KONE Q2 2016: INTERIM REPORT FOR JANUARY-JUNE 2016

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Katri Saarenheimo: Good afternoon and welcome to KONE's Q2 Results Webcast. Present here in Espoo, Finland, today, we have our CEO, Henrik Ehrnrooth, and Senior Vice President for Corporate Control, Roberto Molteni. I am Katri Saarenheimo from Investor Relations. As usual, we will start with an overview of our Q2 figures and development, after which we will have good time for discussion and questions, but let's start from the Q2 development presented by CEO, Henrik Ehrnrooth.

Henrik Ehrnrooth: Welcome also on my behalf to our Q2 results webcast, and it's a great pleasure again to present our results to you because we have good news to tell again from our performance during the second quarter and the first half of the year 2016. During the quarter, we had a good progress overall. We can see that our development programmes that we have been executing on are delivering results and that we've also been able to continue good growth in many markets to compensate for some of the large markets that are weaker, but as always, now it's our Q2 results, let's go straight into the numbers. I'll start again by going through our key figures, then a bit more in detail on orders received, sales and operating income, after which I'll talk about how we have developed KONE and our markets, as well as outlook.

Let us go straight into the key figures for the second quarter of 2016. Highlight of this quarter was we had a strong execution and profitable sales growth. Our orders received, they declined slightly during the quarter, but they were a good level of €2.067 billion. They declined at 5.7% or 1.9% if you look at it in comparable currencies. Our order book remains strong. It's at more than €8.7 billion and to has grown at 1.6% or at 5.5% in comparable currencies. So we have a strong order book and that gives us a good situation to develop KONE from here on.

Our sales also grew, was almost €2.3 billion, a growth of 2.8% or 6% in comparable currencies, and what's most important with this growth is that it was profitable and we had a good improvement in our operating income. So our EBIT reached €349 million, and improvement in the EBIT margin was good, it improved from 14.7% to 15.3%. Also we can see that we have maintained a good discipline in our business because our cash flow continued to be strong, although it was slightly lower than last year, but as I think all of you remember, last year in the second quarter, we had an exceptionally high cash flow, but now at €393 million, it was good. Also EPS improved from €0.51 to €0.54.

But as we always said, one quarter is a short period of time. Now we have half of the year behind us so we have a little bit more now perspective on how we're developing over this year. If you look at the first six months, we can see solid progress overall. Our orders received, a little bit over €4 billion, declined by 5.6% or just over 3% in comparable currencies. Our sales, also a little bit over €4 billion for the first six months, growth of 3.1% or 5.2% in comparable currencies. Also if you look at the first six months, we can see growth has been good and profitable. We had €570 million EBIT for the second quarter and the relative EBIT margin improved by 0.4 percentage points from 13.8% to 14.2%.

Cash flow, very strong for the first six months, almost €700 million, a good improvement over last year. If you remember, in 2015 we had a slightly weaker start in terms of cash flow then exceptionally strong in the second quarter; now we have had a more even development throughout the first six months of the year. Our EPS improved from €0.80 to €0.90.

We know that many of our large markets are quite uncertain, particularly on new equipment side, but we have continued to perform strongly also in this environment. We have shown that we can also perform well in more uncertain environments. That's clearly down to very strong commitment and dedication by our employees, so again, a huge thanks to everyone at KONE for the great job they have done and for the results that we have achieved during six months of the year.

So those are the highlights of our figures. Let's as usual go a little bit more in detail and start with orders received. As I mentioned, our orders received declined by 1.9% in comparable currencies, but were at €2.068 billion. Even though they declined, they were at a good level. This was the second highest level of KONE's orders received in KONE's history. We achieved this despite a significant decline in the orders relating to China because we were able to grow in all other markets outside of China. So again, we were almost able to compensate that impact, and we can see that we are developing well on a broad basis if we look globally.

Looking at orders received, we had a strong growth now in our modernisation business, and if you look at geographically, continued good growth in North America, where we grew in double digits, and we also had good growth in both Europe, Middle East and Africa, and Asia Pacific outside of China. So again, I think the highlights from the orders received perspective is really the good, broad-based development we had and the good acceleration we have been able to achieve in our modernisation business. As you all know price competition continues to be tough, particularly in the large Chinese market, so that has of course had an impact on selling prices. However, our competitiveness is in a good shape, so we have been able to maintain the margin of our order book at a good and healthy level, so that I'm very happy about. That is about orders received.

If we then go to sales, we grew in all our businesses. Comparable currencies, our growth was 6%. New equipment business grew at little bit over 3% in comparable currencies, and what I'm very pleased about was the strong sales growth we had in services. Our service business grew at 10% in the quarter. It was very strong in modernisation, where it grew close to 20%, but it's also good growth in our maintenance business. We now grew at 6.3% in the quarter. So I must say I'm very pleased with the overall sales growth we have achieved in services in the second quarter. Geographically, best growth in North America, where we are delivering on a very strong order book, growth about 19%, but also good growth in Asia Pacific of 6.6%, and particularly strong in markets outside of China but we also grew slightly in China. When I look at Chinese growth, highlight there was that we continued our strong growth in our service business in China, which continued to grow at over 25% during the first half of the year. So 25% plus growth in both Q1 and Q2. So we can see that we have good progress in that business.

But again, the most important factor with our sales growth was that it was profitable and that we can see from our operating income or EBIT. EBIT reached €349 million and as I mentioned, the margin improved from 14.7% to 15.3%. This good improvement was achieved because we had a good development on a broad basis. We improved in all of our businesses – good improvement in our new equipment business, as well as in services. Geographically, the best improvement came from Asia Pacific and North America.

And we achieved a good improvement in our operating income, despite headwinds that we had in the second quarter. Headwinds were particularly from foreign exchange. Translation exchange rates impacted the result by almost €15 million negative, little bit less than €15 million, and we continued to increase our investments in R&D, IT and in key growth markets of the world. So we are definitely investing in our competitiveness going forward. So overall, I must say I'm very pleased with how our profitability improved, both in the quarter and first half of the year.

If we then turn to our sales split, here we can actually see the impact of the improvement we have had in our services business and we can see that the share of both modernisation and maintenance has increased a bit, and also the share of North America is increasing. All of this is good, as it slightly balances more our overall sales mix. So I think it's been a good development.

So this is about our numbers. I would say overall, I'm pleased with how we have developed in both the first half of the year and if you look at Q2 as well.

Next I'll go through how our business has developed and how our markets are developing. Before I go to that, as you will have seen, in the quarter we have announced a few changes to our Executive Board. We will have in the third quarter, we will have Thomas Hinnerskov join us as the new head of our Central and North European business. He has a great experience in driving good growth in service businesses in many parts of the world. We also have Ilkka Hara join us as our CFO in August. He is someone who has been spending most of his career in the technology sector, but a very business-focused finance leader. And then last week we announced that Axel Berkling, who currently leads our German business, and has grown that business very successfully through very good leadership, he is moving to become Head of our

Asia Pacific business as of beginning of October. Until that, Neeraj Sharma will continue to run that business. These are all, I would say, positive rotations that will again help KONE develop well as we go forward from here.

