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PRESENTATION

Natalia Valtasaari - *Kone Corp - Vice President, Investor Relations*

Good morning, and welcome to Kone's second-quarter results call. My name is Natalia Valtasaari. I'm Head of Investor Relations here at Kone, and I'm very pleased to be joined here today by Philippe Delorme, our President and CEO; and by Ilkka Hara, our CFO.

As usual, Philippe will start by talking through the highlights of the quarter in terms of financials, but especially our strategy execution. Ilkka will then follow-up with some more details on markets and financials, and then Philippe will wrap up before we head into the Q&A session.

And just as a reminder already at this point, please in the Q&A, try to limit yourselves to one question, one follow-up, and, of course, you can rejoin the queue if you have anything further to ask.

But with that Philippe, please.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

Thank you, Natalia, and good morning, everyone. I'm very pleased to be here today to discuss our second-quarter results, which reflect continued progress across our business and good momentum in our strategic priorities. Looking at the number, other growth stands out. I was especially encouraged by the acceleration in Modernization, which grew by well over 15%. This shows our success in capturing the opportunities created by aging building stock around the world.

We also delivered further margin expansion and strong cash generation, highlighting the quality of our business mix and the benefits of disciplined execution. Beyond the financials, we continue to advance our strategy. An excellent example is the increasing connectivity of our maintenance portfolio, now at 44%, strengthening both customer value and our service capabilities. And finally, there is a good momentum in the plan combination with TKE. I'll provide a more detailed update on this later in the presentation. But first, let's take a closer look at our financial performance.

Let's start with orders. Orders grew by almost 11% in a quarter. What I find particularly encouraging is both the breadth and the quality of that growth. Three of our four regions delivered double-digit growth, while modernization grew strongly across all regions.

Turning to sales, we grew 3.4% in comparable currencies, putting year-to-date sales growth at a respectable 5%. Our adjusted EBIT margin expanded by 40 basis points, thanks to a richer sales mix and improved operating leverage. Cash generation was also very robust, resulting in healthy cash conversion and further strengthening our financial position. So overall, this was a good quarter for Kone, with growth across all our key financial metrics and performance very much in line with our expectation.

Let me share a few practical examples of the progress we are making in executing our Rise strategy. In digital-first, we continue to make good progress, both in connecting more maintenance equipment and rolling out productivity tools for our field technicians. Together, we make an even more reliable, responsive and efficient service partner for our customers.

In modernization, our modular approach significantly reduces downtime, one of the biggest concerns for customers undertaking upgrade projects. I'm confident that this is a key factor behind the consistently strong modernization growth we've delivered since the launch of Rise. I also believe it is behind the improvement in our modernization customer satisfaction scores we've seen during the year.

In residential new buildings, our focus on affordability without compromising quality has strengthened our competitiveness in this important segment. Our offering developments are supporting growth in new equipment today, while also creating a valuable installed base for future service business.

Turning to cut carbon, 75% of our equipment deliveries are now equipped with regenerative drives, helping customers reduce energy consumption and meet increasingly demanding sustainability requirements. And finally, our core processes and culture, our ambition is to be the number one choice for both customers and employees. We track our progress through annual customer loyalty and employee engagement surveys.

Customer loyalty has developed positively in three of our four areas, but feedback also highlights opportunities for further improvement. And at the same time, employee engagements remain above the global benchmark, reflecting the strength of our culture and the commitment of our people.

I'm proud of what the Kone team has accomplished, and I'm also happy to see our strategy translating into tangible value for our customers. And let me share a few examples from the quarter. Starting in China, we have a great example from the hotel industry where minimizing downtime is absolutely critical. Our fast-track delivery capabilities not only helped secure a modernization contract but also regain the customer maintenance business. This clearly demonstrates the value of combining speed, reliability and strong customer relationships.

