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PRESENTATION

Natalia Valtasaari - *KONE Oyj - Vice President, Investor Relations*

Good morning, and welcome to KONE's third-quarter earnings call. My name is Natalia Valtasaari. I'm Head of Investor Relations here at KONE, and I'm very pleased to be joined as usual by our President and CEO, Philippe Delorme; and our CFO, Ilkka Hara. So Philippe will start, he'll talk about the highlights of the quarter, how we're executing on our strategy. Ilkka will then follow up with more color on the markets, on the financials, on our outlook. Philippe will summarize as usual, and then we'll move into the Q&A session. (Operator Instructions) With that Philippe.

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

Thank you, Natalia, and good morning, everyone. It's a pleasure to be discussing our third quarter results. with you today. So Q3 was another good demonstration of the resilience of our business model, particularly in an environment increasingly shaped by geopolitical developments and their broader economic impact. We delivered another quarter of healthy order growth, and it's particularly encouraging to see this positive momentum continuing across several quarters with modernization once again leading the way.

We also continued to expand our adjusted EBIT margin supported by a favorable business mix and disciplined cost management. At the same time, we are moving forward with our strategy with focus and speed. This quarter, we saw several tangible examples of innovation across our businesses, showing how we are turning our strategic priorities into solutions that create value for our customers. And finally, our planned combination with TKE is moving forward as planned and extremely well, I would say, and I'll come back to that shortly. But first, let's take a closer look at our financial performance.

Starting with order received which grew by 5.5% in the quarter and 6.8% year-to-date in the last three quarters. And again, I'm very pleased to see that -- we have now delivered consistent order growth across several quarters. This gives us a strong foundation for future performance.

I would also like to highlight the particularly strong performance in Asia Pacific the Middle East and Africa. Growth was broad-based across the region and across all three businesses showing how we are capturing opportunities in the structurally attractive markets.

Turning to sales. We delivered growth of 3.8% in the quarter being year-to-date growth to 4.6%. This was a good outcome and keeps us well within our guidance range for the year. Our adjusted EBIT margin expanded by 40 basis points -- it's good to see operating leverage becoming an increasingly important contributor to margin expansion, demonstrating that our performance initiatives are delivering results. Cash flow was affected by higher inventories related to logistic disruption in the Middle East.

And despite this, year-to-date cash flow remain at a very healthy level. So overall, I would describe this as another quarter of solid execution with performance very much in line with our expectation. Let me now turn to some of the exciting developments we saw on the innovation front this quarter. First, the one week modernization launch in Europe.

By combining our modular offering with a more standardized and industrialized approach to installation, we can significantly reduce both delivery time and disruption for our customers. And at the same time, we connect the elevator, giving customers access to our full range of digital services, including greater transparency and predictive maintenance.

This is a great example of innovation translating directly into tangible customer value. Staying with digital. I'm particularly impressed by the progress our team in India has made in accelerating connectivity. We also made -- we also recently opened our first digital experience center in India in Pune, where customers can see first-hand how AI, data and connectivity can improve both building performance and the user experience.

Moving further east, I'm very proud that our new KONE home leaf concept designed specific for China's growing luxury residential market received the Red Dot Best of the Best award. It's a fantastic recognition of the strength of our design and innovation capabilities.

And at the other end of the bidding spectrum, we are pushing the boundaries of what's possible in high-rise construction. Our latest high-rise innovations combine proven engineering with breakthrough technology to enable exceptional travel heights, make better use of valuable building space and move people smoothly through even the most complex building.

And importantly, we already have a landmark project where this innovation will come to life. We've been indeed selected to equip Burj Azizi, which is at a planned height of 725 meters is set to become one of the tallest building in the world. So why were we chosen?

I would highlight three key strengths. First, our unique hoisting technology, our UltraRope, which enable elevator travel of up to one kilometer. That's a significant step forward as building continue to reach new heights. Second, our next-generation destination control system, which uses AI and self-learning capabilities to further optimize people flow and reduce travel time.

