THOMSON REUTERS

FINAL TRANSCRIPT

Kone Oyj Capital Markets Day

EVENT DATE/TIME: 09/29/2017 08:30 AM GMT

CORPORATE PARTICIPANTS

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*
Hugues Delval *KONE Oyj - EVP of Service Business & Member of the Executive Board*
Ilkka Hara *KONE Oyj - CFO & Member of Executive Board*
Sanna Kaje *KONE Oyj - VP of IR*
Thomas Hinnerskov *KONE Oyj - EVP of Central & North Europe and Member of the Executive Board*
William B. Johnson *KONE Oyj - EVP of Greater China & Member of the Executive Board*

CONFERENCE CALL PARTICIPANTS

Andre Kukhnin *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*
Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*
Christian A. Laughlin *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*
Daniel Gleim *MainFirst Bank AG, Research Division - Director*
Daniela Costa *Goldman Sachs Group Inc., Research Division - MD*
Erik Karlsson
Glen Liddy *JP Morgan Chase & Co, Research Division - Analyst*
Klas Henrik Bergelind *Citigroup Inc, Research Division - Director*
Lars Brorson *Barclays PLC, Research Division - Director*
Lucie Anne Lise Carrier *Morgan Stanley, Research Division - VP*
Oliver Campbell
Rizk Maidi *Berenberg, Research Division - Analyst*
Tomas Skogman *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*
Tomi Railo *SEB, Research Division - Analyst*

PRESENTATION

Sanna Kaje ***KONE Oyj - VP of IR***

Good morning, everyone, and welcome to KONE's 2017 Capital Markets Day.

My name is Sanna Kaje, and I'm the Head of Investor Relations. And by the way, great to see so many of you here today.

We decided not to include a site visit on today's agenda, but if you'd really like to try out how it feels to ride KONE equipment, there are plenty of opportunities to do it here in London, all the way from Heathrow. So as you can see, we really like this city.

But let's now see what we actually have on the agenda for today. We have altogether 5 presentations. We start with the President and CEO, Henrik Ehrnrooth, talking about accelerating the strategy execution; followed by Hugues Delval's differentiating in services. After that, we have a 15-minute break. Then we'll take a look into what's going on in China and Central and North Europe. Bill Johnson and Thomas Hinnerskov will be presenting that. We will also have a customer panel hosted by Thomas. So we decided to invite a couple of consumers of ours to join the event to give you a bit more color on what we actually mean with Winning with Customers. Then another 15-minute break. In the end, we will have a presentation by our CFO, Ilkka Hara. And Henrik will conclude in the end. You will have the opportunity to ask questions after every presentation, and we also have a common Q&A session right in the end of the event.

Now before going into the presentations, I would like to introduce to you today's speaker. So gentlemen, if you'd stand up, please. I will start from this end: So Thomas Hinnerskov, responsible for Central and North Europe; Bill Johnson, China; Ilkka Hara, CFO; Hugues Delval, who's the head of services; and our President and CEO, Henrik Ehrnrooth. And actually, I would like to now invite Henrik on stage to talk us a bit about the strategy. Henrik, please.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Thank you, Sanna. And also, a warm welcome on my behalf. Again, great to see so many familiar faces here, but actually there seems to be also a number of new faces, which is very good, very much what we'd like to see.

What you will hear today is more about what our Winning with Customers strategy really means and why we believe that this is helping us clearly differentiate from our competition. Because differentiation, that's how we add value to our customers. And in a world that is moving incredibly fast, I don't think I need to tell you about that, and actually moving faster and faster all the time, we can see a lot of change in the markets. And we can see a lot of change in customer expectations, but it's particularly these changes that we actually like because we know that, without change, there are no new opportunities. And in fact, when I look at KONE's history, our best periods of growth and development have been during the most significant times of change in the market because we've simply been able to see what's happening and then execute to capture on these opportunities. And that is what we are intending to do again.

To be able to speed up our strategy execution, we have this week launched something we call Accelerate Winning with Customers. What is this all about? And why have we done that? Well, we've simply done it because we can see that our strategy is taking us in the right direction. And actually, we're developing very well with this. And we can see that, when the world is moving faster and faster, we also want to create an ability to move faster. And that is what this program is all about: our ability to be faster in bringing new services and solutions to our customers in a better way. That's why we have done it.

So I hope, during today, you'll get more insights in how we are driving KONE forward, how we are differentiating. And at the end, I hope you share our enthusiasm and why we think this is such a fantastic time to work in this business and why we feel that we are taking KONE in the right direction.

So during this session, what I'll talk about: First, how are we doing? And actually, I will start with that with following up what we talked about last year and what we have done to what we talked about last year. I'll then go to why we continue to see good growth opportunity in markets; and then about our strategy, how we are executing on that.

But what did we talk about in our capital markets last day (sic) [Capital Markets Day last year]? What were the things we told you that we were going to do? We told you that we're going to continue to accelerate our growth in services and going to drive better differentiation. I'll show that we've done. That we're going to continue to solidify our new equipment market position and continue to bring even better things to our customers there. That's we've done. And also, we all know, we hear a lot about digitalization technological change. And I'll show you just a few things how we are very concretely driving forward and how it's actually having impacts for our customers.

So let's start with the first thing we talked about a year ago. It was our services growth. Over the past years, we have brought the services growth to totally new level. 2016 was a particularly good year in terms of services growth, but it's continued at a good level this year as well. And we have brought some very innovative and good services that our customers appreciate very much. You'll hear more about them later. So that's we have done.

In the new equipment business, we have had an overall good development. As I think it's familiar to everyone, our approach to growth is to try to find market share and gain market share in the growing markets because then you can do it with finding new opportunities with good pricing, and that's specifically what we've done. The fastest-growing markets now in the past year have been North America and Europe, Middle East and Africa. And in both of these areas, we have grown clearly faster than the markets. In Asia Pacific, where the markets have been more challenging now, as we all know, not only China but also outside, our focus here has been on pricing and finding good opportunities. And that's what we've done. So that's what we've done in the market. And at the same time, we have continued to bring out great, new improvement to our product portfolio. And I must say I continue to feel good about the product portfolio we have. They are good, and our customers appreciate them.

And then when it comes to how we are connecting KONE, how we're investing in connectivity to ensure that we can serve our customers better and help our people perform their jobs better, we also have done a lot of things. Connecting our customers, we talked about that last year. Now we have more than 25,000 customers that have real time information at their fingertips on what's happening to their equipment and what we are -- how we are serving them. Connecting users, people like Otis, we have now solutions for users both on commercial and residential side. And actually this week, we launched a very interesting new service that Hugues Delval will talk more about, we called Residential Flow. That's how we are connecting our customers. Connecting equipment, that's pretty clear that we're also doing, and that is real speeding up. And today, we have about 150,000 connected elevators and escalators. And it's about connecting our employees. We want to ensure that every KONE employee that is out in the field can do their job with the best information and serving customers in the best way. So this is what we've done over many years. And you actually see a service technician supervisor here today who can demonstrate what that means in their job, to ensure that people who should be in the field can be in the field in a very efficient way. And it's about technicians, supervisors, sales people and also other people. And this is again helping us to serve our customers much better.

So these 3 things were the things we talked a lot about last year. And we just wanted to say that, hey, when we tell you about something, we also do it.

So what about then our performance?

What I think is familiar to most here is that, when we measure our performance, we look at it through our 5 strategic targets. That's how we measure in a balanced way whether we made progress during the year. Our first strategic target is to have the most loyal customers in this industry. We got the results from our latest customer loyalty survey during the summer, when again more than 30,000 customers gave us feedback. And again, we saw clear improvement in our Net Promoter Score. The things that customers continue to like in what we do, a lot of comments on great products and great-quality products. That's what we are known for, also our service quality, but what I'm really happy about is that increasingly we're getting good feedback from customers. And they're saying -- this is very important. They're saying that, "KONE, your service mindset, your customer centricity is very strong." And this is something we worked on, and we can see that it's bringing results. So clear improvement both in our new equipment business and service business in our Net Promoter Score, so that's good.

Then we wants KONE to be a great place to work. We want to have motivated, engaged employees. That's how you develop a company in a strong way going forward. Employee engagement continues to be at a high level, but even more important is the action we're taking to continuously make KONE a better place to work. And we continue to spend a lot of time to ensure that we have great, actionable plans throughout the company that we are driving forward; and that's something we're doing.

Our third strategic target is to grow faster than the market. This is something that is important to us, so we continue challenge this market overall. When we look at our faster-than-market growth, we can see that in services, which has been the fastest-growing market now over the past years, we have the market-leading growth rate in services. So here we are growing faster than market. In new equipment, here in the key growth markets we have grown faster overall. 2016 was more or less in line with the market, but with this overall, we feel that we are overall growing faster than market in this industry.

Our fourth strategic target is to have the best financial development. Clearly, that is important. We are committed to profitable growth. 2016 was another good year, when our margins reached an all-time high. However, we know that, this year, we are facing a number of headwinds in our business. And therefore, in the first 6 months of the year, our profits, our EBIT declined slightly. This is clearly something we are not happy about and something we continue to take significant action to turn this trend.

And our last strategic target is to be a leader in sustainability. We know that sustainability is a very broad subject, but here we look a lot about our resource efficiency, our carbon footprint and so forth. And that continues to develop well year after year.

So overall, pretty good progress against our strategic targets.

And when we look at how we're developing and where we're growing, we can also see, and I think this is very familiar to you, that our growth has shifted over the past years. And now we can see clearly more growth in the service business, where it was more driven by new equipment previously, but it's okay. This is about finding growth where it is. And the same thing goes geographically. Whereas growth was really fueled by Asia Pacific, now it's being fueled by North America, but I think this again shows that, where markets are growing, we are able to capture that growth. And that is what we want to do. And when we've done that, we have driven a very long period of improvement in our EBIT, reached almost EUR 1.3 billion last year. First half of this year now, we know that, as I mentioned already, we declined slightly.

So there are a number of things that are improving our profits. It's the improvement in our services business. That's taking us forward. That's very good, and the fact that we continue to execute strongly on a broad basis. However, there are a number of headwinds that we are facing that are burdening our results. The most significant ones of those are significantly increasing raw material costs; and the strengthening of the euro, which is clearly from a translation perspective putting pressure on our profits, but also the continued fierce competition and price competition in China is having an impact. And thirdly, a choice that we have made, which is to increase our investment in R&D and IT because we can see that it's bringing good results. So these are the things that are impacting our results this year. It's something we want to take action because clearly we are not satisfied with first half development.

If we look at this year, what do we expect? As you know, we updated our outlook this week because we came out with our accelerate program, so we slightly redefined our EBIT metric. On sales, we still have the same, unchanged outlook to grow between 1% and 3% in comparable currencies, but then we introduced a new metric we called adjusted EBIT. Because of this program, one of the aspects of it is that there will be some restructuring. And that will result in restructuring charges, and we wanted to show our EBIT without the costs specifically related to this program. And when we did that, we also want to update the latest currency outlook because, since we gave our latest outlook back in July with our Q2 results, we know that euro has strengthened significantly, and that has a clear impact on our results. Just the strengthening of euro has a EUR 30 million negative impact on our results compared to what we said back in July. So therefore, we adjusted the top end of our range down by EUR 30 million, but the bottom end, we actually kept. Despite this, we kept at the same level because we feel good about our performance for the full year this year. So now our range is EUR 1,200,000,000 to EUR 1,250,000,000.

And what about 2018? We don't give detailed guidance yet on 2018. It's too early, but when we see the situation today, and things can change, well, what does it look like today? What is boosting our performance? It's the way we are performing in the Americas, Europe, Middle East and Africa. It's the fact that our services are growing and we continue to drive performance improvements. Those are positives. What is burdening? China continues to be a burden. You will hear much more from Bill Johnson about this. We are stabilizing, but still year-over-year that continues to be a burden. And where raw material and translation exchange rates are at the moment, they also indicate a significant headwind. Where they're going to be end of the year, I don't know, but just the situation where we are today. And if we look from net profit perspective, certain restructuring costs are going to impact, but in the adjusted EBIT, those will be corrected.

So this is just a glimpse of what we can see now in 2018.

So that's our performance. What about our markets? We feel that we continue to be in a great industry. We are in an industry with fantastic growth opportunities. We all know that, between about 2004 to 2014, our industry went through a super growth cycle. That was China. And we were able to capture more of this benefit than anyone else, but as it usually happens when you go through a 10-year super growth cycle is that you get a little bit more difficult period after that. That's what we're going through in China right now, but when we look forward, we continue to see great opportunities for growth in this business. Why is that? I don't need to dwell on this too long, but we know that the world continues to be urbanizing. 50% of the world's population continue to live in countries with low urbanization level less than 60%. And when we look at the period 2005 to 2015, this was the period of, I will say, super urbanization growth in China. When we look at the next 10 years, we actually see that the same pace is continuing. At the same time, you also have a lot of upgrading. Bill Johnson will talk about China and the other countries, a lot about this, but when we look at countries outside of China, what is so exciting is when we see the demographic changes, what they mean for our business. We can see that the fastest group of households are people living alone. That is the fastest category. And what does it mean? We need more and more small apartments. And when you need small apartments when people live alone, they want to live in the city center. And when the city center is crowded, you need to build upwards. And it's not a very big secret that we kind of like when we build upwards.

So this continues to drive. And this is what's been driving markets in Europe and North America over the past years. And it's also the core cities are growing. We can see that suburbs in North America and other countries are no longer growing. It's core cities. So there's a lot of growth. And when the world is urbanizing and cities are becoming denser, that actually brings a lot of challenges, but we see great opportunities out of these challenges. I bet that many of you who work in office buildings realize that, "Hey, the office building I work in today houses 30%, 40% more people than only a few years ago." So many, many more people in the same building. What does this cause? It causes crowding. You have to wait for elevators or others, but the great thing is that with our solutions, with technology we can resolve that. And we can create great value to building owners because we can help their people moving effortlessly and without waiting in their building. Also, we know that's -- buildings in cities are the biggest energy consumers. And that is a problem for the world. We know that. Again, with technology and with solutions, we have -- we can help the world urbanize faster. So it's not only the opportunities urbanization is bringing. It brings challenges as well, but those challenges, there are great opportunities to resolve them. And that's why we continue to feel so good about what's happening in our business overall.

So that's a longer-term picture. If we then look at the more shorter-term picture, what's happening in our new equipment markets? We know that, the new equipment markets, it's a mixed picture. Europe, Middle East and Africa: We have had a good development in Central and North Europe. South Europe is still at a low level. We can see, when we look at the market, that we are still far below any of the peak years before the financial crisis. Central and North Europe are actually doing well. South Europe is starting to come up from low levels. And the Middle East is mixed. North America, we had eighth year of growth, but because of the trends that I talked about, we can see that the forward-looking indicators continue to be positive even though it's a very long growth streak. Then we have China. You'll hear more about that later, but that market is high. It's a good and big market, clearly the biggest market in the world, but it's been more challenging over the past years. And then we have rest of Asia Pacific with a lot of growth opportunities. However, that market has also for certain reasons been quite challenging over the past year. For example, India, which is the biggest market outside of China, that market has gone through 3 major reforms in the past year. All of these reforms are great for the long-term structure and stability of the market. However, they really caused a lot of short-term uncertainty. So that's why that market has been challenging. But the potential in all of these is great, and that's why we continue to invest in these markets. So we can see a mixed picture in new equipment.

In services, not much new to tell, here in the mature markets continue to see steady but low single-digit growth. Developing markets, we continue to see good growth, and that's good. Modernization, mature markets, great opportunities. It's up to us to constantly unlock more of these. We have grown a lot in modernization. We've really taken it to a different level over the past years, but we continue to see more and more opportunities there. And in developing markets, it's only starting, small markets but good growth.

So when I look at the overall markets and the opportunity from them. And this is a picture it's -- worth always a bit pausing on, because if we look on the left-hand side of this chart, we can see there a typical revenue mix in a mature market, 2/3 services, maintenance and modernization; 1/3 new equipment. And we can see a little bit more than 7 million units is -- installed base in the mature markets. Developing markets, also close to 7 million installed units, but we can still see that majority of the revenues come from new equipment, that the services markets are only getting going now. And we can -- there is no reason why these markets wouldn't start mirroring what we see in the Western world over the coming years. And the reason I'm so excited about this is that, if we look at these developing markets, we know that our market share and our market position is incredibly strong. So the ability to capture the opportunity from the growing service markets and what this brings as the equipment starts to age and the need for more service and better services, there we see a great opportunity in the coming years. And the market position we have is, frankly, second to none in these markets.

So that's the markets and the change we are seeing. How are we going to capture these opportunities? That's what our strategy is all about, a strategy that we call Winning with Customers. I would like to share a little bit more how we think about this and why we believe that this is differentiating us from the competition. The way we come to it is actually not something, beginning of this year, we said, hey, now we're going to throw away everything we've done and then start doing something new, no. It's in a typical KONE tradition. It builds on what we've been doing for many years. 2014, I think many of you remember when we said that we can see that the biggest growth opportunities of the coming years are going to be in services. And we need to differentiate more because we saw limited differentiation back then in services, and drive more growth. That's when we started to -- our service differentiation growth journey. 2015, we renewed the whole way how we innovate with KONE -- at KONE. It's about how we can be more collaborative, use more partners and customers, do innovation so we can be faster. And you know what, we are much faster today. We have cut our cycle times significantly so we can be faster in bringing new solutions to our customers.

In 2016, we brought out our new mission and vision. In a volatile and fast-moving world, one of the most important things when you lead a business is to have a clear mission and vision because that gives you the guiding light what you should invest in and what you shouldn't invest in. Because there are so many things happening around you. That brings a clarity.

So those were the things we have developed over the past years. Those naturally flow into our Winning with Customers strategy that we then launched in January this year. And I hope this picture is familiar to many of you. It's we call it our big picture where we summarize everything that is relevant to our strategy. On the left-hand side, it starts with the megatrends; urbanization, which is driving growth; and technological disruption driving change. Those are the opportunities we're going after. Then we have -- our purpose in society is to -- our mission is to improve the flow of urban life. And we understand people flow. And when we work with our customers, we can simply make cities better places to live. That's a good purpose.

On top of the building, we have our vision. It's to provide the best people flow experience. It's again something we think about the end user. Because when we can improve it for the end user, we can improve our customer's business, then we benefit. Then we have our strategic targets. That's our own metrics how we measure our success. At the bottom of the building is our foundation. It's our culture, how we're committed to safety; and quality; and our values, how we live our daily lives. And the middle, we have our -- we call our ways to Win. That's how we develop KONE, how we constantly drive forward. That's how we bring our strategy to life. I will touch soon upon a little bit on these ways to win, what's happening in them and why they are taking us forward.