An excellent example of how digitization create value for customer. The Makkah Clock towers is an iconic landmark and a customer with whom we've built a long-lasting relationship. Last year, we connected the equipment to our 24/7 connected service platform. The true proof of our predictive maintenance capabilities came during the Hajj Pilgrimage in May, when more than 5 million people traveled through Makkah.

We completed the season with record high customer satisfaction underlining the reliability of our solution. And then moving closer to home, we recently secured an order to deliver mono-space for elevators to rapidly growing residential area in Prague. This is a great example of how our effort to improve competitiveness of our residential offering are translating into commercial success in an important market segment.

Let's move on to sustainability. One of the key sustainability milestones this quarter was the validation of our updated near-term science-based targets. This reaffirms our commitment to reducing our environmental impact and supports our long-term ambitions. We now target a 46% reduction in Scope 1 and 2 emissions and a 40% reduction in Scope 3 emissions from our 2022 baseline by 2030, and we are committed to achieving net-zero emissions by 2050. We were also again included on CDP's Supplier Engagement Assessment Leaderboard with an A scoring, a great achievement for the team, showing consistent engagement on an important topic.

Turning finally to our planned combination with TKE. We've discussed the strategic rationale extensively over the past few months. So let me simply reiterate how excited we are about this opportunity. By bringing together the strength of both company, we can accelerate innovation, improve responsiveness, and create even greater value for our customers and stakeholders.

With regards to required approval, we reached an important milestone at the extraordinary general meeting in June. Shareholder support was remarkably strong, with nearly 100% of vote cast in favor of our proposals. The regulatory review process is also progressive as planned, with filings submitted or underway across all key jurisdictions. At the same time, we've begun integration planning so that we are well prepared to move quickly once all necessary approvals are in place.

The collaborations between our team has been open, constructive and highly productive, which reinforced my confidence in our targeted EUR700 million cost synergies. As a reminder, this target reflects our expectation after any divestment that may be required as part of the regulatory approval process.

Now, let me hand over to Ilkka, who will take you through the market developments and our financial performance in more detail.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

Thank you, Philippe, and a warm welcome also on my behalf to this second-quarter result webcast. Let's start by taking a look at market activity over the past few months. Overall, the demand picture remains very similar to what we've seen over the last few quarters. Growth continues to be led by service and modernization, but demand for new building solutions has also been active across most markets, while China remaining the clear exception.

In the Americas, unit growth was affected by last year's comparison point, which was strongly impacted by tariff-related demand recovery. In value, the market is growing clearly. What stands out in particular is the Middle East. Despite a challenging backdrop, demand stayed strong and helped drive growth in the broader Asia-Pacific, Middle East and Africa region. It is really a remarkable demonstration of the market's resilience.

Let's next look at our financial performance, starting as usual with orders received. Orders grew by 10.9% at the comparable FX. Reflecting our ability to capture market opportunities across business and regions. Growth was broad-based geographically with double-digit increases in three of our four areas. This is true also for modernization as order acceleration accelerated in all areas. It was particularly encouraging to see this driven primarily by the volume business, although major projects also contributed positively.

New building solutions performed well too, which is important as it supports the future expansion of our service base. Our orders margins declined slightly year-on-year as a result of the inflatory pressure we've seen. That said, we have taken clear actions to address this. These actions include pricing measures already implemented across the portfolio, combined with a disciplined cost management.

Then turning to sales, which increased by 3.4% at the comparable rates in the quarter. Growth in service and modernization compensated for the slight decline in new building solutions, increasing by 5.6% and 6.7% respectively. Service growth was impacted by high comparison point in China, as highlighted already earlier. In addition, less contribution from M&A resulted in slower maintenance-based growth in Europe. Even so, year-to-date sales growth of 5% for the group means that we continue to be well on track against our full-year guidance.

