

The background of the slide is a close-up, high-angle photograph of a calculator keypad. The keys are dark grey with white characters. A diagonal line of keys from the top left to the bottom right is highlighted with a green glow. The keys in this line are numbered 7, 6, 5, 4, 3, 2, and 1. The number 1 key is the most prominent, being the largest and having a bright green border. Other keys visible include the equals sign, plus/minus, multiply/divide, and left/right arrow keys.

KONE CAPITAL MARKETS DAY 2012

# Driving KONE's profitability development

Henrik Ehrnrooth, CFO

June 8, 2012

# Agenda



- Driving KONE's profitability development


- Capital management

# Our long-term profitability target remains intact, but our focus is on absolute EBIT growth



## Long-term financial targets

## Key financial focus areas

Growth	Faster than market	Market position
Profitability	EBIT 16% 	Absolute EBIT growth over the long term
Cash flow	Improved Working Capital Rotation	Maintaining a strong cash flow

MEUR

Average, last 12 months

### Assets employed

Intangible assets	1,018.7
Tangible assets	216.2
Investments	166.0
Net working capital	-388.0

---

**Assets employed total 1,012.9**

### Financed by

Equity	1,774.0
Net debt	-761.1

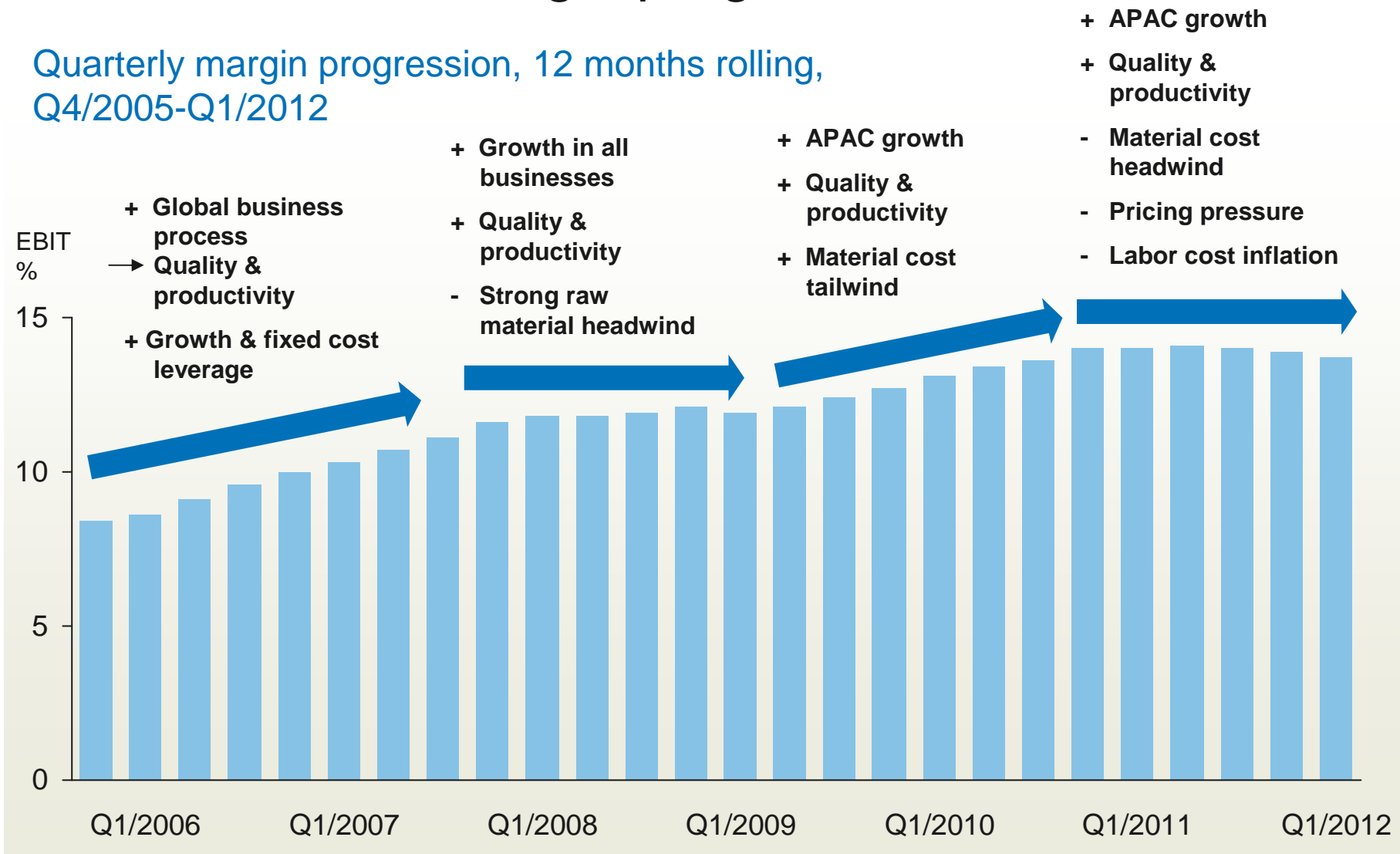
---

**Equity and net debt total 1,012.9**

# Growth, quality and productivity have been main drivers for margin progression



Quarterly margin progression, 12 months rolling, Q4/2005-Q1/2012



Note: Excluding one-time items

# We have a clear view of the path towards our profitability target



13.9%



16%

## Growth and fixed cost leverage

- Fixed cost leverage through growth
- Efficiency of support functions