But this strategy, when we talk Winning with Customers, what is it all about? It's all about how we can add better value to our customers. And what does adding value to customers really mean? We hear a lot about this. Adding value to customers is very simple. When we help our customers improve their business, then we can benefit. You hear a lot about technology and so forth. Technology is incredibly important, but unless that improves value for your customers, it's not going to add value. Let me take a few examples how we specifically want to add value to our customers and how we are helping them improve their business. And therefore, we believe that they choose us.

We want to provide -- let's think about the residential building, very important market. We want to help our customers provide a better experience for their buildings. So when people come in to residential buildings, they have a smoother, easier experience. You will hear more about our residential flow solution, which when we have now started to work with customers on this, they said, "This is specifically what our users want to have," and particularly millennial users. So they can see that, when they do this, they can sell their apartments at better prices or faster or get better rent, but when they do that, it's a no-brainer to buy those solutions from us. That's how we need to think about it.

Other example, let's take a commercial building. They can very often get crowded. You have to wait for elevators. And people are busy at work. That waste a lot of time. When we put in the right solutions, use the right technology and right understanding of what is needed, we can help ensure for our customers that no people have to wait anymore. I think -- what does it mean for a building owner or building manager? Simply again, they can charge higher rent because they can tell their tenants that, "By the way, when you come in to this building, everyone will be at their desks in X minutes." That's productivity for them. And we can concretely see that they can charge higher rents, and then we can sell our services at good prices. Here I have a great example of this: There is a large property owner in the Greater Stockholm area called (inaudible), I must say one of the most innovative property owners and managers I've met during my career. They manage everything through data. They know everything what's happening in their buildings from all different services. And they have a lot of them in Greater Stockholm, a lot of A class properties with high-end tenants. They came to us and say -- said, "We need to ensure that people are never anymore inconvenienced and have to wait for the elevator or getting into the building and moving through there." They never want to have any breakdowns anymore. Because the way we've been working with them, they started to use our 24/7 Connected Services. With this, we can give them great insight what's happening in their buildings, how they are serving their customers. And they can show their customers that, by the way, people are flowing through all the time, no inconvenience. And that's how they can get better tenants, better rents. That's specifically, when I talk about adding value to customers, what we mean.

Let me take the last example, before moving forward. We have a lot of customers that are builders. How can we help them build faster, safe -- and safer? Well, they -- we have our JumpLift solution. We are now working with -- let me tell you here from Bill Johnson about another example, but let me take an example today from Seattle, tallest tower in Seattle being built. They took our JumpLift solution. JumpLift is a construction-time elevator that goes in the shaft that goes up as the building goes up. So you don't need to have outside hoists, much faster and safer way to move. Our customer said that with this they can significantly cut the time of their construction, so they do it in much shorter time. What does it mean? It's not only cheaper to them, but they get faster the commercial revenues. Again, a no-brainer to buy the solution from us. And these are areas where we are clearly differentiating today. This is what we mean when we talk about Winning with Customers. That's why we have taken this approach.

How do we do it specifically then? How do we bring it to life? It's through our ways to win. It all starts by having a great and detailed understanding of what our customers' specific needs are. What drives their business? How do they make money? And then when we know that, then we have our approach how we go about it. It's about collaborate innovation, new competencies. It's about how we use our partners and customers and also internally much faster to co-create. And here we have some great examples how we much faster bring prototypes to the market in a fast and agile way. Our 24/7 Connected Services and all the technology components to it, you would expect in that IoT everything exists today. Let me tell you a small secret: It doesn't. So we had to develop a lot of these, and well, we did it very quickly. That's why we came so fast with our services to market. It's through this approach. And at the same time, our employees need to learn a lot of new capabilities to be able to do this, new technologies, new ways of working, new expectation from our customers. So we are now -- have developed and renewed our leadership competencies that we developed and putting a lot of effort in them so that our people can succeed in a digitalized world.

So this is how we develop. Then when we do that, then we come out what we call customer-centric solutions and services. Those are solutions and services that fit the individual needs of our customers. You will hear more of them, but we have some great products and services here. We also want to constantly do our work better. That's what we call fast and smart execution. Because when we can do our work better, we can be a better partner for our customers on sites or when we do the service. And we can constantly improve our productivity and quality. This year -- examples that we've done here is we brought out a new project management model so we can just be a better partner on sites for our customers and do our work better. And we have also constantly brought out better tools for our field personnel to do their job out in the field.

And the last one, very important, we have 450,000 customers. This is a very customer relationship- and communication-intensive business, so we want to develop what we call true service mindset so we always meet and exceed our customers' expectations. What we have done here, and this is actually again a series of many developments we've done over the past years, we developed something we call KONE one customer journey. You may ask, what is that all about? Put it simply, it's about having a detailed understanding which interactions really matter to our customers, which are the important ones; and putting a lot of effort in these ones, what we call the moments of truth. And I can tell you, when we've been doing this, the countries we rolled out, our customer loyalty has gone up. Our hit rates are better. And in particular, our retention rates are better, so it works. Very important to do that. And with this, we have also internally what we call it -- a call to action, make a difference. That's how we display service mindset to each other’s as colleagues and to our customers. We can serve them better all the time.

So hopefully, this gives you a snapshot that this is how we develop and this is our recipe how we take KONE going forward.

And because we can see that this way of working works, we can see we have good momentum with this strategy. Actually, internally it's been very well received, as well as externally. Now what we want to do: to accelerate this development. In a constantly faster-moving world, we realize that we just need to move faster to bring solutions and services in a quicker way to our customers.

What are the objectives of this Accelerate Winning with Customers program? I know with -- all of you have asked that. Why you have done it now? What is this all about? Why we've done it, it's simply the world is moving incredibly fast and faster. We also want to move faster. And we can see we are going in the right direction, so let's accelerate this. But there are 3 objectives with this program. One is to build customer-centric capabilities. What is this all about? It's to even better empower and provide accountability to our people out in the front lines who are serving our customers, to strengthen those resources. That is really a key to our success, how we do things locally. This is a very local business with a lot of customers. That's great. How can we help them do the customer interface even better? That's about creating customer-centric capabilities. The second one is increasing speed. What do we need to do to be faster in doing this? And increasing speed, one of the things here is that there are so many new things happening. There are new capabilities we all need to learn, new expectation from our customers, new technology. So the way to increase speed is to enable our customer-facing people to focus all of their time on this. And that means that we're going to -- they don't -- there are some things that they don't need to do, because that's how they can spend their time on bringing relevant new things to our customers. That's about increasing speed. And when we do that, what we're going to do is certain noncustomer-facing functions that are incredibly important to keep KONE running in a good way. We're going to move those up to an area on a global level so that frontlines who are serving our customers will get them as a service, so they can focus again all of their time on how to serve customers. When we do this, we will also improve our efficiency because we can better leverage scale. In a business like we have that is very local, you don't always leverage scale in the optimal way. So we can then leverage our scale and we can drive efficiency. But again, why we have done this, it's to increase our speed in executing our strategy, and it's very much about these 3 objectives. This is how we think about it.

So that's about how we want to drive KONE going forward; and why we have launched this new accelerate program, how we accelerate our strategy execution.

So let me conclude. Well, let me conclude by, first, looking at where are we today and where do I want KONE to be in 2020.

We are today a market leader in new equipment, particularly in the key growth markets. We have a great market position. And we are the challenger in services. We know that. And we kind of like to be the challenger. Then you always want to show that you're growing a bit faster, and this is great. So we have a good starting position. We are very much known by customers that we can see for our execution. The most frequently heard comments from our customers say, "Why do I choose KONE? Because what you promise, you deliver." So it's our service mindsets, and it's also the fact that we have great products. So execution, innovation, service mindsets, those are differentiators today.

If I look 2020. Here we're going to continue to be very strong, in new equipment even stronger. We will have a clearly strengthened market position in services because of differentiation, how we add value, but when people think about us at that period of time, they don't think about KONE anymore and said, "Hey, I'm going to buy a service for 3 elevators, and you'll come and do a certain number of visits." It's going to be more and more they come to us for an outcome. What do I mean with "an outcome?" They may say, "I have 1,000 people working in this building, and that's where I think it's going to be. With this number of people, how can you ensure that the performance stays at a certain level all the time?" And we take the responsibility. When we have the technology; then we understand all the time what's happening in the building, how we're doing it, then we can provide this service. So I think what we can see already from some of our leading customers and the early adopters, they are coming to us to buy an outcome. And that's how we help them improve their business. And you know what, when we help our customers improve their business, we benefit.

So again, it's about we are truly going to be adding more value to our customers. And that's why we believe we're going to be known for our customer centricity not only in our industry but beyond.

So what have I talked about today? Continue to have good progress in developing our service and solutions that differentiate us. And I believe that our differentiation is really taking us forward. Our markets, even though they've been a little bit challenging over the past years for, like, new equipment, we continue to see good outlook for the markets. The fundamentals are definitely there. And we are speeding up. Our customer centricity, speed and efficiency, that's how we differentiate. That's how we add value to our customers.

With that, I think we have time for some questions, to start with.

Sanna Kaje ***KONE Oyj - VP of IR***

Yes, indeed. And before we go into the questions, please ask one question at a time. And state your name and the company before asking the question...

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

And wait for a microphone.

Sanna Kaje ***KONE Oyj - VP of IR***

And wait for the microphone. Let's start from here.

QUESTIONS AND ANSWERS

Klas Henrik Bergelind ***Citigroup Inc, Research Division - Director***

It's Klas from Citi. Can I come back to Slide 12, when you talked about likely tailwinds and headwinds next year? Firstly, on pricing, when you say that you will see continued price pressure in China, is that the current backlog for delivery next year? Or are you talking about new orders seeing better pricing, for delivery in 2019?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

I don't know what pricing will be like next year.

Klas Henrik Bergelind ***Citigroup Inc, Research Division - Director***

Here is my point...

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

I think I understand your point.

Klas Henrik Bergelind ***Citigroup Inc, Research Division - Director***

Yes, yes. My point is also that we are hearing in the market that pricing is improving just because of raw materials; that there is a pause in effect that, when raw materials fade next year, underlying price competition can again be visible. So I'm just trying to understand the underlying environment.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Okay. The first point is that I don't know where pricing is going to be next year, and we don't comment on pricing forward looking. And I also don't know where raw materials will be. I know that that's currently at a clearly higher level when they were period -- short period of time ago. The reason we made this comment is clearly that, even though we have been able to stabilize this year, and I think we've shown the way in this stabilization, when it's still orders, that's when we talk about orders. And then deliveries come back -- come with the delay. So clearly, we can see still year-over-year what we're delivering is at the lower level than prior year. Where the new orders go, that I don't know. Clearly, we know where our objective is.

Klas Henrik Bergelind ***Citigroup Inc, Research Division - Director***

A quick follow-up, sorry, Sanna. Just on R&D and IT, on that slide for 2018, you're not saying that this will be a challenge in terms of the cost pressure. So should we perceive that, that you will have less investments in 2018 over '17? Because also, when I look at Ilkka's slides a bit further back, I can see that there is range on R&D from flat to up slightly. So if you could comment a little bit about lightly IT and R&D next year.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

So we know that we have been putting more, so it's increased as a share of revenue clearly this year, and Ilkka will talk more about that. Perhaps, the message from that is that the growth rate in terms of share of revenues maybe not as high next year. But let's -- Ilkka can comment on that in more detail later on.

Sanna Kaje ***KONE Oyj - VP of IR***

Let's take the next one, right there behind you.

Andre Kukhnin ***Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst***

It's Andre from Crédit Suisse. I'll start with a broader question on digital. It's been a year you've invested. You've got a lot of evidence, I presume, on how it's gone in terms of customer interactions. You tell us that you're going to target outcome-based selling. What was the bottom line in terms of people on impact in terms of the ASP for service contracts per shaft from this -- from that exercise? Can you concretely tell us that ASPs are higher because customers move on to more features? Or is it a risk that people move from kind of fully comprehensive to more of a menu pricing?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

I would say, first of all, we can see that it has a positive impact. And the important thing is when we came out with these new services this year, where we spent a lot of time, is to understand that how do we actually improve our customer's business with this. The technology is out there, almost, but that anyone can get. So we spent an awful lot of time that, hey, why do we actually improve our customer's business? Why is good for them? And the results are really encouraging. So yes, there is -- it's value adding. And sometimes, if someone goes from fully comprehensive contract to a basic, that's okay. Then our mix of revenues will be a little bit different. Then instead of, say, more repairs and less, so those are okay. That's not the biggest concern. But if I think about this new service that we come out with, clearly, positive pricing impact.

Andre Kukhnin *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

And would you say that's the bigger driver than the retention rate? Or is it really about kind of retaining and maybe potentially converting better?

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*

I think it's about both. It's about both because then we can have longer-term better customer relationship when they can really see the value add that we do.

Sanna Kaje *KONE Oyj - VP of IR*

Okay, let's take the next one over there.

Lars Brorson *Barclays PLC, Research Division - Director*

Henrik, it's Lars from Barclays. Maybe just a follow-up to the R&D question, then a separate question on your Accelerate program. I appreciate we're going to get some comments from Bill thereon -- or later on, rather, on the R&D for next year. But if you look back at the R&D profile as an industry and for you specifically, we've been cruising at, call it, 1.5% of sales. We stepped up now to 2%. Do you think we're going to -- and trending towards 2.5% next year? Do you think we are structurally moving to a higher level as far as R&D spending is concerned as the business changes, particularly around services? Or do you think this is a period of transition at which point we move back to a more normalized level than we've seen historically?

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*

If I start, why has it increased over the past years? It's -- if you think historically, the majority of R&D was in more, I would say, equipment-related R&D. With technologies coming that really is helping the service business, it's really service business that has increased more. So that's kind of a structural. But actually, if you look at how much our R&D expenditure is growing, it's actually not that different from the past. It's just that now, when markets have been slower, top line growth has been slower. So it's also been a -- it's also percentage of revenue rather than absolute growth. But it's clearly, I would say, what is structural is, I would say, simply say digital technologies that help us run our service business better. But also, you know what, we see good benefits of that. So from that perspective, I don't think it's a bad thing.

Lars Brorson *Barclays PLC, Research Division - Director*

That's exactly my point. So we could be settling at a higher level relative to sales.

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*

Yes. Okay.

Lars Brorson *Barclays PLC, Research Division - Director*

Just secondly, if I just could, on your Accelerate program. I mean, 1,000 employees is quite a high number for you out of a total of about 50,000 or so. I have to say I've heard frustratingly little on where these headcount reductions are coming. Can you help me understand, is it particularly or exclusively at the back end as you move more to shared services? I mean, shared service is nothing new for you. Or are there any sort of front-end staff? And if so, where by region and function are those headcount reductions coming?

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*

So we have specifically not commented on that yet. We have launched this program. We have clear ideas we want to do. But also, in our way of collaborating and innovating, we're actually involving much more KONE people in this now. So we have some ideas. I would say, our headcount has been growing by more than 2,000 people a year in the past years. So from that perspective, yes, of course, 1,000 people, 2,000 people, but still our headcount has been growing more in that. It's going to impact all of our geographic regions, perhaps the specific customer-facing less, but there, we're also going to see changes in roles, what we do. So you'll hear more about it. Now you have the outline of what we want to do. But I think, still, think about it, this program as -- our strategy is taking us in the right direction. Now we want to speed it up. That is the biggest impact of it.

Lars Brorson ***Barclays PLC, Research Division - Director***

So no further color on that. Okay.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay, let's take now one more question, and then we can have the rest in the end. Let's take it here from the front.

Rizk Maidi ***Berenberg, Research Division - Analyst***

It's Rizk Maidi from Berenberg. Henrik, you talked extensively about the benefits to your customers from your digital offering. Can you just talk about what does it change to your cost structure? And how should we think about, for example, the numbers of service technicians you'll have to 4 years from now, basically?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Can I park that question because I think Hugues Delval will talk more about that. But clearly, there is a customer benefit. But clearly, when we do it, there's a productivity benefit for us as well. But the point is, if we only think about productivity benefit, I think the value-added will be low, and the really exciting and big thing here is how we can improve our customers' businesses. But Hugues will talk more about that.

Sanna Kaje ***KONE Oyj - VP of IR***

Then maybe we'll take one more from there.

Oliver Campbell

Oliver Campbell from First State Investments in Singapore. I wondered when you're faced with something like a slowing China, how do you make sure that the integrity of selling practices is maintained on the ground?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

This is something that we have been doing year in, year out. It's something we take very seriously. Clearly, it's about having -- making sure that you have good people who you train, how you develop, comes into your culture and then, of course, you do follow up and audit those constantly. That's how we do it.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. Thank you very much, Henrik.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Thank you.

Sanna Kaje ***KONE Oyj - VP of IR***

We have more time for more questions in the end.

PRESENTATION

Sanna Kaje ***KONE Oyj - VP of IR***

Now I would like to welcome on stage, Hugues Delval, to talk about how we differentiate in services. Please?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Good morning. I'm very enthusiastic to share with you today more details and insights about our services business and how we are developing it, of course, how we have been developing it, but also how we are also going to develop it further in the near future.

Maybe first, it's the first I'm in front of you, so let me introduce myself. So I'm Hugues Delval. I'm leading the services business. Before that, I was leading the maintenance business globally for KONE. And before that, I spent the last 15 years in leading P&L organization for KONE in different parts of the world, so what you could call a KONE veteran.

So let's see together today, we're going to call -- we're going to start today with looking at our past performance, first. Then we will see together how we analyze the markets and what are the opportunities we see in these markets from, I would say, to go forward. And then in the last part, I'm going to share with you what we do to improve our competitiveness, certainly in both developing the offering further, but also developing our productivity or efficiencies.

So maybe I'll show the world about services business to be clear what we are speaking about. Services business is for us both maintenance, services and modernization services. So if you take a look at a new building, for example, we are installing the new equipment of the elevator in the building. And then when the elevator -- the building, sorry, is commissioned and is going -- is transferring from the developer to the owners and the facility managers, that's where the maintenance services are starting. So we are actually providing preventive maintenance, corrective maintenance, repair, components, replacements.

And then when the building is aging, all the customers, all the building needs are changing, then we are entering in a modernization phase where we are replacing or we are upgrading the performance of the equipment or sometimes we are replacing it completely. So this is the difference between maintenance and modernization business. And this service business has an annual sales of EUR 4 billion for KONE last year.

So but beyond this figure, let me share with you what's a typical day, well, like today, actually, is for us. We are moving more than 1 billion people every single day like today, which concretely means that from today until Thursday evening next week, we're going to move the equivalent of the population of this planet. So it's a pretty significant number of people we are moving. And it's happening in thousands of cities. Today, we have 20,000 service technicians who will perform 70,000 maintenance visits. It's a great number because it's actually 70,000 opportunities to make a difference to our customer. So I think it makes very concrete what a good day of work is for us. And hopefully, today will be a very good day of work. And of course, we are aiming at improving this day of work and making it even more busier in the future.

