one of the biggest wins has been on the modernization. So, we said that we need on this wave of modernization to be there a frontrunner. And we say we will modernize the elevators for the digitally-enabled services, and that has clearly improved our wins, which we see already and very positive about the potential of this going forward. So, I think these are the key drivers that allowed us to reach there.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Can you have a positive competition balance, anything to share on how you got there?

**Ken Schmid**

*Executive Vice President-KONE Americas and Member-Executive Board, KONE Oyj*

A

I think it definitely always starts with retention and the secret there is keep your promises. But I think the other part of it is going to courage, whereas historically, we've relied on the conversion element of our business. And to get the growth that we're talking about, we have to become more hunters than just farmers of our existing portfolio. So, spending more time cultivating those relationships, knowing where those units are, building the relationships with those property managers before those contracts come due or maybe you're lucky enough to walk in on a day when the elevator's out of service and the dialogue starts right away. So, I think it's cultivating these relationships as a hunter proactively and building on some of these national or global account opportunities as we move forward.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Thank you. You had a follow-up, right?

**Delphine Brault**

*Analyst, Oddo BHF SCA*

Q

Yes. How big – can you remind us how big India is in percentage of sales? And you mentioned good profitability in India, does it mean that it's above group's average?

**Samer Halabi**

*Executive Vice President-Asia-Pacific, Middle East & Africa, Kone Oyj*

A

Yeah. To answer you shortly, India is about 3% of our sales global. And profitability is, yes, above the group profitability.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

It's very good business.

**Samer Halabi**

*Executive Vice President-Asia-Pacific, Middle East & Africa, Kone Oyj*

A

Very good business, indeed.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

Yeah. John?

A

**John Kim**

*Analyst, Deutsche Bank AG (UK)*

Thank you. John from Deutsche again. Two questions, please. In China, you've helped put up a side that's very helpful on OEM penetration into service. Looks roughly half developed market levels. Where do you think that can progress to? Are there units or installations that are just not economic? That's my first question. [ph] I have one or two (02:55:33).

Q

**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

Yeah. I think the market will get more and more mature and there will be more and more consolidation. I think the market will demand of it as service quality is being asked to improve by the constituents, by the users, but also by the government. So, I do think that that will continue to grow and consolidate.

A

**John Kim**

*Analyst, Deutsche Bank AG (UK)*

Great. And on new business solutions in China, it's a hard question, but how should we think about a floor to the market in terms of units? And absent a number, what sort of lead indicators could we be tracking for that?

Q

**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

Yeah. I think it's very hard to say a number. I think where we are looking is to say 2025 will continue to decline. I think the number to look at is REI. So, the one that we see tracks most closely to E&E market REI. And however the REI progresses, if you look at the last three, four years, it's tracked pretty close.

A

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

Maybe a follow-up on that because there are several questions here also on China. So, how do you see the recent stimulus announcements in China?

A

**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

So, I'm sure you guys have seen the reaction to the stimulus, at least. I would say that it's additional liquidity, right. We don't have a good idea yet of where that liquidity will flow. And for us, I think anything that happens, there is a time lag of six to nine months, but the leading indicator for us is consumer confidence. And so, if we can see consumer confidence tick up, if you can see the stabilization in housing prices, then it gives us a good indication of when markets will more stabilize.

A

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

And then...

A

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

New construction market.

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A

**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

New construction market.

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A

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

Yes.

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A

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

...because we keep [ph] dancing around the theme (02:57:17), understanding that we do understand that today, very soon actually, 50% of the market is with modernization services, not yet our sales. But – and I think it's really true everywhere to look at the market more and more in a more specific view with new construction, service and modernization.

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A

**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

And in that, in the stimulus announcement, you'll notice two of them were around or two of them around secondhand homes actually. So, one of it was around secondhand homes, the other one was a fully guaranteeing of the RMB 300 billion investment made for modernization. So, those two are part of the announcements. The other one, the RRR cut, will probably be more of a new equipment business discussion, as Philippe said. But if you [ph] straight (02:58:04) and look at what the stimulus has, it's more around modernization opportunities and urban renewal is where the government is pivoting.

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A

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

And there's a question exactly on that as well. So, what does it practically mean for your business with the government calling out elevators in the renewing equipment list? What is the tangible impact?

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A

**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

The tangible impact and it goes back to an earlier question, which is how do you reach these customers, right, because for new equipments, you're talking to property developers. For modernization, you're talking to tenants. And so how do we help tenants and this is what I talk about innovative go-to-market approaches. It's a B2C approach. How do you get the tenants to understand that their ask for speed and ride comfort and these things can be improved. They can be improved economically and with speed. And then how do you help them go apply for those funds?