## Improved quality and productivity

- Improved installation and maintenance methods
- Reducing call-outs
- Density in maintenance
- Quality of entire delivery chain

## Pricing excellence

- Improved pricing competence
- More granular understanding of each customer segment
- Value selling

## New elevator offering

- Improved product competitiveness
  - Eco-efficiency
  - Ride comfort
  - Visual design
  - Space efficiency

Growing and developing the business with a long-term mindset

Managing headwinds

# Several headwinds burden our EBIT margin development in the short term

- 
- 
- Business mix due to fast growth in new equipment
  - GiantKONE intangible asset amortization
  - Pricing pressures
  - Labor cost in developing markets

- +
- Growth
  - Fixed cost leverage
  - Quality
  - Productivity

# Active management of the current headwinds



Price competition

Improve competitiveness;  
More granular understanding of the markets;  
Develop pricing skills and execution

Fuel prices

Better route optimization in maintenance;  
Development of car fleet

Wage and salary  
inflation in fast-  
growing markets

Performance management and competence building;  
Clarity of roles and targets

Material costs

Active management, seeking  
economies of scale

Constant focus on improving KONE's competitiveness  
and the overall quality and productivity of KONE's operations

Material price headwinds has been significant, but pressure is decreasing towards year end



	Index change of market prices, %			
	2009	2010	2011	1-4/2012
Hot-rolled steel	-28%	23%	19%	-7%
Stainless steel	-28%	25%	-1%	-12%
Copper	-26%	50%	14%	-10%
Rare Earths	-38%	130%	439%	-30% <sup>1)</sup>
Aluminum	-21%	17%	7%	-5%
Brent Oil	-36%	31%	39%	5% <sup>1)</sup>