Well, to make this happening and to make this day even busier in the future, it all starts with the customer. And for many years now, we are serving more than 30,000 customers every year to understand how they are perceiving our services and if they like it or they like it a bit less. And when listening, our customers, what are they telling us? First, they tell us that they like our people. They like the relationships they have with our people. They like their reliability. They like their responsiveness. They like the fact that we understand their needs. Very critical for the future again. We're going to speak a lot about the technologies and digitalization. But again, service business is a people business, and it will stay also a people business in the future.

The second element is that they like a lot the maintenance quality or they find the maintenance quality very important in our service delivery. And they are also appreciating the fact that we are responding quickly to their needs, not only when there is a technical problem, but also when they have a query administrative or when they need an information.

So what you see on the graph here is that for the last years, we have been improving consistently over the Net Promoter Score. But again, we want to differentiate further. And one of the KPI we are looking at as a success factor in our ability to differentiate further is, of course, the fact that we want to accelerate the trend of this improvement in the Net Promoter Score in the future. And we're going to see a bit later how we are planning to achieve it.

When we look at our financial performance in the past, we see that we have grown with an annual rhythm of 6.5% in the maintenance business between 2009 and last year. This is clearly above the market's growth. We -- the market growth has been about 5% over the same period. So clearly, this 6.5% is higher. If I want to give you a bit more color of what's important to sustain this growth in the future, a main element is the growth in the number of units we have in maintenance. Okay? So the sales growth is very directly linked to the number of units we are maintaining.

And when we look at the key drivers behind the growth of the units we are maintaining, there are actually 2 main organic growth drivers. The first one is what we call the conversion. So it's our ability to convert the units we are installing in the new buildings into maintenance contracts. And as you see, this is the single most important driver in the unit's growth.

The second important driver organically is the difference, what we call the competition balance. And the competition balance is the difference between the units we are winning against our competitors on the markets, minus the units we are losing against competition in the same market. This competition balance has been negative for many years now. It has actually improved steadily over the last year. And last year, it was only very slightly negative. And of course, we continue to work actively on this.

If I want again to give you a bit more insight about the -- what's behind this competition balance, usually, we lose units against the very small companies in the residential segment where these small companies are, I would say, actively playing on the proximity, on the local aspect of the relationship and the pricing. And we are winning with the customers who have experienced the customer -- the KONE service. So we are actually growing the share of wallet with these customers. And it's happening across all segments, but mainly in the commercial segment. Okay. So this gives you a bit of more information in this.

When we look at the geographic growth of the market -- for KONE, sorry, over the last years, we see that, first, all our markets have been growing, mature and emerging. Second one is you see that in Europe, Middle East and Africa and North America, we have grown about 4% on an annual basis. And in Asia Pacific and China, our growth rhythm has been about 20% annually. And you will see again a bit later, you will be able to compare these with the market growth in these geographies. So this is about maintenance business.

When we look at modernization business, we have also grown faster than the market. You see here that our growth rhythm has been about 5% annually. What's probably very interesting and important to notice is that over the last couple of years, this growth has accelerated. Again, very consistent with what we have shared with you in the previous Capital Market Days, the fact that this modernization business is also closely linked to the economical environments. And of course, as we need -- and then we know the economic environment has improved both in North America and Europe over the last years, and that's also what it's showing here on the screen.

But also the fact is that we have worked a lot internally with programs in order to improve our sales management and our sales efficiency: how do we drive up; how do we raise the competencies of our salespeople; how do we help them to target the right market and the right opportunities; how do we ensure that they are receiving the proper coaching from the sales management. And this has actually turned in a very strong benefit. You see here below that our hit rate, so the number of opportunities we are actually converting in orders has been increasing by 4 percentage points between 2015 and today. And of course, we don't stop there, right. We continue to work on the sales competencies and the sales management in the future. And it's actually going across all our business lines in the service business, so we do that also in maintenance business.

So this is about it for the past performance. And I think, as you see, we have performed well. We have performed above the market. And this is providing us with very strong foundations for the future. So this important.

Now let's switch -- or let's go to the second part of the presentation, which is the market evolution. So from a maintenance business perspective, you see that the largest market in number of units is Europe, Middle East and Africa, 5.9 million units in operation today, growing at about 1%. So you can compare with what I just told you about the KONE past performance on this market.

In North America, the number is smaller in terms of the number of units. But it's also important to understand that the value per unit is much higher in North America because, of course, the building are taller and the rise of the elevator is also higher. Okay? And again, this North American market is growing at a rate of 1%.

Maybe also another information is that if you link it to what Henrik has showed you in the new construction market growth, adding the starting of the year, plus new construction, minus 1%, which is usually the number of units which are taken out of usage, gives you the overall trend of the market.

When we look at Asia Pacific, Asia Pacific is already today at 5.3 million units in operation. So we see that very quickly, in the next 6 months, it's going to be bigger in number of units than Europe, Middle East and Africa. And of course, as Henrik mentioned, we have a really strong position in this markets. So this fueling our growth very clearly. So again, good market trends for the future.

When we look at the modernization market, we see a bit of the same picture, a difference between the mature markets, Europe, North America; and the emerging markets, Asia Pacific, China and Middle East and Africa. What we see is that in the mature markets, a large share of the installed base is over 20 years old, which means that the potential for modernization is there and it's accelerating.

When we look at the emerging markets, we see that the number of units which are reaching the 20 years old is far less, and we all understand why, the market is newer in terms of new construction. But an important factor to consider there is that if you take a normal residential unit in Europe or in Europe, the number of starts per year is about 40,000 to 50,000 starts.

If you take the same residential unit in China, for example, the number of starts per year is above 200,000, which means that, of course, the need for modernization and component replacement will grow faster in China than in Europe. And today, when we take a look -- when we say that the lifetime of an equipment, depending on the usage again, is about 20 to 25 years, in China, it's probably going to be closer to 15 for the future. So this growth potential in China and Asia Pacific will come very soon from a modernization point of view.

Another key trend on the market is this technology -- this famous technological disruption. We probably -- all of us have probably a smartphone today in our pockets or on the desk, and this has completely changed the way we are consuming and we are looking at things. Everything is at the reach of our finger, which means that when you as a consumer are in front of us as a B2B customer, you are actually expecting the same things. You are expecting transparency, you are expecting speed, you are expecting convenience, and that's what we see today. That's a key trend in what our customers are expecting from us. And this will continue, of course, to strengthen. This will not stop or come back.

So we are building -- or we are using technologies to build new offerings, and I will give you a bit more insight about 3 of them in the next coming slides. So we are building new offering based on these technologies to, I would say, enable our customers to customize the service they are receiving from us, and it's a very important trend.

The second important trend is that our customers want to be informed everywhere, all the time in real time, not only for their pleasure, but also because they want to use this information to inform their own customers and their own users and add value to their own customers and users.

So if we wrap up the market situation, so again, KONE, strong performance in the past, strong foundation; market situation, offering good growth drivers. Certainly, the situation in Asia Pacific and China, the markets are growing clearly, and we have a strong position to start with -- or to start from, sorry. We have increased our safety awareness and quality in across all the markets. And it's certainly true, in a market like China, the developer today understand that it's important to have the right maintenance and service company taking care of the building beyond, I would say, the installation of a new equipment. We also see that digitalization, of course, it's a change, but for us, it's opening a lot of new opportunities. Okay.

So when we look at how or what we are doing in order to take the opportunities from the market, leverage them and show that we continue to grow profitability -- profitably, sorry, one of the key thing is that we continue to build on our strength. The first strength is the fact that we are the leading company or the leader in the new equipment business with 90% market share. And again, Henrik has said we have a very strong position in China and Asia Pacific. And we also see here that our market share today in the service business is lower, so it gives us clearly with a potential to grow faster in the services business again in the future. Building on our strong position in the new equipment business in Asia Pacific and China.

Second element is our investment in the technology and the innovation and the new offerings. So why do we -- are we attaching so much importance on this? When we are listening to our customers, we also hear them telling us that, and unfortunately, they don't see enough difference between KONE and the other players on the market. And of course, we want to solve that. We want to differentiate more in our customer highs because by differentiating more, we're going to be able to grow more and grow more profitably in the future.

And to do that, we are activating 3 key elements. The first one is that we continue to invest in the competence of our personnel and to equip them with tools in order to make their work, I would say, easier and to enable to improve the customer service. And let me pause for a moment here. You will have the opportunity to meet with [Jonathan] and [Dmitry]. Jonathan is a maintenance technician here in London area, and Dmitry is a field supervisor in Brussels area in Belgium. So a field supervisor for us is somebody who is actually managing a crew and customers in a geography. They will be there during the next pause, and they will show you what are the new digital tools we are providing to them to help them to work efficiently and also to improve the customer service. So please don't hesitate to go meet them and ask them the questions you have in your mind.

The second element of differentiation we are using is the communication and transparency. Of course, we are leveraging the digitalization application online in order to continue to improve the communication to our customers, the real-time communication to our customers. And last but not least, the new services and offerings. And we will see together, in the next couple of minutes, 3 new offerings we have been launching on the market between February and last Monday: the first one is the new KONE Care; the second one is the 24/7 Connected Services; and the last one is the Residential Flow.

So let's start with the new KONE Care. New KONE Care has been launched in the markets on February 8, to be precise. What is it about, first? While for the last 30 years or more, the customers -- the maintenance customers in the elevator industry have usually the choice between a comprehensive contract, a basic contract and something in the middle. And when they are facing KONE or any other company in the industry, they are receiving the same choice: comprehensive, basic, something in between. And we understand it's not a good way to differentiate in our customers' eyes, right. So we have worked with our consumers, with hundreds of customers around the globe to understand what are the service levels, what are their needs, what are their expectations, and we have come out earlier this year with this new offering. We have actually tested this new offering as well in Germany and Italy in 2016. And the concept is that the customer, I mean, we start from the customer business needs. We go within through a number of questions and understanding of his needs, and the customer builds his own offering, his own service offering in real time with our sales manager. So it provides really the customer with an individual service. And actually, they like it a lot.

So we are deploying this new offering in Europe mainly. First, we're going to be -- we're going to have a little bit more than 10 countries active with this new offering by the end of the year. What we see is that it provides 2 clear benefits beyond, I would say, the fact that it increases the customer satisfaction. The first benefit -- financial benefit is about the improvement on the conversion rate and retention rates, and the second benefit is the pricing.

So if we move to the second offering we have been launching -- well, maybe going back on the new KONE Care. What's also important to understand is that what we have done here is that we have created what we would call a platform. And we will continue to develop this new KONE Care offering with -- by coming with new services in the future. So we, of course, we are deploying this current offering to all the markets, but we're going to continue to build new service options in order to, I would say, continuously address the evolving customer needs.

So 24/7 Connected Services. Again, launched on February 8, and so this offering is based clearly on several technologies. We are connecting the equipment. We are installing sensors on the equipment. We are collecting data. This data is sent to the KONE cloud where it's stored. On this KONE cloud, we are using analytics and artificial intelligence. And as you know, our partner on this is IBM Watson. And we are transforming this data into insights for service technicians and into information for our customers. This is what 24/7 is about from a conceptual point of view. Again, we have launched that in China, Finland and Germany since the beginning of the year. The entire work, as Henrik has mentioned already, has been to understand how we are using this technology in order to add value to our customers.

And the first results are very encouraging. So we have decided to roll out this new offering in more than 10 frontlines by the end of the year and to continue to build from there again to, I would say, add new services to our customers build -- based on this technology, sorry. And as you see on the right, this first level of offering is providing the customer with 3 clear values. Our customers like the fact that we are monitoring the safety devices of their equipment 24/7. It's pretty reassuring for them. The second element is that we are bringing intelligence to the equipment, which means that we are able to predict what's happening on the equipment before it's happening. So we can dispatch a technician to solve an issue before it translates into a call-out and a downtime for the equipment. And the third element is about the transparency. Part of this offering, we are providing our customers with an app where they can see in real time what's happening and the condition of their equipment. Okay.

But you know what, rather than me continuing to talk about this, let's take a look at an advertisement that our partner, IBM, has done about this in the U.S. And we will -- I will come back on the topic just after.

(presentation)

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

So again, 24/7 Connected Services enables us to deliver more value to our customers in terms of safety, in terms of predictability, in terms of transparency. This advertising -- advertisement, sorry, has been seen by more than 200 million people, which has been shown. So you clearly see that also IBM sees a lot of importance in this new offering which is on the market. Okay?

Last but not least, Residential Flow offering, which was actually released to 6 markets this last Monday. So it's really fresh out of the oven. And this is about 3 -- this solution is actually made of 3 parts, and it's really again completely made in order to add convenience and add value to the users of the residential building, to the tenants or the owners. The first element is about we make it easy for the owners or the tenants to access their buildings. They are recognized when they're approaching the building, the door is opening, the elevator is selected, they are brought immediately to the floor of their apartment. We make it easy for them to act -- to manage the visit -- the access for their visitors. They can receive deliveries, and they can open the door from their phone wherever they are. If they are in their apartment or if they are in the office, they have the opportunity to manage the access for the visitors.

And last but not least, we have also heard our facility managers and the building managers saying, "You know what, I would like to be able to transfer, to send the information about the life of the building individually to my tenants and the owners."

Again, a small video is more worth than thousands of words, so let's take a look at a video about this new offering.

(presentation)

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

We are very enthusiastic about these new services. But most important, our customers are very enthusiastic about these services. Of course, before launching these, we have co-created these 3 services with customers where we have tested them on certain markets. And really, it adds value to our customers. When you look at this last service, the selected company we have been sharing with this with see a lot of value to differentiate with the buildings, which are in the same neighborhoods, to offer a different experience to their own tenants and users. It really helps us to differentiate in the eyes of our customers.

So just showed you 3 offering where we are leveraging technology in order to create new offerings. And of course, these new offerings are, I would say, engines for us to grow faster on the market. Of course, we are also looking at opportunities and ways to improve the maintenance productivity. When we look at the productivity drivers, again, we continue to invest a lot in the competence of our field technicians. In China alone, we are hiring more than 2,000 technicians every year. So our ability to train them very quickly and to bring them to the right level of competency is a key element of our productivity, as an example. And of course, we are going to be leveraging the technology in what we have seen from 24/7 Connected Services to provide our technician with information. We see today already that we can provide them with an information about the root cause of the issue and also some proposals about the corrective actions they have to take. And as a matter of fact, we have a lower call-out rate on the equipment we have been equipping with the remote monitoring / 24/7 Connected Services.

Last but not least, as you have seen, we have announced that we are partner -- we have been -- or we are partnering with salesforce.com in order to build the new generation or the next-generation field service solution. This field service solution has also an impact or will have an impact on our productivity and efficiency because it will help us to structure better the day of a technician, to be smarter in allocating the jobs in a day. And as I said, we are actually running 70,000 maintenance visits, so there is potential clearly on there, and also to decrease, I would say, less value-adding tasks like travel time, for example. So we see clearly that these new technologies and/or investment in the competence of our people will continue to drive productivity in our service business in the future.

So to conclude or to wrap up this session about the services business, what did we see? We see that we have had a strong performance in the past. It provides you -- it provides us with strong foundation. We see that the markets are offering us clear growth opportunities on every single continent. And we also see that our investment in technology in the past years have enabled us to come on the -- to the market with new offerings, and these new offerings are receiving very encouraging feedback and promising results from our customers. And of course, we're going to continue to leverage these new technologies, both to continue to innovate from an offering point of view, but also to improve the productivity and efficiency of our operations in the future.

Thank you very much.

Sanna Kaje ***KONE Oyj - VP of IR***

Again, time for questions. Looks like there are many.

QUESTIONS AND ANSWERS

Sanna Kaje ***KONE Oyj - VP of IR***

Let's start from the front.

Lucie Anne Lise Carrier ***Morgan Stanley, Research Division - VP***

Lucie Carrier from Morgan Stanley. The first question I would have is, you've spoken about your view that you believe the maintenance and modernization market in China will come faster than it has come in the other region. However, we know that your conversion rate in China historically have been lower than in the other countries. So how do you think about improving that conversion rate if you indeed want to be taking the opportunity?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Yes. So indeed, the conversion rate in China has been around 60%. It has slightly improved over the last couple of years. And as you know, the conversion rate in the more mature market is clearly above 85%. So we continue to work on different actions in order to improve this retention rate -- this conversion rate, sorry. But also, we believe on the fact that these new technologies and these new offerings, like 24/7 Connected Services, will definitely help us to improve this conversion rates in the future.

Lucie Anne Lise Carrier ***Morgan Stanley, Research Division - VP***

Just maybe if I can have a follow-up on that. I mean, this new solution, of course, more sophisticated. And when we think about the China market and maybe some of the installed base, is that directly applicable today? So maybe can you elaborate a little bit on that? Because when we look at some of the elevators, they don't seem massively high-tech in China.

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Okay. Well, actually, this technology, it's probably one of the beauty of it is this technology is applicable to any technology, whatever, I would say, the age of the technology with different obviously technological solutions. But as an offering, this is the same value to our customers. And actually, in China, as the technologies relatively risen for us, our growth has been coming up very strongly in the last 10 to 12 years. This technology is completely retrofittable to these new solutions in the future.

Sanna Kaje ***KONE Oyj - VP of IR***

Maybe to add to what you just said about the conversion rate in China, so it's 60% for KONE brand and then roughly 50% for KONE as a whole, including GiantKONE. Let's now jump to the back.

Unidentified Participant

Yes. I'm trying to understand the incremental effect of the service strategy. So on the one hand, you've got this pyramid effect that you've delivered a lot of elevators, equipment in China, which will, naturally, I think, help your maintenance growth accelerate in the coming couple of years, even if the strategy doesn't work. I'm trying to think about the win-loss side, the competitive balance side, where you said it's been negative for a few years, still slightly negative. To what degree do you think the new digital strategy can squeeze out the party players and increase the penetration of installed base and win-loss ratio?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

So I think that we're going to see in the future a market where it will kind of dichotomize. So we will have the large companies. We have a strong technology base, and we're going to have to -- we're going to still have very small companies able to, I would say, serve and add the local flavor to the customers very strongly, the personal touch on this. So as a matter of fact, the new technologies and investment needed in having this new technologies on the market will continue to lead to further consolidation on the markets. Then, of course, it's a question of speed. But again, as Henrik said, it's not -- I mean, technology is important, but what it is all about here is although we actually listen to our customers, work with them, co-create with them about all this technology is bringing to value every one of them, and this is probably where the key differentiating factor will continue to be in the future.

Unidentified Participant

Just to follow up very quickly. Do you think that win-loss ratio can get positive?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Yes, sure. It's our ambition. Yes, definitely.