A

So, we're in the process of helping actually our customers apply for those funds. We're also helping and working with governments that have affordable housing projects that they themselves will lead and we support. So, we've had a couple examples already where Philippe has met customers and governments in China where we are their supplier. So, as they go and look at affordable housing and say we need to modernize in particular cities 3,000 to



4,000 units, we are then their supplier and we give the data on how quickly we can do it, how much energy efficiency we can do? So, those are our two avenues, if you will, to be able to drive and leverage that urban renewal conversation.

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**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

But RMB 300 billion that is here to take for consumers, so not just for elevators, but for all kind of categories, but elevators are specified within that RMB 300 billion pool, so \$50 billion roughly. So, it's a lot of money.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

But Joe, when will you get to the RMB 1 billion modernization sales in China?

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**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

A

Well, we have a target to do that by 2030.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Thank you. Okay. Let's take from Andre there on the side.

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**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

Hi. It's Andre from UBS again. Couple of questions on China while we're on it. Could you comment on what your retention rate is in China? Sorry if I missed it.

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**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

A

Sure. It's 87% is our retention rates today.

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**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

Great. And on service side, you mentioned the pilots and we've been talking about them for a while. It's good to have the 1% covered. Do you think that regulation will ever change firmly towards on-demand visits away from the mandatory twice – bi-weekly?

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**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

A

Yeah. It's a great question. It's something we are continually having discussions with governments on. And understand, government is really trying to balance a few things around safety and also labor and making sure that there's – unemployment rates and so on and so forth. But what we believe is that we need to better ourselves and make ourselves ready for that. If and when it happens, we need to be ready for it. And so, I mentioned the 5,000 units. There is a clear progression that we've engaged with government entities to allow us to expand that scope. I'll give you an example in [ph] Laifeng (03:01:14), which is part of Hubei province, we have gotten a official redheaded letter from the government that allows KONE and we're the only ones allowed to do condition-based maintenance for all of the units within that particular city.

So there are opportunities where we are trying to lead the industry, but you have to have the right basics down. And if you don't have the right digital assets, if you haven't made the portals available for customers and for governments, you're not going to ever get granted those, those opportunities and so we're hard at work to do that.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

So Joe if the regulation would go to that direction, condition-based maintenance. Do you think it would lead to significant consolidation?

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**Joe Bao**

*Executive Vice President-Greater China, Kone Oyj*

A

I think it would, first of all, lead to increased productivity, because, again, if you're able to remove by monthly visit or every 15 days, we think that we're in the right position to scale up our productivity. At the same time, we believe that it can only be released these government regulations, if there is early warning systems and IoT predictive assets. And if that's the case, then we are in a better position than ISPs in terms of technology and as Philippe said, the digital work that we are doing now, we'll be in a better position. So I do believe that, at that point in time there will be consolidation of the business.

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Q

Thank you. If I may, just very last one, a broader question coming back to the beginning of the day and the mix of the 90% and 10% in terms of profit and looking at that 10%, which is New Business Solutions (sic) [New Building Solutions] (03:02:41). How do these numbers gross up? Is this kind of a China contributing that 10% and zero elsewhere? Is this higher from some countries that maybe were mentioned in Southeast Asia and then minus elsewhere, what is the kind of – yeah, it's a clearly a net number, but what...

[indiscernible] (03:03:02)

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**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

I think Samer here is smiling when we talk about profits in NBS and you can kind of interpret that as part of the answer. So, clearly we have a really good margin business in NBS in Asia-Pacific, Middle East and Africa. China has come down in terms of margin, but it's positive and then we do have markets where we are negative on the profitability to come to that 10%.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Miguel?

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**Miguel Borrega**

*Analyst, Exane BNP Paribas*

Q

Hi. Miguel Borrega from BNP Paribas Exane. On Modernization margins being not that different from group average and I guess in China are much higher. Do you see the potential for pricing pressure in Modernization as the market becomes more competitive there because everyone else is moving towards more Modernization? So, do you think that will be offset by more volumes or not really?

## Ilkka Hara

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

Maybe I'll start. I guess we kind of answered that question a bit earlier, but yes, everybody knows that the Modernization opportunities is there. But again, if you look at the blue dot, the competition is not the other elevator companies. It's actually not modernizing the elevator. So, yes, there will be probably a price. You need to show your value. It's a business where you can show the value. But I also believe that we actually have ways to improve the profitability, and those levers are with us to scale up the business. And that we've seen in more mature markets where we've seen quite a good growth like Europe in terms – there's a pricing power in that business.

