**KONE H1 2017: HALF-YEAR FINANCIAL REPORT FOR JANUARY - JUNE 2017**

**JULY 19, 2017**

**3:45 P.M. EEST**



Sanna Kaje: Good afternoon everyone and welcome to KONE Oyj's First Half Result Presentation. My name is Sanna Kaje and I'm the head of Investor Relations. As usual, I have here with me our President and CEO, Henrik Ehrnrooth; and CFO, Ilkka Hara. Henrik will first go through the Q2 highlights, the operating environment, Ilkka will then dig a bit deeper into the numbers, and in the end Henrik will go through the outlook. After the presentation, we have again time for your questions. Henrik, please.

Henrik Ehrnrooth: Thanks, Sanna, and also warm welcome on my behalf to this Q2 results call. We have again many interesting pieces of information for you and interesting news to share during this presentation. In the highlights that we're going to talk about today are that we had a solid overall execution in an environment that is actually rather challenging, and we can see that, and we're going to talk about, that our profitability has been burdened by a number of headwinds.

Other important highlights we will talk about: how we are able to stabilize our business in China after a very challenging couple of years and also how we've seen a great improvement in our customer loyalty in all businesses, which of course is good for us. So these are some of the highlights that we will talk about today.

But let's start with numbers. If you look at the Q2 key figures, here the highlight really is that we were able to turn our orders received back to a slight growth if we look at it in comparable currencies. The orders received were 2 billion 56 million and growth of 1.1% if we look at it in comparable currencies.

Our order book remains very strong with 8.9 billion, and it has grown slightly from last year. Also our sales continue to grow at 2 billion 284 million. It's a growth of half a percent, or 1.7% in comparable currencies. Now what we can see though is that we have a number of things that are burdening our results and our operating income was now 326 million compared to 349 million a year ago. But still we can't be happy with the fact that our result has declined slightly.

Our relative margin declined from 15.3% to 14.3%. Cash flow remains solid 320 million. Earnings per share, 50 cents compared to 54 euro cent last year. If you look at our January to June figure for the first half, here our orders received now in comparable currencies were exactly stable compared to previous year, and that was of course because of the growth we saw in the second quarter. So orders received just shy of 4 billion. Also sales was about 4.1 billion, growth of 2.4% in comparable currencies.

EBIT very similar to the second quarter. We had a slight decline. It was now 544 million compared to 570 million in the comparison period, and our margin was now 13.3% compared to 14.2 last year. Cash conversion has continued to be good. Cash flow 626 million and earnings per share 86 euro cent compared to 90 euro cent last year.

Now at this point, warm thanks to all KONE Oyj's employees for the hard work. You can see that we're facing a number of headwinds in many of our large markets but I continue to see a very good fighting spirit, how we continue to drive an improvement throughout the company, and again, we can see a lot of things that where we are improving in a really nice way.

So those are the highlights of the numbers. We're going to look at our business split. If you look at our business mix by business, that hasn't changed much. Share or maintenance slightly increased given the good growth we have in maintenance, but otherwise pretty much the same as last year. If you look at from a geographic perspective, North America's share is clearly increasing because of the good growth there, and it's now 20% of our revenues. I think it's good to have, particularly geographically, a better mix balance between our various geographic areas, which we are gaining all the time.

If we just look at really what were the main positives and headwinds we had in our Q2, we will start with the positives. You can see that we had continued sales growth and solid orders in many markets. If you look at orders first, we continue to grow our orders in a nice way in both Europe, Middle East, and Africa, and in North America. Ilkka will talk more about this, but some of the highlights were continued double-digit growth in the United States, good growth in several south European markets, in Middle East, and also some central north European markets. So good growth in both of those geographic areas.

If you look at from a sales perspective, it's clear that it's our services business, particularly maintenance, that is the main growth driver for us. Another important development during the quarter is that we're starting to see a stabilization in the new equipment business in China. So if we go back to 2016 and 2015 as well, we not only we faced quite a lot of headwinds, we had a market that was declining, we had very significant price competition, and we could also see that customers were choosing more standard specification products from a mix perspective that was also slightly adverse.

Those are all headwinds that we had, and that clearly resulted last year in a significant decline in orders received. Now if we look at the situation, we started to take a lot of action to rectify the situation already last year, and I'm happy to say that the actions that we're taking are producing results. Pricing now in second quarter is more or less at Q1 level, so we'll be able to stabilize that. And we've seen a slight improvement as well in the mix of products. So, yes, we are still below -

clearly below pricing where it was a year ago but now sequentially we are stabilizing, and therefore I believe that what we're doing is taking our strategy in the right direction.

Another very positive during the quarter is that during the quarter we conducted our annual customer loyalty survey, where about 30,000 customers gave feedback to us. We naturally get constant feedback in so-called transactional surveys but this is an annual larger one that we do, and the good thing is that we had good improvement in our customer loyalty in each of our businesses.

And the main reasons cited by our customers for why they are happy with KONE's services are the service mindset and competences of our people, as well as the quality of our services and products. We also during the quarter continue to see a good execution on new strategy, and I'll talk about that later more in detail soon. But I believe that very firmly we're going in the right direction and making KONE constantly a better company.

Now with headwinds. Clearly our profitability continues to be burdened by a combination of the price pressures that we witnessed particularly in China last year, as I talked about the three headwinds that we faced, and at the same time clearly higher raw material costs. We also continue to see intense price competition in many large markets, and all these are clearly headwinds that we have.

From a profit perspective, we also have a slight headwind from the fact that we have proactively and we have decided to increase our investment in R&D, IT to develop new solutions for our customers. This is a positive thing and we see that results we're getting from these increased investments are good.

So that's - those are the highlights from Q2, but I promised you I'd talk a little bit more about some just snippets of what's happened with our strategy. I'm going to highlight developments in two of our ways to win, our customer-centric solution and services, and fast and smart execution. In connection with the Q1 result, we talked a lot about the rollout or actually the introduction of our new KONE Care maintenance offering, as well as our 24/7 Connected Services.

The new KONE Care, that's our flexible maintenance offering that I believe is a true differentiator in the market, and we can see that the development of both of these continue to be very positive. Customers are giving us very positive feedback, ((inaudible)) and prices are good. We are totally on track to have KONE Care and the 24/7 Connected Services available in more than ten countries by the end of this year, and these are really some of our largest countries. So these services will be available to a very significant part of our customers by the end of this year.