Unidentified Participant

Meaning this, like, you get at a point to maintenance growth? Or is that too ambitious?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Well, of course, as you have seen there, it's difficult for me to say it's going to add a point when -- half of a point is right. Don't think we want to go into this forecasting. But, of course, this -- our ability to turn this competition balance into positive growth will add growth to our maintenance base.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. Now here.

Erik Karlsson

Erik Karlsson of Bodenholm Capital. Coming back to what James asked about on the competition balance, the gross wins and the gross losses. I always thought about this in net terms, so wins minus losses. But the gross wins and the gross losses were bigger than I thought. One, are they representative of actual size so that conversions and gross wins are reasonably similar in terms of driving growth?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Yes, I would say the size of the bars are relatively...

Erik Karlsson

Give or take. No decimals...

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Good shape.

Erik Karlsson

Okay. Perfect.

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Yes.

Erik Karlsson

And then on the net competition balance, do you think you can improve both on the gross wins and on the gross losses, i.e. how the gross wins are?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Yes, we're actually working on both ends of the equation. So we are really working on the retention and our ability to improve the retention, not only...

Erik Karlsson

Gross losses side. Yes.

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Exactly. Not only through technology, but also through working with the competence of our people, working with the understanding of the customer needs. Henrik spoke about this customer journey and understanding clearly what are the important touch point for our customers, and what we need to adjust our service delivery to improve on that. And then, of course, we continue to work on the one side of the equation.

Erik Karlsson

And that should give quite sizable effects if you improve both those parts because they were quite big. They were bigger than I thought.

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Yes, you can never say, it's a big effect for sure.

Sanna Kaje ***KONE Oyj - VP of IR***

And so the retention rate is over 90%. So maybe that gives you the magnitude of the trend that we have in the maintenance base. Okay. Let's move to that side.

Unidentified Participant

Maybe just a follow-up question on the Chinese maintenance business. Unlike the earlier question, I have Chinese maintenance as decelerating and decelerating very rapidly, primarily because the first service period that we see coming through. If you don't see a re-acceleration of your new equipment business in China, I know -- I'm sure Bill is going to talk to this. But do you think the Chinese maintenance market can re-accelerate for the market as a whole, i.e. are there structural drivers, things like self-service, that is diminishing over time? Is there anything regulatory that you see? Again, just on -- your perspective. I'm sure Bill will cover as well.

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Okay. Well, first, as a matter of fact, the level of fragmentation of the Chinese market is way higher than the other markets, right. The top 4 service providers are only representing about 20% of the entire service markets. So this is one element of the, I would say, competitive forces which are in China. The second element is that, yes, we see some customers on the self-service -- of the self-maintenance, but I think that we have seen that in the past in other markets as well. And our role there is to ensure that we continue to improve the perceived value of our expertise by the customers and all we can make a difference compared to what they can do as a self-maintenance. And again, the fact that we continue to build our offering and that we continue to build the technology side of the maintenance business will help us, I would say, to participate to the consolidation of the market from now on.

Unidentified Participant

To be specifically -- sorry, just to be specific, do you see the Chinese maintenance market accelerate over the next 3 years?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

We see the China -- Chinese...

Unidentified Participant

Maintenance market accelerate over the next 3 years?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Well, the fact is that it's going to continue to grow because we have many units which are coming from the construction business which are going to enter into the maintenance business, right. We saw that the construction market is going through -- and Bill will talk more about this, but to kind of a more flattish phase these days, but it's going to still increase by more than 500,000 units every year. So it's a very significant growth for the market in the years to come, right,

Sanna Kaje ***KONE Oyj - VP of IR***

One more question right from the middle.

Andre Kukhnin ***Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst***

Great. Thank you for the opportunity. Can I just ask -- it's Andre from Crédit Suisse. Can I ask on the residential flow on the very last offering you launched. Firstly, is this just -- where have you launched it on Monday?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

So we have launched it in 6 countries; U.K., Germany, Finland, Netherlands, Belgium, France.

Andre Kukhnin ***Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst***

And obviously, the elevator in that video is one of kind of 4 things that are in action, so there's kind of doors, locks, access control. Who would you want to ultimately be in that system? Is your intention to sell all of those things and then services? Is it an open plug-and-play system? If you could share.

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Yes. So, again, this is clearly one of the service which makes true our vision about providing the best people for experience. We are partnering, of course, with other companies in order to build the technological solution. So we're going to sell the solution. We're going to install the solution. We're going to provide some of the solutions, but some other items of the solutions, for example, access control solutions, are coming from partnerships with other companies.

Andre Kukhnin ***Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst***

And can I just follow up on the comment on retention ratio of over 90%. That's on a average contract length of 2 years or is this the annual retention of 90% of the installed base?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

The annual retention rates is slightly above 90%, which, again, if you take a look, the question was also about the average length of the contract. Of course, it varies significantly from country to country, but you can estimate that an average length is about 2 years.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay now, I'm afraid we need to go for a break. Thank you very much, Hugues.

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Thank you.

Sanna Kaje ***KONE Oyj - VP of IR***

And please, I would encourage you to go talk to Dmitry and Jonathan. You will find them soon there. We will continue 20 past 10. Thank you very much.

(Break)

PRESENTATION

Sanna Kaje ***KONE Oyj - VP of IR***

All right. I think we need to continue now. People are eager on the lines to hear a bit about China. So if you could take your seats, please.

Okay. Next we have the Head of our China Business, Bill Johnson, talking us through how we are capitalizing on our strong position in China. Bill, please.

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

Thank you, Sanna. Good morning, everyone. Welcome to KONE's Capital Markets Day. Thank you very much for coming. This morning, I'm going to talk about how we're capitalizing on our strong leadership position in China today.

The agenda this morning, we're going to take a look at the overall China real estate market and what kind of opportunities it continues to offer us. We're then going to take a look at the service market and how it's growing and what the opportunities are there. We're also going to take a look at how KONE's new strategy in this changing environment, namely Winning with Customers, will help us win more business in China.

But first, let me give a quick snapshot of where we stand today. This is a slide that I usually begin my Capital Markets Day presentation to give you a quick understanding of the present situation. First off, we continue to be, for 3 years in a row, by the end of 2016, the leading elevator company in the China market with approximately 20% share. Our -- and the first half of 2017, we've continued to be maintaining that leadership position as well.

Revenue by the end of 2016 for China was over EUR 2.5 billion, with a split of a little bit less than 90% of that revenue coming from new equipment and a little bit more than 10% coming from service. We've got more than 15,000 employees spread out over 500 locations in China and more than 30,000 customers, including 9 of the top 10 developers, 36 out of the top 50 and 54 out of the top 100 developers in China. And I'll touch on why that's important -- increasingly important in the next couple of slides.

I also want to give you an update on our march toward the 1 million units of shipment from our China factories. Several months ago, we passed the 700,000 mark of units shipped so far since we've been in China, and we're going to continue to give you updates on our progress in that area.

Looking more specifically, we have solidified our position and our leadership position in the new equipment market, despite a very challenging competitive situation. We continue to have very good market share, as I said, at 20%. And our strategy has been though, during this very hypercompetitive pricing situation, to maximize our value through finding the right mix between volume, pricing mix, even payment terms. Cash right now is very tight in China, so payment terms are also an important consideration when we look at who we're working with, what kind of customers we're involved with, projects we're involved in, the size of them, things like that.

This year, we have had a lot of good effort, and we find that we've been able to pretty much stabilize pricing with our actions and looking at how to improve the mix. So the first half of 2017 has been very strong compared to the end of 2016. It's really stabilized. We're very pleased with that kind of outcome.

Looking at our service business, we continue to grow this at solid double-digit rates. We are taking full advantage of that strong new equipment pipeline feeding into our service business. Yes, it's getting a little bit harder to keep up that in terms of percentage because the base is getting bigger, but we see that there are a couple of interesting trends that are taking place in the market today. Again, I'll touch on that in a few slides, why we believe we can keep up this good growth momentum in the services business.

24/7, we launched that at the end of Q1, early Q2, here in China. And that's beginning to take on some momentum. So we're very excited about how that's going to play out and really help us in the market. And finally, we've been able to grow our modernization business, 30% for the last 3 years -- year-over-year for the last 3 years. Albeit from a small base, but we're showing some very good growth in that area, and we expect that to continue as well.

Let's take a quick look at the overall China real estate market and see what kind of opportunities it continues to offer us in our industry. I want to -- there are a lot of data points to look at. You've -- all of you are familiar or work day in and day out with lots of numbers. And I just wanted to take a look at a few that we watch and see how they impact our industry. The first one is, looking left to right, I want to take the Tier 1 and 2 city market inventory levels. And you can see that since the end of, let's say, 2015, they've sort of flattened out a bit at around the 10- to 12-month period of time. Well, when you get to 10 to 12 months' worth inventory in a given market, that's fairly tight market in China because of the speed and rotation. What happened though, if you see in the middle slide, Tier 1 prices began to really accelerate dramatically at the end of 2015, and this caused an alert into the government. They looked at this, and they said, "Well, we've got to take some steps to dampen down pricing." In some markets, particularly Shanghai, Beijing, these were up and prices were rising 30%, 40% a year. In the Shenzhen market, in 2016, prices were up 70%. So this set off alarm bells, and the government began to institute controls on pricing, controls on purchasing. And what we've been seeing is that as price -- as the restrictions came into Tier 1 cities, then the money moved to Tier 2. Prices began to rise there. The measures for controlling purchasing and the regulations then spread to Tier 2. By the end of 2016, 40 cities had pricing restrictions on them. And then what happened was pricing moved and demand moved to Tier 3 and 4 cities. So you can see that at the end of -- beginning in 2016, inventory levels began to drop as well in those tier cities. And what happened? Pricing began to come right up. So right now what we've seen is that the government has instituted restrictions on more than 50 cities in China. Even just this week alone, 3 new measures were announced to control the purchasing of housing. And we're watching this very carefully because this really is something we're seeing that although underlying demand is clearly there, people want to buy, invest in housing, the government is really controlling that. And so I think that's the key issue to -- that we come out from this slide is we've got to watch how these -- long these restrictions will remain in place. And once they start to remove them, how will they do that? What's going to be the rollback on that and when will that take place? In October, there's going to be the 19th People's Party Congress. And we believe that a lot of reforms will be announced during that period of time, and that will also be a time in which we're going to watch what -- if there are any indications at all, how the government will begin to look at this. But our feeling is that for that time being, for the next 1 or 2 quarters, they're going to want to make sure that they got a good handle on pricing in the overall real estate market. And by the way, let me confirm, this is residential market that they're going to sort of watch and see how this goes before they pull back. Remember, in China, this is a social issue. If pricing becomes too high, it locks people out of the market and it's a negative for the society. So the government really wants to make sure they bring the pricing down.

Two other things that we've noticed is that the real estate investment, well, by the end of 2000 -- beginning of 2016, began to ramp up. We noticed too that, at the same time, land costs began to skyrocket. The price for land. And that's one of the key inputs in any project. In addition, we saw raw materials, steel, cement, copper, et cetera, also begin to rise during this period of time. So when we look at real estate development, is it an indication of growth in our market? Well, we think that, that may be absorbing higher land cost, higher material cost in the short run. So we're watching, again, this carefully to see how this will impact the rest of this year going forward.

And so at this point in time, based on this, we have said that we believe that our guidance for 2017 remains in place, namely the market will be flat year-over-year to possibly slightly down. And again, much of this is driven by debt levels, tight cash, also essentially these housing restrictions are going to hold -- be held in place at least until the end of the year perhaps into first 1 or 2 quarters in 2018. So we're going to continue with our guidance for 2017 flat to possibly slightly down.

We're though going to continue to actively work this market and find every opportunities we can to hold and increase our share where possible.

Now that's the short term. Long term -- mid and long term, we still very much believe in our thesis that there's huge opportunities in this market to keep our elevator market at a very high rate. We talked about downward pressure on the market, but still this is a huge market in China, more than 500,000 units a year. And much of this is being driven by urbanization, upgrading and urban renewal. Henrik already talked about this. No need to go into this a little bit more. But one thing to take a look at was the urbanization rate. Antti, you had asked us last year a question on that. Was it trending down? We went back, took a look at it. And clearly, there is a bit of downward pressure on it. Perhaps, it may be due to rising real estate costs acting as a downward pressure on that. Perhaps, people are also waiting for hukou reforms. Again, one of the key things that we're waiting for from the People Party's Congress, are there going to be reforms on this? So this may have had a dampening effect. Despite that though, we're still seeing in 2015 more than 15 million people moving into the cities, and that trend will certainly continue around 15 million per annum up until 2020.

The mix. How does the mix look? Between 2005 and 2016, the market grew 5x, but we saw that during this period of time the proportion of Tier 1 development as a percentage of the total began to shrink. And we saw Tier 2, 3 and 4 cities come up in importance. We've seen our customers clearly move into this area. We've also seen urban planning policies also driving change in this area. We're seeing this as how we want to look at our market, where we want to deploy our new resources to go after the growth in these areas. Property developers are focusing more on what are called cluster cities now. There are 19 cluster cities that bring in multiple Tier 2, 3, 4 cities together, linked by high-speed rail, light rail, highways, et cetera. And they're becoming clear areas for growth in the China market.

Segmentation. It still continues to be about 70%, high 60s, 70% residential with the balance being commercial and infrastructure. Infrastructure is a key area for the government to invest in. We believe this is going to be very strong in the years ahead as they invest in metros, train stations, et cetera. So this will be a good area for us to be involved in.

An interesting thing that's coming up is discussion on rental market. Rental market would be, we believe, more complementary to the for-sale housing. They're talking about perhaps 200 million square meters of space dedicated to the rental market, so we're watching that as an opportunity for us.

This is a very key slide for us because we've seen that over the past 2 years, the concentration of development has been increasing in the top 100 companies. However, we saw a dramatic increase in the first half of 2017 where the top 10 jumped way over 20% and the top 50 are over 40%. This is having a very material impact on us because as these large developers gain share, they want to go after the top OEM companies, the top 8 or so of us. This is a really good opportunity for us. However, it certainly puts more pricing power in their hands because they have more projects to deliver to us. They want a better bargain. However, they themselves also are faced with how do they differentiate from a tighter pool of developers. So they're looking to us to bring solutions, ideas to them, how they can differentiate for themselves, and elevators is certainly one area to look at.

When it comes to pricing, I've heard this question asked already a couple of times, so we can talk about that a little bit. They, our developers, are themselves facing higher costs; raw materials, as I said, land. And this is something very interesting that when we talk to them, they're quite sympathetic about pricing and why we want to keep our pricing up. Interestingly enough, one of the outcomes of the high cost of land is that the average heights of buildings are now beginning to rise. Again, a plus for us. And of course, as their costs go up, they're looking for efficiencies. They're looking to us to help them with their projects. I have a couple of slides later. I'll go into how we're doing that.

In the heat map here, you can see how investment in the first half of 2017 has gone. Much of it is along the coastal provinces, some inward provinces. This is a key initiative by the government, how to balance coastal versus inner province development, standard of living. So this is a very important thing that we look at. Each one of these provinces has their own plan. We get very granular on how we understand where the opportunities are. One opportunity we've been looking at here is the province of Hunan. Hunan province has got about 95 million people. And by comparison, Germany is about 82 million people. So you've got a Germany stuck right there in the middle of China. They've done quite well in terms of real estate investment in the first half of 2017, pulling in more than 22% year-over-year growth versus 8.5% for China average. These are the kinds of opportunities we look at, how this is going to impact our business, how we deploy our people. In 10 days, Henrik and I will be together in China. Henrik's coming to China, and we're going to be actually going to this province, spending 2 days, meeting with developers and understanding this market in much more detail.

Another area that's not on this mark -- not in this map, but it's called Xiongan. Perhaps some of you may have heard about this. This is a new special economic zone, Xiongan. Xiongan is a project south of Beijing. It's a city now of about 1 million people, but the plan is to move essential -- nonessential services out of Beijing down to Xiongan. They're going to grow that between now and 2030 from about 1 million to over 6 million people and help reduce some of the congestion out of Beijing and then develop this as a special economic zone similar to Shenzhen and Pudong. So when you think of the legacy of special economic zones in China, you know this is a very serious effort. We're already there.

That was the new equipment business. Let's take a look at the service market and how it's growing. China now is the largest new -- the largest service business worldwide by any country, single country, and is being driven by this great fire hose of new equipment coming into the service business.

When we look at the new equipment business compared to the service business, there's a bit of a dichotomy here, and there's a history behind it. As you can see, in new equipment in 2016, approximately 80% of the market was dominated by the top 8 OEMs, elevator OEMs. But it's not quite reflected like that in the service business. Why is that? Well, historically, the OEMs were much more focused on manufacturing and getting the elevators out and then letting someone else do the service business. It was low margin, very fragmented, difficult payment --

payment terms, and it was really more of an afterthought for a lot of OEMs and even developers. They just wanted to move on to the next project. However, we have seen in the last year or so an increase in the OEMs' percentage of the service business. Why? A couple of reasons. New equipment margins are under pressure. OEMs are looking for new revenue opportunities. Two, you see the concentration of development now in the hands of these top 100 developers. They have a brand. Their expectation is, "Look, I need to make sure that the services that go along with my building are reliable and safe. So OEM, I'm going to ask you now to follow through not just selling the equipment but servicing my equipment for the lifetime of the building." So we're seeing now this real nice gradual move into services. Again, this is mostly residential, 70% residential. You've got very high conversion rates on commercial, but residential is the real key here. People don't want to pay for it. So it's taking time, but now the industry is moving in this direction. The developers are moving in this direction. And so I think this is a net positive for us going forward. We need to see -- we need a little bit of time to see that come through, but it's something that we're watching and really promoting and pushing.

One other thing that's really going to help drive this and add fuel to the fiber -- fire, IT digitalization. Our developers, our customers want to see what's really going on with their equipment. Many of these projects are massive size. They could be 30, 40, 50, 60 buildings on a complex, all 20-plus stories high. To manage that without information, very difficult. They like it when they see our 24/7 remote monitoring equipment right there on their phone. It gives them peace of mind. So this is one area that we're pretty excited to see this shift in this direction.

Modernization. Well, I must apologize. This is probably my fifth or so Capital Markets Day, and I've got to repeat what I've said in the past, which is modernization, great potential. But as a whole, we're just not quite seeing it yet. Why is that? Again, I think some of it comes back to the fact that more than 2/3 of the market is residential. Residential is quite price-sensitive. You've got to get all the residents to agree to upgrade the elevators and to pay. And that's, in some cases, a little bit of a hard nut for people to swallow. So we don't quite see the residential -- the modernization business taking off. We see commercial, good opportunities there, and we're growing our modernization business 30% year-over-year. And we're ready for this growth has come through, but it's not quite there just yet. It's still kind of wait-and-watch situation.