If you then look at how we developed overall and our development programmes, as I think many of you know this is the last year of our current development programmes and we have achieved a lot of good things in them. I'll highlight here a couple, one related to the most competitive People Flow solutions programme and one related to Top Modernization Provider programme.

As you know our strategy has been for a long time that we want to grow in the fastest-growing markets of the world, to gain market share where the markets are most positive. This we've done in North America over the past years and we have now also invested more in North America to support this growth. So in June, we opened a new R&D and manufacturing facility in Allen in Texas. This will help us support our growth in North America and improve our customer service and competitiveness in both the new equipment and modernisation markets. We are bringing also for the North American market more R&D resources closer to our customers to have better products, specifically for that market, where we have had a good development and a very strong order book.

Also Top Modernization Provider, as you all know that's an area where we've been focusing significantly over the past years to strengthen our offerings, strengthen our processes and also improve our sales management and sales, etc. We can see that this has definitely produced results with the growth we started to achieve towards the end of – towards last year already in orders received. Now we have continued with strong growth in orders received and we can also see that our sales growth is good in modernisation. So we can see again the actions that we have decided to take, they are producing good results.

If we then turn next to our markets, I'll start with the new equipment markets and start with Asia Pacific. Markets overall in Asia Pacific declined slightly as a result of decline in the important Chinese market. At the end of this, I will address the China market a little bit more in detail so I'll jump over it now, just address the rest of Asia Pacific. Rest of Asia Pacific has grown because of growth in India and Australia. If you look at Europe, Middle East and Africa, here we have seen a continuation of the improvement in our markets, in particular in Europe. In Central and North Europe, markets continue to grow at a good rate, whereas in South Europe we are continuing to see more stabilisation of the market, Spain growing slightly and more stabilisation particularly in the important market of France. Also in Middle East, there's been continued growth opportunities despite the uncertainty in the region. In North America, markets have now already for several years been growing at a good rate, they are at a good level overall and continue to grow slightly from there. So we can see, if we look at new equipment markets from a global perspective, compared to last year, we see a good level of activity in both Europe and North America, whereas then some of the Asian markets are slightly more uncertain, particularly China.

So let me then address China, take a little pause here and address that a bit more in detail. In the second quarter, the Chinese market declined by about 5% if you measure in volumes. That's a slight improvement compared to the first quarter when the markets declined at about 8%. So year to date, we are somewhere around a 7% decline. However, if we look at the market development, if we measure the monetary value, then the decline was in the mid-teens. So here, we of course have the volume decline and continued price pressure, which has continued more or less at similar levels to before, but what we have seen, an increasing trend, is that customers are selecting lower specification products or more affordable products, which has meant that average selling prices have been coming down. But we have a good competitiveness also in these segments so that perspective we have continued to develop, largely in line with the market, was our development in Q2.

If we then look at the various parts of China, how it's developing, as we have discussed before, the situation in Tier 1 and many Tier 2 cities continues to be good. In fact, if we look at the inventory levels overall in Tier 1 and Tier 2 cities, they are at very healthy levels. I think we are, overall, if you look at Tier 1 and Tier 2 cities, at the lowest inventory levels for about seven years. So their markets continue to be healthy. Growth is spreading more to Tier 2 and some Tier 3 cities now as a result of the cooling measures that the government has taken in Tier 1 cities. So we can see that here urbanisation continues and people are moving more and more into the cities. However, if you look at the lower-tier cities, here inventory levels, although they are improving, they continue to be rather high and therefore that is impacting our overall sector. It’s the residential market that is declining, particularly affordable housing, whereas commercial segments are more stable, as well as infrastructure.

As you also have followed, if we look at the property markets overall in China, they have improved during this year. Sales area, total sales area for real estate has improved by about 28% in the first half of the year, new construction starts are up 15%, and total real estate investments are up 6%. So then you ask why are we not seeing a better improvement in our sector? Well, we can see that still in many of the lower-tier cities, many developers are focused on reducing inventories, whereas demand continues to be good in many of the higher-tier cities.

What has then KONE's approach been here? As I mentioned now in Q2, we developed largely in line with the market. We look at our development on a long-term basis and want to maintain healthy long-term fundamentals in our business. We are looking very much at finding good opportunities and, as I mentioned, maintaining healthy business principles, and that we have done. And looking forward, of course, our ambition continues to develop well. I would say that the development we have had so far has been very much in line with what we have planned and what we have expected. The most important thing with China is that our distribution is strong and we can see, as you can see from our results, our competitiveness is in a good shape. So that's a little bit more in detail about new equipment markets and then more in detail about the important Chinese markets.

Let me then next turn to service markets and start with maintenance. If you look at Europe and North America, we can see very much the same trends. Markets are growing in these regions, although there is clear variation between country to country, and price competition continues to be intense. However, Asia Pacific markets continue to develop positively, and that's of course as a result of high new equipment deliveries over the past years.

In modernisation, as you probably remember, we started to talk about improvement in the market towards the end of last year, and this we're definitely seeing. Modernisation markets are now growing at a good rate in Central and North Europe, and South Europe are stabilising. In

North America, modernisation markets are growing slightly from a good level, and the same situation in Asia Pacific, good growth from a good level already.

So if you look at our markets overall, modernisation improving, maintenance continues a good development, and then in new equipment, better in Europe, continuing good in North America, whereas bit more challenging in Asia Pacific. So a good mix of various market situations.

And with that, let me turn then finally to our outlook. If you look at our overall market outlook, that has remained unchanged. Asia Pacific, we expect the Chinese market to decline by 5-10% measured number of units, and the price competition will continue to be intense. We have maintained this 5-10% despite the fact that the market declined slightly less in Q2 than Q1. If the momentum in the property markets continued towards the end of the year, we're probably going to be at the slightly better end of this range, but now first half we are exactly in the middle of it. Rest of Asia Pacific, we expect to see some growth because of India and Australia. Europe, Middle East and Africa grow slightly because of growth in Central and North Europe, more stable in South Europe and the Middle East. And North America, continue to see some growth from a good level. In the maintenance markets, very much the same trends we've seen so far. Growth in Europe and North America, although variation between markets, and good growth in Asia Pacific. And in modernisation, continuation of what we've had in Q2, some growth in Europe because of good growth in Central and North Europe, and both North America and Asia Pacific growing.

And with that, finally, I go to our business outlook, which we in terms of EBIT have slightly upgraded. Our sales outlook remains unchanged. Here we say that our sales will grow between 2% and 6% in comparable currencies. Our EBIT we expect to be in the range of €1.25-€1.33 billion and now assuming that translation exchange rates remain at the level of January to June 2016. Previously, our previous range was €1.22-€1.32 billion. If translation exchange rates stay at this level, then we are looking at a currency headwind of about €40 million for the full year, whereas in our previous outlook that would have been about €30 million. So we have a little bit more currency headwind that we expected during Q1, but given the good performance we have had in the first six months, we slightly upgraded the EBIT outlook.

So if I look at some of the highlights for the second quarter, here I would say a strong growth in services is the first highlight, and both in modernisation as well as in maintenance, good growth. The second point I would highlight is the growth we had in all other geographic regions apart from China, which largely compensated for the decline in Chinese orders received so we get a good broad-based development, and then the fact that we grew at a good rate and that our growth was profitable.