And third, but very important are people -- we bring the deep expertise and project management capabilities needed to successfully deliver high-rise projects of this scale and complexity. So for me, Burj Azizi is a great example of what innovation as KONE is ultimately about, which is solving customer challenges, creating a better user experience and opening up new possibilities for the building of the future. Let me now give you an update on the planned combination with TKE.

The regulatory process is moving forward as anticipated. We are currently in the prenotification phase with the European Commission and are engaging in a constructive dialogue. In the other required jurisdictions, merger control filings have been submitted and we have already received approvals in six countries.

In parallel, integration planning continues our key focus is on preparing for day one and laying the groundwork for SUS transition and business continuity following closing. As part of this work, we conducted a cultural survey across the organization and the finding reinforce our belief that we share a strong foundation while bringing together complementary strengths that we can build on going forward.

In parallel, we are detailing the synergy road maps translating our EUR700 million synergy target into concrete execution plan for the combined company. So overall, I'm very pleased with the progress so far and with a strong collaboration between the team. All of these reinforce our confidence in the opportunity ahead to accelerate innovation and create greater value for both our customers and our shareholders.

With that, let me hand over to Ilkka, who will take you through the market developments and our financial performance in more detail. Ilkka the floor is yours.

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

Thank you, Philippe as usual, we -- and a warm welcome from my behalf on our third quarter results web cast. As usual, let me start with how we see the markets developing across the different regions over the past three months. In new building solutions, market conditions remained difficult in China. In Europe, market activity was stable. In the Americas unit volumes declined slightly, but there was a strong activity in larger projects in this quarter.

which drove the market growth of more than 10% in value terms. So a clear difference between value and volume. Asia Pacific, the Middle East and Africa remained at a strong level, in line with previous quarters. And in service and modernization, we continue to see healthy growth across all geographies.

Next, let's go through our financial performance in more detail. Let's start with order received. As Philippe mentioned, we saw healthy growth in the quarter with orders up to 5.5% on a comparable basis. For the first three quarters, that puts us at 6.8% growth. Modernization remained the key driver with orders increasing by approximately 10%.

New Building Solutions also contributed to the growth as it repair orders in service. Looking at the regions. Europe declined slightly. However, it's worth mentioning that the comparison point was impacted by a few larger marine orders in the prior year. Excluding those, underlying development was more positive.

Asia Pacific, the Middle East and Africa performed particularly well with a good development across the region and business line. Despite ongoing cost inflation, our mitigation actions are gaining good traction. And Q3 order margins outside of China were stable year-on-year. Then moving to sales. We delivered solid growth of 3.8% in the quarter at the comparable exchange rates.

Growth in services and modernization more than offset the slight decline in new building solutions. With sales increasing by 5.9% and 8.1%, respectively, at the comparable currencies. From a regional perspective, the picture was much the same as previous quarters. China declined, reflecting continued weakness in the new building solutions, while all other regions delivered growth. Turning next to adjusted EBIT and profitability. Our adjusted EBIT margin expanded 40 basis points year-on-year, taking adjusted EBIT to EUR369 million. Adjusted EBIT excludes items affecting comparability, which amounted to EUR30 million in the quarter.

We currently expect a further EUR40 million in Q4 and mainly related to the planned DK transaction. Looking at the drivers of profitability. The main headwind continued to be the new equipment market in China. This was offset by favorable business mix and good leverage over fixed costs.

So overall, another quarter of solid and consistent execution on profitability improvement. And finally, to cash flow. Despite the logistics-related challenges in Q3, year-to-date cash flow remained at a healthy level of close to EUR1.3 billion. Working capital developed favorably supported by advances received and the timing of payables. FX also contributed with a positive impact of EUR55 million year-to-date.

Let's then look at our market outlook and guidance for the year '26. Starting with markets where we have made one small update our outlook. We now expect China new Building Solutions to decline slightly over 10%, consistent with the development we've seen so far this year. Our outlook for the other areas is unchanged. We expect slight growth in Europe and Americas and clear growth in Asia Pacific, the Middle East and Africa. For service and modernization, our outlook remains positive, with growth opportunities across all regions.