## Samer Halabi

*Executive Vice President-Asia-Pacific, Middle East & Africa, Kone Oyj*

A

If I may add, from a small Modernization area today, but growing, I think the added value that we would provide to the stakeholders here in the Modernization is quite big. We're talking about old buildings, but it's to me what we are seeing also in part of the world, it's not about old building, it's the change, what the customer wants to change in their assets, to keep the assets in a great shape, to compete with the competitors. And here where we come and add value by providing the right solution for them to keep their assets at high value.

## Joe Bao

*Executive Vice President-Greater China, Kone Oyj*

A

Yeah. And I would say that we have done an amazing job over the last 15 years in optimizing our supply chain for NBS. There are similar work that we can do to continue to optimize for Modernization offerings, as we talked about for replacement, what we call one half FRB, which is half replacement, you don't do the doors and so on and so forth and also partial mode, so I think there is more that we can put in from R&D resources perspective, from supply chain that's also going to generate positive profitability for us as well.

## Ken Schmid

*Executive Vice President-KONE Americas and Member-Executive Board, KONE Oyj*

A

If I could add just one comment there. You saw the blue dot in the pink sea of Modernization, and that pink sea looks like it's a holistic, monolithic market. It's not. So we're applying very distinct intelligence into where are our best spots in the market, where we have competitive advantage or maybe unique capabilities that support what we're asking for from a price perspective. So where you get a competitive environment with multiple competitors, yeah, there's price pressure where you're creating demand, unique solution, possibly the only one in the market that can do it. We're looking for those opportunities.

## Sanna Kaje

*Vice President-Investor Relations, KONE Oyj*

A

Daniela. Sorry you had a follow-up. If it's a short one, then please go.

## Miguel Borrega

*Analyst, Exane BNP Paribas*

Q

Yes, just on 10% profit from new equipment. Can you just talk about how much was that a couple of years ago, maybe 2019, 2020? It's just kind of implies that your Service margin has been stable and I guess Modernization was up 4 percentage points. So what does that mean in terms of maintenance? Why has the maintenance margin not grown over time with more digital and so on? And if I can squeeze in one last question on the door business. If you can maybe provide us the reasoning for putting that up for sale? Thank you very much.

**Ilkka Hara**

*Chief Financial Officer & Member-Executive Board, KONE Oyj*

A

So it's true that Services business margins have been more stable. And we've been continually investing to digitalize it. And as I said, we expect that to materialize in improvement in margin going forward. And to your earlier question, where was the NBS margins, I think you can look at the whole KONE margins when we're peaking at the margin and how it came down. And that's mainly the China NBS business coming down in both relative profitability as well as in size.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Okay.

**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

So and on the doors question. So I think I answered on the point that we want focus and we are looking this business to check if we are the best owner or if people would be more focused on that business, would be a better owner to create more value for our shareholders. That's it. It's very simple.

**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

Okay. Now Daniela.

**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

Thank you. Two questions. But the second one is just a quick clarification. But the first question is clearly lots of elevators potentially to be modernized. The industry is exploring very little. I imagine it wasn't that the clients were running after you to modernize and the industry was saying no. So it's about convincing people to take that investment upfront. A lot of it is resi as well. In China, I understand there are incentives, but I don't know if there are elsewhere. But can you give us a little bit of a sense of like the upfront cost of these investment that you have to convince people to do, to do either a partial or a full Modernization? How does that compare to normally what the money they are spending per year in their elevators? And how can they make the value proposition for this?

**Nicolas Alchal**

*Executive Vice President-Europe and Member-Executive Board, KONE Oyj*

A

Yeah, maybe I want to build I think on the first one to give an example from Europe like we have seen, as I mentioned with a sustainability agenda and the country plans, I give an example in the last two years in Italy and I mentioned Italy with the Modernization that there has been some government subsidies with what they call the super bonus for two years encouraging a lot. The owners of the buildings and owners association and we've seen a big ramp-up, driven by this. So there is a part that will be driven I think also by this the piece of sustainability agenda, but I think we have a lot to do as well on activating that demand.

If I look at Europe, there is still quite demand, a big demand on housing, while we see the supply with the new construction or with the new equipment has been going down. So there is still a lot of demand and I think that is driving the trend of the repurposing of buildings. So the trend is that it's up to us to really activate this demand and that's why we are trying to engage in this discussion relating to partial Modernization. Philippe mentioned it and

maybe compared it to the cars. But let me say that if you have a unit that is old 10 to 20 years, you don't really need to have a big investment in terms of replacement. But you can do this partial Modernization.