Moving then to adjusted EBIT and profitability. Margin expansion in the quarter was 40 basis points year-on-year. This took adjusted EBIT to EUR370 million. Adjusted EBIT excludes items affecting comparability, which amounted to roughly EUR50 million in the quarter. Around EUR25 million of this was related to the planned TKE transaction. And we currently estimate additional EUR40 million or so, one-time cost in the second-half, mainly transaction-related. From profitability perspective, business mix remained favorable, and we benefited again from a good leverage on fixed cost. These factors more than offset margin pressure in China and the inflation-related cost increases elsewhere.

Overall, it's encouraging to see yet another quarter of profitability improvement, and we have action in place to support continued progress going forward.

Turning finally to cash flow. Good progress to report also on this front, as year-to-date cash flow rose to EUR937 million. Working capital was the main driver of the improvement. Order growth resulted in higher advances and timing of payables also contributed positively.

Let's next look at how we're thinking about 2026 as a full year. Starting with market environment, our outlook for the year is unchanged and consistent with what we have seen so far this year. In new building solutions, we expect the market in China to decline around 10%. Elsewhere, we expect growth slight in Europe and North America and stronger growth in Asia Pacific, the Middle East and Africa.

Both modernization and service markets are expected to remain active across all regions, offering excellent growth opportunities. Naturally, geopolitical developments remain a risk, but so far, our markets have demonstrated solid resilience. Then to our business outlook, which we have left unchanged. This means, we continue to expect comparable sales growth of 3% to 6%, an improvement in adjusted EBIT margin to the range of 12.3% to 13%.

Looking at the factors affecting the performance, challenging market conditions in China and the wage inflation continue to create headwinds. We also see inflationary pressure linked to geopolitical tensions, including elevated logistics costs. On the positive side, growth in service and modernization supports a favorable business mix, and our performance initiatives continue to contribute to margin improvement.

With that, I will hand back to Philippe for some closing remarks before we move to Q&A.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

Thank you, Ilkka. So to wrap up. A strong Q2 in many ways with other growth being the highlights and great to see growth in modernization across all areas. More broadly, we remain diligently focused on execution that is clearly visible in our quarter-by-quarter profitability improvement and our continued progress against our strategic targets.

A big thank you to all Kone teams for the outstanding commitment once again. And finally, all those still early days, our plan to combine Kone and TKE are progressing as planned in a very good collaborative spirit. Thank you all for your attention, and I suggest we now move to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Kim, Deutsche Bank. Please go ahead.

John Kim - *Deutsche Bank AG - Analyst*

Hi, good morning. It's John from Deutsche. Thanks for the opportunity. I'm wondering if we could start with modernization. I'm trying to kind of calibrate revenue growth for the rest of this year. We did see a bit of deceleration from Q1 and into Q2 on those growth rates. I'm wondering, is that kind of a time and place event or are we just starting to get base effects? And we should consider that when we think about growth rates for the rest of the year.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

Maybe I'll start and thanks, John, for the question. Well, first, I'm very happy with a very strong double-digit growth in modernization orders. And the revenue growth is more reflecting some of the slower growth rates we saw in earlier quarters in orders. And we continue to see very good opportunities to grow the modernization business going forward on double-digit rate also on the revenue.

So I think I would more look at our guidance and for the strategy and ambition on the strategy when we look at the growth rate. And with this order growth, I think we have a great opportunity to continue growing the revenue going forward.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

So we are very confident on modernization.

John Kim - *Deutsche Bank AG - Analyst*

Okay. Quick follow-up, and thanks for that. Can you give us any color on the fund program and how we should think about that incrementally?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

On the one what?

John Kim - *Deutsche Bank AG - Analyst*

The Chinese fund program, the subsidization of modernization and certain bills.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

I guess we still see -- we keep talking about China and some negative trends. China is actually a great market when it comes to modernization. There are two legs to that. One is a program called [Guozhai], which is more government-led which really works by cities in which we've taken a pretty good share of that market. And then there is the more volume base, which is more customer by customer, which is also very dynamic. But I would say on both, we are running on both cylinders and we are growing very well in China on the modernization side and we are pretty happy with where we are.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

China actually has been the fastest growing modernization market for some time.