I've been often asked when our services are going to -- new equipment and services look a little bit more like the mature markets? Well, we've seen that gradually. There is a movement towards maintenance and modernization increasing as a percentage of the overall market. And we believe that this will continue its direction probably towards 2025, it will get closer to 50-50. I don't think this is a hard number or a hard deadline for this to happen, but it's generally moving in that direction.

Our strategy going forward. How are we going to continue to win and -- win with our customers and maintain our market leadership position? I'd like to step back just a quick bit and talk to you about what's happening around China today around our environment. Every Chinese knows the 4 ancient inventions, very proud of that. But I would say there's 4, if not new inventions in China, at least 4 incredibly rapid adoptions of technology there. I don't have to go into detail. All of you, I'm sure, or most of you, are familiar with this, high-speed trains, 19,000 kilometers versus the next largest would be Japan at around 2,600 kilometers. England, for example, has about 1,400 kilometers. And they're planning to grow that by 50% by the year 2022. Alipay, a cashless mobile payment system, more than 500 million users, fantastically convenient. One of my employees said to me the other day, "I could live my life and run my life on Alipay." E-commerce, 15% of retail heading this way, combine that with superfast delivery, each changing the way people live. Finally, the sharing economy, bike share. This came out of nowhere. 2 years ago, I never saw it. Then all of a sudden, in Shanghai, there are over 500,000 shared bicycles. In China, by the end of this year, it's projected there will be 40 million of these bicycles coming out of nowhere. So ramping up scale is super important in this -- super vital -- the vitality is incredible in this market.

So what does that mean for us? What does that mean for our customers? Well, I believe this technology has permanently upgraded the customer expectations and the ways that they want to work. I should have added one thing. You know that Alipay -- now we accept Alipay from our customers. It's going from B2C and C2C to B2B. We have QR codes in our invoices. You can just click on the QR code, type in the amount that you need to pay, done. That's the kind of change that's happening. That's the kind of transparency. That's the kind of speed that our customers are looking for. These are also the kinds of services we've got to provide our customers so that they can differentiate -- so we can differentiate from our competitors. And then they need also ways to differentiate from -- for their customers from their competitors, and that's where we come in.

Let me give you some concrete examples of how we're winning with customers. But first, let's go back to that all-important transition, concentration of development in the top 100 customers. At the end of 2010, large developers were about 15% of our business. By the end of 2016, 25%. This is going to be the key to us to continue to differentiate ourselves from our competitors and help our customers succeed with their customers. The key here, of course, always is speed. This is what our customers demand from us. And when we work with these large developers, this is something that they absolutely have to have. One way we help with this speed in this service, 24/7 connection. We just spoke about that. No need to go into more detail, but I can tell you that we launched this in Q2 of this year. We've signed up about a couple of thousand units already, but that's less than 1% of my service base. I've still got huge run rate in this. And I'm really excited about this. I've got one customer who -- he was just -- he was coming out of his seat when he -- after the first week of using this service. He said, "This is fantastic. I've got 4 buildings on this campus. I have to run to different places. Knowing where the elevators are really helps me when I have to deal with my customers if there are any issues." He loves it.

Another area that helps our customers a lot is scaffoldless installation. We have introduced this across China, across both brands, and this has had a huge time-saving for our customer. Scaffoldless installation reduces the installation time by 30%. Then I can take that elevator, turn it over to our customers and they can use that during the construction time to move people and materials throughout the building. This is a fantastic efficiency for them, lets them finish their project faster and at higher quality. For us, not only does it help us install our elevators at a higher quality, but it means we can do it in a safer fashion as well.

JumpLift. Henrik talked about JumpLift this morning, how it goes up with the building. We have -- we are using JumpLift in the tallest tower in Beijing, China Zun. And I have a short video from our customers, who'll tell you about it. Please.

(presentation)

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

Just a quick story on this. They had a ceremony when the China Zun passed the tallest building in Beijing. And they brought in -- they had plans to bring in a bunch of dignitaries and leaders from the government. It rained that day.

And no one wanted to use the outside hoist because of the wind and rain because they're exposed to the weather. They all use this JumpLift technology, and it really saved the customer and it made the whole ceremony that much more possible to really do without too many hiccups. So this technology is really key.

By the time China Zun finishes, the construction time was 3.5 years, they're going to save more than 1 million work hours and be able to finish this project a bit ahead of schedule. There's a lot of commitments that they've made to customers and leaders in China so they're really under a lot of pressure. JumpLift is helping them.

Modernization. Yes, the potential is not quite there for the market as a whole. We're not waiting, we're ready. We've got the products, the services, the ways of doing project management, which minimize disruption, add value to the buildings. So we're ahead of the curve, we're not waiting. But as I say, this is an area that we're going to continue to grow. It's going to take a little bit of time for the overall market to catch up to us, but this is an area we see with great potential.

These are just some of the opportunities, services, technologies that are coming or are here actually right now in China. The pipeline that Henrik has talked about earlier is fantastic, and this is what makes me super excited about our position in China. We're the largest company, 20% share, great scale, great team, great technology, and we are one of the fastest in China at getting our elevators installed and built. I'm very proud of what we're able to do in China today, and I'm super excited for the opportunities in the future. Thank you.

QUESTIONS AND ANSWERS

Sanna Kaje ***KONE Oyj - VP of IR***

Any questions for Bill? I think there'll be a couple. Let's start from the back.

Glen Liddy *JP Morgan Chase & Co, Research Division - Analyst*

It's Glen Liddy from JPMorgan. You're quite clear that you see the very big customers as gaining market share or growing importance and having ever bigger projects. When we look at your order backlog over recent years, how has the duration of that delivery schedule shifted? And will it continue to get longer as we go forward if bigger customers are doing ever bigger projects?

William B. Johnson *KONE Oyj - EVP of Greater China & Member of the Executive Board*

The actual cycle has not shifted. What's interesting has shifted is instead of these customers ordering, let's say, from the factory for delivery to the site for 5 or 6 buildings, they're going to go for 2. They're going to husband their cash until the very last second and then ask for the delivery. So what that's really putting a premium on is our lead times, but we're able to meet that without any problem. And again, this is favoring the larger OEMs who can have these kinds of lead times.

Glen Liddy *JP Morgan Chase & Co, Research Division - Analyst*

And if you look at the pricing pressure that you've seen over the last year or so, how much of it is down to the shift in the mix of customers being bigger, more demanding? And how much of it is just competition and other things?

William B. Johnson *KONE Oyj - EVP of Greater China & Member of the Executive Board*

Hard to put a finger on it really with any degree of accuracy. I think it's certainly part of the mix. I definitely would have to say it's part of the mix. To what degree, I'm not sure. But that said, pricing is very competitive. We decided to hold on price because we also saw that costs were coming up, and we didn't want to really drive pricing in our order book down and get squeezed by this. So we've really tried to maintain discipline across the mix and customer base whether it's strategic customers or normal customers. So we've really tried to hold the line across the board. That's been our approach even with those customers.

Sanna Kaje *KONE Oyj - VP of IR*

From the front next.

William B. Johnson *KONE Oyj - EVP of Greater China & Member of the Executive Board*

Antti.

Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

Finally. This is Antti from Danske Bank. I know these government actions, they kind of come and go. I would be interested to hear your view on the structural opportunity or structural view on China new equipment, please.

William B. Johnson *KONE Oyj - EVP of Greater China & Member of the Executive Board*

Can I ask you to explain a little bit more what you mean by structural?

Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

Yes. If you look 5 or 10 years from now, do you see the annual new equipment volume higher, lower or at the same level as is now?

William B. Johnson *KONE Oyj - EVP of Greater China & Member of the Executive Board*

Okay. I think clearly, we talked about -- you had a very good question last year about urbanization. That's continuing to come. I think part of the reason that it may be moderating a little bit is because some of the reforms, but we're going to get some clarity of that soon enough. There's no question in my mind that the market is going to remain at a very high level. I do -- we're not going to see the growth that we saw between 2004 and 2014. But that said, I definitely am very confident for the next 5-plus years, we're going to see a very significant market. I don't think there'll be -- there may be some slight dips, but there'll be also some ups I think to compensate. I think we're going to stay at a very high level.

Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

If you look at the drivers, you have urbanization, which is probably falling as you show in your graphs. But then you have higher living space at the same time. So if I read it correctly, you are basically saying that these 2 balance each other out, implying a kind of a flattish market. Is that the right way to understand your view?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

I think the trends are there. I don't know what degree one will offset the other. I'm not sure. Let me come back to you on that. We'll take a quicker look at that, see what might be the offset on that. But I think the sum is it's going to stay at a very, very high level for sure.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. Let's go to the middle now.

Unidentified Participant

One question about -- I mean, given the shift towards more like big developers, customers in China, do you think this will like enable you to grow market share here in the second half or given the customer mix?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

Our hope is always to grow share with strategic customers without -- we just want to grow, but in a smart way, in a profitable way. One advantage, as I mentioned, with the larger customers is that on the residential conversion, the rate tends to be a little bit higher, so we certainly would like to do more business with them. But I'd like to do more business with anybody. So if anyone who gives me a good order, has got cash, good pricing, we'll do business with.

Unidentified Participant

Okay. And just one follow-up. Since like before you said that in your guidance about market growth, it's been like between 0 and minus 5%. Now it seems like it's more flat to maybe slightly down. So it feels like it's in the upper range of guidance today for the full year. Is that correct?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

There are a lot of moving pieces right now to this. And that chart show where pricing came down dramatically, I still think it's a little bit early to say exactly what is going to come out to be. So I'll still, if I can hedge my bet a little bit here, flat to down 5%. I think it's still early.

Sanna Kaje ***KONE Oyj - VP of IR***

Let's move over to the -- this side of the hall.

Unidentified Participant

(inaudible). If I go to your Slide #4, I can see that you're talking about pricing to stabilize this year and an improved product mix. So how do you bridge this with your guidance that expects further competitive pressure in China for 2018? Do you expect the market to become tougher as we progress towards the end of the year?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

When we say stabilize, that's as we saw pricing coming down quite aggressively in 2016. Pricing is stabilizing as we're going through 2017. So we're seeing quarter-over-quarter gradual stabilization of pricing. And now our hope is to grow -- switch the mix a little bit more to higher-margin product and yes, pretty much higher-margin product. So that's what our hope is, to change the mix in that direction and hold our market share and hold our pricing.

Unidentified Participant

Okay. So basically, what you'll see in 2018 is just a comparison between -- with the first 2 quarters of the year?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

Yes.

Sanna Kaje ***KONE Oyj - VP of IR***

We have time for one more question. From the left.

Daniela Costa ***Goldman Sachs Group Inc., Research Division - MD***

It's Daniela from Goldman Sachs. A question on, can you comment about your margin, how do you see that evolving? I think China original equipment margin is still higher than elsewhere in the world. As the market matures more to the 2025 scenario you showed, how do you see that evolving and similarly, what was your outlook for service and margins?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

New equipment margins, of course, we want to keep the margins up as high as we can. Some of that is related to how we do mix. Some of that is also lead times, a variety of different situations, also even payment terms. So our effort is to try to get as much discipline in our pricing decisions. I want to keep margins up. It's hard for me to forecast what that's going to be, but we're going to try to do it whatever we do in a disciplined and intelligent way. I do not want to fill my order book with margins that are collapsing while costs are rising. That's just not a -- that's not what we want to do.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. We will have another opportunity to ask questions from Bill also in the end of the event. Thank you very much.

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

Thank you, everyone. Thank you.

PRESENTATION

Sanna Kaje ***KONE Oyj - VP of IR***

Next, we will learn more about the Central and North Europe, so I'd like to welcome on stage Thomas Hinnerskov.

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

Thank you, Sanna. Hello, everyone. Great pleasure to be here. If Hugues is the veteran of KONE, I'm definitely the new person on the team as I only joined KONE a year ago, actually at the same time that the last Capital Market Day was in Finland.

So we're very excited. I have a background from investment banking, consultancy with McKinsey and then almost 13 years in building services and facility management with ISS. So services, if it's professional services or building services, definitely something that is very close to my heart.

Good. Today, I'm going to talk to you about -- give you an overview of the market in Central and North Europe. I'm going to talk to you about how are we performing in this market in our different business lines. And then finally, we're going to have, at the end, we're going to have a customer panel so we've invited 3 customers here from the U.K. who's going to talk to us about how they see the market develop, what's important for them, how are they trying to differentiate themselves and how can we help them in doing that.

Before we go into the market, let's just give a quick overview of what is Central and North Europe actually. Central and North Europe is all the Nordic countries. It is the U.K., Ireland, Netherlands, Germany, Austria, Switzerland and then Eastern Europe from Slovenia to Estonia. In this geography, which is a relatively well-established market, we have more than 300,000 elevators in service and those 300,000 elevators in service generate almost 50% of our total annual sales of EUR 1.8 billion in this area.

Okay. Let's talk about the market. When we look at the new equipment market, this market has grown in Central and North Europe positively at a decent pace since the financial crisis in 2009. If you look at it, what's actually driving this growth? Well, 40% of the market is residential and that proportion is growing because if we look at it, just as Henrik alluded to, this urbanization is not only true for China, it's also true for northern Europe. We see an influx and particularly in the core cities of people want to live there. There's more one-person households. There's more people and couples living there. There's more couples with kids staying before there's a clear sort of trend. You move to the city, you took your education, you had your job, you married, you got a child, then you just moved out of the city. Now you actually stay and you continue to stay in the city.

That all drives up demand for more residential sectors. And as most of this land is not expanding that much, we're not having more land here, we will tend to have higher and taller buildings, which is, of course, growth for us.

Clearly, the biggest market in Central and North Europe is Germany. It's, by far, bigger even than the #2 and #3 markets together, so Germany plays a very important role in this part of our business. When we look at it, good thing is Germany has a strong market, both in residential but also in the office building and that's actually across the German -- all the German, different German regions. So we see good growth and good solid demand in Germany.

U.K., on the other hand, post the Brexit vote, there's been some uncertainty in the market. We've seen that, that has influenced particularly the office segment. So office segment has slowed down. Still good demand for residential sector, especially here in the Greater London area. One thing we've also noticed the past year since the Brexit vote is that decision time is taking longer. It's dragging out. So from the decision on let's look at maybe developing this project, so we decide developing the project and we actually go ahead and start building the project. That's taking longer time than it did just 18 months ago.

Maintenance. Maintenance is a very important part of our business in this market. In the market, there's more than 2 million installed elevators and escalators. It has been growing steadily, at roughly 3% every year, over the past years, 10 years. And of course, like you've also picked up on when Hugues presented the new equipment business and the new lifts that comes into service, it's fueling that growth and an important part of it.

It's also a market where scale is important and that has driven consolidation. But with the digital disruption and the digital services coming into play and the need for technology and investment in technology, and we see that affecting primarily the maintenance market and this has a huge opportunity in this part of the world, but that also means that we clearly see the consolidation, but also see the polarization.

So either you have this very small less than 1,000 units in service that you maintain as a small local provider, very close proximity to your customer, very good relationship and primarily in individually owned residential sector, or you become one of the big ones who can afford to actually invest in technology. Being stuck in the middle is going to be harder and harder going forward. Also here, Germany clearly, the largest market in Central and North Europe.

Modernization. It's -- I'm sure that people before me have probably said some of the same things about that there is a great opportunity and potential there because even though there's been growth there and there's been sort of slowly and steady growth, it is clear that more than 50% of the installed base is more than 20 years old and that is only increasing. So by 2020, we expect that there'll be more than 60%, that'll be more than 20 years old.

Clearly, we are not modernizing our equipment to the level that it's aging. And a point in time, that will have to change. So we're pushing this big opportunity or investment that's needed to be done in front of us.

Another interesting thing that's driving this market and that's only something that's only come recently. So the new ways of working, the new way of reorganizing ourselves and the work that we have in our office is also impacting and will impact modernization. So you've all been -- most likely been exposed to that we went from having an office, then we went to having a desk, then went to having a hot desk and you just come and sit in this area and then you plug in and you start to work, right. That creates much more footfall than previously into buildings. There's a much higher density of people in buildings today, large office buildings than there were a couple of years ago.

Another thing is that we work much more in projects and we're interacting with each other across teams means that there's much more travel in between floors. Historically, you just went to the building, you went up to your desk, you sat down on the 18th floor wherever you had your desk. You went down for lunch, grabbed a sandwich, went up again and went down when you went home.

Now you're going much more inter-floor and I'm sure some of our customers in the customer panel can talk also about how that actually influence the need for vertical people flow. And that drives also the modernization business. If you just, even some of the iconic buildings in this city, one of them was on the first slide that Sanna showed, even though that's a very young building, has very good equipment, they still need to have their equipment upgraded in order to cope with the increased footfall in the building.

And just to sort of give you an idea about how much that can mean, they've had experienced more than 30% more utilization of their lifts than when they opened the building, and it's not a very old building. So let's see how are we doing in Central and North Europe. Well recently, our orders received have developed really strongly over the past few years. Clearly believe that we've outgrown competition in those years, and/or developed faster than the market in these years.

And also on the sales side, we've grown faster than the market and have profitable growth in that area. Not only have we grown the EBIT but we've also expanded the margin in recent years. Then you can say, "Well, it's only growing 3% and your orders received was growing more than 3%. How can that be?" That's, of course, because we have such a large proportion of our business that comes from the maintenance. That's not growing as fast as the new equipment has done in recent years.

So all in all, in Central and North Europe, we believe we have a very strong market position. We believe we've strengthened the position in new equipment business. Still #2, but we clearly strengthened that position in the recent years with our growth. We also about to overtake #2 position in maintenance, which we're very excited about, and we clearly see, and I'm sure you agree with me if you think about what Hugues presented earlier today, that fits perfectly into this market. That's really something when we've tested this with some of our customers in Germany, for example, which has been one of the test countries for 24/7 Connected services. They're really saying, "Wow, this, I want to have all (inaudible) ."

Because all of a sudden, this is just not talk. This is actually happening. This is something that they can see, touch and feel and see that, that will have an impact on their business.

Let me just talk to you about some of the highlights just to give a little bit of flavor what has happened the past year. So London Underground, which you most likely take every day, a lot of you will be using every day, is investing. We're very proud that they choose us as the supplier of the lifts both in existing stations but also on the Crossrail, Elizabeth Line.

And why is -- why I'm particularly proud of that? There's probably nowhere in the world, bar some of the very high-density airports, where things or our equipment are being used to that extent. Plus, what if it doesn't worked? It's also where there's the greatest impact and disturbance to our customers' business. They basically have to shut down the station if our equipment doesn't work. So we're really proud that they have chosen us and given us, shown us the trust that we will deliver that.

Another example in Eastern Europe, in Brno in Czech Republic, one of our residential customers chose us because we could deliver and install or basically full replacement, is what we call, we take out the old elevator and put in a new elevator with a minimal disturbance to their tenants. That's a key decision factor for them saying, "We want to disturb our tenants to the least possible way when you do this."