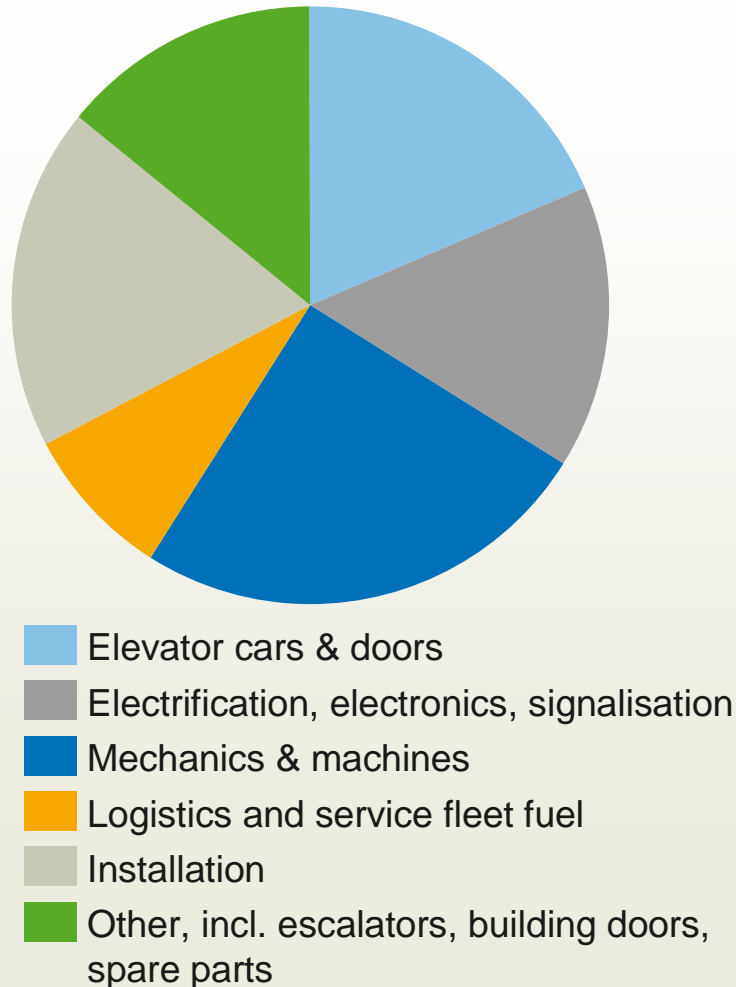
<sup>1)</sup> 1-5/2012



# Despite the headwinds, we also develop our competitiveness through sourcing



Direct materials, supplies, external services and other production costs, 2011



- Develop sourcing partnerships
- Supplier quality development
- Volume growth provides aggregation advantages
- Managing fuel consumption through productivity improvements

# We proactively manage our fixed costs to ensure competitiveness in all market situations

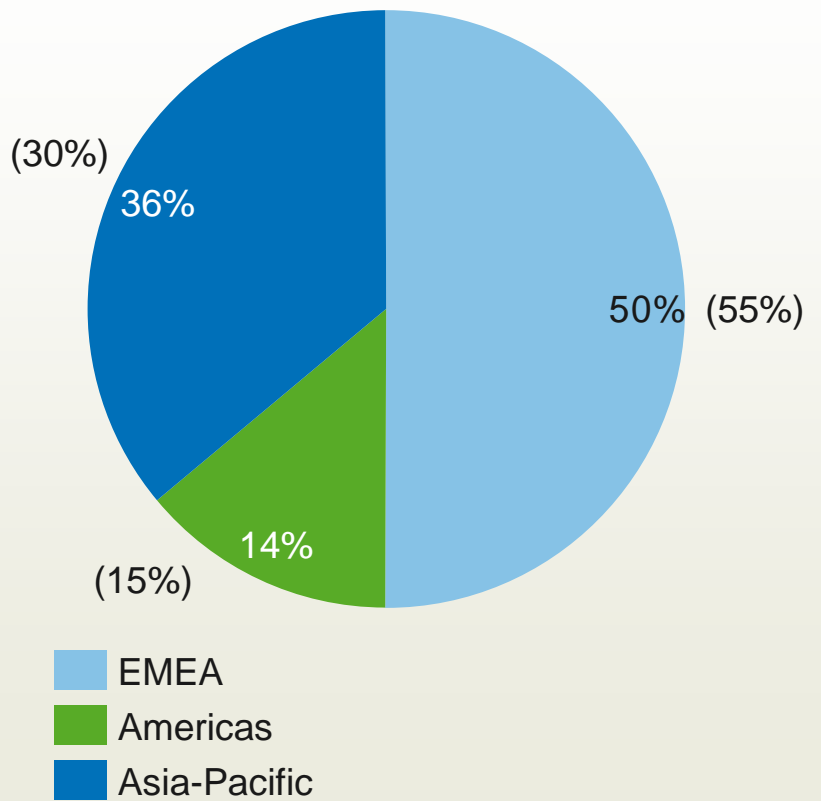


- Leverage fixed costs through growth
- Development of support function processes
  - Simplification and improvement of processes
- Adjustment of operations in certain countries where the market has declined significantly