We also launched a renewed KONE online platform for our maintenance customers. This we have launched now in a number of countries and we tested it first again, now it's been launched more broadly. The KONE online platform is a platform for our customers to get full visibility of what is happening in their buildings, what is happening to the equipment, what have we serviced, what are your service needs, how is all the equipment performing just now, a real-time view of them, and it's a very clear and good service.

It's both an online and a mobile version of it, and this has received very good feedback from our customers and say that this really the leading solution that they have seen in the market for things like this.

We also launched a number of new products in India for the more affordable end. We extended our more than 500 platform in North America. In Europe, we brought new full replacement solutions. In China, we also expanded our offering to increase its competitiveness, particularly in the commercial segment. So all of this we're bringing new solutions that we think are, again, helping our customers succeed.

In the fast and smart execution way to win, our objective is to find constantly better ways to help our customers improve their productivity, us to work better and service our customers in a better way. Here we have taken into use a new process for our field supervisors for them to be able to work in a mobile way.

As you know, we have talked about how we are connecting all aspects of KONE's business. We are connecting our customers, our users, our employees, and all the equipment. This is about connecting employees. We already have rolled out globally our latest field tools for our maintenance technicians.

We have also enabled our salespeople to work in a very productive way, in a mobile way, and now we're doing the same thing for our field supervisors to enable them to spend their time out in the field with customers and with our maintenance technicians. The objective there, they don't need to spend their time in the office, again, to improve what we call fast and smart execution and, again, serve our customers in an even better way. But these are just some highlights of where we're going, but again we continue to make good progress.

Here is about KONE's development and some of the highlights of our business. ((Inaudible)) go to the markets. ((Inaudible)) markets in the second quarter continue to decline ((inaudible)) globally, mainly because of the Asia Pacific markets. Europe, Middle East and Africa, we had slight growth because of growth in south Europe and the Middle East. Markets are now more stable in central and north Europe.

North America markets continue to growth from a good level, so the markets are strong and actually becoming even stronger. Asia Pacific, here the market in China declined slightly but we start to see more stabilization now of the overall price pressure. It's still very intense, probably not as bad as last year. I'll talk about China soon a little bit more in detail.

If you look at the rest of Asia Pacific, here actually markets declined as well. This was mainly due to the fact that the large India market declined. Why did the India market decline? Well there's good underlying demand in the market but we have seen now three significant reforms in the India markets since November.

We believe that each of these reforms are positive for the long-term health of the market and the economy. However, they have clearly caused uncertainty in the short term. The latest one was the implementation of a goods service tax nationwide in India beginning of July, and we clearly that that has impacted the market. Although longer term, we believe it's a good thing for India and also our business. So we can see new equipment markets continue to be challenging and mixed.

Then what about China? Let me take a little bit deeper dive in China again. Here I would say the highlight is that the inventory of unsold apartments has continuously improved and getting to a clearly better situation. That means that the market is becoming healthier from this perspective. You can see that the inventory of unsold apartments in the higher tier cities has been good already for some time, in tier one and tier two cities. However, in lower tiered cities we have seen a clearly elevated inventory level, but that is clearly coming down now as well. Still, 20 months is quite high but we're going in a better direction, and that's very good for the overall market.

If you look at housing sales and housing prices, here we know that the market has been strong for some time already and actually that from starting last year and then increasingly this year, the government has introduced a number of restrictions to cool down the market. There are now restrictions for housing purchases and mortgages in about I think 52 cities, which covers about half of the market. So we can clearly see that there is a willingness and effort to cool down the markets that are very hot, and we have seen therefore a growth that has also spread now to the lower cities, and I believe it's a good thing that they are a little bit moderating the growth in some parts.

What about our market then for the elevator and escalator business? Here we can see that in the first quarter we had slight growth, now we have slight decline, so pretty stable market first half of the year. You can also see that real estate investments have stayed at the solid level of more than 8% growth; however, the main driver behind the growth here is really increases in land purchases and land costs. But still we can see that it's more stabilizing there as well.

So overall, I would say China a little bit more stable market price competition. Overall competition continues to be very intense but I believe that the actions we have taken are showing that we are going in the right direction. So that's about China. If we then turn to services.

The maintenance market, not much new here. Europe, Middle East, and Africa growing slightly, particularly central and north Europe and Middle East. South Europe remains very tough, as we know. North America is growing. Just one thing I want to highlight here that we can start - we're starting to see in our business as well a very significant impact to the shakeup of the retail sector in the United States, and we can see how that's impacting our business. But otherwise, it's developing positively except for this segment.

Asia Pacific markets continue to grow at a good rate. Modernization markets, Europe, Middle East, and Africa now stable with a mix development. North America continues to grow from a good level, and Asia Pacific, continues to grow strongly. So a lot of good opportunities there. So this is about KONE's performance first, and then our markets, and now at this stage I'll hand it over to Ilkka Hara to review our financial performance a bit more in detail.

Ilkka Hara: Thank you, Henrik. And I'll go through our financials a bit more in detail. And as normally, I'll start with orders received. So our orders received in the second quarter reached 2 billion 56 million, which represents on a historical basis a 0.6% decrease, but on a comparable basis an increase of 1.1%, which clearly is a positive turn. So we're returning to growth in our orders received.

If we look at the key drivers for this performance, we did see clear growth in Europe, Middle East, and Africa, as well is in the Americas as a whole. At the same time, our orders did decline in Asia Pacific, and if we look at China particularly within Asia Pacific, so our orders received if you look at sequentially from first quarter to second quarter, we did see a stabilized performance on the price like-for-like basis. And at the same time, we did see our mix having a slight positive impact from first quarter to second quarter. Clearly it's positive.

If we then look at year on year, both volume and as well as value decreased slightly compared to previous year in China in our orders received. And as you will see, it affect - it had a negative impact to the quarter, so 34 million in our orders received.

And for sales, so sales we've ended up almost to 2.3 billion, with an increase of 0.5% on a historical basis. On a comparable basis, that represents 1.7% growth, and if we look at again the drivers for that growth in more detail. So our new equipment business was relatively flat in the quarter, but both modernization as well as maintenance grew, modernization at 1.9% and maintenance at 5.2%, which is slightly below our historical trend. But if you look at the whole first half, then we're closer to 6%. So there's some quarterly fluctuation there.

Geographically Europe, Middle East, and Africa are growing at 5% is the key highlight, as well as Americas contributing with 3.7% growth in the quarter. And in Asia Pacific, a decrease by 1.8%, where we're now seeing the orders receive development from previous year in particular in China now coming into sales.