Then to our business outlook. With three months left in the year, we have narrowed our '26, guidance slightly. Taking the midpoint up. We now expect sales to grow 4% to 6% at the comparable exchange rates and the adjusted EBIT margin of 12.5% to 12.9%.

The FX impact on profitability is expected to be limited. Assuming exchange rates stay at the October level. And the performance drivers are very much consistent with what we have discussed in the previous quarters this year. Finally, let me give you a first look into how are we currently thinking about '27. The key themes affecting next year's performance are unlikely to come as a surprise.

As I always say, boring is good. Starting with the headwinds. We are not seeing signs of challenges in China easing, so this is still a burden. At the same time, our exposure to the market has continued to decrease over the past year.

Geopolitical uncertainty also remains a risk. However, together with associated inflationary pressure which we will continue to actively mitigate. On the positive side, we expect to benefit from the continued growth opportunities in service and modernization, our main profitable. As mentioned, we have achieved good leverage over the fixed cost this year and we expect this to remain supportive also next year. We also expect further contribution from our performance improvement initiatives.

So those are our initial thoughts for '27. We will, of course, provide more color when we report our full year results in early '27. Let me now hand back over to Philippe to close the presentation before we move to Q&A.

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

Thank you, Ilkka. So to wrap up, let me first thank the KONE teams for delivering another solid quarter. Importantly, we continue our order book. We continue to build our order book during the quarter. together with the consistent progress we are making in strengthening our customer offering, and this supports our growth ambition for the next year and beyond.

At the same time, our continued focus on profitability improvement is delivering results as demonstrated by the consistent quarter-by-quarter expansion in our margin. And finally, we continue to make great progress as we prepare to combine with TKE. Our focus is clear. being ready to execute our plans and serve our customers seamlessly from day one.

Thank you all for your attention, and let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Daniela Costa, Goldman Sachs.

Daniela Costa - Goldman Sachs International - Analyst

I have three questions. They're all relatively quick. So I'll ask them now. First, I wanted to ask on China, given the deterioration you still mentioned on the environment and on the margins. Is China still profitable? My second question is just on pricing outside of China. I would have thought that given where inflation is trending, pricing there would be positive, but your commentary does look a little bit more stable, maybe to clarify there.

And then just the third one regarding the order growth rates in OE in Europe. It sounds like there was a bit of a deterioration quarter-on-quarter. But of the growth rates -- is that just comparable? Or do you see some things sort of weakening in Europe at the moment?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

Thanks, Daniel. I'll start. So China, is it profitable? Yes. It's a simple answer. And on pricing, so I commented on order margins. Pricing actually has developed positively, given that there's been a cost inflation. So in order to achieve that, I think we've done a good job on improving pricing across the businesses to make that happen outside of China.

And then order growth in Europe, I did mention that the comparison period for the order orders in last year was quite high. We had some large marine projects that were booked in '25, which are naturally impacting then the growth in '26. If I look at the underlying business -- without those, it's much more healthier the development there.

Operator

Vivek Midha, Citi.

Vivek Midha - Citibank Cameroon SA (Douala Branch) - Analyst

I'll stick to one question. Again, on the new order margin comments. -- you changed your wording relative to the second quarter comments. You previously commented on a global basis. Now you ex China. Can I ask, please, is the global new order margin down overall? And could you maybe give us some color on how the sequential change has been in the new order margin from the second quarter?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

Yes. So first, on the commentary. So we did see in Q2 that the inflation actually was quite rapid, and it we took actions, but to see that in order margins, it took some time. So that's why the Q2 commentary was valid for not only for China and ex China as well. In Q3, now we've seen quite a good result out of those actions on the pricing.

And therefore, the margins have stabilized and actually are improving sequentially when you look at the look at the margins outside of China. Then in China, the continued very, very tough competition continues to impact the pricing and also the margin of orders is slightly down putting the total order margin slightly down also, but fairly slightly.