So those were some of the highlights and our outlook, and with that, we have now good time to go into questions.

Katri Saarenheimo: Thank you, Henrik. Do we have to start with questions from those present here in Espoo please?

Pekka Spolander: Pekka Spolander from OP Financial Group. First about China and the pricing again. When we look at the decline in units and the decline of the value of the market, and my question is about how much is the price erosion if we talk about how much the prices have declined? And earlier it was discussed about something like 5%. Is it still around 5% or more?

Henrik Ehrnrooth: On a like-for-like basis, we are probably roughly five-ish. So you have probably three parts. You have the market decline, you know that was about 5% now in the quarter, then you have the like-for-like price decline, and then also you have these mix effects from lower specification, more affordable products. So each of them contribute, not exactly but very roughly, similar amounts.

Pekka Spolander: And your own pricing policy in China has changed in the first quarter?

Henrik Ehrnrooth: As you can see from our cash flow and our profits – okay, of course profits don't come through straight away – but we have maintained healthy business practices, and you can see therefore that we have very good overall development. Our focus is to make sure that we maintain a healthy business over the long term. That's the most important point for us.

Pekka Spolander: Thank you, and a second question about the European market. If you compare the situation today versus three months ago in Europe, would you say that sentiment has improved or is it stable or…?

Henrik Ehrnrooth: In Central and North Europe, I would say it's pretty much the same. Perhaps during the quarter, markets grew a little bit better than we had expected, but overall, I mean Germany, Sweden, other markets continued to be strong. Clearly, England has – UK has been a strong growth market there, probably going to see a little bit more uncertainty. So on balance, not a huge change. And in South Europe, I think the good thing is we've seen a continuation of the stabilisation of the market. So perhaps, on balance, similar to slightly positive-ish.

Pekka Spolander: Okay and finally, you already referred to UK, what's the role of the UK market as a whole?

Henrik Ehrnrooth: UK is one of our top ten market in terms of sales. We have a strong and good order book in the UK. Of course, quite a lot of business also there comes from services. We of course have to see what the impact will be of Brexit. In discussions with customers so far, it seems that standard residential construction continues at a good rate. We will probably see slightly more uncertainty on commercial construction, but it's too early to say what the impacts are, and I think we have to – yes, I don't think anyone really knows what the impacts will be.

Pekka Spolander: Thank you.

Katri Saarenheimo: Okay. We are then ready to switch to questions from those present from the line. Operator, I'm handing over to you please.

Operator: Thank you. If you would like to ask a question at this time, please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press *1 to ask a question. And we will now take our first question from Antti Suttelin from Danske Bank. Please go ahead, your line is open.

Antti Suttelin: Thank you very much. I would like to ask about modernisation. What is going on, because that was the really strong spot of the report, almost 20% growth in sales? Is this really pick-up of the market or is this market share gain, and is this sustainable or is this kind of a one-off as we should take it?

Henrik Ehrnrooth: Yes, Antti, as you probably remember, our orders received started to grow during last year already. So of course the sales growth – it's good order backlog that we have that is coming through. But why are we growing so well? First of all, the markets have – particularly, well, both in Central and North Europe and in South Europe where they're more stable, they have improved compared to where we were a year ago and we continue to have good markets both in North America and in Asia. As you know, we have focused a lot on our competitiveness in modernisation, everything from our sales management, sales processes, our offering and our overall process in modernisation, and I would say we can see that what we have done is producing results. I can't say exactly what, how market share has developed, because there – it's not a market where you have a good data on a short-term basis, but it clearly seems that we have developed well compared to the markets.

If you look at the modernisation market from a longer-term perspective, given that we have had pretty constant growth of our new equipment markets over the past 20 years, it's clear that every year there will be more equipment than in previous year that reaches the age of 20 years, not that it is an exact time, but it just indicates that the modernisation needs will increase each year and we also know that there's been little bit of a pent-up demand in Europe that we're starting to see coming through as well.

Antti Suttelin: All right, and then on China and the stimulus that you referred earlier, when I look at the numbers from China, what I see is a fading impact of the momentum. If I compare the early part of the year versus the latest month in June, it seems that the stimulus impact is clearly fading now. What is your view on that and how sustainable would you consider that the kind of apparent improvement of the Chinese market is?

Henrik Ehrnrooth: You have to, when you look at the growth rates year-over-year, you have to remember that real estate constructions have grown now for over a year so that means also that the comparison points start to be higher, but perhaps the stimulus impact was higher earlier in the year. But what I think is the most important point with the Chinese markets, if I look at the inventory levels, as I said, Tier 1 and Tier 2 are at very healthy levels and they are improving. While they're still at a quite high level in many lower-tier cities, they are improving there. So you can see that when there are jobs, when there are infrastructure in cities, then people do move into them so, and that is what it seems that developers are focused now on reducing inventories in these cities, which is of course a good and healthy thing for the market over time. But if you look at the growth rates months over month, yes, they are not quite as high in the past months as they were early in the year, but still the development is in the right direction.

Antti Suttelin: Yes, all right, thank you very much.

Operator: And we will now take our next question from Ben Maslen from Morgan Stanley. Please go ahead, your line is open.

Ben Maslen: Thank you. Yes, good afternoon, Henrik. Three questions please. Firstly, the very strong margin you delivered in the quarter, can you give any more colour around the drivers of that, because we have seen similar growth and mix in previous quarters with much less significant impact. So was there anything specific in Q2, raw materials, mix, etc. which drove it? That's the first question. Thank you.

Henrik Ehrnrooth: There wasn't anything specific. I would just say that we had a good execution on a broad basis. So nothing of a one-off character. Raw materials, yes, that's been a tailwind now for a while already, but it actually, the impact of reducing raw material prices has also been one of the reasons for the price pressure in the market in China. So is there a tailwind or headwind, it's a difficult thing to say. But we have constantly been able to improve our competitiveness, improve our execution and that you can see in our results. I must say that we did, we had a good overall execution in the quarter.

Ben Maslen: Thank you, and maybe a follow-up on that. I mean in terms of your commentary that said that pricing intensified during the quarter, was weaker in Q2 relative to Q1, I mean why would that be the case when end markets now are showing signs of some stabilisation and the key commodity prices sequentially improved during the quarter? Why would pricing get worse Q2 versus Q1? Thank you.

Henrik Ehrnrooth: Competition for market share continues to be tough. That is just what we have observed. I would say it's a combination of price pressure on a like-for-like basis and also then a mix change to more affordable products. That is just, you know, the market is highly competitive and that's the trend that we have seen.

Ben Maslen: Thank you, and then just finally, you did – I think organically you have done about 5-5.5% growth in the first half of the year and you're guiding for 2-6% for the full year. So the midpoint would suggest a slowdown in the second half. Is that just you being prudent or do you see sales growth slowing as you go through the back end of this year? And I guess I'm asking particularly around China, if your orders are down organically 15%, including volume and price mix, at what point would that start to go negative? Thank you.

Henrik Ehrnrooth: As you know, the lead time from order to delivery in China is, let's say, on average six to nine months, so clearly the reduction in orders received will start to have an impact towards the end of the year. We have given a range, that's a range we expect to be in, that's our best estimate without saying where we are going to be in that range, but clearly if you have in a certain market declining orders received, at some point it comes through in sales.