In - looking at the operating income, first of all our operating income reached 326 million in the quarter, which is down 6.4% compared to previous year. So clearly that's something which we can't feel happy about, and we continue to take action to reverse the trend. On a margin basis, that represents 14.3 margin - 14.3% margin, which is down 1% compared to previous year.

If we look at the key drivers for our operating income performance then services growth clearly contributed positively to our operating income. Also, we are seeing the actions that we're taking in productivity improvement across the company having a positive impact. But at the same time, the headwinds that we're facing from raw materials, as well as the margin pressure that we have witnessed in China in the last year, is now coming through to our sales and then also impacting our operating income.

At the same time, we continued our investments to R&D and IT, where we continue to see good opportunities going forward. At the same time, short term, they do burden our operating income. And we increased about 0.5% our investment relative to sales in R&D and IT combined. And from FX, our operating income had a negative 6 million impact.

With that, I'll hand over back to Henrik to talk a bit about markets and our business outlook for the full year 2017.

Henrik Ehrnrooth: Thanks, Ilkka. So wrapping up with our outlook and starting with the market outlook, here more or less the same, as we said in KONE's first quarter result. China we expect the market decline between 0 and 5% units, and our competition will remain intense. We expect that the Asia Pacific market growth will return in the second half, so we'll grow slightly for the full year. We also expect that Europe, Middle East, and Africa will grow slightly, as well as North America, the similar trends we've seen beginning of this year in Europe, Middle East, and Africa and North America.

The maintenance market, very much the same trends as we've seen so far. Strong growth in Asia Pacific and slight growth also in other regions. And in modernization we expect the markets actually now to grow slightly in Europe in the second half to slightly better than in Q2, and markets will grow slightly in North America, and strong growth in Asia Pacific.

And then KONE's business outlook, we have slightly specified our outlook. We now expect our sales to grow between 1 and 3% in comparable currencies. Previously we expected that to be between 0 and 3%. The slight specification here is we are halfway through the year and we have seen a good development, so therefore we could slightly specify it further.

When it comes to our operating income, we expect our EBIT now to be in the range of 1 billion 200 million to 1 billion 280 million and assumes the translation exchange rates stay at approximately the average level of January to June 2017. Previously we expected our EBIT to be in the range 1 billion 200 million to 1 billion 219 million. Now this specification really only comes from changes in translation exchange rates.

So compared to our outlook that we gave in connection with our Q1 result, now given the changes in currencies, we see a 20% negative impact for the full year for our EBIT based on just what we have on the average so far, and that is impacting our full year profit. However, we are still just reducing the midpoint much less because of the underlying positive performance that we had. So this shows that we continue to expect solid and good execution for the full year and good development overall.

So with that, I'll just summarize key highlights. The China market continues to be very tough but we're seeing a stabilization based on the actions we've taken. We're also taking a lot of action to offset many of the headwinds that we are - that we have that are impacting our profitability, and it's clear that we're not happy with the fact that our EBIT has declined slightly.

The good things which really gives me very strong confidence that we are in the right path, we're going in the right direction is the development of customer loyalty and also the good traction we have in our services that we have recently launched. And because of the good traction we've seen in this, we continue to invest significantly in our future and in our competitiveness, and I'm actually very positive about the pipeline that we have here for the coming years.

So with that, I believe we have time for questions.

Sanna Kaje: That's right and I'm sure you have some questions. Are there any in the audience? No, so then let's go straight to the telephone lines. Operator, please. Oh, and I would actually like to remind you please take one question at a time. Thank you.

Operator: If you'd like to ask a question, please signal by pressing *, 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press *, 1 to ask a question. It looks like we do have a few in the queue already.

We'll take our first question from Manu Rimaela from Nordea.

Manu Rimaela: Thank you. ((Inaudible))

Henrik Ehrnrooth: At least in this end here in KONE building, we are not able to hear the question.

Operator: Please make sure your mute function is turned off.

Henrik Ehrnrooth: Operator can I suggest…

Operator: We'll take our next question from Klas Bergelind with Citibank.

Klas Bergelind: Yes hi, Henrik and Ilkka, it's Klas from Citi. Can you hear me?

Henrik Ehrnrooth: Yes, we can hear you well.

Klas Bergelind: Okay very good. So firstly on the sales in China, your orders in China have been down over 10% organic last 12 months but your sales is only down 5% in China, driving Asia Pac only down 2%. That looks a bit odd to me. Is it just a timing issue? Are you - will the backlog in China start to unwind faster into the second half? That is my first question.

Ilkka Hara: Thanks. That's a good question. We think if you look at historically both when we were growing as well as now decreasing, so we've seen less volatility in sales than we see in orders, and that's really what's happening. And at the same time, we are seeing also the impact of the growth in our maintenance business there playing a role there. So that's kind of the highlights from my perspective there.

Klas Bergelind: Ilkka, if the share of service is only a very small part, so even if you're growing significantly, equipment will still be the major factor. So should we think about this that the duration of the backlog is longer than we think? So that means that we could still have sort of sales pressure but for a longer time, not only confined to a couple of quarters.

Ilkka Hara: There is some sales pressure for sure that we will see going forward. We haven't seen anything big changing in the order book rotation. There's some fluctuation there and some increase in the order rotation. And one of the factors that we're seeing is the customers are actually taking partial deliveries when they're building, so instead of having the full project completed, they do building by building.

Klas Bergelind: Okay. My second one is price and mix. I get why mix is better but just on the price in there, the market is stabilizing but we remain at a very high level versus history and there is competition still to gain equipment share to gain from the aftermarket longer term. Henrik, would you say that pricing is stabilizing because of higher raw materials or do you see that the real competitive pressures are also easing?

Henrik Ehrnrooth: It's always difficult to say exactly what they are, and we can of course comment on ourselves rather than market. What I would say is that we have taken a lot of action to be able to stabilize our pricing following a significant decline over the past two years. So that we can see that our actions are producing results. It's clear also that the prices came down significantly last year and the year before, and we can see that there are a number, particularly of the small players, that are quite under pressure at these levels.

So it's probably a combination of factors. I can't say that there's one specific one. And, you know, where is the market going to go? I don't know. We don't predict the future of pricing in the market. The only thing we know is what we are doing, and we can see that that has helped to improve our situation somewhat.

Klas Bergelind: My final one is on productivity and referring back to the visit to Italy, which was very helpful and thank you for that. Productivity you said many times represent many things, negotiation with suppliers, flow on the factory floor, design and installation time. When you look ahead, which of those levers will matter more? The reason why I ask is that I suspect that perhaps the easy wins are behind you in terms of supply negotiations and that will - it will be the other levers, including automation, that will matter more going forward.