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

And of course, the other components that impact the margin, selling price and pricing, the rest is the cost -- and we are intensifying the work we are doing in our product cost base in China, in India to make sure that we actually support some other cost evolution that will happen.

Operator

John Kim, Dutch Bank.

John Kim - Deutsche Bank AG - Analyst

I'm wondering if we could stay on the China topic for a moment. Given the realities of this market, -- when do you see your book of business coming into balance in the sense that MBS continues to contract well service and modernization continue to grow is that something we could foresee in the next few years? Or is there something structural about the market that prevents us?

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

So maybe I can start. So first of all, if you stay because we keep being fixated on the new construction -- the market in China is already a majority of modernization and service number one. Number two, we are approaching the goalpost where half of our business will be in service and modernization versus new construction. So we are following and trying to accompany the market switch as fast as we can. Today, as you see, we still have let's say, the downsize in NBS not being offset by modernization and service every quarter, the NBS part go smaller and the modernization and service part goes bigger.

So it's going to take time. It's -- we have a crystal ball on when the MBS market will stabilize and be back up. I think Ilkka has been pretty clear that for '27, we don't see a major change in the trend in the market trend. So time will tell. The best mitigation for us in China is cash number one. Number two is prioritizing gross margin and contribution margin. And number three is moving as fast as we can to service and modernization because it's a more resilient business.

John Kim - Deutsche Bank AG - Analyst

Okay. Helpful. A quick follow-on, if I may -- if we focus just on the Chinese remit within the modernization mix between full and partial what's the ambition on a two, three year view?

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

So we won't today, the biggest part is more on full modernization. We've been actually seeing a very strong traction on our 1-week modernization, which really comes s as a big opportunity for our customers. And clearly, that's where we want to push more. It has higher margin, faster order book rotation. It's a better value proposition for customers on top of it. So that's where we want to go.

Operator

Vlad Sergievskii, Barclays.

Vlad Sergievskii - Barclays Services Corp - Analyst

I'll ask two questions one by one. First one, service growth this quarter remained around 6% despite you are now relatively easier comps in China. What do you think needs to happen for the total service growth globally to approach this 10% target that you are lying within the three year?

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

So if we look at the performance of the 6% we get, so first of all, it's 6%. It's still significant. Now what we see that we still have some unit growth that's not to the average of the rest happening in China because we are prioritizing still cash and margin. So we keep working on, I would say, the long tail of some of our service base, which is explaining a part of the lower growth on service side. Second one, we had for pretty obvious reasons, less bolt-on M&A which was historically counting for 1 point to 2 point growth.

So it's we have prioritized other big deals, and I guess you will very likely understand why. Now we clearly see an opportunity with more repairs even more pricing to get to an acceleration of our service growth. And we have this ambition insight, and we believe it's absolutely within our reach.

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

And sorry, Vlad, we -- one thing we didn't mention, but we are also very disciplined on improving the margin. because it matters also. And we actually see with digital and with the pricing and everything. But actually, we are improving -- not only we are improving, we have more service in our overall business, but we're also improving our margin in service, which helps our P&L. So that's important.

Vlad Sergievskii - Barclays Services Corp - Analyst

This is a very clear plan. And my second one on 2027 and thank you providing additional head and tailwinds that you see them today. Among those, you haven't mentioned IFRS 18 impact. while some of your competitors did. Does it mean that this impact will not be material for you?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

Yes, is the answer. And if you check the appendix of our presentation, we gave the estimated impact for our P&L on that one, but it's not a big impact on our P&L.

Operator

Andre Kukhnin, UBS.

Andre Kukhnin - UBS AG - Analyst

Can I ask about the guidance and the implied margin for Q4 in your narrowed margin guidance, I think if calculations are right here. we're looking for about sort of 80 basis points to 90 basis points improvement year-on-year. And sequentially, this would be quite a nice step up. I think one of the higher ones we've seen in the history. So -- just wanted to check what drives that? Is there anything in particular for that quarter? Or is that a step-up that you expect to be as an underlying run rate?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

Well, I think your math is right as normally. And yes, we do expect a quite a healthy pickup sequentially on the margins. Fourth quarter tends to be higher volume quarter for us. And now we continue to see service and modernization also being a bigger part of that volume growth at the end of the year. So those are the drivers for that improvement in margin for the remainder of the year.