# The continuous development of our personnel is key for our growth ambitions



## KONE employees by geographic area, end of 2011



(End of 2010 figures in brackets)

## Salary/wage inflation trends, 2012

- Europe: low single digit
- North America: low single digit
- China: approximately 10%
- India: slightly above 10%
- Rest of APAC: significant variation, most countries below 5%
- Middle East: slightly above 5%

**Performance management and competence building** as well as the **clarity of roles** are key in an inflationary labor cost environment.



- Driving KONE's profitability development

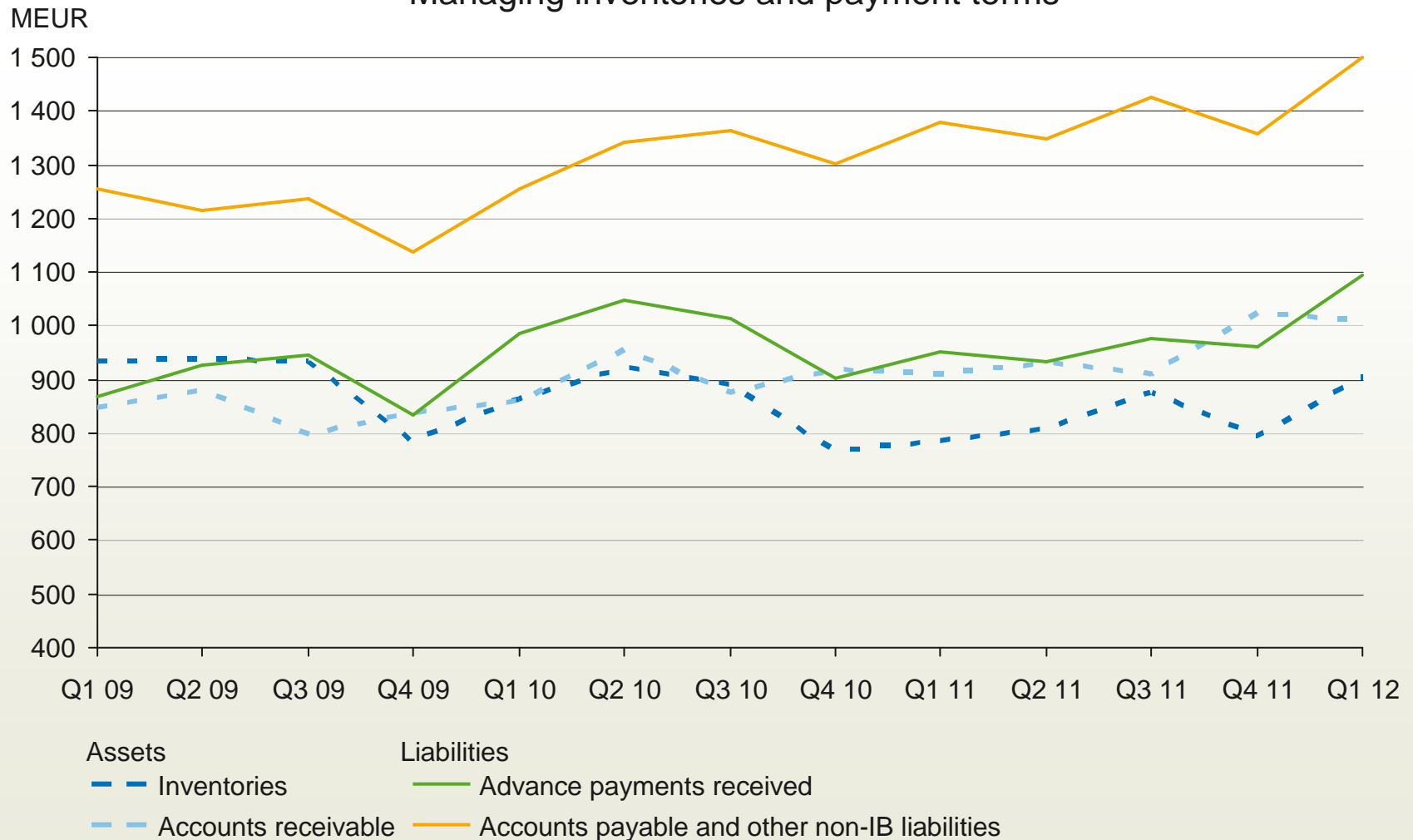


- Capital management

# Working capital: focus on receivables and inventories



Managing inventories and payment terms



# Continued strong cash flow



MEUR	1-3/2012	1-3/2011	1-12/2011