Henrik Ehrnrooth: Well I would say that I would be disappointed if we had easy levers. I think we've been working quite many aspects on KONE for many years. But you know what, the more you look at something, the more you always find opportunities. We have to remember that in our business what is one of the most significant parts it's our field operations, both in installation and in service. There - that is one of the fundamental parts of our productivity and that year after year have been able to develop. The way you develop it is to improve your processes, to improve your quality, and then you can drive productivity. And that we have done.

Clearly we also look at our supply chain all the time with how we work with our suppliers, how we can design better solutions, and also then our own factories. But as you know that in our industry, factories, yes, they're important but they are not that a significant part of the overall piece. But, yes, we're looking at each aspect and I would say we have had good development in each of the past years, and we continue to drive hard. So it's not one specific thing where we can immediately think we can have a step change, but like I said, we're driving good development forward.

Klas Bergelind: Just a follow up on productivity, thinking about automation, I think it took Italy two to three years to go from 50% automation to 90% automation, looking at the AGBs and robotics. Can we really apply the exactly sort of same timing when you look at China? Obviously different levels of wages and input costs negotiation with suppliers. How can you look at automation in China if you take maybe a two to three-year view? Do you think we will go to 70% to 80% or can we go all the way up to 90?

Henrik Ehrnrooth: I'll say in China each of our markets we continue to drive automation going forward. You have to remember that what we do are slightly different and it's - we automate everything where we think it makes sense from a quality and productivity perspective. And, you know, we've seen it's a constant journey that we take and, you know, China will be part of that. But we have automated what we think makes sense to automate there at this point in time.

Yes, it will increase over time and probably the pace of change will increase, but this is something you have to constantly do in order to remain competitive in the market. So I wouldn’t say therefore there's something new. It's each of our supply units have constantly moved forward in this respect, and yes, maybe the pace of change is increasing, but nothing that I would say is fundamentally different.

Klas Bergelind: Thank you, Henrik.

Henrik Ehrnrooth: Thank you.

Operator: And we'll take our next question from Daniela Costa.

Daniela Costa: Hi. Good afternoon. So I just wanted to ask you to give us a bit of an update about how you're thinking about sort of capital allocation priorities going forward, sort of shareholder returns versus M&A. You've talked about that a bit over the last couple of quarters. So an update there. And then just a quick one on how you see raw material move impacting for the rest of the year, given the impacts we've seen now on the EBIT bridge but also the recent move in some of the raw materials. Thank you.

Henrik Ehrnrooth: I'll try to answer the first one and then I'll hand over to Ilkka. He can build on that and then answer the second question. You know, yes we have a strong balance sheet and, you know, over the years we have continued to increase our dividends. That's what I can say. We - that's what our board has decided to do historically. You know, we think it makes sense to maintain a strong balance sheet.

We know that there are possible opportunities out there in the world. If they come, we would be interested in capturing them. Will they come, what will they be, that's something I don't know, but clearly we have interest and appetite for further acquisitions. This year has actually been a little bit slower on that front, but of course we would be interested in also larger ones. So that's what I can say.

Ilkka Hara: And if we look at more the raw material part of the question, so we said already in the beginning of the year that we estimate our impact of the increasing raw material prices to be roughly between 50 to 100 million for the year. And if we look at the situation now at the end of second quarter, so we are roughly in the middle of that range when it comes to the impact. And what's good to note is that given what we said in first quarter and where we are in second quarter, so more than half clearly of that impact is expected to be hitting our second half of the year for that.

Daniela Costa: Thank you. Just follow up on the capital allocation one. How long would you wait until sort of M&A opportunities materialize and when could you potentially decide you would give the cash back to the specialty to buy back? What would - how would you think about this?

Henrik Ehrnrooth: I don't think I can give a specific timing or framework here because it depends on what potential opportunities we see out there. And of course situations change. That's a discussion we need to have with our board from time to time, but there's nothing more I can highlight at this point in time.

Daniela Costa: Thank you.

Operator: And we'll take our next question from James Moore with Redburn.

James Moore: Hi, Henrik, Ilkka. Yes thanks for taking my questions. They're on margin. On your raw materials more than half comment, would it be fair at current prices to say 25, 50 is a rough split and would another sort of 25 spill into the first quarter? Maybe just one by one, a couple of quick small ones.

Ilkka Hara: Well I think the level of accuracy I'm willing to comment on is more this - it is going to be more than half of that hitting us in the second half, and that's how we want to comment.

James Moore: And on the R&D…

Henrik Ehrnrooth: It's probably too early to start commenting on where we're going to be in Q1 next year. It depends on where prices go, but it's clear that from this perspective, headwinds continue to increase, just from this perspective.

James Moore: Thanks. And on the R&D, IT costs, thanks for the 50 BPS comment, but I'm just thinking as we roll forward, is this '17 R&D, IT investment exceptional or is it a new level that kind of will persist next year or could it even go up next year?

Henrik Ehrnrooth: Let me address it from the perspective why has R&D, IT and such investments, why they are increasing and the expenditure there. Historically, of course more of the R&D was the equipment side. There was clearly some services and processes for that. But if we look at now where the activity is, clearly there is a lot happening on the product side but of course the whole digital part is much more significant than it was in the previous years. The good thing is that we can say that, you know, we're also able to bring to totally new types of services, new way of adding value to our customers to improve the way we are working.

So this is the part that is higher and that is also then driving, you know, IT platform costs higher and development. So I would say we see an increase compared to revenues this year. Next year we have to see, but it's not that it's a bump and then we go down to the old level but it's, given the environment and the speed of what's happening around us, it is higher. But you know what, we see this is actually a positive business opportunity and an ability to differentiate how we can create, again, great services with that, and solutions as well for that matter.

James Moore: Thanks, Henrik. And my last piece if I could was on the margin question is about orders received margin, which has been slightly down for four quarters in a row. And would you expect that kind of comment to continue into the second half on the orders received margin with the current dynamics you discussed?

Henrik Ehrnrooth: As you know, we don't comment on potential pricing and margins orders going forward. So I think that's something we have to see. It's clear that, you know, we have a tough situation and headwinds in many markets and we continue to fight against them, and we continue to improve our pricing capabilities. But we have to see where we end up. So I don't think we can comment on that much more.

James Moore: Thanks very much.

Henrik Ehrnrooth: Thank you.

Operator: And we'll take our next question from Andre Kukhnin from Credit Suisse.

Andre Kukhnin: Yes. Good afternoon. Thanks for taking my question. Can I ask about the pricing done on extending service for Europe? If you could comment on what you're seeing there and then if there're any trends made by regions in Europe.