Andre Kukhnin - UBS AG - Analyst

Great. And if I may, the follow-up on the service growth, could you give us some idea what kind of portfolio unit growth you've seen in Q3 and maybe year-to-date as well?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

Well, maybe I'll start and Philippe made already a very good comment on the service earlier. So yes, indeed, if I look at where the growth opportunities are, we are seeing slightly less unit growth than we have in the trend line. And 1 part of that is China. Other parties that the M&A activity is somewhat lower due to natural reasons. So we want to make sure that every deal we make is also in context of the larger deal relevant.

And clearly, where we see a big opportunity to continue to drive growth is in this repair business, really digitalizing the whole end-to-end repair business -- and also by doing that, improving the safety and reliability of the elevators going forward for our customers.

Andre Kukhnin - UBS AG - Analyst

If I may just check for (inaudible), but double follow-up. I mean, just given the size, relative sizes of your portfolios in Europe, US and China, this must apply that you're pruning China units by bull digit, right?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

We -- so last year, we did actually look at the portfolio in detail. I think what you're -- maybe you need to take into account as well that the new units coming from NBS are coming down. So it is some of the impact there.

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

In China.

Operator

Alexander Virgo, Evercore ISI.

Alexander Virgo - Evercore Inc. - Equity Analyst

I wondered if you could -- if I could approach this, the guidance and the margins in Q4 from a slightly different angle. And I guess really what I'm trying to get at is the top end of the guide. I think it would imply closer to 15% margins in Q4. And I'm just wondering if you could maybe help us with bridging to the top and the bottom end, so we can understand what needs to happen to get to the top or what would happen to keep you at the bottom end of the guidance?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

Clearly, the revenue growth is one big driver. So how are the progress with our customers, both in NBS as well as in more how are we able to take the projects forward in the remainder of the year. And that's also then giving leverage on the fixed cost on the bottom line of the guidance.

Then as I highlighted, a big part of the opportunity to grow continues to be on the repair business, which is a very good margin business for us, helping also to get leverage from margin point of view on that one. If I look at the other drivers for results, for example, material cost and those, they are quite fixed for the year given that we have locked into pricing with our suppliers.

. Then lastly, of course, there's quite a bit of uncertainty related to the geopolitics and particularly Middle East. So in that environment, I have to give credit to our team done a fantastic job being able to continue to deliver to our customers despite the logistics challenges, but that's, of course, a moving part that the more we can deliver, the more effective we are then the more we get revenue and also profits.

Alexander Virgo - Evercore Inc. - Equity Analyst

Okay. That's super helpful. Could you perhaps just pick up on the pricing point here and talk to when you might be able to push pricing up again to account to the fact that we're still seeing sustained inflation on the raw material side?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

Today. So of course, we're working on the pricing continuously. And like you said, so I think the difference between the '21, and today is that, first, we clearly were too slow to react in 2021. And now we took action immediately. And of course, there's a slight delay between -- from tender to order to see that in your orders.

Very happy how quickly we reacted now in this situation across all businesses. Then secondly, -- from a product cost point of view, we have continuously room to improve and see that coming through as well. So you need to do both pricing as well as the productivity.

And then lastly, when it comes to service business, I think the pricing with more inflation, we have also more opportunity to drive pricing and growth from pricing. But more importantly also that we see digital now driving productivity more and more, and Philippe was commenting as we start to and see that also in the profitability of the business.

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

And the last thing I would add is we've really stepped up our game on customer satisfaction with very simple things like following how fast we respond to our customers, how we are monitoring what we call the down equipment, the equipment that are not working.

And it's always easier to price up when customers are happy and are satisfied. So the starting point of everything and we repeat it and repeat it is happy customers. So -- and can we still do better in that front? Yes, and we are working in customer satisfaction so that then customers are not a victim of a price increase, but they are actually following the price increase and they stay with us because they believe they have the best service with KONE.