And we, together, illustrated to them that we can do it. And at the end of the day, they actually bought some more lifts and actually asked us to even do some additional work for us saying, "It went so smooth, let's just continue doing a few more."

Grand Tower in Frankfurt is another good example. Actually, were the residential people flow, was one of the first cases we sort of showed to customers and they absolutely loved it and said, "This is going to differentiate our building with competition." And the Grand Tower in Frankfurt is not only a high-end residential tower, it's also going to be the highest tower in Germany. All 573 meters is not really competing with China Zun, but it's still a tall building in Northern Europe.

Another thing in Germany where our new service offering also comes into play and where the new KONE Care, in an earlier version when we were testing it, has helped us making 9 out of the top 10 largest residential customers in Germany has, over the past year, become our customers. So they've joined us and we are servicing a part of their portfolios, not all but part of them as a good starting point for building that relationship and improve or increasing the share of wallet.

So like I said, I'm really proud that we've been part of developing and testing and piloting both the new KONE Care but also the 24/7

Connected Services in Central and North Europe.

So going forward, for us, it is basically about accelerating our strategy winning with customers. It's about that customer centricity. And what does that mean? That means that we, better than anyone else, understand what our customers' needs are and how we can help them be successful. And that's easier said than done.

One of the things we need to get to is that every KONE employee understand the purpose what he or she is doing, not the task but the purpose. So I'm not doing this. I'm doing this because it adds value to my customer, right. So when I'm servicing the London Underground, I know that this is super important because if that service visit is not done correctly and it actually helps the improvement and the uptime of the equipment, it's going to have a detrimental impact on London Underground. That's why that they need to have that understanding that this is not just checking switches or contacts or ropes, but they're actually helping people get to work every day.

And then as Henrik talked about, we're going to look at support functions that are noncustomer-facing, signed and lift them up on area even global level for 2 reasons: one, obviously, there's scale effects and that's also a bit back to the 100 million and the 1,000 people. But even more so, it creates focus for our countries. We released management and people time so they can continually focus on servicing the customers, understanding the needs of the customers and deliver that value that we can deliver to them.

We're also going to look at harmonizing and standardizing our organization even further, so there's a clear line of sight from what Hugues and his team are developing in the maintenance down to the country in front of the customer. We want to implement that or have that implementation highway so we get the speed into our implementation.

As Bill talked about, the world is fast, right. We want to see that China adoption into Central and North Europe. That's what we're trying to achieve. So accelerate our winning with customers, it's just as much about growing and enable our business to grow as it is about improving our margin with cost reductions.

With that, I want to thank you all. I guess there is some time for questions now.

QUESTIONS AND ANSWERS

Sanna Kaje ***KONE Oyj - VP of IR***

That's right. So let's take questions. Start from the middle.

Tomas Skogman ***Carnegie Investment Bank AB, Research Division - Head of Research of Finland***

This is Tom Skogman from Carnegie. Looking at the KONE, it's quite clear that one of the key opportunities is to grow the maintenance base in Europe. And it's hard to grow it just organic, it will take a lot of years. The distance to other companies is pretty big when it comes to maintenance space. And some 50% of the elevators still maintained by family-owned companies in Europe. What can you do to really start closing these acquisitions in a different speed than you have done historically? Is there something preventing that from happening that we don't understand?

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

First of all, I would say that we're always looking at acquisitions and acquisition targets. It is clear that there's 2 requirements that is needed. One is that it's actually an interesting acquisition and it will add value to our business. And secondly, obviously, that they want to sell. And with my very young tenure within the area, I would say I have not seen that many interesting acquisition targets. I do strongly believe that, yes, there's a long -- there's a big distance to #1 in terms of number of lifts in service. But I do also believe that we can accelerate our organic growth by reducing the number of losses that we have and actually increasing our wins to a higher extent and, therefore, we're getting into an even more positive competition balance as we've seen historically. And that's where some of the new services comes into play. Also, that helps our retention rate significantly. So it's not -- and I think that will drive our profitable growth, and we will be able to maybe get more out of that than some of the acquisition targets that might short term look good on paper but not necessarily add that value that we are looking for when we make our acquisitions.

Sanna Kaje ***KONE Oyj - VP of IR***

Next, to the left.

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

And just to add, and the polarization will maybe speed up some of the ones that want to sell because they realize they're stuck in the middle, so just to your point.

Unidentified Participant

Just a question on Slide #5 where you show your building permits in Europe, which has quite a nice acceleration from 2015 to 2017. There's obviously a lead time into activity. But slide also shows '18 and '19 being flat, which surprises me. I would have thought we'd see some better grade going forward. So are those your forecasts? What's behind that? What's the thinking there?

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

I think for me, what I read into it is that there's clearly been a step change in the recent 2 years as you're also alluding to. But it also says, I think it's more to say that there's a continued strong market as we're seeing it now. Then you can debate what you are expecting it to grow slightly more or less. I don't think that data is sort of the only thing for in terms of predicting how we're going in the future. But I think you have to say that the market is already on a -- as high level as 2008 and that maybe this day that support more that they will actually continue on that level, which is good. And but then also, another thing is it also shows that we will have continue having a lot of residential, and that proportion of the business might even grow with the flats or the apartments.

Sanna Kaje ***KONE Oyj - VP of IR***

Let's take one from there.

Lars Brorson ***Barclays PLC, Research Division - Director***

Thomas, it's Lars from Barclays. Look, you're right, we've heard about an aging installed base for a very long time, 50% over 20 years old. That's obviously true for the cars, it's not true for the majority of the key components that go into the elevator. They have replacement cycles much shorter than that. So I wish you could talk about aging in terms of economic life of the installed base. If I look back at the history of the modernization industry in Europe, we've seen some supercharged growth in the mid-, late 2000s because of [Schnell]. And of course, I think we've also learned in the last 5 years at least that the modernization (inaudible) a little more cyclical than we thought it was 10 years ago. Can you give us some sense of whether this, should we say, pent-up demand if you see the such gets released and whether you could think of this market structurally taking another leg up over the next 2 to 3 years, i.e. in the short to medium term?

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

It's true that the regulation have been driving some of the growth historically. You've seen peaks because all of a sudden, all the residential individual-owned apartments where you have a building that was owned by -- has also build -- everybody needs to agree. But if there's a regulation that says you have to have this kind of doors, you cannot just have -- having a normal door, you walk into it and there's no protection or anything, that drives the modernization and have been getting this type of equipment in this segment into the market. I think that is hard -- still harder to get it into the market in sort of a structural way, especially because you've seen that the demand for our partners are so high in Europe and in the big cities. So that's not going to determine whether you can sell your apartment, pass it on to the next buyer because there's a good demand for buying the apartment. So structurally, I think you'll be more difficult to get that partner out. But as we get more and more new things in then or new, I want to say, supply of apartments with nicer looking and all the homecomings, the access, those services, that's going to trigger demand especially in the higher end of the -- and we all want more convenience, right. We don't want to go be carrying down. First, we have a 2-year-old child and then we have a bag, right, and then we're trying to sort of see if we can squeeze in this, ease this, convenience is getting more and more, and I think that will drive somewhat. Will it be step change? Hard to say. But it will definitely provide just like the maintenance a solid resilience underlying business in Europe going forward.

Sanna Kaje ***KONE Oyj - VP of IR***

Any more questions? From the back.

Unidentified Participant

[Marcus] (inaudible). I heard from Schindler yesterday that pricing on services is more healthy now.

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

Sorry, once again?

Unidentified Participant

Pricing environment on services in Europe is more healthy now than it has been for a while. What's your view on the competitive situation on the service?

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

I think it's -- I don't see that there's sort of -- there's always some price pressure in the market. I think it's a very healthy market right now. I think there's some mixed pictures here and there. But in general, I agree with Schindler. I think -- but what I do think is that when we -- with the new offerings that we are coming with, it becomes much more transparent for the customer. They're actually paying for and the value that they're getting. And therefore, they are getting increasingly more willing to pay for that value. So yes, maybe it's got better, I support that view.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. If there aren't any more questions, the webcast will now go for a break. We will get organized for the customer panel. It will only take around a minute.

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

Yes.

Sanna Kaje ***KONE Oyj - VP of IR***

Thanks, Thomas.

Thomas Hinnerskov ***KONE Oyj - EVP of Central & North Europe and Member of the Executive Board***

Thank you, all. Just before...

(technical difficulty)

(Break)

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. We will continue to webcast again soon, so I would ask you to take a seat please. Excellent. Thank you so much. One more presentation before we conclude. So next, we will hear from our CFO, Ilkka Hara, on how we drive shareholder value. Ilkka, please.

Ilkka Hara ***KONE Oyj - CFO & Member of Executive Board***

Thank you, Sanna. And hey, it's my pleasure to be here. It's also for me first time, like my colleagues Hugues and Thomas said. So great to have the honor to actually bring this all together from a financial perspective. We started initially Henrik talking about where are we when it comes to our execution, our strategy and how we're accelerating that forward. Then Hugues talked about our services business, talking really the progress we're making there, and really how we're taking innovation and differentiation to the market. And also then 3 of our areas, China and central and north Europe covered more in detail to give a picture. My aim today is really to then take this, what we've heard today and put a financial lens to that.

And I'm going to cover 4 topics today. So I'll start with a financial overview, which in concrete terms means that I'm going to look about -- look through the trends that we see in the business and also the drivers that we see going forward for the business. Then next, I'm going to talk about how we have a business model that helps us to deliver the results that we talked about in the financial overview. Also, I want to talk about the investments we are making for the future, how to differentiate and drive growth forward. And then lastly, looking ahead, meaning that I want to talk a bit about 2018 and onwards from my perspective

But let's start with financial overview, and I'll start from the top line, sales. So if you look at the lens of '12 to '14, '14 to '16 in terms of the performance. So the one key highlight first of all, from the period of '12 to '14 is that we really, the growth was really driven by our new equipment business, so about 80% of the growth coming from there. Henrik also talked about how in '14, we set the next strategic phase and really identified that the growth opportunities going forward are more in the services side and geographically, outside of China at that time. And if you look at the growth that we've seen from '14 to '16, it's much more balanced, both new equipment as well as services contributing to that top line growth. And it's good to note also that FX actually has helped us in this period.

Then how about our order book? So order book for us has grown quite significantly from '12 to '16, reaching EUR 8.6 billion at the end of '16. And here you can visually see how big of a difference there is between the periods '12 to '14 from '14 to '16, how much more balanced the growth has been recently. All of the areas: Europe, Middle East, Africa, Americas as well as Asia Pacific, contributed to the growth on the latter period. Also FX having a positive impact there. And this balanced growth is something that is really proving that our choice is right in terms of investing geographically more balanced, but also then building on a business model that delivers from a multiple perspective in the world.

I also wanted to talk a bit about the rotation time, so order book rotation meaning from order to sales cycle. And it has lengthened a bit during this period. And one of the drivers for that has been that we've seen an increase in growth in our major project business throughout this period of time and major projects having a longer cycle time, so anything between 3, 4, up to 5 years, so relatively speaking, contributing and lengthening our order book rotation. But also the growth outside of China has contributed to that. So the rotation for our order book outside of China is longer, and that contributed to that. And Bill talked about China. So there we have our order book rotating about 9 months. And as Bill said, so it's lengthened a bit there, but it's more because our customers are taking their deliveries in batches. So instead of building the 6 buildings in one go, really taking 2 first then the next 2 and the next 2, which is increasing somewhat our order book rotation. Order book cancellations overall have remained at a very low level throughout this period and still today.

Then let's look at our EBIT development during this period. So what's driving profit for the company? And it's good to note that throughout this period, growth helps us to deliver on profit growth, and really one of the key drivers, but also the fact that we've been able to constantly improve our profitability throughout this period, both '12 to '14, but also between '14 to '16. And you can also say that '14 to 16 period, we did get help from FX for our EBIT growth.

Now we've looked at more from a perspective of longer period, and I wanted to come back to today and look a bit more in detail what's happening in '17, following up on what Henrik talked about in terms of the headwinds and tailwinds we see in the business, and using this same type of bridge from where we ended with '16 and where we are now guiding our EBIT for the whole year of '17, and what's helping us and what's hurting us in terms of delivering profits.

And I want to emphasize the fact that there are both. There are tailwinds and headwinds for us. And starting from the growth, so we are having a positive contribution from growth to our profit. Services are growing as well as new equipment business outside of China, naturally, China having a negative impact to growth. So net-net, we are growing and contributing to our profits.

We talked about the investments we are making to R&D. And I did -- Henrik started with that. Hugues talked about what's concretely coming out from there. And that's 40 basis points in total in our margin. So that's something which is short term influencing our profitability, but long -- longer term, we see good opportunities there.

We also have talked about how increasing raw material prices are influencing our profitability and said that there's a range between 50 to 100 that we expect for the year. Now, we're around about middle of that range. And equally, FX plays a negative role for us this year, and roughly speaking, for the year itself, about EUR 40 million negative impact.

But there are also other things that we're doing to actually improve our profitability and contributing to our EBIT. So we continue to work on our productivity. We have had good success in having focused pricing actions, so really understanding where can we draw more value and how can we manage that. Share of maintenance is increasing, and relatively speaking, that's better margin business and helping to us to contribute to profits.

And at the same time, on a negative side, so share of China as a relatively higher margin area is contributing to the mix negatively as well as the price pressure that we witnessed in orders received in China in last year. So all in all, there are both headwinds and tailwinds. And I think there are a number of things that we're executing well to make the business -- to get there.

Okay, now shifting back and looking again a little bit with a longer lens. So looking at our performance from a cash flow perspective. So we're quite proud about the success we've had to drive cash flow in the business and having the ratio EBIT to cash flow that we see. And EBITDA has been really one of the key drivers for growing our cash flow. But also, we've been able to keep good disciplined terms for our commercial side on -- in terms of net working capital.

Having a fairly good advance fees to inventories ratio, it's on a high level and continues to be there with growth. We get positive impact from that. But also from a receivable point of view, that's the one area where, I think, we continue to have opportunities going forward to improve on the net working capital. But overall, we're making good progress, and the cash flow is something that we feel quite proud about.

And lastly then, this performance has enabled us to consistently grow our dividend. So we're quite proud about the track record that we've been able to increase our dividend for the last 10 years, with a 20% CAGR, continuously driving increase in that and having roughly 70% to 80% payout ratio for the last years. That's something that we feel quite proud about.

Now we looked at first, our performance in the past, what's driving it and also what's changing. Now I wanted to dig a bit deeper in terms of our business model and what's enabling us to execute as we're executing. And I'll start with a familiar picture to many of you, this life cycle picture, which actually really tells also the story how we think about the business internally.

So it starts from the top where the new equipment business continues with maintenance and then to modernization. And we feel that you really need 3 healthy businesses to make this life cycle work and really produce the results that we have. And you start with the conversions. So you are selling new equipment, able to use the megatrends and gain market share, as we talked about, to drive good health in new equipment to convert to our maintenance base. Also, acquisitions have contributed to that. Then a key value driver is, as we talked already earlier, is retention. So we are actually able to retain close to 95% level or units. And that's really important for the value creation. And then once we get to the phase where, as Hugues talked about, to a 20-, 25-year-old phase, we get to the modernization phase where we modernize the equipment, and again, the cycle starts. And for us, all of these 3 businesses need to be healthy to help make this happen.

But it's not only the business model of the cycle, but it's also how we are driving productivity. And I wanted to spend a bit of time here and start from the bottom, which is the building block, the actions that we already took and started from in the 1990s, when previously we had a relatively local manufacturing footprint, relatively local way of operating. We started to first harmonize the way we are handling manufacturing, becoming global, having a global supply for our products, also harmonizing our products and having product platforms for ourselves, and then driving way of working, which is consistent country by country. And you might ask why is that important. The reality is that's actually the building block for having scalability for the actions that we're taking to drive further profitability going forward. And we're not driving profitability in silos, and I think that's something that is really important. So we're starting from how we are designing the products, and not only designing them so that we can manufacture them, but also can install them effectively and efficiently as well as then maintain going forward. Similarly, when we talk about sourcing, so it's not about getting the right price only, but it's about having the right strategic players that can build a relationship with us to drive continuous improvement going forward.

Now just a few examples here. So logistics, so when we manufacture things, we actually think about how to handle the packaging efficiently, so we can get logistic costs down. Similarly on the maintenance side, we have here the supervisor mobility tool that we are showing for supervisors. And it's a great tool, but from an efficiency point of view, it actually has a great impact to our business. So today, we have roughly 700 people using the tool, a bit more, and the tool enables us to stop people going back to the office to take care of admin tasks. And we are now, on average, able to cut down 3 visits to our own office for the supervisors, time that they can use in the field productively. That's about 30 minutes each visit time saved. If you then think about that 3x 30 minutes, 46 weeks a year. That's equivalent of 30 men working years. So we can actually save 30 FTEs, full-time equivalents, in this process. And we're estimating that this tool actually enables us to do 3x that much efficiency gains just for the visits to our offices.

So just giving you an idea that hey, there are actions that we're taking forward that really help us to aim to and drive performance and productivity out of this business, but they're built on the actions that we took way earlier. So there's a lot of things that enable us to do it, but there's a lot of potential going forward as well.

I also wanted to talk a bit about Accelerate program that Henrik talked about, how it's driving our customer centricity, how we are more customer-centric and capable of doing so. How we're able to be faster rolling out new services and solutions to our markets and more efficient as well. And I'll only focus on the last part in this presentation. So we are estimating that with the actions that we're taking, that we can produce annual savings of EUR 100 million by the time we get out of 2020. And at the same time, we do have restructuring costs related to this program, which are estimated to be EUR 100 million. Some of them will hit already this year, but majority of it is in '18 and '19, based on our early estimates. And as Henrik said so, we also introduced adjusted EBITDA as a measure to give transparency for how this program impacts our profitability, short term. But it's really only a measure for this program, and we'll stop using it thereafter.

So let me now shift gears a bit. Talked about performance, then our business model and what are we doing to improve it, but then looking now, the investments through that we're making to further increase the competitiveness to differentiate our products further and drive growth therefore. And I wanted to talk a bit about the R&D and IT investments that we are making. So as said, we have increased our investments to R&D and IT. About 40 basis points was for this year. So far for the first half, it's about 50 basis points. And we are seeing good returns for these investments. Some of them are visible in the new services that we launched and Hugues talked about. But we continue to see if there are good business cases for us to execute and invest in. But at the same time, we are seeing that these investments, we'll need to make decisions about the future. But for many of these business cases, they are more -- investments take more than 1 year. So it's good to note that we expect the investments to be roughly at this level, at least for the future. And let's see if there are opportunities, we'll make decisions based on that going forward.