When it becomes more than 20 years, then you have a discussion on what makes more sense that what have for replacement. So keeping some of the steel, keeping the doors, which helps by the way, on the sustainability as well with this circular – with the circularity. Or then if it becomes more than 30, 40 years old, then there is economic sense in that. So, I think it's a lot to do with us and the focus on activating the demand, at least from the European perspective.

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**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

I think one way to think about it is that it's less of an affordability issue. It's about really being clear of the values. Now that the costs were increasing for all housing resources in Europe. We did actually saw good growth in the Modernization business, which coming back to your question. So, they want to invest when they see the benefit in this case, it's energy efficiency and sustainability.

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**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

What is the payback time normally that you would pitch on a partial modernization?

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**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

I think it really depends on what you do. So, it's not one thing, but it clearly is a benefit for them.

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**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

Thank you. And my second question, just if I remember like there's on the NBS business, that's quite a lot of the installation that is outsourced right? Is – in Modernization, are you doing the actual installation yourself?

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**Philippe Delorme**

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

A

It's both. Okay, yeah.

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**Sanna Kaje**

*Vice President-Investor Relations, KONE Oyj*

A

I wanted to take one quick question – there's actually a couple on the same topic from online Poland. So is Poland an outlier? Why Poland? What's different about it then and could it be done elsewhere as well?

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**Nicolas Alchal**

*Executive Vice President-Europe and Member-Executive Board, KONE Oyj*

A

Yeah. I mean, I mentioned that we have 80% connectivity in Poland, which is one of the highest globally. When I look at Europe level, we are now sitting at average connectivity now we exceeded 40%. So clearly there are countries that are on the higher and getting closer to the Poland story and then countries that are lower. Now, I think and I think Philippe, you mentioned this also that it's really up to us where we have put the focus really on accelerating this. We've seen clearly that we see the results. And in the last 12 months, we've seen clear acceleration in Europe. And I believe that this will further accelerate now with our new strategy, with our focus and

the fact as well that this our focus and the fact as well that this DX journey that we have, have already started now three years back and will clearly accelerate. So I think in summary, it can be applicable everywhere. It's really up to us to try to make it happen.

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## Sanna Kaje

*Vice President-Investor Relations, KONE Oyj*

Excellent. Hey, thank you so much. Unfortunately, I wasn't able to cover all of the questions, you still have an opportunity to ask more questions over lunch and during the break as well. But next, I would like to hand over to Philippe to conclude.

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## Philippe Delorme

*President, Chief Executive Officer & Member-Executive Board, KONE Oyj*

So I'm going to finish connecting the dots with my intro. So I told you that we wanted to show clarity and simplicity, leveraging the fact that we would be face to face to come with three points. So I'm going to repeat those three points, and they are very simple. Number one, and I hope it's really clear today, we are on a very focused journey to drive a faster growth in Service and Modernization to make KONE more resilient. I hope it was clear.

Second point, that thing will not happen if we don't work on our culture, on our soft side, on our processes, courage, speed and simplicity. And the results will be what you are asking for, which is profitable and scalable growth, which is mid-single digit sales growth with 13% to 14% adjusted EBIT margin by 2027. That's it. That's what we wanted to share with you. That's what we wanted to share with you with Ilkka, because we are usually the one that you happen to meet at least digitally every quarter.

But I'm really pleased that we could have – [indiscernible] (03:14:38) really do so that you would understand that actually that thing, those fore shift and that core, that Rise to Lead strategy is extremely aligned across the company. We think that six months period to make sure that we as a leadership team would feel extremely strong about it. Then the instantiation, the way we execute. You can see the differences, but the themes are the same and the alignment of the company has never been so strong, which in my view, is a guarantee of success.

Right. So with that, I had one more slide. Which is this? There's one thing I don't talk about, which is as we launch our new strategy, we also wanted to update our purpose. We used to have the vision and mission, the things were a bit overlapping. So we wanted also to drive here ambition and simplicity. So we have put in place a new purpose, defined a new purpose, which is we shape the future of cities. What do we mean behind this?

We have the responsibility of transporting 2 billion people every day. That's a big role to play. Which, of course, participate directly to cities. And we are talking about the whole urbanization, the fact that cities are actually vibrant ecosystem that are changing all the time. We really believe that we have a big role to play, to make people flow solution safe, of course, sustainable and easy to use. And we think there is a big mission, a big role to play here that's guiding our daily life every day, at KONE, especially leveraging innovation and accelerating innovation so that we could be at the forefront of this change within the cities and with our customers.

So just to close, we'll have a quick video and I guess then I will leave it to Sanna to guide us for the next step.

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