Operator

Phil Buller, JPMorgan.

Philip Buller - J P Morgan (UK) Ltd - Equity Analyst

I've got two. The first one is on North America MBS developments, which continue to be down in unit terms. But I think you said it was up 10% in value terms. I guess the volume doesn't come as a surprise -- so I was wondering if you're seeing any price elasticity kicking in, I have to comment in answer to Alex's question, but how are those discussions with customers going? Is there any change in market share given the pricing actions you're taking. That's the first question, please.

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

So maybe I can take it. But first of all, on this minus we put for that quarter, I think you see that for the full year, we see sort of level set everything. So -- and the number of units in the US tends to be a bit smaller. So you shouldn't take it too dramatically whether it is a plus or minus or whatever.

Overall, what we see is in the US or in North America, opportunities in all product lines. You've probably seen also that our order rate is very healthy there. we keep having a very strong response from our customers in the low rise but also in the high rise. So we keep being very optimistic and very positive about what's happening in North America. And we see an opportunity in all three business lines.

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

And in Q3, so market was up in value terms, 10% like I said, -- and from our perspective, we clearly gained share in Q3 from a value perspective. So I'm actually very happy with the NBS in North America, how we performed.

Philip Buller - J P Morgan (UK) Ltd - Equity Analyst

Okay. And then the second question is on the cost side of things. You have this EUR30 million in Q3, which is slightly higher than I was assuming as is the EUR40 million in Q4. Maybe as numbers were just a bit low. But I guess I'm wondering if there's anything positive to read into this in terms of the TKE progress and therefore, costs are perhaps slightly more front-end loaded? Or if you don't want to comment on numbers given where we are now, your confidence levels increasing more broadly as the time continues to elapse as we get closer to that Q2 2027 time frame?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

So first, and you're talking about nonrecurring cost impacting comparability. So indeed, we had -- this quarter was impacted both the TKE related transactional costs as well as restructuring charges. And out of those, the bigger number was from restructuring. So that's good for the P&L going forward. And in the full year, we have estimating EUR40 million for the fourth quarter and the increase there is mainly driven by the good progress on the competition authority processes. So we do in order to get the filings forward and fast, it incurs the cost faster than we expected.

Operator

James Moore, Rothschild & Co Redburn.

James Moore - B. Riley Securities, Inc - Analyst

Yes, I've got a couple I wanted if we could start with service and the 10% growth ambition versus the current six. And I get the lower M&A activity in the China portfolio tidy-up effect. But looking forward, how should we think about the bridge towards 10% next year?

Is it basically maintenance-based growth acceleration that you need to come through with price and repairs, basically being kind of a consistent running rate versus the recent levels. and it's 10% realistic for '27? That's my first question?

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

Maybe I take it. But so the services three factors the growth of the unit base, the pricing of these units and the repairs. So we've been historically delivering pretty close to this. fair enough at a time where we are not pruning China. We've been very clear that there was a work to do on the long tail in China, which we sort of finish, but there is work to do and there is cash attention.

So we want to make sure that service contract ends up with cash in the bank, which is really important. For the rest, the law of gravity doesn't change. You need growth, pricing on these units, repairs with the right pricing. And within the back customer satisfaction and digital transformation to bring more value for our customers.

So we are confident that the ambition we set is realistic. In the mix, indeed, there was this topic of M&A bolt-on, which actually accounts for 1 points or 2 points. So it's not insignificant. We are more cautious here because we are also we want to be very attentive to returns and the cash management. So I think you have the main parameters to make your assumptions.

James Moore - *B. Riley Securities, Inc - Analyst*

And the other one, if I could, is on China. And you mentioned it remains a margin headwind in '27, I'd expect that. But the weight is going to continue to fall. I think when you started, Philippe, you talked about being 14% of group EBIT and having come down from 50% in the peak, materially that, would it be possible to say what you'd expect that number to be in '26? And whether you think that number, whatever it is in '26, does it come down in '27, or just does the pricing pressure prevent that?