John Kim - *Deutsche Bank AG - Analyst*

Okay, thanks so much.

Operator

Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

Hi, good morning. I will stick to one end of follow-up, but I'll ask them at a time. Can you give us some color on in terms of the order margin decline and sort of what drove it this quarter compared to last quarter? I guess you were seeing some stabilization there. Is it more pricing and is it just China or there's a mixed impact, just to give us a color where has the deterioration been?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

So first, we've actually had quite a stable development in margins for a number of quarters. And in this quarter, we had a slight decline in the margins. And it is not driven by pricing, the increased costs that we saw due to the inflatory pressure driven by the geopolitics. At the same time, we've also now taken action on the pricing. And the impact in Q2 was mainly because of the tender to order lag to see that also coming through in the booked orders.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

Got it. And then just in general, you've been growing quite strongly on the orders for a while ahead of what you grow on the sales. And I know the definition of what's going in orders and sales are slightly different, but are you seeing lead times expanding? Can you talk a little bit through that? Are you sort of maybe somewhat capacity constrained, just interested on your view there?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

Well, first, very happy on your recognition. So we have a -- We want to grow in a profitable manner, and we've been actually doing both very well for now in the first years of the strategy. And we have not seen order book rotation delaying, actually see opportunities to accelerate that particular modernization. So how to be able to fulfill the customer need faster. So no big changes, but opportunities clearly on the order cycle times.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

I would say the impact on how an order translates into sales is also related to how many major projects we have versus volume business. Major projects would typically take quite some time to materialize in sales while actually volume business and the more you go to modernization, the order book rotation would accelerate.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

That's a good clarification.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

Got it. Thank you very much.

Operator

Delphine Brault, ODDO BHF.

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

Yes, good morning, all. Thanks for taking my questions. We'll go one by one. Starting with a follow-up on your order margin decline, you mentioned some measures to offset the inflationary effect, including price increases. Can you provide us with a bit more color on which regions, which segments were targeting and by how much did you raise prices?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

We've actually increased prices in all of the businesses in all of the regions to reflect the increased costs. So, very broad and I see that actually progressing well.

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

Including China?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

In China, it's been more stable. Now as a result of the measures. And of course, the market continues to be very competitive there. At the same time, in China what we've seen is our product cost reduction efforts in redesigning and working with our suppliers actually having quite a good progress.

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

Thank you. Second question, you highlighted a favorable impact from business mix in your margin bridge. Can you quantify how much this contributed to margin expansion?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

It has a positive impact and it's been steadily contributing positively. Now, of course, we don't do segment reporting, so it's hard for me to give very detailed number on that one, but it is one of the key drivers of improvement in profitability.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

And I would add to this one driver that start to ramp up and we're pretty happy with that, which is the leverage, meaning better control on our fixed costs and growing our fixed costs less than the sales. And you have probably seen that it's -- I think, the second quarter where we start to report that. And this is also the impact of the profit improvement initiative, performance improvement initiative we've put in place, which is balancing the engines that will support our growth, the growth of our EBIT level.

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

Thank you.

Operator

Vlad Sergievskiy, Barclays.

Vladimir Sergievskiy - *Barclay PLC - Analyst*

Thank you very much for the opportunity. I'll start with service growth. A little less than 6% this quarter. Can you give us some color on what's dragging the growth for now? Is it only China or potentially other factors as well? Do you see growth in service returning to this 10% strategic target that you have? And do you see close to 10% growth over '25 to '27 strategic periods still achievable?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

So first of all, we are very confident on our growth potential, let's say, high single-digit growth in service, and I think we've always said it, and we're going to be very consistent here. On the point to be on the slightly lower side in Q2, there are a few things that are explaining that.