Operating income	132.7	118.7	725.1
Change in working capital before financing items and taxes	94.0	102.6	28.8
Depreciation and impairment	21.6	16.0	65.9
<b>Cash flow from operations before financial items and taxes</b>	<b>248.3</b>	<b>237.3</b>	<b>819.8</b>
Cash flow from financing items and taxes	-1.2	-27.9	-216.8
<b>Cash flow from operating activities</b>	<b>247.1</b>	<b>209.4</b>	<b>603.0</b>
Cash flow from investing activities	-20.5	-17.0	-225.6
Increase in equity (option rights)	-	-	16.7
Purchase, sale and distribution of own shares	-36.9	-11.8	-40.7
Profit distribution	-331.8	-214.8	-229.7
GiantKONE option liability	-	-	-59.4
<b>Change in net debt</b>	<b>-142.1</b>	<b>-34.2</b>	<b>64.3</b>

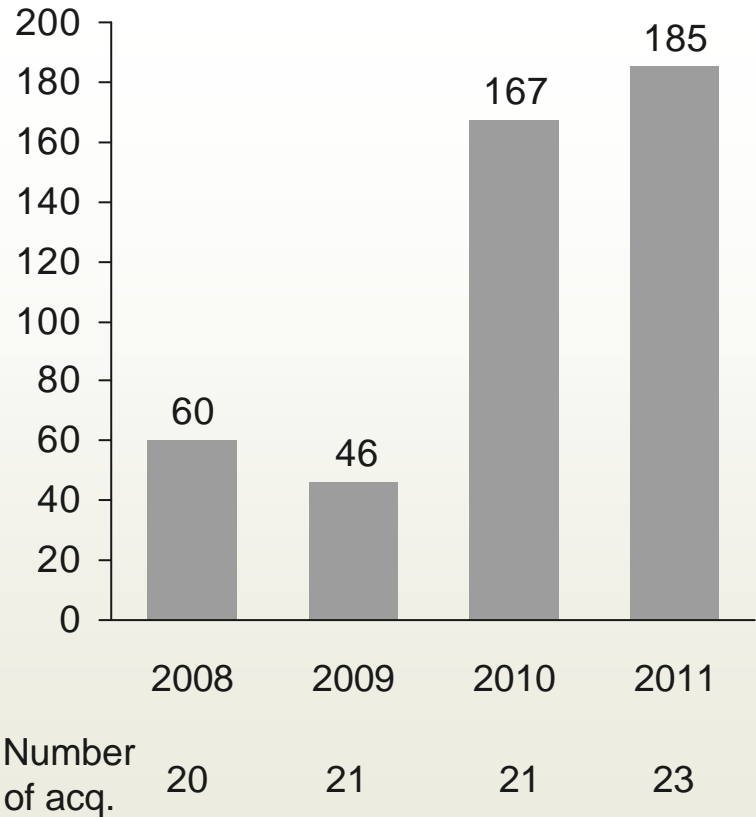
# We continue to actively target acquisitions, but capital expenditure has remained low