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

The number -- which number, the share of profit coming from China?

James Moore - *B. Riley Securities, Inc - Analyst*

Share of group EBIT share of group adjusted EBIT from China that you would anticipate for the whole of FY26.

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

So I think we've said it's less than 10%. It's less than 10%. And every quarter, the load or the share of China in our profit is decreasing and that's what it is. So -- and with all of this, we do believe that it's important to be operating in China. One because when we operate in China, we are improving our competitiveness outside of China.

Second, I just remind everyone that there are 25 million elevators in the world, there are 10 in China. And at some point, there will be more digital. There will be a service business where there will be more value to bring with digital technology. We think we are very well positioned here. and at some point, having being -- staying in China and living in China in very, let's say, competitive conditions will help us for the long term, but will also position us very well for the long term of a very big market.

Operator

Antti Kansanen, SEB.

Antti Kansanen - *Seb Enskilda (London) - Analyst*

I wanted to still follow up on the mitigating actions for cost inflation. And if we think about delivery margins next year, Ilkka, could you talk about some of the cost elements that are below the order gross margins in a sense logistics, labor and things like that. How well can you mitigate inflation in those elements kind of beyond the new order pricing, which has been better now for Q3?

Ilkka Hara - *KONE Oyj - Chief Financial Officer, Member of the Executive Board*

Yes, first, a clarification. So when we do quote the order margin we take into account logistics cost because for us, it's a cost of getting the product to the size similar to installation, for example. Second, I think what is really one of the things I've been very happy about, especially in the Middle East, where the crisis is ongoing is that we've been very clear to our customers that in order to deliver their it includes a higher logistics cost complexity, both combination of sea and land transportation to lend to the sites, given that some of the ports are closed.

And we see a good track record in being able to then actually charge our customers for the increased cost on the logistics. So that I continue to see also for next year, mitigating the increased logistics costs.

Antti Kansanen - *Seb Enskilda (London) - Analyst*

Okay. And then my follow-up was on the services side. And I mean, you mentioned that the tuning of the Chinese book and also kind of held back growth. But if you look at kind of your service profitability development, I would assume that M&A contribution to margin is from the kind of first starting point is lower than what you can yourself to. So have you been able to achieve improvement on service profitability in the past 12 months? Or service earnings growth, which is substantially higher than the sales growth that we've been seeing?

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

Yes, on both Yes. And there is 1 point that you do not mention, which is really important, which is as we use more digital technology, we are more efficient to be on the ground, avoid back and forth between the service depot and the places where we deliver service avoid all these misses that are making the life of field technician. We follow very closely the operational productivity we get with that, and we see a clear improvement.

Ilkka Hara - *KONE Oyj - Chief Financial Officer, Member of the Executive Board*

So I would maybe put things to context. Of course, the M&A does impact the number of units in maintenance. But from a service growth perspective, over the years, it's been maybe less than 1% -- at the same time, I think this digital productivity that's impacting P&L now is much bigger. It's impacting -- we have over 50 countries now live with online digital tools, and that is something that we continue to have very good opportunities to drive forward.

Antti Kansanen - *Seb Enskilda (London) - Analyst*

Okay. Any way to quantify the service profitability improvement on the last 12 months?

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

I just smile --

Operator

Aron Ceccarelli, Bank of America.

Aron Ceccarelli - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

I have two questions, please. The first one is on European Nitin. Over the past few quarters, we've seen significant volatility across competitors in terms of orders. The market remained relatively subdued. So I would try to understand, are you seeing increasing competitive intensities as players fight for volumes, particularly in pricing? Or how would you justify that?

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

So first of all, in Europe, as in every market, there is very strong competition. So it's -- and competition is good. Now our business in Europe is more service and modernization that renew construction. So you really need to look at our business probably differently compared to some of the people who live in the building space because we are largely full life cycle versus new build.

And in that regard, the whole volatility that you have in macroeconomic, I'm not saying it's not touching us, but it's impacting us less. But with this, yes, there is strong competition. Yes, there are ISPs yes, these guys are aggressive. Yes, there is price competition, and that's good for the industry.