Ben Maslen: Great, Henrik. Thanks very much.

Operator: And we will now take our next question from Klas Bergelind from Citi. Please go ahead, your line is open.

Klas Bergelind: Yes, hi Henrik, it’s Klas from Citi. A couple of questions, please. Firstly, just to get back on China and pricing. so the units are down 5% and in monetary terms you're down 12-13% if I get this right. You're falling in line with the market both in units and in monetary terms, so that would be a 7-8% fall in price/mix versus previously 3-5%. Is that correct?

Henrik Ehrnrooth: As I mentioned, there are three different factors here. So one is if you look at like-for-like price decline, probably somewhere around – and very roughly, I'm not giving exact numbers here, but very roughly – five-ish percent, plus minus, but then also this kind of mix shift that of course, it has an impact on the average selling prices.

Klas Bergelind: So just pure price here, if that was down 5%, last quarter was that down 3% or 2% or when you say that pricing is getting weaker, is it only mix that is getting weaker or is it also the absolute price level?

Henrik Ehrnrooth: I would suppose a little bit of both.

Klas Bergelind: A bit of both, okay. Then when it comes to China and the market, if I look back at the year-over-year comps, it seems like I get 3 percentage points just on the comps. If the market is down 5% today and that compares to 8% down last quarter, in the first quarter, that is effectively a flattish volume quarter-on-quarter. Is that correct? We haven't seen any improvement from the increasing housing start impacting the market yet? I just want to confirm that.

Henrik Ehrnrooth: No, we have not seen it and you have to remember that the housing starts in our industry were negative in both, if you look on a full year basis, both in 2014 and '15, so which come with some of the delay, because you can – I think in the standard residential, you order the elevators quite at an advanced stage of the project.

Klas Bergelind: Okay. Then to come back to one of Ben's questions on the guidance, you leave the like-for-like growth unchanged despite services continuing to improve here. This is obviously short cycling throughout. So shall we expect a slowdown in services in the second half, i.e. tougher comps, or what are you seeing there?

Henrik Ehrnrooth: We had a good growth in our particularly our maintenance business last year. I'm not guiding any specific business. I think we have a pretty specific and good range to indicate, and I think that's – that you can see – what we can see from our guidance is that we expect a good development also in the second half of the year.

Klas Bergelind: Thank you.

Operator: And we will now take our next question from James Moore from Redburn London. Please go ahead, your line is open.

James Moore: Yes, hi everyone, hi Henrik. I've got a few questions. Just on the raw material and the direct material benefit, could we quantify the change there at all year-on-year? I think last year full-year, because in the annual you break out costs but not quarterly, you said direct materials were 41.8% of sales. I just wonder whether that has moved favourably and if you could help us on that. Secondly, on the modernisation margin, given the excellent revenue growth you're seeing there, my understanding is it was low single digit last year, and has that increased a lot? Could you help us, perhaps think of the change in modernisation margin?

Henrik Ehrnrooth: Let's start with – you know, again this material, you have to remember that we buy very little material directly ourselves. I mean we buy components from our suppliers, and of course, as raw materials come down, that has an impact on the component prices, but of course we continue to work with our suppliers on the design and how we develop to find savings there and to find better performance. If you can see, as you can see from our development, we have been able to develop in a positive way both our product cost competitiveness as well as our overall execution. So it's difficult and I don't think it's relevant to start breaking down, breaking out individual numbers there, because it of course all comes to a total competitiveness relative to the pricing you have in the market.

In modernisation, last year we had a slower top line growth. However, we started to grow our orders received towards the end of the year, and we have good growth now in modernisation orders received beginning of this year. This is a more short cycle business, let's say three months to six months on average from order to delivery. So you can see that coming through in sales now. If you look at the margin, yes, this good growth in sales and our improved execution has improved our margins in modernisation, but it is a lower margin business than both new equipment and maintenance.

James Moore: And in terms of modernisation growth, the 20% or near 20% you've seen in the first half, you sort of talked, when you were talking about trends, of a continued good growth and then later you said maintenance comparative is difficult. Do you expect modernisation growth to continue at the high level in the second half?

Henrik Ehrnrooth: We have very strong order books, without giving any specific guidance on it. We have a strong order book that we can deliver on during this year. Of course modernisation is something we need to continue to book also orders, because there's still a big part of the modernisation business that we have to do in Q4 is something that we still need to book as orders during this year, but we had a good and healthy order book there too.

James Moore: Helpful, thank you, and finally just on China, you mentioned the mix, which is sort of average selling price on affordable housing. I get the change in pure price, but was that mix effect there or was it zero in the last quarter, in the first quarter against the 5% you called out for this quarter?

Henrik Ehrnrooth: Can you repeat that? I didn't quite understand your question.

James Moore: Yes, you broke down the Chinese organic growth into 5%, 5% and 5% volume, price and mix. I'm just specifically asking about the mix piece of that, where you mentioned the average selling price relative to affordable housing. What was that mix effect last quarter? Was that a zero last quarter? Is that a change?

Henrik Ehrnrooth: It's not only affordable housing, it's all segments, I would say slightly lower specification. It was probably less in the first quarter than it was now. There was some impact of that, but it was less and it was a little bit more now than last year and the first quarter.

James Moore: Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: And we will now take our next question from Guillermo Peigneux from UBS. Please go ahead, your line is open.

Guillermo Peigneux: Good afternoon, Henrik, yes, just maybe a couple of questions, one really regarding the China aftermarket growth. I'm just wondering how that's very healthily growing 25%, but the order book is – or the orders are declining. And obviously I understand there is a time lag between installation and service, but shouldn't we see a slowdown, a material slowdown on the aftermarket growth, maybe not one year out, but maybe even more than one year out?

Henrik Ehrnrooth: We have a good order book and we are still delivering a lot of products, so you know, and higher your service base is, of course the more challenging it is to achieve growth on that year-over-year. The good thing is that the backlog we have of units in first service coming into the service base is very strong and we have healthy deliveries. So over time, yes, you will have a slowdown in the growth of the maintenance business as the base gets larger and larger, and that we have seen already, but I would say we have quite a large maintenance business already that we are growing now at 25% per annum, which is, I would say, very good rate.

Guillermo Peigneux: Okay, but installations are now falling, I guess or – not installations, but orders. So therefore, maybe one year from now installations will fall as well. So presumably you'll see that deceleration earlier than anticipated?

Henrik Ehrnrooth: Of course, we have to see. We have many levers in our service business that we can work on, including can we improve our conversion rates. We still have a lot of potential to do in that business.

Guillermo Peigneux: Thank you and –

Henrik Ehrnrooth: So of course, that's our objective to continue to drive a good growth in the maintenance business in China.

Guillermo Peigneux: Thank you, and then one second actually. Obviously, now you see how the market is declining in terms of volumes and pricing. So I wonder what actions are you taking in terms of restructuring to keep the backlog margins at healthy levels as you suggested. So is there any actions you're putting in place to your capacity, to your employee headcount or supplier optimisations, or anything that you are putting in place in order to mitigate pricing pressure – or sorry, margin pressure?