But it's not only about how much we're investing. It's also about how are we able to then better utilize that investment in our R&D. And Henrik raised the topic of us being focused on getting our cycle times up in R&D, and I wanted to spend a bit of time on that one. But before I get there, I look at the funnel on the left-hand side from the top where the ideas are generated first. And that's where actually from a CFO's perspective, Winning with Customers actually helps us to generate good ideas. So we generate ideas with co-creation with our customers, with our partners and also internally. But the important point is that when we talk to our customers, co-create with our customers, we can test those ideas earlier. We can get a sense whether they will actually yield returns and create value going forward earlier. And fast -- failing fast is something that helps us to make sure that we're able to then only invest to the ideas that, in the longer run, provide value.

Then at the same time, the cycle times from ideas to pilots to rollout, that's what we are really trying to increase. So the cycle that we get ideas out faster and faster is important.

On the right-hand side, I'm -- I want to talk a little bit about something, which is different in this industry. So relatively speaking, when we look at the ideas that we have, we actually need to invest less in the early stage R&D, IT to make those ideas happen. And as we go down the funnel then take in those ideas to first pilots and then rolling it out to increase, investment actually increases. So the good implications coming out of that is that we can actually get more data for our business cases on the value that the investments are yielding, before we actually have to then start investing more and more to get them out. So that's definitely something that, from my perspective, helps us to make sure that we're investing and getting the return on the investments based on the data. And then also like Hugues and actually Thomas both highlighted, we also can quite effectively pilot these things. Given the local nature of the business, we can have for example the KONE Care offering, so we could run pilots in few countries and see and test the data. Is it yielding as we expected? And if it's doing so, then let's roll it out going forward.

Then the second part of the equation is, I get a lot of questions in terms of, "What's the payback time? What type of innovation are you actually working on?" And I just wanted to give 2 examples on concrete innovation that is coming from our R&D and highlight the fact that there's very, very different type of innovation that is happening. On the left-hand side, we have a small team spending mostly time and effort to come up with a new design for a door. And if you think about it, building a door more modular at the factory, and then being able to install it faster, producing about 30% improvement in the installation time. It's a very scalable investment because there's multiple installation sites and then there's multiple floors. So a very rapid payback for that investment, which is actually relatively small.

And then on the right-hand side, we have our UltraRope that was introduced in 2013 actually going to China Zun later on when we get there. And yielding a lower -- a longer payback time because a rollout takes longer time. You have big projects where you need to roll it out. And we have a handful of cases now going out there. But there is innovation on short term and long term, and both are important for us to improve the business going forward.

We are also investing and continue to invest from a CapEx perspective. But at the same time, it's good to note that the investments that's we're talking about are between 1% to 1.5% of our sales when it comes to CapEx. And we feel that we're able to, with that investment, to continue improving our competitiveness in R&D, in manufacturing and in our operations. Just wanted to highlight few bigger investments we made, first in 2012 in Kunshan factory and in last year, Tytyri R&D facility where we are really building the capability to drive innovation for high-rise segment.

We also continue to be looking for opportunities to bolt-on acquisitions, especially on our maintenance space. This year so far, it's actually been slower. So there hasn't been as many opportunities out there. But we continue to be keen on using also M&A as a tool to add to our maintenance space. And we continue to see opportunities that are out there. So that's something where we continue to invest time to find those good opportunities.

So now I promised at the end to look a bit further ahead. So looking at what's out there in 2018 and onwards from a few different points of views. And I'll start with the most exciting news, which is our new accounting standard, which is effective January 2018. More as a reminder, so we will change the way we recognize the revenue for our volume, new equipment and modernization business. But most importantly, what doesn't change is revenue recognition for maintenance and our major projects. And it has no impact to our cash flow, which is the key point.

And I wanted to do a bit of marketing as well that we have a call scheduled 15th of November, where we go through more of the details of this change. But it is good to note that from a big picture point of view on an annual level, it doesn't have a major impact to our financials. But it does decrease the seasonality on a quarterly basis for our sales and profit. But more to come on that one, and welcome to the call to hear more about that.

I also wanted to comment a bit about the FX as well as the raw material pricing, which was something that we've raised earlier in the presentation. So first on the left-hand side, our biggest exposures on FX perspective are against renminbi, Chinese renminbi, as well as U.S. dollar. And as we see today or actually literally a few days ago, the rates still are now on a higher level than we saw in the first half of the year. And if they continue to be on this level, they will be a headwind for us in 2018. Some tens of millions headwind if they stay on this level, but let's see what happens on that one.

Then on raw materials, our biggest exposure, clearly, is in steel, stainless hot-rolled billets, and the next one is then copper. And we've seen raw materials increasing in this year and lately in the summertime, increasing further. They represent roughly raw materials -- we don't buy raw materials, but we buy components, and the raw materials have a direct linkage to the pricing. So represent roughly, give or take, 5% of our sales is the exposure. And we do see that at these current levels, raw materials would represent a headwind for 2018 as well.

Then what continues to be the same is our financial targets. We have 3 targets financially that we aim for. And from a growth perspective, we have been continuously able to grow faster than the market. We have also been able to improve our working capital rotation and deliver on our cash flow target. And we're making good progress in our profitability target. We closed the year 2016 at 14.7%. But as Henrik highlighted, this year, it has been more difficult.

And I wanted to spend few minutes on our EBIT target to get to a more detail on that one. So given our business model and the low capital intensity of our business, then we are more focused on the actual EBIT growing that. But especially, internally, a margin target, the 16% drives and rallies people around the right behavior. So I think it's a valid target to use, but obviously, actual numbers are, at the end, the most important.

And we use 4 levers to really drive profit and profitability out of the business. We talked about how growth is contributing to our profit, both if you think about scaling up our manufacturing, our sourcing, also in services side or maintenance. It's about density and so forth, but it's also about having a leverage to our operational costs as well. So growth helps us to improve.

Differentiation is important, how are we able to bring unique value to our customers and therefore, have a possibility to take some of that value in our prices. We talked about customer satisfaction as a key lever for the whole business. So how we want to really drive satisfaction up and being able to do that consistently is something that -- helps us to retain, but also helps us to sell further our services solutions.

And then lastly, I talked quite a bit about the quality and productivity, actions that we're taking, especially the quality I would raise as one topic where as we increase and improve our quality, then overall, that's something which helps us to deliver also results. And Hugues talked about the example where in the maintenance business, if you do a good job maintaining, it's more effective as well. And then on top of this, we now launched the Accelerate program to further accelerate the rollout of our new strategy, which then helps us to improve even further our profitability and profits.

And we remain confident that the 16% EBIT target is a valid target for us that we shoot for. We haven't set a time for it, but we continue working on delivering that.

Let me now bring it all together and try to summarize what we -- what I talked about today. We are focused on creating shareholder value as a business. We have a solid cash flow-generative business model, which we're now continuously strengthening further. We have increased our R&D and IT investments to improve our competitiveness and capability to differentiate ourselves and therefore, drive growth. And we remain committed to our financial targets.

With that, I want to thank you, and I guess, Sanna, open the floor with -- to questions.

Sanna Kaje ***KONE Oyj - VP of IR***

That's right, questions again. Let's start from there.

Tomi Railo ***SEB, Research Division - Analyst***

Tomi Railo, SEB. Given what you said on the raw material prices development recently, it has apparently, and as we have seen, accelerated. Are you able to say that the raw material cost hit will be larger in 2018 compared to 2017?

Ilkka Hara ***KONE Oyj - CFO & Member of Executive Board***

So yes, we said that the raw material impact to 2017 is somewhere in the middle of the range, EUR 50 million to EUR 100 million from raw material price increases. And I did say that if it continues to be on this level, that will also have an impact to 2018, just to summarize what I said. Then how big of an impact, it really depends on product, country, customer mix. And we'll come back to actually making it more concrete when we give more specific guidance for 2018 at the conjunction of the fourth quarter result announcement, like normally.

Sanna Kaje ***KONE Oyj - VP of IR***

From the back.

Unidentified Participant

One on savings and one on China. On the savings, is it possible to -- should we just straight line over 3 years and to over 2 years on savings and costs? Or is there more precise phasing guidance and timing that you could give us?

Ilkka Hara ***KONE Oyj - CFO & Member of Executive Board***

So as Henrik actually started with is the fact that we are now initiating a program or more concrete work, with a wider audience to actually work on the Accelerate, Winning with Customers program. And as part of that, then we'll identify more concrete -- concretely the actions that we need to take. And we will update as we learn more, in conjunction of the quarterly results, on how we see the program going forward. But clearly, it's -- it has more of an impact, both from a restructuring cost point of view to '18 and '19, and savings probably therefore maybe a bit later in that time frame, if you naturally think about it.

Unidentified Participant

If I could try one on the elephant in the room, China. The margin decline that I imagine might be happening in '17 in China. Would you be able to say when you add everything together, that you see pricing, raw materials, currency, the decline next year will be similar or worse or less than that?

Ilkka Hara ***KONE Oyj - CFO & Member of Executive Board***

So I think we're still -- still there's time left in 2017 to execute, which influences 2018. It's both in selling steel and getting new orders as well as seeing how the material or raw material prices develops, which influences that. So we'll come back to the impact and guidance on that, as normally, in conjunction with the fourth quarter results.

Sanna Kaje ***KONE Oyj - VP of IR***

From the front.

Unidentified Participant

I think you -- you already had, I think, a question earlier about the R&D and IT investment. You said that this generally was impacting you by 40 bps. And when we look at your charts, it looks like you're still going to invest next year. But when we think about the investment, how should we think about it, either in terms of percentage of sales or in absolute terms? And here, I'm trying to get a sense whether you would have, starting from '17 base, where you already had a step-up, how you range next year in terms of the bridge?

Ilkka Hara ***KONE Oyj - CFO & Member of Executive Board***

Good -- that's a good question. So I try to draw the picture, so that it kind of gives the idea that there -- a lot of the investments that we're making will continue. They are multiple-year investments. So they're not done and then we move on. So that's one part. So there's kind of an expectation that we will continue investing into next year. But we have not made decisions to then increase this as a percentage of net sales. And especially the growth, the 40 bps, I don't think we're going to see similar growth from this year to next year. And I -- if you think about it, what actually happens in R&D, so you don't think about as a percentage of net sales. You think about it in euros, really. There are people and projects that are ongoing. So I think both views are important. So think about it as absolute, but then also we do talk about it as a percentage of sales externally.

Unidentified Participant

And just maybe follow up on that in terms of those investment. I mean, of course I understand they are different project. But if you could you maybe give us kind of an average view in terms of how many years you expect for payback and kind of accretion into your business?

Ilkka Hara ***KONE Oyj - CFO & Member of Executive Board***

It's -- I tried to use the examples to highlight how difficult it is to say that there is average payback. And there's -- from our perspective, there's lots of good ideas that we have. And we're trying to prioritize the ones where we see the biggest returns. So it's not -- my job is difficult to try to choose from the good ideas. It's not because we don't have the ideas. And in that sense, payback period, it's hard to give one number for that. It's more about prioritizing the things that have the impact to customers and for the business going forward.

Unidentified Participant

A couple of questions for me please. Can I just come back to James' question, phasing of the savings. We appreciate that the costs are quite sensitive because there's implications from employees, et cetera. But I'm sure we've got a plan for savings. So maybe you can give us just a rough idea on what we can expect in 2018, or how that's going to generate when it rolls out? Is it sort of back-end loaded, front-end loaded program?

Ilkka Hara ***KONE Oyj - CFO & Member of Executive Board***

Well, if you think about what we said in the beginning in terms of the program and that we are really focused on 3 things. We want to improve the customer centricity of the company. We want to improve the speed that we can roll out our new service and solutions out there in the market, improve the speed of the company. And then thirdly, to improve the efficiency. So if I think about what's really important for our customers, it's clearly the 2 first levers, and that's where the value in the long run is created. But then on the third one, when it comes to the efficiency gains and savings, so we've said that we want to have the run rate savings by the end of 2020.

So that's when they get full -- into full impact. And we still have a lot of work to do to really take those targets and initiatives that we have to a more concrete level. And I'm not going to comment yet because we don't really have that visibility. We're going to update as soon as we can. But based on my comment, I think it's more back-end loaded than front-end loaded if you think about the savings.

Unidentified Participant

Got it, got it. And can you just come back to the profit bridge that you have to your 2017 guidance and the organic growth impact? Firstly, are we right to assume that green box that looks like about EUR 30 million is done at midpoint of your growth guidance?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

So first of all, I want to highlight the fact that this fine print at the bottom of the page, that the bars are illustrative and not exact science. It was meant to be there for us to be able to be as concrete as we can about the numbers. But obviously, there's things that are working net -- netting it out is difficult, let's put it that way. But we wanted to just describe both that there are good performance, that we see good progress we see in the business but also then headwinds. And we are, from our performance perspective, the guidance represents our best understanding at this point or there where we come out.

Unidentified Participant

I really appreciate that. It's just what we're struggling with is just calibrate our drop-through kind of assumptions on different components. You've got a high-margin China business going down, and you've got high-margin service business going up. Within that modernization is a low-margin business that also is going up, and then you've got the whole rest of the equation. Can you help us at all with kind of maybe how we should rank at least these different types of businesses on the contribution margins?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Well, I think the difficulty for me to answer concretely to that question is -- actually comes from the life cycle picture. So for us as a company to create value, it really -- I require the successful businesses for both new equipment to maintenance and modernization, and that's a cycle that works through. So that's #1 if you think about the big picture. And we tried to open up the levers we have in that picture. And -- but it's also -- it's not an exact science because, obviously, we look at countries, a unit that really delivers value to us. And we aim to execute well country by country in all of these businesses, if that make sense.

Sanna Kaje ***KONE Oyj - VP of IR***

Any more questions for Hugues? One in the back.

Daniel Gleim ***MainFirst Bank AG, Research Division - Director***

Daniel Gleim, MainFirst. The question I have is you haven't elaborated on how we should think about net working capital in absolute terms to evolve going forward, is that it will remain rather stable-ish from this perspective. Are there any measures planned to offset the headwinds you're experiencing on that front as well? If you could provide a little bit more color on that, it would be rather helpful.

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

So from a net working capital point of view, so I started and really want to compliment our business leaders. We actually have been doing a pretty good job in terms of having the right discipline commercially in the business to continue having a very healthy cash flow for the business. So the fact that we're able to have a positive EBIT to cash flow ratio is great accomplishment. And from a net working capital point of view, how that contributes to cash flow, then I think the advances to inventory ratio is something where we are already on a quite high level. So from a ratio point of view, I don't see much improvement we can make there. We can continue working on the receivable side. I think there's always work to be done on the receivables. It can't be -- as long as we have receivables, then there's work to be done on that one. But overall, I think we're doing a pretty good job continuing to have discipline in driving contribution from net working capital then to cash flow. But growth obviously helps.

Sanna Kaje ***KONE Oyj - VP of IR***

Thank you very much. Okay. Let's take one more question. From the middle.

Tomas Skogman ***Carnegie Investment Bank AB, Research Division - Head of Research of Finland***

Yes, this is Tom Skogman from Carnegie. I was still wondering about this kind of cost-cutting program, that how much of that is kind of linked to these R&D and IT investments and how much is just regular cost cutting and then productivity improvement. How is kind of -- how much is the -- is this kind of linked to these investments that you have done?

Hugues Delval ***KONE Oyj - EVP of Service Business & Member of the Executive Board***

Well, I'll start with the fact that we're really trying to accelerate our strategic rollout. So we saw our strategy coming out in beginning of the year in January, and the feedback from both our internal customers as well has been really positive. And the aim for us is really is to accelerate rolling it out and getting the impact of the new strategy into action. And I talked about how the 3 levers to me are really -- all of them are important and, from a value creation point of view, been able to be customer-centric, and having the speed of rollouts there actually drives probably more value than the last lever. And so therefore, from my perspective, this is really about the whole strategy. We are investing to R&D and IT. That's where we see the capability to differentiate and drive value, but it's not really -- I mean, you have to do both. You have to be able to do both at the same time.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. Thank you. Before I will invite Henrik up on stage to wrap up, I would like to remind you that you have the feedback forms on the tables. And we would very, very much appreciate it if you would take the time and give us some feedback. You can leave the forms on the table. We will collect them then.

I will now invite Henrik back on stage to wrap up, and then we have one more Q&A session.

PRESENTATION

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Thank you, Sanna. What we wanted you to see today or want to talk about today, I would say there are 4 specific things. As usual, very important that you see a cross-section of our leadership team. Each year, we have a few new members of our team here presenting to you to show and what I believe is we have a winning team in this business. Very proud of the team that we have developed and built up over the past years. And it's with this team, I believe, we can continue to create value and drive this business going forward. That's number one and something I'm very happy about.

Number two, we are continuing to execute on what we promised. What we've been talking about, that is what we're doing. The commitment you always heard from us and what we show you is something that is for real, and it's something we're actually out there selling to our customers. And that's what our promise is, and that's what I believe we show what we are doing.

The third thing is that even though this market has gone through some challenging times in the past few years, particularly because of the very large China market that went through a super-growth phase that's now become more challenging, we continue to see great opportunities in this business. We continue to see growth opportunities coming from urbanization, demographic change, as we had talked about, but we also see a lot of great opportunities that is coming from changing customer expectations. And I hope from these customers you heard talking about it, also from their perspective, that expectations are changing. And again, changes brings opportunities.

And the key theme of today is really how we are winning with customer strategy, want to capture these opportunities. And the way we capture these opportunities is having constantly a better understanding of how our customers become successful. What is important to them? What is important to their customers? When we can understand this and then we can focus our innovation, where we have great track record of driving good innovation, and we can focus that on their needs, then our customers benefit and then we succeed as well. That is how we want to drive our business going forward. And you know what? We can see very clearly that when we're working this way, that it works.

And I've heard from many of you that what is the trigger? Why did you start your Accelerate program now? I think there was also a question now that, what are the specifics of it? Key message here is that the reason we are doing it now is that we can see that our approach, our Winning with Customers approach, it works and it make sense. And we can see, the world is constantly moving faster. And with this, we want to just speed up our ability to bring great new service and solutions to the market. When we do that, we enable what we call our front lines, our customer-facing teams who are out there every day with our customers to focus 100% of their time on what really adds value to our customers and develop the people locally. And that means that we're going to take some function, noncustomer-facing, and group them more to an area of global level. And with that, we can then leverage our scale better, and that's what brings them these efficiencies. But the key point is, yes, that is a good thing. Efficiency is always important. But the key point, where the key benefits will come from, is the acceleration of our strategy.

So I hope today has been interesting, that you learned more about our business, about how we drive our business going forward to differentiate from our competition. And again, the way we differentiate from our competition is through our Winning with Customers strategy. And when we have great understanding of what is really important to our customers in their businesses, then we put all of our innovation power together with our partners on that. That's how we great -- create great outcomes for our customers, improve their business and then we benefit. That's how we are driving this forward.