Aron Ceccarelli - Bofa Merrill Lynch Asset Holdings Inc - Analyst

And the second question is on modernization conversion. I think been growing strongly for some time yet the conversion into sales remains relatively slow, especially considering that the share of modular modernization has increased. What is holding back this conversion? And should we expect a meaningful acceleration in sales growth going forward?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

If I take the first part because I don't think I can hold you back on the 1 week more topic. So if you look at over a -- there's always fluctuations, both in our orders and then delivery as a result, then delivery revenue. And directionally, I would say that the order book rotation has not changed.

Then the more we have partial modernization, the more we have opportunity to accelerate deliveries as well. But like I said, so the one week mod we just launched in Q3, and it's not really impacting yet the order book rotation as such. But overall, I think it's quite stable from a rotation point of view.

Philippe Delorme - KONE Oyj - President, Chief Executive Officer, Member of the Executive Board

And the last point on modernization, which actually explained many of your question is we have a share of our modernation business, which is a major project. And we have quarters with a lot of major projects, quarters with less major projects. These things tend to have longer order book rotation. They are explaining actually the some of the lower growth we have in Europe on modernization. So it's I know it's raising some of your questions.

We are really on modernization. We are following the volume modernization, the nonmajor project related, which actually is pretty steady state double digit. And then we have a few big elephants that tends to move from one quarter to the other, which explains some of the hiccups we see on orders. And longer order book rotation.

Operator

Delphine Brault, Auto BHF.

Delphine Brault - Oddo BHF Asset Management SAS - Analyst

First, looking at Q3 and maybe year-to-date, have you succeeded in stabilizing margins at despite highlighting margin pressure in China?

Ilkka Hara - KONE Oyj - Chief Financial Officer, Member of the Executive Board

So on NBS in China, they are stabilizing. But clearly, we continue to see margin pressure with a high competition on NBS. And the more important point is that the more we now move to service and modernization also in China, then that has a margin positive mix impact.

But clearly, it's very competitive. Like I said earlier, we continue to have a profitable business, but it's super, super fitness test for who's the most productive who has the lowest product cost and therefore, also able to differentiate with the customer value that can actually then succeed in the market. And I have to say that our China team has done a really good job in this tough environment.

Delphine Brault - *Oddo BHF Asset Management SAS - Analyst*

I was thinking about stabilizing margins at NBS at group level. Despite the margin pressure in China?

Ilkka Hara - *KONE Oyj - Chief Financial Officer, Member of the Executive Board*

This is one where, as you know, we don't do segment reporting, but you can look at the volumes a bit on NBS in China and the commentary to make conclusions out of it.

Delphine Brault - *Oddo BHF Asset Management SAS - Analyst*

Okay. Second question. You flagged a slight deterioration in your order intake margin globally. How did your margin evolve in your backlog year-over-year did it increase?

Ilkka Hara - *KONE Oyj - Chief Financial Officer, Member of the Executive Board*

So the backlog margin commentary is always I find it a difficult measure given that the mix between MP volume products between modernization and NBS impact how it develops. But overall, given how we have performed in Q4, we clearly see that helping it sequentially improving the margins that are coming in.

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

Performed in Q3.

Ilkka Hara - *KONE Oyj - Chief Financial Officer, Member of the Executive Board*

Q3, sorry. Yes.

Operator

There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

Let's make some space for Natalia.

Natalia Valtasaari - *KONE Oyj - Vice President, Investor Relations*

Yes, thank you for that. Thanks Philippe, thanks Ilkka. Thanks to everyone who participated, great active dialogue again. We appreciate that. If you do have any follow-up questions, please feel free to reach out to me to the team. We're here. We're available and with that wishing you a lovely rest of the day.

Ilkka Hara - *KONE Oyj - Chief Financial Officer, Member of the Executive Board*

Thank you very much.

Philippe Delorme - *KONE Oyj - President, Chief Executive Officer, Member of the Executive Board*

Bye.

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