Henrik Ehrnrooth: There's nothing much new. It's clear that South Europe continues to be very tough. There's nothing new there. Central North Europe - the markets where we have seen a more robust new equipment business over the past year are more favorable. It's natural. The markets where you have new units coming in to the service-based means that the market is growing. Usually those economies are doing better. So, it's more favorable environment than South Europe where new equipment volumes have been very low in competitive situations anyways. So, it's very tough -- so -- it continues to be. So, it is a challenging. So, I would say nothing new there compare with what we have commented previously.

Andre Kukhnin: And if I could just follow up. I mean, what is the normal lag between the pickup - a meaningful pick up in new equipment or does a delivery to some alleviation of pressure in pricing for maintenance in any particular market?

Henrik Ehrnrooth: I can simply say that from order to delivery we talk about one year and then we have the first service. So, you talk about from order to seeing an impact on the markets -- you're talking about a couple of year -- but of course you need to see the whole overall activity in the market. It's not the individual order. It does come with a lag but -- you know -- it does follow it over time.

Andre Kukhnin: Okay, thank you. And may I just ask on the component price inflation of -- and in particular in China -- just given the size of the outsource of business. Are you seeing your suppliers putting prices up? Do you across the sort of components you purchase at the moment?

Henrik Ehrnrooth: Of course, It's a mix. I mean, it's clear that -- you know -- our suppliers - they're the ones who are being very hard hit by material cost increases. Clearly, we have been negotiations with them: how we mitigate that, how we're able to work. So -- of course -- you can always say in negotiations the volumes we have in China gives us a very favorable situation there. So, I think we are in a very good spot. But clearly that -- over time -- counting and is reflected in your cost. That's just how it is because we also need to make sure our suppliers are healthy.

Andre Kukhnin: Got it. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Okay. We'll take our next question from Rizk Maidi from Berenberg.

Rizk Maidi: Yes. Hi. Thank you for taking my questions. Can -- just one on the order - the margins on the orders received which has declined slightly over year. Can you perhaps tell us how are the margins there versus last quarter and also compared to the margin in the DNL currently please?

Henrik Ehrnrooth: So, our margin in orders received has declined slightly every year and clearly China's the biggest impact here. So, we are below where we were a year ago. Now, as we said during the second quarter we were able to stabilize some of the orders year over year. We are down, and that means that still -- just given the lag -- was the delivering is higher than what we are picking us orders.

Rizk Maidi: Okay. But you're not able to -- kind of -- compared it to the margin in previous quarter or just to see where is the margin there versus what the key to margin is now?

Henrik Ehrnrooth: As I said -- you know -- now sequentially, we started to see things started to stabilize.

Rizk Maidi: Okay. Thank you. And just some wondering about what you think are the reason for the mix improving in China clearly sequentially. Because initially, you talked about land prices increasing, so I really think the developers tended to go for more standard products. So, why do you think we see now a kind of mix an improving and how sustainable this improvement is in your view?

Henrik Ehrnrooth: Well -- let's see -- you know-- partly there is some market factors but they usually don't move that quickly. It's also, the actions we have taken and the type of situations that where we can see that we can add the most value and how we work with our customers. It's -- of course -- something you also impact with how you target where you're growing.

So, there are multiple things behind it and I think we start to see and we're are seeing in China -- in particular -- that buildings are constantly becoming higher and that's a natural result of the land prices are increasing very significantly. So, just need to constantly have a more efficient use of land and that of course means that you higher elevators with the more floors usually then higher speed and maybe higher capacity on all this helps also then to mix.

Rizk Maidi: All right. Thank you. And then the last one for me is the retail segment in North America which is weakening. Can you just give us a sense for how big this segment is and what are the are the rates of decline we're seeing there? Just to explain -- basically -- what's going on there please.

Henrik Ehrnrooth: There's a big segment in the US would be first for commercial and some residential. That is one of the biggest segments, but we can clearly see that that segment is very -- I would say -- midsize segment overall. It's not huge, but we would see a quite significant impact there from the shakeout in the retail industry for the reasons we all know.

Rizk Maidi: Okay. Thank you.

Henrik Ehrnrooth: Thank you.

Operator: Okay. We'll take our next question from Lars Brorson from Barclays.

Lars Brorson: Yes. Hi, Henrik. I have a few, if I could. First of all, I thought you might of upgraded your China market as of today -- which obviously, you didn't -- and we now know that you expect -- I guess -- second half to look pretty much like the first half - so flat to slightly down. Just on the Chinese equipment market, I'm keen to try to understand how you read the construction indicators in the market.

Some of which -- of course -- you have on your page ten -- I think it is -- in the presentation. I mean, it looks like -- you know -- units from the market decreased somewhat this from the leading indicators presumable as we've had quite a meaningful housing inventory reduction tier three to five citizen. Presumably -- also -- because the sectors been hit disproportionately from the cooling measures in lower tiered cities -- particularly tier two -- which is quite important for the sector.

I guess my question is how do you see the setup now into 2018? I know you're not going to guide me on 18 but do you think we're going to see more recovery of the mark to these indicators? Do you feel they're better going into next year than what we've seen this year? Can you give more color around that? That would be helpful.

Henrik Ehrnrooth: I'd rather than giving an outlook for 2018, but let me just address it from the perspective of what also said when they reviewed the statistic that you just talked about because when you look at the market from an inventive, unsold, department perspective. The market has gone clearly in a more healthy and positive direction. So, that supports the fundamental part the at will determine how much is being built in the future and there is currently much of the money has been to absorb some of these extra capacity. But, we're going in a better direction there and -- therefore -- if markets continue to develop as they are, you would then probably expect to see more of a recoupling as you explained it.

Lars Brorson: And any granularity around the different city tiers? Am I right in me saying that we're seeing a disproportionate impact from the cooling measures because tier two in particular -- which I'm guessing is about half of your market -- or at least half of your exposure in China is impact in the business and the market quiet materially this year.

Henrik Ehrnrooth: That is clearly an impact that these cooling measures are for the bigger cities. As I mentioned, the cooling measure impacts about 62% that represents more than half of the market. So yes, that's where the strong markets have been and that where we've now seeing actually transaction volumes for apartments -- and so forth -- going down from the high level because of the cooling measures. And that's why we have the outlook for the whole year from zero to minus five if -- you know -- now it being about zero, minus five mean that then this cooling measures to start impacting us more broadly.

Lars Brorson: Separately, can I ask you what is the level of growth -- currently -- revenue growth in your Chinese maintenance business?