First, we had a high base of reference, especially in China, but not only. Second, we are slowing down some targeted M&A initiatives for small bolt on for reason you will understand pretty clearly. And last point, we had a few execution hiccups, especially in our [repair] business in a few targeted geographies that we fixed over the quarter, but that are explaining a slightly lower performance. But mid-term and over the cycle period, we are very confident in our potential to grow high single-digit service business.

Vladimir Sergievskiy - *Barclay PLC - Analyst*

That's extremely helpful. Also, could I quickly check if you have already looked at potential preliminary impact of IFRS18 accounting change on your operating profit line from 2027? Obviously, one of your competitors mentioned some changes in recognizing financing costs and moving them into operating line. I'm keen to hear if you have already an early take on this. Thank you very much.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

Yes, so it has a very minor impact to our P&L and in cash flow it will have some impact below the operating or cash flow before financing costs, so not a major impact on P&L.

Operator

Andre Kukhnin, UBS.

Andre Kukhnin - *UBS AG - Analyst*

Yes, good morning. Thank you very much for taking my questions. Maybe just one on modernization. Could you comment on where the profitability level is for this business now for you? I remember you mentioned it was around group level at the Capital Markets Day a couple of years ago. Just wanted to check if that's progressed from there and whether the order book is pointing to progression in this level in this area.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

So first on the modernization, so what we said was that the target for us is that it's not dilutive to the group average and over the strategy cycle, that means that it continues to improve its profitability along the lines of the whole company. And then you're talking about orders. So in actually what -- given the faster rotation of the orders in modernization, so in the second quarter, especially the biggest markets were quite quick to reflect to increase costs to also then prices. And we saw less impact on order margins in modernization.

And then lastly, the more we drive this partial modernization that Philippe was mentioning already earlier in the presentation, that has a positive impact on profitability. So we see good opportunities to continue to drive profitability improvement in the monetization business.

Andre Kukhnin - *UBS AG - Analyst*

Great. Thank you. And if I may follow-up on the comment on TKE progressing to plan, could you comment on where you are in the US process at the moment and is there an anticipation of a potential timeline on when would it be normal to hear back from the authorities there specifically?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

No, I guess predicting what happens with regulatories and arts that we are not going to go into today and you'll understand easily that we cannot comment. We are very well engaged in our major jurisdiction, and I think we've always said that we are confident in going through the process, including the US.

So that's what I can say at this point and we don't want to speculate on anything. We are very focused on engaging in a very transparent and positive manner with those regulators, and the work that has to be done is done, and we are making progress.

Andre Kukhnin - *UBS AG - Analyst*

And that level of confidence has not changed since you announced the deal?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

No. We are moving, and we are following the plan, and we are executing the plan. I would just say that -- I would just stress the very collaborative spirit that's happening between the team, which to me is very important to make sure that we make progress as a team.

Andre Kukhnin - *UBS AG - Analyst*

Thank you.

Operator

Kulwinder Rajpal, AlphaValue.

Kulwinder Rajpal - *AlphaValue - Analyst*

Yeah. Good morning, everyone, and thank you. So two questions. First one on the fixed cost leverage that you highlighted. So I wanted to understand -- I think there was an implication that this would ramp up in the coming quarters, is that the case? And then could we expect more benefits to the margin from this leverage in '27?

And secondly, the (inaudible) market, so basically wanted to understand was all of the order growth in this market structural or was there an element of catch-up maybe due to the war or -- and what were the key markets where the demand came from? And that's it. Thank you.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

I guess my answer to the fixed cost is simple, yes and yes. So there's clearly opportunity to continue to drive more leverage through fixed cost. And yes, it is a contributor positively in '27 as well.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

And on the second question on orders. I mean, the order growth is real, it's structural, it's broad-based, it's clearly driven by modernization, but not only, and we see it across the board. And we are very happy with it. Not surprised, but happy.

Kulwinder Rajpal - *AlphaValue - Analyst*

Thank you.