Henrik Ehrnrooth: Of course, when we look at KONE's cost competitiveness, it's something we have been working on every year, all the time, and we continue on that. Of course we need to all the time look at the fact that we keep a good cost structure in our business and we have resources when they're needed. The good thing is that given how we're growing our service business, and services is a more labour-intensive business than new equipment, and therefore, in areas where new equipment markets are weaker, we can then take people who are very experienced and good in our industry and put them over to service. So in that perspective, we have a – and as you know most of the installation is subcontracted. So we have a pretty flexible structure. But of course, when markets are weakening, of course you look at your costs and what you can do, but we have to remember we have an order book we can see. I think we have been able to predict pretty well how the market has developed. So there is – you know, we are not looking at any drastic or quick actions here. It's a continuous development that we have been working on for a long time already.

Guillermo Peigneux: Thank you. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: And we will now take our next question from Manu Rimpelä from Nordea. Please go ahead, your line is open.

Manu Rimpelä: Okay, good afternoon, it’s Manu Rimpelä from Nordea. The first question would be on the US. Have you seen any improvement in the maintenance pricing there?

Henrik Ehrnrooth: As you know, we have seen an improvement particularly in new equipment and in modernisation. The good deliveries we see in the new equipment has only started to come in now to the service base. So perhaps some slight reduction in the price competition but it continues to be a very competed market there, but perhaps not at quite the same level as we saw for example last year.

Manu Rimpelä: Okay, thank you and then on China, I think you – in the first quarter, you mentioned that you expect the orders to be more evenly distributed through this year. So would you still agree with that comment and is there any kind of read-through from that comment we can make into the second half of the year? Do you expect volumes to be on a kind of first half level in the second half of the year as well, or is there some sort of a clear seasonality in China that happens every year that we remember when thinking about those comments?

Henrik Ehrnrooth: I believe what we have commented was more from relative perspective. So if you look at China, it's a market where first half of the year tends to be larger in terms of orders received, second half larger in terms of deliveries. That trend is not going anywhere. I think when I've commented on that, I mean if you looked at, even though we don't break down usually our market share in parts of the year, our market share usually during the first half of the year is slightly higher than second half of the year, and the comment I made then is that perhaps this year we see a more even development relative to the markets.

Manu Rimpelä: Okay, and then finally, are you seeing any – when you are mentioning this shift towards lower price point units in Chinese markets, are you seeing that the competitors are having the similar type of exposure as you are and they are able to respond to this demand, or are you kind of seeing that KONE is in a better place to maybe return to growth, or outgrowing the market in this dynamic, or how do you feel that you are positioned compared to the competition?

Henrik Ehrnrooth: I think we have a great positioning. As you know, we are clearly the largest player in the Chinese market. In 2015, we increased our market share by almost 1.5 percentage points and so we are constantly growing. Now first half of the year, we have not outgrown the market, but if we compare our scale, our product competitiveness, our distribution, we are in a good shape I would say.

Manu Rimpelä: Okay, no further questions, thank you.

Henrik Ehrnrooth: Thank you.

Operator: And we will now take our next question from Tom Skogman from Handelsbanken. Please go ahead, your line is open.

Tom Skogman: Thank you and good afternoon, Henrik. I've got a couple of questions starting with the competition balance in maintenance. Can you give any comments about the development there and the outlook for the second half, especially in Europe?

Henrik Ehrnrooth: Again, this year we have been able to improve it. It is still slightly negative if you look year to date, but we are constantly going in the right direction. I'm particularly pleased with the improvements we're seeing in South Europe. So we can see that the actions we are taking are the right ones.

Tom Skogman: Thanks. Can you confirm still that the modernisation EBIT margin is lower than in the equipment on a global scale but that it's better than equipment in Europe?

Henrik Ehrnrooth: Well, I would just say that it's – in new equipment, we have a better margin overall, it may then slightly differ from market to market, but overall we have a better margin in new equipment than in modernisation. But modernisation, with the growth we're having and the improvement, we’re driving the business, we’re going in the right direction.

Tom Skogman: And then finally, I give you a chance to elaborate a bit about your IT investments. You have announced a lot of recruitments and you have announced cooperation with IBM, and now I wonder would you have anything new to tell us, what kind of new products and new revenue streams can we expect? What kind of findings have you done so far?

Henrik Ehrnrooth: What we are doing is that we have a lot of, I would say, very exciting new service concepts for our customers and also solutions. We are testing many of them out in the market, we can see, with good results. You have to remember that we have more than – close to 450,000 customers at KONE. So you don't change those contracts and how you work with them overnight but you will start to see a gradual improvement, and that's a change you will see over the coming years. In this industry, you don't see it happening overnight.

Tom Skogman: But is it kind of fair to expect that the benefits three years ahead will be mainly in efficiency, in getting costs down and billable hours up, but then beyond three years or would you say it's even more beyond that we should see new revenue streams?

Henrik Ehrnrooth: I would say the most important thing is, yes, we will get productivity and quality into our business. The most important thing we are focusing on how can we serve our customers and deliver solutions that are very specific for their needs in a better way with having a more connected and data-driven business. That is where we drive the value, and yes, it will of course help us to be more efficient and deliver in a better way, but one shouldn't expect it's only on the cost side; we are very focused on how we find better services and ways of delivering value to our customers.

Tom Skogman: Okay, thank you.

Operator: And we will now take our next question from Andre Kukhnin from Credit Suisse. Please go ahead, your line is open.

Andre Kukhnin: Yes, good afternoon, it's Andre from CS. Thanks very much for taking my questions. Can I just firstly check on the service growth acceleration that you saw in Q2 versus Q1? Was there anything kind of unusual in there? Was it maybe the day count effect that helped and was there any kind of difference by geographies in development there versus Q1?

Henrik Ehrnrooth: I don't think – I must say I haven't counted the days compared to last year, but there was nothing specific. There is always a little bit of seasonality. We have to remember that end of last year, Q4, we had a very strong growth in maintenance, then it was a little bit slower Q1 and now a little bit better. So of course, you're going to always have quarterly fluctuations. I wouldn't so much look at quarterly fluctuations, more important to look at how the trend was going. So I think we had a good growth rate of more than 6%, and Q1 we were slightly above that, Q4 last year, we were clearly above that. So I would put it down to quarterly fluctuations, not much more than that.

Andre Kukhnin: Great, thank you and a couple on China invariably. On your incentive structure to distributors, did you change anything in Q2 in China?

Henrik Ehrnrooth: Not really, no.

Andre Kukhnin: Great, and against the two brands, KONE and Giant, were both of them in a negative territory in Q2 year-on-year in volume terms?

Henrik Ehrnrooth: As you know, the reason we have two brands is that sometimes it's the KONE doing better and sometime Giant KONE brand doing better. It kind of varies from quarter to quarter. Now if you look at overall China, it's perhaps the larger brands are doing slightly better because they tend to be more exposed to the larger developers who have better overall situations in this quarter. Therefore, the KONE brand had a slightly better development, largely because of the customer exposure that we would have there compared to Giant KONE.