Henrik Ehrnrooth: It's double digit level. So, we have to see - we have to look at the business from two perspectives. The growth in our service base in China continues to be very strong. Revenue in service business in China represents - is comprised of two - or actually three different things. It's a contractual revenue, it's your first service revenue, and then repairs.

The third service revenue that comes included when you buy the new equipment that is -- of course -- then directly linked to your new equipment volumes have been delivered in the past years. So, given a decline now in new equipment delivery, that revenue has been more flat whereas then the contractual revenue continues to grow at the very good rate.

Lars Brorson: Does that take us down to low double digits? Would that be fair?

Henrik Ehrnrooth: Yes. That's fair.

Lars Brorson: Thank you. Separately, if I can just ask on your OR margins. Sorry, I just want to be clear. Obviously, China is the culprit as we have now seen as we have now seen for the last four quarters. Lead times in China are probably around six months or so, that's what we talk about in the past. Am I right in saying that lower OR margins this quarter is predominantly -- if not exclusively -- an impact on 2017 earnings rather and 18 earnings?

Henrik Ehrnrooth: Well, if you look at late time in China that fastest turn around can be six months then they are 9 to 12 months so I wouldn't made that fast of a conclusion but -- yes -- let's see where we are at the end of the year.

Lars Brorson: A final one. I mean in India a lower APEC in your equipment market outlook, am I right in saying that is more backward looking then forward looking on the basis material decline in India in the first half or what do you see in India for lower for longer? I mean, I appreciate your view earlier that you see a big opportunity longer term in India. I'm just curious what you think you might see in the second half of this year.

Henrik Ehrnrooth: Well, clearly, we see the start of the second half of this year at the lower level than we had expected or we expected from a recovery. So, probably from a four-year market is still -- you know -- what we had expected in the beginning. But, we expect now market to start recovering from these three separate, big reforms of what we have seen.

(Crosstalk)

Henrik Ehrnrooth: Longer term, it's clear that India continues to be a very positive market -- good -- but -- you know -- shorter months certainty but still -- for example -- the goods and services tax we see that that is really helping improving a lot doing business in India and we think that's a very good thing.

Lars Brorson: Indeed. Thank you.

Operator: And we'll take our next question from Erik Karlsson from Bodenholm Capital.

Erik Karlsson: First on the maintenance business. It slowed a little bit in terms of growth after a couple of exceptionally strong quarters. Both Q4 last year and Q1 of this year were around 7% local currency growth. The pay dropped a bit now to around 5% and I appreciate that one quarter is way too short period to evaluate this but if you could please share your thoughts of what you think are is reasonable expectation for the next couple of year for the maintenance business. Is it more 5% growth or more the seven percent?

Henrik Ehrnrooth: As you remember what we have been talking about -- rather than say what we think it's going to be in the coming years -- we continue to see many growth opportunities in maintenance and I would say that -- you know -- we have some quarters that are above and some that have been around six percent. That where we are now in the first half. So, just a much stronger first quarter, maybe weaker now second quarter.

So, I wouldn't read too much into that. I think that the way we have to looked at it ourselves so far -- and this is more for the backward looking it -- If we're growing it at six percent, we think that that is a good growth for maintenance business. 7% already is really good and 5% is okay but it can be better. So, that's kind of how we calibrate if for ourselves right now. And I appreciate the call for a 1% difference but -- you know -- when you compound it this is like this over the long term, 1% has an impact.

Erik Karlsson: Absolutely. And that's super helpful. Thank you very much. I also had a follow up question on the orders received margin that you discussed before. And given that we're now next quarter with annualized the comment period that you made around the slight decrease. Logic tells us that the count now gets easier starting next quarter. And the offset to that -- of course --would be the margins on order received had decreased sequentially anywhere in the world materially. And if it happened, we should see an improvement on a year on year basis starting next quarter. So --my question is really -- have you seen a sequential drop in margin anywhere in the world that we should be mindful of in terms of how we think about Q3 now?

Henrik Ehrnrooth: I think the biggest impact I've seen China and that we talked about we haven't seen those - that big impact from other markets. But, you have to remember that markets were still dropping both Q3 and Q4 last year. They were kind of - we said Q1 we said within the quarter we started to stabilization. Now what we've said is that quarter on quarter we were more stable. So -- of course -- you then have the mix impact, but let's see where we are but I still think we have comps that are higher for next year quarters. These are developments for both Q3 and Q4 last year.

Erik Karlsson: And do you think -- can I just follow up on that -- do you think that we don't know about financing for China for the second half of the year but if we were to make the assumption the pricing is stable. Would that be enough for you to generate more stable margin on orders received as well given the productivity and so on?

Henrik Ehrnrooth: What we have to we have to see how all of this develops and I think - I'm not going to start speculating on where our margins are going to be on orders for the rest of the year. Clearly, we have productivity that is positive thing then constantly -- for example -- raw material and material of course continues to be a headwind.

We have been rolling quite successfully forward with very good sourcing prices so our impact comes with price delay. We have to see where all this mix. It's always a mix of many things. But clearly, see where we are first half of the year even though we have sequentially improved, at the lower levels are today than we were a year ago. But then we can start stabilizing the second half, we'll have to see.

Erik Karlsson: Very good. Thank you so much.

Henrik Ehrnrooth: Thank you.

Operator: And we'll take our next question from Ross Broadway from UBS.

Ross Broadway: Hi Henrik. Thanks. I work with (Giyo) and (Penyo) here at UBS and I'm a specialist in sales so the question on his behalf. Your outlook statement uses January to June effects. Clearly, the Euro moves materially since the average level that you've used for your guidance. At current spot, what would your guidance be or how does that impact our outlook for the year.

Henrik Ehrnrooth: I'm going to hand it over.

Ilkka Hara: Thanks. So, if you look at what would happen if the currency continues at the current rate, that would be a further negative 20 million impact to our results.

Ross Broadway: And that would be on what line? Thank you.

Ilkka Hara: Yes. Thank you.

Operator: Okay. We'll take our next question from Peter Testa with One Investments.

Peter Testa: Hi. Good afternoon. Two questions from my side. On the first one, on the Chinese orders, what has been the sequential raw material impact Q2 verses the Q1. Has it been the same impact or a little higher or a noticeably higher impact? And the second one would be on the US -- if you can -- I cannot understand explain what has been North American modernization performance in Q2 please.

Henrik Ehrnrooth: Do you want to, Ilkka, talk about raw material impact Q1 versus Q2?