Operator

Alexander Virgo, Evercore ISI.

Alexander Virgo - *Evercore Inc - Equity Analyst*

I wondered if you could just pick apart a little bit of two things that you mentioned on your prepared remarks. The first one was just the pricing dynamics in the US. I think you talked about the market being stable or slightly down in units, but value up clearly. So just wondered if you could pick that apart for me.

And then in terms of follow-ups. Can you just give us a sense of volume versus projects in the order intake? I think you commented that both grew and I just want to make sure I understand the difference between the two.

And then in terms of the guidance -- unchanged margin guidance, I appreciate that, but if you're talking about increased inflation, it's something you're wary of as a headwind in the second-half. Does that mean that the implication is the underlying margins are better given you've kept the margin guidance range unchanged? Or does that mean we should be thinking about margins towards the bottom end of the range? Thanks very much.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

Maybe I'll take the first one on the follow-up of the follow-up question. On the inflationary situation in the US I or the price evolution, I don't want to go into politics of whether there is inflation or not in the US, but we see a favorable market in terms of price expansion in the US, there was actually a relatively high base of reference which explained the one minus we see in Q2 published by the Industry Association and we see value expansion. So we see an environment where that is more favorable to price increase in the US or that is favorable to price increase and we see price expansion.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

And then you had a question on [MP] versus volume. So both contributed positively. I don't think there's much more than that with good opportunities in both businesses. Of course, volume is important for the unit growth, especially on services in general. And then in MP, it is also a true test of our capability to deliver customer needs, given that they're the most complex projects and therefore progressing well there.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

If I may, on MP volume, I'd like to single out one zone where actually we are consistently doing extremely well, which is our Asia Pacific and Middle East, especially Middle East, where there were many questions a quarter ago about how is the market going? Where is it going? We've done very well. And my understanding of this is, we've been having teams on the ground, staying on the ground, staying close to our customers, and it means a lot when things are a bit tougher.

So we've done very well in that part of the world, which was a place where there were a lot of questions one quarter ago from another dynamic standpoint, both volume and MPs. Sorry, just to complement. Yes, that's true. I think it's important.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

And then lastly on the unchanged guidance, so I think what it tells is that we're taking very targeted actions in this environment and see those actions having a clear benefit to counter any inflation that we see in the cost. So that's the message there.

Alexander Virgo - *Evercore Inc - Equity Analyst*

Okay, thank you very much.

Operator

Phil Buller, JP Morgan.

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

Hi, good morning. Thanks for the question. I've got two. Firstly, I'd like to ask about market share. How is that evolving? Have you been gaining share anywhere that you'd call out? It sounded like that might be the case in the Middle East, but has there been any change in competitive intensity perhaps in the US, which may also explain the margin evolution on orders or perhaps it is 100% inflation?

And how do you see order margins evolving in the second-half of the year, similar to what we've seen this quarter or would you expect them to improve from here?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

So maybe I take the first part of the question. So on market share evolution, I'm not very good with math, but if we assume that the market is growing low single-digit. And we are growing close to double-digit, that likely means we've taken market share. Now, are we buying market share or are we taking market share? It's clearly more the second one.

We've stayed very disciplined on pricing, and I think IlKKA has been pretty clear on where we see a slight decrease on the order book in terms of margin with, again, very targeted action, which gives us very strong confidence that we have our margin under control for the coming quarters.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

So you had two questions, one was market share and I guess you've answered the orders margin already in that one.

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

Yeah, I was going to ask a question on TKE, so a different question really, but follow-up to one of the earlier ones. I guess it sounds like everything is on plan from your standpoint, which is great to hear. But when you announced the deal, obviously it was all very much below the radar, but it is now in the open, work is underway. Has anything cropped up in that process of the more joined up and collaborative working, positively or negatively outside of that approvals process topic, i.e., synergies and other topics like that. Has anything evolved positively or negatively, not after numbers, but just from your side, how are things progressing? Are you more optimistic or less optimistic on that potential for those synergies, for example?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

No surprise, we're on plan and we confirmed the EUR700 million synergies net of divestments and we are on plan, focused. Working very constructively together and very confident.