Andre Kukhnin: Very clear, thank you and can I just check against that 5%, 5%, 5% that you've talked about in terms of orders, volume, price and mix, your numbers suggest that you're not at 5%, 5%, 5%, you're at sort of adding up to around 10-11% in Q2 altogether. Is this – and then your units are obviously in line with the market. So between the price and mix, are you outperforming on one or the other or is it kind of equal? Just to confirm against a pretty similar question earlier.

Henrik Ehrnrooth: So we haven't of course announced exactly our growth rate there, but again, please, please don't take literally, exactly this 5%, 5%, 5%. It's a kind of magnitude. All of them are kind of plus or minus.

Andre Kukhnin: Sure.

Henrik Ehrnrooth: So do not take it that literally. So if you add them up, you come to a specific number; it's not that specific. So I can't say exactly how the market would have been exactly compared to us, but what we can see from our cash flow, your result is that we have focused on maintaining healthy principles in our business.

Andre Kukhnin: Yes, that was more just to double check whether we should take those numbers on. And finally, the comment on backlog margin, obviously that's forecast margin from your backlog and just to confirm, this is basically you're saying that the margins that you expect to see from the backlog into revenues are comparable to your current margins that you're delivering in revenues right now, is that the right way to take that?

Henrik Ehrnrooth: That's what we indicate. This is of course on a gross margin level where we can say we have had then relatively stable compared to where we have been previously, despite the fact that we have seen price competition, that means we have been able to have a good development in our overall competitiveness and something you're going to foresee from our results as well.

Andre Kukhnin: Great, thanks very much, Henrik.

Operator: And we will now take our next question from Martin Flueckiger from Kepler Cheuvreux. Please go ahead, your line is open.

Martin Flueckiger: Yes, hi, Martin Flueckiger from Kepler Cheuvreux. Thanks very much for taking the question. Just two left there really. First one, I would like to come back to your performance in EMEA. It looks to me like underlying growth here is not really picking up and if I remember correctly, we have seen an improvement in the market environment now for a few quarters. If you could just remind us what the most – or what the developments were in market or order intake growth in the EMEA in 2015, and whether and when, if you do, expect a pick-up here? That would be my first question. And then second one would be on your –

Henrik Ehrnrooth: Let's take one at a time. It's probably easier to take one at a time.

Martin Flueckiger: Sure, sure.

Henrik Ehrnrooth: So you refer to our sales growth in EMEA. We were able to grow our orders received at a good rate in Central and North Europe last year, it was more mixed in the Southern European markets, but we have an order book that has grown year-over-year in Europe, Middle East and Africa. I would put the fact that top line growth was only slight, I would put that down to quarterly fluctuation, it's nothing more specific in that. Sometimes, you know the structure of your order book little bit changes with what types of projects you have and when they come through and so forth, so it's not more than that.

Martin Flueckiger: Okay, thanks and then the second question would be on the US. You've given us some hints on your performance there and why you think you you've been doing so well, but could you elaborate a little bit more on that? I'm curious what were really the main reasons for KONE's significant outperformance in the Americas do you think?

Henrik Ehrnrooth: It's not down to one thing. I would say it always starts with having good leadership and focused actions in the market. If you look at how the new equipment market has been developing over the past years, we have a good competitiveness in the good segments and we have been able to develop that. In North America also, what is so important to your competitiveness is the execution in the field, and we have been able to develop that in a good way and produce value to our customers. So it's not only one action but it starts from clarity of direction, what is important, what are we doing, developing constantly our product offering, our competitiveness, which we have been doing, and in the US, very important the execution given the high labour cost content in US, execution is hugely important, and there we have seen good developments over the past years.

Martin Flueckiger: Okay, thank you very much.

Operator: And we will now take our next question from Glen Liddy from JPMorgan. Please go ahead, your line is open.

Glen Liddy: Good afternoon. You've been clearly very successful in all your cost saving measures. Can you quantify either so far this year or over the last 12 months how much you've actually saved in money terms from all your cost-cutting actions?

Henrik Ehrnrooth: As always, we can see that we have had good development. I wouldn't just call it cost-cutting actions; I would call it how we develop our offering and find new solutions or new components or new ways of doing things and that has improved our overall competitiveness and that we have been doing for many years already. And as you can see from the good development in our new equipment market, we're probably even a bit ahead of the curve on how we have developed that compared to the price competitiveness. So just you can see good execution there, but I think you can – it's difficult to quantify the exact amount. It is significant, but I would also – it's not only about cutting costs, it's about focusing on do you have the right offering to meet your needs of the customers, really understanding where the good opportunities are, staying very close to the markets, understanding the growth and picking up the right opportunities. That's where we put a lot of emphasis. And the better we can deliver value to our customers, the better we will develop. So it's a combination again of all of these factors.

Glen Liddy: Okay. And in China, you grew less than the market or your decline was bigger than the market in Q1 and you're in line with the market in Q2. Have you made a specific decision about market share that's acceptable or not, or is that just something that will fluctuate quarter by quarter?

Henrik Ehrnrooth: As you see, and as you know for us, a very high focus to maintain healthy business fundamentals and that we have done. Always, your development will always fluctuate from quarter to quarter, as it always has done for us, sometimes we outperform more, sometimes less. Now we have had first half of the year – first quarter a little bit below the market, now more in line. So again, you’re going to always have this fluctuation.

Glen Liddy: So there is not a specific decision –

Henrik Ehrnrooth: I don't think it's more than that.

Glen Liddy: Okay. And in terms of the conversion of an OE sale to an aftermarket contract in the different regions, is that changing at all? I mean you want to grow the aftermarket in China, clearly. So is your conversion rate improving in China and is it stable or improving in markets like the US?

Henrik Ehrnrooth: In the US, we probably improved it a bit. In China, it has been more stable. In Europe, in most markets are already at a very good level.

Glen Liddy: Okay, and finally, the duration of your backlog in China. I know you don't give it in number terms, but is it changing at all, getting best or worse?

Henrik Ehrnrooth: In terms of the overall order backlog?

Glen Liddy: For China, yes. The overall backlog, is the length of delivery time changing at all?

Henrik Ehrnrooth: Not materially. There are slightly different trends there, but not materially, so not a huge difference in order delivery times.

Glen Liddy: Okay then, thanks very much.

Henrik Ehrnrooth: Thank you.

Operator: And we will now take our next question from Piotr Ossowicz from Ironshield Capital. Please go ahead, your line is open.

Piotr Ossowicz: Hello and thank you for taking my question. Just a quick follow-up on the cost control measurements, like in particular like how – well, in China as you are seeing the increasing price pressure, to what extent are you able to pass on those, this price pressure onto the suppliers? I mean I was looking at the still fairly weak commodity outlook and obviously the suppliers being competitive as well. Like to what extent can you compensate for the margin decrease by also asking lower prices or looking for new suppliers, switching to local suppliers? Like how much of this you can do?

Henrik Ehrnrooth: Of course that is one of the things we have been doing a lot of, but it's not only – but, of course, you have to look at new components and new ways of doing them all the time. We have a good situation at KONE given that we have a quite harmonised product portfolio and we have big volumes. So that gives us a good situation in the market. If you look at our overall margin for KONE, you can see that we have had a good development in all these aspects over the past years, and of course we continue to have high activity there right now.

Piotr Ossowicz: But do you think that this is something that you have more or less done in the first half of the year or do you think that there is even more to come in this regard?