Ilkka Hara: Yes, I can take that. So, I what I said earlier and -- but to be very clear here -- we are seeing increasing impact of raw material from these group. And as we've said earlier, the range that we're seeing the impact is going on about the middle two hundred million for the full year and clearly more than half of that is impacting second half of this year. So -- with that -- we are seeing Q1 to Q2 to having a bigger impact and more to come on that one during Q3 and Q4. But, that's all included now in our guidance that we gave.

Henrik Ehrnrooth: And then you asked about North America modernization. Actually, if you look at orders received in modernization in North America they were clearly stronger in Q2 then in Q1. If I look at all of North America sales -- you know -- we have very strong sales work in Q1, now we're seasonally somewhat lower, but I would say that spatial business has continued to develop quite nicely.

Operator: And we'll take our next question from Lucy Carrier from Morgan Stanley.

Lucy Carrier: Hi afternoon gentlemen. Hi Sanna. Thanks for taking my question. Just a couple of follow ups. The first on is on China. You've spoken quite a lot of the initiative you have taken to also stabilize pricing and I was wondering if you could give a bit more color on those initiatives and how they have impact the dynamics around your market share in China. So, that is the first question.

Henrik Ehrnrooth: If you look at market share in China -- for our first half of the year -- it's pretty stable - continue to be the clear market leader there. If I look at the action -- a multitude of action, we are taking -- to making sure we're better proficient in the growing segment and the growing market in China. How we find the opportunity how manage our sales and prices. There are a multitude of things that we are doing to ensure that we are competitive where the markets are the strongest and how we then manage to sales and pricing and those things that we're doing and that kind of the work that we do around the world and what we do with extra focus now in China with the past -- well --, several months.

Lacy Carrier: Okay. And just the second question is also follow up on increased R and D and IT investments. I appreciate this is to double up your digital offering as well but, are you able to maybe kind of you know some -- you know -- some sort of guide in terms of those expenses going forward. Either a percentage of sales or a percentage of costs because it seems to have had quite a large impact on this quarter good calibrate -- you know -- potentially how much more is going to be going forward compared to history?

Ilkka Hara: What we said on that or the capital market last year is going to impact this year is going to be is going to be impact this year that estimate 40 basis points now there's around 50. That's about the impact we've seen this year. Then we have to see what the investments we continue with next year but clearly -- like I said -- now a onetime effect. It won't go away, it's just a broader scope and with the in speed in the market how we have been able to gain speed also and how we've been able to keep things in the market and how it's been impacted here. So, we'll have to see but it's clearly - we've been at a higher level than we were in the history and that's still going to continue.

Lacy Carrier: And then just to follow maybe to follow up on the effort. I mean, from your standpoint when you kind of launched this project -- you know -- on the digital angle or on the IT side, how long does it take for you to kind of come into the cost? You know, see it the benefits -- you know -- in terms of top line but also in terms of margin. I'm just trying to get a sense in how this increased investment or how this focused in R and D and IT? What time is required to pay off pretty much?

Ilkka Hara: I would say that by and large you have to remember we're spending less than 2% of sales in R&D, I think last year was 1.5 1.6% but now a little bit higher. We're not talking about massive amounts. Actually, the paybacks are usually quite fast. We're not talking about many, many years, we're talking about a few years and in many cases less. It's really hard to give specific numbers. It's also very large variety of different projects we have ongoing. Some of them are really specific and have maybe a high factor payback but at the same time some are really broad where it takes more time to deploy. It really varies a lot.

Henrik Ehrnrooth: Yes

Lacy Carrier: Thank you.

Henrik Ehrnrooth: Thank you.

Operator: Okay. We'll take our next question from Martin Flueckiger from Kepler Cheuvreux.

Martin Flueckiger: Good afternoon, Henrik. I'm Martin Flueckiger from Kepler Cheuvreux. Just two questions left from my side. The line wasn't always very good so I'd just like to start off with a clarification question. With regards to the market and new equipment in higher tiered cities in China, which declined to apparently due to government housing restrictions. Was just wondering what your outlook was, I think you mentioned it but I couldn't understand it properly for the second half, do you see a worsening or a stabilization?

Henrik Ehrnrooth: So, we expect that that's where the restriction started and you know -- of course -- you don't know what government policies will be and what they do with these restrictions, but we expect a cool down in the market and these continue stronger in the lower tier cities.

Martin Flueckiger: Okay thanks. And then secondly, just going back to code of care and 24/7 connected services programs. Could you elaborate a little bit what you've done in the second quarter and what those responses were?

Henrik Ehrnrooth: Well, what we have continued to do is we have continued to roll out these services to support the customers across the country and response has continued to be good so each market we bring it to, we have been able to verify the same benefit we have been able to verify with the early ones. So, customers are satisfied. They see something that is a more relevant service for them resulting in better closing on deal on the spot and also an average better pricing.

Martin Flueckiger: Okay. Thanks so much.

Henrik Ehrnrooth: Thank you.

Operator: Okay. We're going to take our next question from Matthew Spurr from Royal Bank of Canada.

Matthew Spurr: Hi, good afternoon. I had one come back to China on your pricing comment. You said pricing is stable in China quarter on quarter and it's been like that for about two quarters now. If that continues, eventually we're going to be implying flat year on year which -- I imagine -- isn't the case. I guess it's sort of semantics. But what do you mean by stable quarter on quarter?

Henrik Ehrnrooth: If you look at where we are compared to this time last year we're at the lower level but in Q2 average pricing was about the same level as Q1. In Q1, we said within the quarter the average price for Q1 was lower for than the one for Q4 but within Q1 it stabilized and becoming very granular now. And it's actually somewhat typical to have this granular review but that's kind of our best judgement. Q2 then we were stable to compared to the average level that we saw in Q1.

Matthew Spurr: Right but I think you've said in the comments that you were one of the one that you've said in the past there's always said in the past that there's always price pressure market, i.e. sort of three to 5% decline each year even in good years and kind of moves around depending on raw materials so on flat year on year - flat quarters is quite good then, in that context.

Henrik Ehrnrooth: I think we've done a pretty good in this respect. Yes -- over the years -- prices have declined each year but you have to remember when raw material environment was more favorable and volume increase was very significant. Then, it goes to different environment then volumes are declining and prices are decline at the same time. So, you have to remember that it's quite a different environment than what it was several years ago.

Matthew Spurr: Right, and then can I ask one sort of clarification model type question. For outside of China, the 65% of order intake by value, is price mixed out sort of China is that neutral, is that slightly negative?

Ilkka Hara: I would say that for our grand scheme of things it's pretty neutral. When it comes to the development there. It's really mainly been China who's been impacted, in that respect.