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

Okay, great. Thank you.

Operator

Aron Ceccarelli, Bank of America.

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

Hello, hi, thanks for taking my question, I have two. The first one is a comment on orders margin again, sorry for going there again, you said that in Q2 some of the tender lagged. So based on your recent initiatives, would you expect order margins to be flat to up in Q3?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

Of course, we don't guide on pricing, you need to win deal by deal, but the measures we're taking are countering the inflation. So that means that we expect flat development or positive development going forward.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

I would just insist on the fact that we are taking very fast and targeted action to make sure that our team in the frontline are exposed with where costs are going on a very regular basis, meaning it is a weekly or monthly, we are very intentional on the fact that clearly the world is back to inflation and that's probably an aftermath of the war in the Middle East and we are very resolute to make sure that on one side, we're going to work on cost and we are working on cost. On the other side, if costs are moving in the wrong direction that we price it up according to where the costs are going. So we cannot be more clear.

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

Thank you very much. And perhaps just going back again to the margin guidance for the full year, perhaps can you give us a little bit of sense around it to the bottom end and the upper end of the guidance, what kind of assumption are they backed in?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

So it's a range at this point of the year, and I think the main uncertainty, of course comes from geopolitics, how is that evolving and impacting our customers and capability to deliver to our customers and -- our customers capability to take projects forward.

So the revenue range is the biggest driver of the profitability as well, both for NBS and MOD for that matter. Then we have quite a targeted measures being taken to drive the fixed cost leverage for the business. And we see, of course, our capability to control that quite high. And then from a direct material -- a raw material perspective, now at this point of the year, we mostly have a committed and locked prices with our suppliers, so there's less variance around those.

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

That's super helpful. Thank you.

Operator

[Antti Makkonen], SEB.

Antti Makkonen - *SEB - Analyst*

Hi, guys. I have a follow-up on the cost inflation topic and looking at kind of the longer lead time backlog, major projects and such. I'm kind of looking at increasing inflation and also wage inflation impacting installation costs. Could you maybe talk about the actions that you can execute here where pricing is probably not available, but it's more on the cost side? Should this kind of impact the delivery margins out of the backlog going into '27 and beyond on this kind of longer lead time items or projects?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

Well, first, it's good to note that I and we comment on the margin on the orders that were booked in the quarter. The order book margins are stable, and we've been able to drive both productivity in field as well as then product cost reductions in the factory and R&D to actually mitigate the increasing costs. So I think there's a good capability to drive those actions forward also going forward.

Antti Makkonen - *SEB - Analyst*

But if we think about logistics and installation regarding wages, is that kind of a price in or indexed in this kind of a major or longer projects? Or is this something that you just need to be more efficient on executing that kind of a backlog margin?

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

In many cases, the logistics costs are passed through. So we're able to then ask for customers for the increased cost in logistics. And that also was happening on the deliveries we made in Q2 due to the increased cost in the Middle East.

Antti Makkonen - *SEB - Analyst*

So in a sense, looking at '27, you remain as confident as before on reaching those mid-level, mid-term targets provided at the previous CMD, despite the pickup on inflation?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

Yes, very confident.

Antti Makkonen - *SEB - Analyst*

And the second follow-up was on the services growth and/or maintenance sales growth and comps on coming quarters. I mean, you flagged the China thing for a number of quarters. Now, when we look at second-half of this year, how would you characterize the comparison figures?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

I would say the comparison base in China is going to be more favorable in H2 than H1, very clearly, because we were pruning and we started the pruning in the course of the year, but H2 will be more favorable in that standpoint, in China.