Henrik Ehrnrooth: You know, this is something we always been doing. It's not something that you do and then it stops. That is not how business works. Over the past years, we've clearly had – everyone in our industry has had more tailwind from raw materials that has reduced component prices. That tailwind isn't there in the same way; it's actually a headwind in some cases. So from that perspective, perhaps a little bit less, but of course we continue to develop our products every day.

Piotr Ossowicz: Okay, and last question on this one. Do you, are you seeing yourself using more the local suppliers, especially in China? I mean, can you get better deals from them?

Henrik Ehrnrooth: I mean what we – our Chinese products, almost all of the suppliers are local. Some of them may be international companies, but they make them local in China. We have a very good supplier base there, very experienced, high-quality, good suppliers in China. Some of them are local Chinese companies and some of them are international companies but with operations in China.

Piotr Ossowicz: Okay, thank you.

Operator: And we will now take our next question from Tomi Railo from SEB. Please go ahead, your line is open.

Tomi Railo: Hello, Henrik. It's Tomi from SEB. Can you comment on the currency impact – any currency impact from weak yuan in terms of your orders, revenues or profits in the second quarter?

Henrik Ehrnrooth: That's clearly one of the reasons for the currency headwinds. It's clear that the Chinese RMB is a very important currency for us from a translation perspective and we have good margins in China. So clearly that has an impact and that's one of the reasons for the foreign exchange headwinds that we have.

Tomi Railo: So you have added €10 million. Is that purely from the Chinese currency in the second quarter and do you expect further impact in the second half?

Henrik Ehrnrooth: I can't tell, I don't know where – I can't predict. I don't know where currencies are going, that's why we always look at the first six months where we are and take that as an average. I think the average and where the spot is now, perhaps the RMB is slightly below but it's not too far away from the average year to date, but I think we have to see. I'm not going to predict currency movements.

Tomi Railo: And then perhaps on the market, a direct question on China. Would you call that the market has dropped? I mean minus 8% in the first quarter, minus 5% in the second; you're repeating the comment 5-10% market decline. What's your outlook for the second half in particular?

Henrik Ehrnrooth: Well, I think if we have 7% year to date, first half of the year we have 5-10%. So we are smack in the middle. So we are going to be somewhere in that range for the rest of the year. What I said already is that if we have a continued good momentum in the property markets for the rest of the year, we're probably going to see somewhere at the better end of this range, but if not then somewhere within in this range. So let's see. I think it's quite a tight range already.

Tomi Railo: Thank you.

Operator: And we will now take our next question from Lars Brorson from Barclays. Please go ahead, your line is open.

Lars Brorson: Hi, thanks. Hi Henrik, hi Katri. I had a couple of follow-ups on some of the topics that have already been discussed. Henrik, just on the China market volumes, I wonder whether you could tell us sequentially in Q2 versus Q1 how the new equipment volumes in China developed, ideally on a seasonally adjusted basis. Did you actually see growth quarter over quarter in the market as a whole?

Henrik Ehrnrooth: Again, as I said, you have seasonal fluctuations. What is relevant to look at is compared to last year, and the market from a volume perspective was slightly better in the second quarter and the first quarter. So I think that is the key point.

Lars Brorson: And is the – I understand, and I don't want to pin you down, but it sounds like you're obviously quite optimistic that that sequential recovery can continue on the base of what we see in the leading indicators. With what you see, are you more confident that Tier 3 to 5 cities start to improve from here, and perhaps that we see bit of a cooling down on Tier 1 to 2, or do you see sustained momentum in that? And perhaps if you could also just touch briefly on what you see in the affordable housing segment, that would be helpful. Thanks.

Henrik Ehrnrooth: Well, I think what we're seeing is exactly as mentioned, is that Tier 1 cities, because of the cooling measures that the government has taken, we'll probably see a slight slowdown, but then the growth is definitely spreading to the more Tier 2 cities and the Tier 3 cities, and also we can see that if we look at lower tier cities overall, that the inventory levels are going in the right direction. So that's the overall trend that we see at the moment.

Lars Brorson: And just on your market shares in Q2, I appreciate your comment that obviously in any quarter there will be fluctuations, but you did highlight in Q1 that you were holding back on pricing versus earlier years where you've started the year incentivising your sales force to drive greater new equipment orders in the beginning of the year. Other companies or other competitors weren't following suit. I think one other OEM, they were mentioning the same. Should we then surmise that your in-line performance in Q2 is really more a function of others being more disciplined or per your earlier comment, is it really more matter of mix that you are gaining from a slight trade-down into, say, the mid and value range?

Henrik Ehrnrooth: I would again put this little bit in perspective now. We are looking at one quarter. You always have fluctuation from quarter to quarter how your backlog develops and how your tender rate develops. I would say we did overall very much in line as we had planned, and I would say at KONE also we did overall, from a global perspective, as we are planned. We know that the Chinese market is more difficult so we put a lot of efforts on growing in a good way in other parts of the world, and that we have done. So I don't think it makes now sense to try to go into some minute detail of why we did slightly better or slightly worse in Q1 or Q2. You always have this fluctuation.

Lars Brorson: Understood. On that note, let me maybe just ask one final question on the modernisation market. I appreciate your modernisation business is a bit skewed towards Northern Europe, which obviously is doing very well. You also talk about a reorganisation in North America that may have supported your modernisation business. To what extent is the outperformance you are seeing in modernisation a function of your push into a more standardised, harmonised product portfolio? It seems to me you've been a bit earlier than your peers there. Are you benefiting from what you did on the new equipment side at a few years back, and on that basis, do you think you can sustain that outperformance versus peers in the modernisation market?

Henrik Ehrnrooth: What is of course important is that you have standardised products and you – that way, you get volume benefits, but at the same time, I would say the most important thing has really been how we go to market and how we make sure that we can deliver on the better product offering we have. So that's where we have focused a lot again is on our how we deliver value to our customers, how we manage our sales to be able to do what is relevant and find the good opportunities. Those are, I would say, the most important things we have done in the modernisation business. It's a market where there are lots and lots of small to mid-sized opportunities.

Lars Brorson: Understood. Thanks, Henrik.

Henrik Ehrnrooth: Thank you.

Operator: And we will now take our next question from Rizk Maidi from Berenberg. Please go ahead, your line is open.

Rizk Maidi: Hi Henrik, hi Katri. Two quick ones from me on China. I'll take one at a time. So firstly, how big is the service business given the 25% increase? Is it still less than 10% of revenues?

Henrik Ehrnrooth: Services in China is roughly 10% of revenues at the moment.

Rizk Maidi: Okay. And then secondly on pricing on the maintenance in China, have you seen any changes recently there?

Henrik Ehrnrooth: I would say more stable. Of course we also see competition there given that the new equipment markets are weaker. We have a good situation and a good maintenance business in China overall.

Rizk Maidi: Thank you very much.

Operator: And we will now take our next question from Matthew Spurr from Royal Bank of Canada. Please go ahead, your line is open.

Matthew Spurr: Good afternoon. Thanks for the opportunity to ask a question. Did you say – I think in Q1 you said China sales overall were flat year-on-year. Can you say what that was in Q2? I can see Asia Pacific sales accelerated but are you able to say what China sales themselves did?