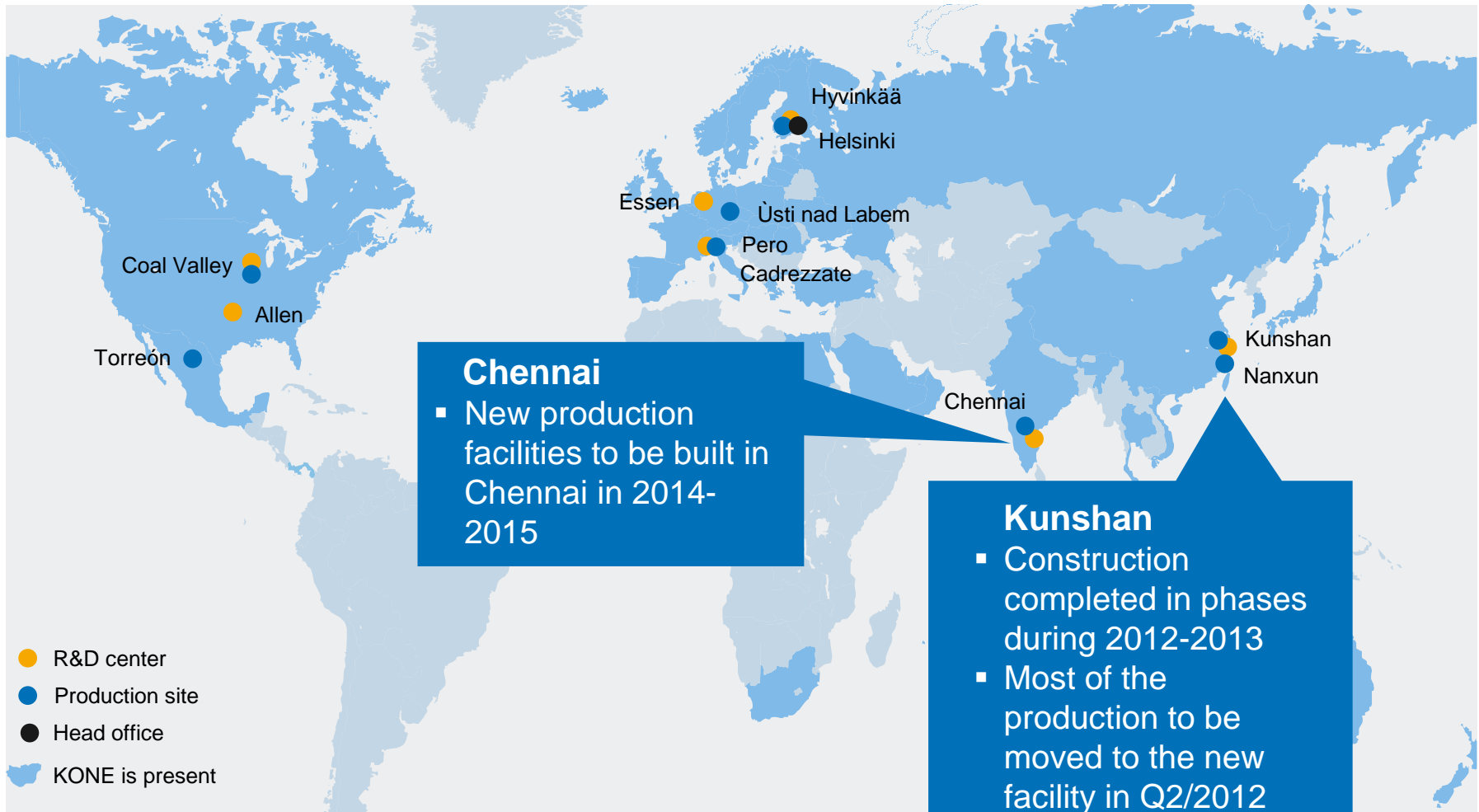
Capital expenditure and depreciation  
MEUR



Acquisitions capital expenditure  
MEUR



# We are now expanding our production capacity in Asia which will increase our capex





# The new factory in Kunshan will have double the capacity of the previous factory



Total land area: 240,000m<sup>2</sup>

Total area of production (including warehouse): 51,600m<sup>2</sup>

Total area of office building: ca. 18,000m<sup>2</sup>





*Dedicated to People Flow™*