Antti Makkonen - *SEB - Analyst*

All right. Very clear. Thank you very much.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

Thank you.

Operator

Martin Flueckiger, Kepler Cheuvreux.

Martin Flueckiger - *Kepler Cheuvreux SA - Analyst*

Yeah, morning, gentlemen. Thanks for taking my remaining question, one was already answered. So, coming back to the input cost inflation debate, just wondering whether you could provide some quantitative guidance with regards to the expected or the incremental change in energy, raw material and logistics costs in 2026 and what your outlook from today's perspective is for '27. Thanks.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

So, we confirm that raw materials are a headwind, but few tens of millions, no more than that, and it will impact more the second-half than the first half as such. So no big change there.

Operator

Vlad Sergievskiy, Barclays.

Vladimir Sergievskiy - *Barclay PLC - Analyst*

Yes, thanks very much for taking additional questions from me. You mentioned several times good collaboration with TKE teams, if I understood it correctly. Could you please provide us some color on how this collaboration at this point actually looks like?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

It's a good collaboration, meaning it's fluid. I think people understand the bigger picture. They are excited by the opportunities. Many are proud to participate to a project that's, I would say, unique in a lifetime and it's very fluid and it's very positive and not saying it's hard work, it's a lot of hard work, but it's working very well.

Vladimir Sergievskiy - *Barclay PLC - Analyst*

Are you talking to each other? Are you exchanging the views, are you exchanging perhaps any materials at this stage?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

We are doing everything we can within the legal framework. So we have clean teams that have the chance to share more and then the people who are not in the clean team have a different access to data and this is going very well.

Vladimir Sergievskiy - *Barclay PLC - Analyst*

Thank you very much.

Operator

John Kim, Deutsche Bank.

John Kim - *Deutsche Bank AG - Analyst*

Thanks for the follow-up. I wanted to dig into a comment you made about affordability on the MBS product offering. I'm just wondering if you can kind of put that in perspective for us with a focus on affordability, is this a broad-based approach across the regions? Is it region-specific?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

No, it's -- and that was really the meaning of Win Residential which is -- we recognize that this is the first market segment and the segment where we see pretty much everywhere in the world that push for more affordability and where Kone was historically more the high-end, not always with the right level of cost, and I'm very happy to see that actually we've worked decisively on that direction.

Also leveraging more the volume we have, we are today the largest elevator manufacturer in terms of new installation, in terms of units, and we leverage that scale to come to market everywhere with the right cost base, never compromising the quality, and it's working very well. And you see it in our new construction business everywhere in the world, and that's really one thing where we turn the tide quite a bit in the past years, and I'm very happy with that.

John Kim - *Deutsche Bank AG - Analyst*

Okay, thank you. Quick follow-up, can you characterize where you are in your cost base for China, given the further declines in the MBS market?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

What do you mean?

John Kim - *Deutsche Bank AG - Analyst*

So if the MBS market continues to decline this year and possibly next. What is the view towards taking the incremental cost out?

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

We are working on costing down every quarter, both our fixed cost and our product cost. And the product cost is a mix of negotiation with suppliers, redesigning all the time, making the product more efficient, and then optimizing our go-to-market cost and our structure cost to be in line with where the market is ready to pay.

Natalia Valtasaari - *Kone Corp - Vice President, Investor Relations*

Great. Thank you.

Operator

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

Natalia Valtasaari - *Kone Corp - Vice President, Investor Relations*

Thank you. Thanks, Philippe, Ilkka, for the answers. Thanks to everyone who followed us online. Great questions. We really appreciate them. If you do have anything outstanding that you want to follow-up on, please reach out to me, reach out to the team. We're here for you. And, yeah, have a great day.

Philippe Delorme - *Kone Corp - President, Chief Executive Officer, Member of the Executive Board*

Thank you.

Ilkka Hara - *Kone Corp - Chief Financial Officer, Member of the Executive Board*

Thank you.