With that, I think we have now good time for questions. But I wanted to address one more question before we go to your questions. And one which I've heard from many of you, they said, "What was the trigger? Why did you launch your Accelerate program now?" Again, that I answered. The second question, as we looked about it, can you open up a little bit more on this retention, retention of rate? And what does it mean? As Ilkka showed and as Hugues showed, we said our retention rate is over 90%. In fact, from where we are exactly, it's actually closer to 95% than 90%. And here, what is important to remember, that in more mature markets, actually, retention rates are very high. They are higher than that. They're in some or in developing markets where contract periods are shorter, there is more rotation in the contract. But actually, like a country like China, what we see is that there may be retention out. We may lose a contract, but very often, we win that back when they see. So there's more rotation in it, but there's -- very often get it back. So actually, when I look at that true retention, it is actually at a good level, and the mature markets continue to be strong. And in fact, actually, as Hugues mentioned, with the programs we have put in place when we execute from those, we are actually increasing our retention rates. So I just want to clarify that, that there are slightly different dynamics playing in here.

But with that, we can probably open up.

QUESTIONS AND ANSWERS

Sanna Kaje ***KONE Oyj - VP of IR***

For questions, yes. Klas?

Klas Henrik Bergelind ***Citigroup Inc, Research Division - Director***

Klas from Citi. I just want to come back to China and your presentation, Bill. On Slide 18, you talked about how the market can look when you look 10 years out in terms of the split between modernization and maintenance and equipment. You previously said that you're expecting installed base will double in -- or more than double over the next decade. If that's still the case, I get the maintenance part growing at roughly 15% CAGR, the modernization growing perhaps 5%, which means that the equipment business -- or not the business, but the market will go backward slightly by around 3% to 5%. Is that roughly the way we should look at it?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Klas, before you go there, now, again, you try to make science out of an illustrative slide.

Klas Henrik Bergelind ***Citigroup Inc, Research Division - Director***

There are exact percentages.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Sorry?

Klas Henrik Bergelind ***Citigroup Inc, Research Division - Director***

There are exact percentages on that slide, actually.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Well, okay.

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

These are indicative, and 10 years out is certainly a big horizon for all us. We're going to watch it very carefully. We're not going to let any value just sit on the table. We're going to take as much of it as we can in both new equipment and the services side. So we'll do our best.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

I think, Klas, to your question, when you had calculated this, I think the clear indication is, as Bill said, we expect new markets to remain large and strong. Modernization, Bill said very clearly, we are early days. But what you also heard from both Bill and Hugues, the usage in China is very high. So there's no question that the service intensity and need for services is increasing all the time and modernization. So there's also then what is the average value per service per contract, when they get older and when the need is certainly higher, I would expect also them to increase over time. So you have so many things playing in here. That's why it's difficult to give exact numbers as you -- still from what I would call illustrative slide, not exact science.

Klas Henrik Bergelind ***Citigroup Inc, Research Division - Director***

Okay. That's understood. A follow-up and maybe sort of more short-, medium term, and we talked a little bit about it before. But over the next 12 to 18 months, when you look at Tier 1 and Tier 2 cities, it seems like the land banks are largely exhausted. We've had a lot of consolidation among developers over the last year, which means that you're likely to have a quite tough comp for starts when you go into next year, which could impact activity in '19. So you will have a -- what I would call it a mini cycle in China on the equipment side. Could we discuss a little bit about what you see in terms of the near-term outlook?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Can we get the microphone from -- yes, you have one.

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

I think we've also said that it's still a little bit early for us to give guidance for 2018, a lot of moving parts to the whole picture. I think we're going to continue to see a lot of activity in the development zone. Part of it is also, though, in the hands of the government. We need to see how their policies are. We're going to see the results of the People's Party. Congress is going to come in October. Construction is 25% of the GDP, very key. So with all these moving parts, at this point, it's probably a little bit early for us to give a sense of what 2018 will be looking like. But we'll come back, certainly, in January with a much clearer guidance.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

You can also -- the other question Klas had, that -- is the land bank exhausted in Tier 1 and Tier 2 cities? And what are developers doing when they still want to develop there?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

Well, I haven't quite seen that. And also, what we're seeing is a lot of the developers now working together. Some may have land. Some may have financing. They're doing a lot more joint projects together. So I think the land bank is not going to be that much of a bottleneck. If they want to develop a project, they can probably move ahead very quickly. But I don't see that as a key bottleneck at this point.

Sanna Kaje ***KONE Oyj - VP of IR***

Let's take here from the front.

Unidentified Participant

Maybe and surprisingly another question on China, Bill. Just one question. When you showed your slides earlier, you were kind of mentioning specifically all of the development area, the clusters, the hubs around the large cities. You were also showing the inventories level in lower-tier cities, which have significantly decreased. It looks like maybe the medium-term outlook there could be a bit more interesting because of all those project. Can you maybe comment on your market position and how you see also the competitive dynamics in that part of the Chinese market?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

When we -- we -- of course, we look province by province, city by city, segments, specific customers, things like that. So we have very granular analysis of the market. One of the things that I think is our strength in China is our ability to deploy and move resources to those areas with the best opportunity. I showed Henan province up there. We have quite a mature operation in that market. When we see new markets opening up around China, we're able to take experienced people and move them into those markets until we're able to develop local resources. If, for example, early this year, we were in a fourth-tier market out in Sichuan province. We had just opened an office maybe 6 months earlier, and we're operating quite effectively. So when we see opportunities in these markets, in these cluster areas, we move fairly quickly. Does that answer your question?

Unidentified Participant

Yes, partially. But also in terms of kind of maybe the balance between the Tier 1, Tier 2 and Tier 3, Tier 4 in terms of market, I hear there's some concern about Tier 1, Tier 2 due to tightening, maybe availabilities. How do you see the rest kind of China from that standpoint?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

I think, clearly, prices had gotten way ahead of where the government would like to see in Tier 1 and 2 cities. So until I think they see pricing coming down, they want to see their tightening measures really biting in and bringing down the escalations there. I think until we see what happens, until the government sees what happens there, I don't think you're going to see a lot of rapid loosening. It could be case-by-case, area by area or what we call infill areas. For example, between 2 large 2 tier cities, a corridor within that, they'll open those up or they'll leave those untethered to develop to link in between these 2 areas. It's quite a sophisticated but, at the same time, chaotic process. In other words, there are plans for coordinating between cities. But certainly, the details can be rather interesting. And in our own case, we've seen struggles among the local planners where exactly to put certain transportation hubs or nodes. And it's kind of interesting to watch the speculation that happens around that area in terms of pricing for housing, for example.

Sanna Kaje ***KONE Oyj - VP of IR***

Let's take another one in the front.

Antti Suttelin ***Danske Bank Markets Equity Research - Head of Research of Finland***

It's Antti. Looking EBIT-wise, I get an impression that KONE is a little bit in the middle. And looking into next year, I mean, margin first, China gross margin, a headwind. Your personal numbers are up this year after the first half. IT and R&D, potentially increasing as a number -- as a percentage of sales. Raw materials and pricing, probably more than a headwind than a tailwind. So margin to me will fall next year. The only question is, will there be enough growth to generate compensation in EBIT?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

So I think we've been quite transparent of what we see today of what the -- things are boosting our performance. We have many good things. We are growing in many markets at a good rate and particularly growing the services business, which is a really good thing. Productivity and execution continues to improve. So all of those things are on the positive side. Then there are things on the other side that are a burden that you mentioned. How exactly this will balance out, we said it, for example, raw material, that is a picture just today. We don't know what the picture will be end of year, but we wanted to give you a picture where it is today. I would say that we have many good things. Again, services growth, growth in Europe, Middle East and Africa, growth in North America, good performance there. Good performance in many Asian countries. So those are productivity, but then you have -- yes, one of our biggest markets and a very profitable market is there. Orders received and sales have declined.

Antti Suttelin ***Danske Bank Markets Equity Research - Head of Research of Finland***

China has been your best margin. Is it coming down now? And is it starting to approach rest of the world?

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*

China is a very good business for us, and it is about group margins in -- we have there. As we have said that -- because price pressure margins come down somewhat, but they are at a good level. From a group margin, clearly, when they are above average, and that part is declining and the rest are coming up, that, of course, is a slight mix impact, but that's not the main point.

Sanna Kaje *KONE Oyj - VP of IR*

Okay. Let's take one from the back next.

Christian A. Laughlin *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Christian Laughlin from Bernstein. Just one question from me, really, around how -- with the increase of investment and focus on the digital aspect, both on the OE and the services side over time, how are you thinking about the cyber threat and managing that today and what that means for incremental investments going forward over time?

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*

That's clearly in everything. And for any business that doesn't -- that take that incredibly seriously is -- yes, we have to take it very, very seriously. And we are working all the time, and that's a very key parameter when we develop our solutions. That's why we have also selected some of the best partners that we can work on to ensure that we have something that is safe and secure and can keep people moving in the right way. So clearly, a big impact. Those investments are very much in there already when we come out with these solutions, but it's clearly something where focus is increasing over the coming years. That's what I can say. Yes.

Sanna Kaje *KONE Oyj - VP of IR*

Okay. Andre?

Andre Kukhnin *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Just last couple from me, please. Just on the maintenance business growth, part of the long-term profile, it was sort of [5 6] you accelerated it and are moderating slightly. Everything that you're doing now seems to be focused on service and the Accelerate program very much as well. If we think about the next 5 years, how would you place it in that context of the history? Is this kind of maintaining the fast growth that you accelerated to? Is this kind of defending so we don't fall back to the 5 6 or accelerating further? Just very broad picture and without trying to tie it to 2018.

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*

Yes. Let me first give a little bit of perspective and then come to services growth. So we have talked a lot about service over the past years, but it's clear that our new equipment business is incredibly important to us, and we continue to develop that very actively. I think we have great developments there, great solutions to bring to our customers. The reason we have spoken more about services in the past years is that if you think about the past 10 years or so, the reason we have outgrown our markets by such a significant margin is that we have clearly differentiated a new equipment business, and that's what we continue to do. Now what we said is that when we started seeing new equipment markets, we're getting slower. We said that we understand that there is limited differentiation in services. So we want to bring that differentiation to the same level. That's why we talked about it more, to have -- drive more growth from both of them, because services growth has been a bigger opportunity over the past years. So if we look at our growth in maintenance and modernization, yes, we improved it over the past years. It's clear that the reason we are investing in differentiation is we continue to see opportunities and continue to see opportunities to have a good growth here. What is it exactly going to be? That we haven't made a commitment other than our objective, clearly, is to maintain a good growth rate in services above market rates.

Andre Kukhnin *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Got it. And just back on China. For the last 2 years, you gave us a rough indication where you think the market is going to be in following years. So without making it a market forecast, can you do that, please? If possible, up, down, small, big?

Henrik Ehrnrooth *KONE Oyj - CEO, President & Member of the Executive Board*

Well, I think, first, we have given quite a lot of information on what's happening in the Chinese market, and we have specifically not given an outlook for next year. We are very specific on where we think this year. And we see where there are restrictions, what impact there are, where they actually -- then good growth opportunities and how we're capturing them, next year's market, let's wait and see. Because it will have -- if we see, the government restrictions are quite significant at the moment. What the government decides to do on these will have quite a big impact. Bill, anymore?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

I think that's it.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Okay.

Andre Kukhnin ***Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst***

And the last one, just coming back to your guidance change recently, where you did not move the bottom end of the target. What was it that improved recently that's given you the confidence not to move the bottom end and FX headwind?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Well, it's just simply, compared to July, when we gave the previous, we have now almost 3 months more. After Q2, we have almost 3 months more business behind us. And we're seeing how we're performing, and that gave us confidence. So that's why we decided to narrow the range instead of just move it mathematically, because, clearly, we know more now than we knew in connection with the Q2 result.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. James from the back.

Unidentified Participant

I'm afraid -- I understand what you're saying on service. It looks like a good outlook. I understand the strategy there. So I'm asking about the China side, not just to focus on it. But on the China margin, I think you said it will be down in '17 but only slightly. To me, that's pretty impressive. That's good work. Well done. But there seemed in the presentation to be more comments this year than last year on the China margins and some of the price intensity. So I suppose the question for me is, do you think that 2018 China equipment market for the margin has an even tougher year? Or is 2017 the toughest year?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Again, as I've said many times before, when it comes to pricing and competitive market, it doesn't make sense to make forward-looking statements on those. The way we price in the market is with each customer individually, and there's a competitive dynamic. I think the point we'll make is that I think we've done a good job this year and start to stabilize after a pretty tough period, and that's very, very important. However, when you think about deliveries, they always come with a delay, and that's where you're going to continue. That, we already know, is going to be an impact on '18. How is the pricing and other things, raw materials and the whole mix of this playing out? That, I think, we have to see.

Unidentified Participant

Fair enough.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

I think what we are -- what our aim is and what way we are driving it is pretty clear.

Unidentified Participant

Okay. Can I maybe ask about the raw material piece then? Because that's been quite a big piece this year. Do you think we should think about something similar next year?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

Again, I think...

Unidentified Participant

At current rates of metal prices.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

If they stay at current levels, it's going to be a clear headwind. Next year isn't going to be more or less than this year. I don't know. But we have to see where they are towards the end of the year. Of course, there's still a lot of negotiations we have with suppliers and so forth. So I think that's an open question. I just wanted to highlight that since this summer, they've gone up quite significantly.

Sanna Kaje ***KONE Oyj - VP of IR***

Any more questions? Here.

Tomas Skogman ***Carnegie Investment Bank AB, Research Division - Head of Research of Finland***

Yes, this is Tom from Carnegie. I'll try to avoid just discussing China. So about your balance sheet, and you've heard the CFO, he said EUR 1 billion of net cash is KONE. That's enough. You should not go above that. And now you will end with double that amount. I guess you want to have more certainty being the CEO than the CFO. But it's been quite clear that there are some really attractive actions going in -- on in some targets, and we don't know what will happen there. But how do you think about the balance sheet? Because it's -- financial theory doesn't really support that it's smart to have EUR 2 billion of net cash in the balance sheet at the moment. And if these cases start to cool down, could you start to go buy something? For instance, you have here this residential flow control concept area. Or when it comes to China maintenance, you said that 3 years ago, the organic growth was so fast that you cannot buy. Is there anything else preventing you from buying companies in -- maintenance in China?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

First, you said that financial theory doesn't support what we're doing, but we are awfully practical people at KONE, so we like to do practical stuff. And it's always better to have a strong balance sheet than a weak one. But all seriousness, of course, I understand your question. Why are we -- why do we think it make sense to keep a strong balance sheet? There are number of opportunities out there in our industry that will make a ton of sense. When you see those opportunities, it make sense to keep an ability to go after them if the real opportunity comes up. That's, I would say, our thinking. When we -- how we think about acquisitions, what we have made clear commitments in the past is that the things we want to acquire need to be related to people flow. So we want to stay in our business. We think we are in a good business with good fundamentals, with low capital intensity and good recurring revenues. That is the type of business we want to build on. We don't have an interest to go into a new business, so to say. So yes, that's...

Tomas Skogman ***Carnegie Investment Bank AB, Research Division - Head of Research of Finland***

But you have said that for 5 years, but you have not bought anything outside elevators. I mean, are you kind of reconsidering that when the balance sheet just keeps on getting stronger and stronger that you could go into this Residential Flow control concept? And then also about this Chinese maintenance acquisition.

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

I'm sorry. Again, we have been very consistent. We said that when we look at acquisitions, it has to do with people flow, our core business where we are in. In China, we have not made acquisitions of services companies there, I would say, for a few reasons. Organic growth has been really good, and we can see that we are the market leader in services there, so we've been able to capitalize on that. It's one of these things that when you have a strong organic growth in the market, you want to put all of your focus on that. You start focusing on acquiring a lot of companies. So I think you're going to a little bit dilute your attention. I think that's one of our success drivers at KONE, is we focus on things -- what we do. One day, maybe when there's more clarity of what they have in their portfolio, so it could be interesting. But we have, so far, not -- decided not to start acquiring maintenance portfolios in China. It could change. It's probably going to change over the years but not for now.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. One more question from there.

Unidentified Participant

This is (inaudible) from Bloomberg. I wanted to go back to your digital offerings and differentiation. I quite like some of the stuff you showed today, and as a millennial, I do buy into that vision. But the skeptic in me worries that there aren't what I would call game changers or radical innovations as you called it, like the UltraRope that came out in 2013. Now that Thyssenkrupp is your competitor, Thyssenkrupp is going to show the multi-elevator using magnetic levitation, would you be interested in exploring an area like that? Or do you have any radical innovation in your pipeline that you could share with us today?

Henrik Ehrnrooth ***KONE Oyj - CEO, President & Member of the Executive Board***

So clearly, when we had come out with radical innovation, we -- that we will come out with it when it's ready. And we look at many different technologies and many different ways of moving people in buildings. I mean, what we have shown you today on this services side, the technology that is underlying, that is available, perhaps not quite as available as marketed usually. But it's available and going to be more available in the coming years. But what we'll remember here is that if -- how you use that information, how you make a better outcome for your customer, there are actually some really big differences you can make. And we are looking now here at volume markets. And what I mean volume markets, it's something that there is a huge market, not a niche market for a certain specific application. What we talked about is something you can sell to millions of customers around the world potentially, not only to a few specific buildings.

Unidentified Participant

And maybe more of a question for Bill. Now that there are quite a few restrictions on pricing in China in Tier 1 and 2 cities and we see construction shifting out to smaller cities, do you see lower value coming from those smaller cities, smaller projects? Is there a significant change in the value that comes in?

William B. Johnson ***KONE Oyj - EVP of Greater China & Member of the Executive Board***

I would say that not necessarily. What we're seeing is that they still want to work with an OEM, one of the big OEMs, international brands. So we bring something to them that they haven't seen before. I think pricing has also come down enough that it's a very affordable -- a top brand is very affordable to them. So I think we can keep pricing up in these lower-tier cities, and we're even more attractive than we are -- we were in the past.

Unidentified Participant

And last clarification question maybe for Ilkka, please. The EBIT margin, I know it's long term, the 16%, is that for adjusted EBIT now?

Ilkka Hara ***KONE Oyj - CFO & Member of Executive Board***

That's a good question. So like I said about the adjusted EBIT, so we are only using that to improve transparency of our underlying business for the period of this Accelerate program. And we're going to -- then thereafter, we're going back to EBIT as a margin. And I consider that to be a target for the EBIT, clearly. That's what we're driving for.

Sanna Kaje ***KONE Oyj - VP of IR***

Okay. I think it's time to close now. I would still remind you to please give us feedback. So you can find the feedback forms on your table, you can leave them there. But now it's time for lunch, which is great. I would like to thank you all for your good questions, the active dialogue. I would like to thank the speakers. Thank you very much. The lunch is served on the second floor. There will be people guiding you to the right direction. Hopefully, you have enjoyed the day. Thank you.