Henrik Ehrnrooth: China sales grew somewhat in Q2.

Matthew Spurr: Okay, thanks and then I had another on – just on your investment in the US. You say you are investing in facilities and R&D for developing products specifically for that market. You're already sort of outperforming quite nicely there and we're quite a way into this cycle. What's sort of driving that investment now then?

Henrik Ehrnrooth: We have a very large order book that we need to deliver on and this helps us deliver on that in a better way, but also I think eventually when the market isn't that strong, we will have a much better customer service and be able to much quicker react to market needs. So I think it's something that makes a lot of sense and will be a good improvement to our business in the US, or North America overall.

Matthew Spurr: Okay, thanks.

Henrik Ehrnrooth: Thank you.

Operator: And we will now take our next question from Michael Kaloghiros from BoA. Please go ahead, your line is open.

Michael Kaloghiros: Yes, hi. Good afternoon, Henrik. Good afternoon, Katri. My first question just on your commentary on sales picking up a little bit in China in Q2 versus Q1, just wondering whether you are seeing some of the orders that were maybe stuck in the backlog are now being delivered as the developers are able to reduce their inventories, so all the orders being delivered at the moment?

Henrik Ehrnrooth: Not a huge change. I mean, our deliveries in China have been constantly good so we have been delivering our backlogs. Not a big change there frankly.

Michael Kaloghiros: Okay, good, thank you. Second question just on maintenance. So you print a very nice number again this quarter if we take out the China growth, which is maybe a bit exceptional at the moment, the growth of 3-4% elsewhere. Going forward, if you want to grow in the kind of 5% plus, I mean what do you think is going to drive that? Is it the other markets that are going to pick up or do you think that you are going to have another growth boost maybe from converting more your installed base in China? What is the next growth driver for you in maintenance?

Henrik Ehrnrooth: We have, as you know, our new equipment business is growing in many places at the moment. So we expect – we are growing our service business and maintenance business in all geographic areas. So that's a good thing, and we are focused on delivering good value in maintenance and therefore we expect to continue to be able to grow. So even if you would have a lower growth rate in Asia overall over the coming year, still the share of it is growing. So that's contributing in that sense in a good way to growth. So our objective is to continue to drive a good growth in our maintenance business over the coming years.

Michael Kaloghiros: Okay, good and just lastly maybe a clarification on maintenance and China, because we are leading – we are hearing sometimes some misleading indication on that market and can you confirm that the margin on maintenance is above the margin on original equipment maybe first? And then as you grow with very good growth rate at the moment, are you able to improve the margin on maintenance in China, because you had to invest a lot in the margins over the past?

Henrik Ehrnrooth: Yes, you know, we don't break down our margins between maintenance and new equipment elsewhere but what I would say is that we have good margin in all of our businesses in China and not very significant differences between them.

Michael Kaloghiros: And with the growth that you're seeing in maintenance, are you able to get some – I mean not with your operating leverage, because it's a very outsourced business, but are you benefiting from density or anything driving, you know, potentially driving the margin up in maintenance in China?

Henrik Ehrnrooth: I think overall our business in China has developed well. As you know, we don't break down overall the margins, but overall we have had a good development.

Michael Kaloghiros: Excellent, thank you very much.

Operator: And we will now take our next question from Andre Kukhnin from Credit Suisse. Please go ahead, your line is open.

Andre Kukhnin: Yes, hi, it's Andre again. Thanks very much for taking the follow-ups. Can I ask a quick question on Turkey, how relevant that is to you at the moment and whether you – what do you expect there in terms of impacts from the recent events?

Henrik Ehrnrooth: Turkey has been a good and growing market over the past years. It's still a small percentage of our revenues so it's not a big country, and the impact of the recent events, I think it's too early to say. Of course they are concerning, but it has been a market developed very nicely over the past year overall.

Andre Kukhnin: And can you tell us roughly how big is the market size there, it's the fourth in Europe or what's that in units?

Henrik Ehrnrooth: The market in units in Turkey is quite large. There's lot of local players that if you look from volume perspective are the largest, but I think we have been constantly able to kind of expand the approachable market for us and that has been one of the reasons we have been growing well. But Turkey is a very significant market and the young population, urbanising population, it's a country with good potential over the coming years.

Andre Kukhnin: Got it, thank you and can I just pick up on a couple of things you said earlier? Firstly, you said that your margins in new equipment are up year-on-year and the two biggest contributors were Asia Pac and North America. Are China margins up within Asia Pac as well?

Henrik Ehrnrooth: Again, Andre, let's keep it at relevant levels here. I think overall we have had good development in our margins overall in our businesses, and of course, to develop well in our new equipment business, China is a very important part of that.

Andre Kukhnin: Got it and I guess final on cash, just we see it obviously building back up after the dividend. How should we think about it in the course of the next 12 months or 6 to 12 months?

Henrik Ehrnrooth: We are comfortable having a strong balance sheet. We think it makes sense to have a strong balance sheet in the type of an environment that we have, and as you know, if the opportunities arise then we are very interested in those opportunities.

Andre Kukhnin: And if they don't?

Henrik Ehrnrooth: That we then have to see over time. I can't comment on what our Board may think over time.

Andre Kukhnin: Got it, thanks very much.

Henrik Ehrnrooth: Thank you.

Katri Saarenheimo: I believe we have time for one last question and then we need to conclude the call.

Operator: And we can now take our last question from James Moore from Redburn London. Please go ahead, your line is open.

James Moore: Yes, thanks for taking the follow-up. I just really wanted to follow up on this China mix point. Could you explain again, I'm not sure I really understood this, to what this minus 5% mix is, and will it continue at that level in the second half or is it some sort of volatile, lumpy event that’s specific to the quarter?

Henrik Ehrnrooth: It's not more difficult than you know in any product you have things with higher specifications and then you have products that are more standardised with lower specifications. Given the trends in the market, some of our, many of our customers have probably opted for – which are good products, very solid and good products that we deliver – but slightly lower spec average for the elevators overall. There’s nothing more than that. Probably that's something we're going to continue to see for at least some time.

James Moore: Thank you. And earlier, I think you said that the 5%, 5%, 5% that you gave us was not the right picture. Could you give us the right picture?

Henrik Ehrnrooth: James, come on. I said that it's not an exact figure; I said they are all very rough figures just you can see that –

James Moore: I understand that but –

Henrik Ehrnrooth: That's the kind of magnitude of them.

James Moore: I understand that but –

Henrik Ehrnrooth: Just don't take them literally, each of those numbers.

James Moore: Sure, but I understand that, but China is a significant part of your business, and don't your owners have the opportunity to understand how it's moving? It's difficult when you say it's sort of that number but it isn't really.

Henrik Ehrnrooth: Hey, come on, James, I'm saying it's roughly that number.

James Moore: Okay. Okay, all right, thank you.

Henrik Ehrnrooth: Thank you.

Katri Saarenheimo: Okay, thank you for the discussion, everybody, and we also hope that we will see many of you in our Capital Markets Day which will be held on 28 September in Helsinki, Finland. So we can certainly continue the discussion there at the latest. So thank you, everybody, and we wish you a good rest of the day.

Henrik Ehrnrooth: Thank you.