Matthew Spurr: Alright. Okay, thanks.

Operator: And we'll take our next question from Tomi Railo with SEB.

Tomi Railo: Yes, good afternoon. Also, on China -- on my behalf -- how much is made of revenues out of your total in China's sales, currently?

Henrik Ehrnrooth: It's over ten percent, it has been.

Tomi Railo: Not - again, a little bit on that level but it has obviously increased but it's not -- sort of -- moving towards fifteen?

Henrik Ehrnrooth: No, not yet. No, not yet.

Tomi Railo: Okay.

Henrik Ehrnrooth: It would have had to grow very, very significantly.

Tomi Railo: Okay. Do you have any comment on -- sort of -- book to build ratio in China or is that sort of order and revenues to talking to each other?

Henrik Ehrnrooth: ((Inaudible)) to build ratio in China. The thing is that on a quarter to quarter basis there is always different seasonal effects when there is big order quarter versus when there's big delivery quarters but clearly China's number has come down with the build has not been as strong as in the past.

Ilkka Hara: Yes, that is what I was saying and when you look at crawl stations, slight increase there but nothing major when it comes to that.

Tomi Railo: And then just to clarification, I think you said that North American orders were up double digit. Was that sort of on the report basis or on a constant currencies?

Henrik Ehrnrooth: I said United States and that's a constant.

Tomi Railo: Okay. And North American orders?

Ilkka Hara: Yes, sorry, at comparable currencies.

Tomi Railo: And in overall North American orders?

Ilkka Hara: We said clear growth there, so not double digits.

Tomi Railo: Okay, so it was really U.S that was double digits?

Henrik Ehrnrooth: That was a strong one this time around, yes.

Tomi Railo: Thank you.

Henrik Ehrnrooth: Thank you.

Operator: And we'll take our next question from Daniel Gleim from Main First.

Daniel Gleim: Yes, hello. Thank you very much for taking my questions. I would start two on the server service side. First of all, your modernization organic growth rate has come down quite substantially in the second quarter. I'm wonder if this is a normalization given your high comparison base or whether this is one of the effect?

Henrik Ehrnrooth: Very clearly, we have grown our modernization business very significantly over the past few years. Simply, we have higher comparison points now, partly seasonally partly also growth hasn't been that strong in the prior quarters. So, it's a reflection that we continue to see good opportunity, good growth in North America for example now in the quarter. So, always partly seasonally, partly a quarter reflection of the growth in orders received in the last couple of quarters and then -- of course -- the fact that we start to have a quite a high base to compare to.

Daniel Gleim: From what I understand is a step up in a call for was driven by a new selling approach you implemented in modernization. There are a couple of initiatives that are ongoing on the maintenance side you commented that the long-term goal you see is roughly in the same ballpark and that remains to be seen where it will land but is there anything in the pipeline that would cause similar step change into growth rate temporality on the maintenance side like we've seen on the modernization side or would you expect initiatives that you have undergoing rather to fade in softly. How should we think about it in the very near future?

Henrik Ehrnrooth: When you talk about our sales management approach and how we find opportunities for modernization, that is actually the same thing we've done on the maintenance side, so that has contributed to the, I would say, what is driving our growth now in our maintenance business clearly is good conversions around the world and actually China growing slightly in a better direction as well. And then these new services over time - we believe -- will have a positive impact on our growth rate.  But it is clear that we are still in our early days even still today but when you talk about the sales approach for the modernization the same thing was done in maintenance over the past years.

Daniel Gleim:  So, this is already baked in so we wouldn't have to expect that there is a step change in the very near future.  Maybe on the China side, also two questions from my end.  First one, you mentioned you're still looking for M and A opportunities globally.  Is also maintenance on the cards on China or is that something you would exclude for the near future.

Henrik Ehrnrooth:  That has not been on the radar screen for us at the moment.  I would say with the organic growth we have conversion --so forth -- that it will be remain very focused on how we develop a really leading, competent in the service market and have a really capable employees where we have a lot of effort and actually done quite well.  Those are the main focuses and bring our new services also to our Chinese customers.

Daniel Gleim:  And I know you've already comment on the market overall but is your impression that the consolidation are also accelerate on the services side outside corner?

Henrik Ehrnrooth:  Let's see.  We know that we have a lot of small independent players in both Europe and in Asia still and let's see if we see - we've seen a constant slight but that hasn't had a big impact on the consolidation on the market.

Daniel Gleim:  Okay, maybe finally one housekeeping question.  When you talk about the cooling measures in China, do you primarily refer to the private residential area or is this also going to spill over to the other segments because you said that it was going to affect half of the market.  Do you mean only the private residential or is this going to reach beyond that part of the market?

Henrik Ehrnrooth: Well the cooling measure in place relate to mortgages, primarily to mortgages and how many apartments you can own on a private basis so it's mainly we talk about the private residential market which is the largest segment in China.

Daniel Gleim: All right. Very clear. Thank you very much.

Henrik Ehrnrooth: Thank you.

Sanna Kaje: We have time for maybe two more questions.

Operator: Okay. We'll take our next question from Glen Liddy from JP Morgan.

Glen Liddy: Hi. Couple of things. Firstly, in North America, in previous quarters you flagged that price competition was intense in the aftermarket. Is that changing at all?

Henrik Ehrnrooth: That continues. We've talked about -- you know -- as market the more conversions. Yes, it continues to be tough but no big change there, I would say.

Glen Liddy: It's very different to Europe. I mean, Europe - Southern Europe we can understand, maybe great in new installations but you've got pretty lively growth in the American market, so what's undermining prices in North America?

Henrik Ehrnrooth: I would say probably slightly better direction. But also, North America has a lot of independent players there and there's a market that people are fighting for and want to play so perhaps we have a slightly better direction but then we have again some segments that are really tough. So, yes perhaps slightly better but not a material difference.

Glen Liddy: On your new care contracts, if I'm a builder or operator and today I have a choice between a three-year care contract or a traditional contract, which will I pay more for in absolute money terms over three years?

Henrik Ehrnrooth: Well, the good thing with the connect care is you can buy exactly what you need. And some cases you want to buy extra services. Totally flexible for you and it actually depends. Some cases you'd pay a little bit less some you would pay more. But, it's the scope is totally flexible to the needs that you have. And actually, I can't say it goes in both directions.

Glen Liddy: I can see. And finally, you mentioned when you talked about pricing, how much volume growth do you need to keep your market stable assuming you've got no price pressure, what level of volume growth do you need to offset the underlining increases in your operating costs for things like wage and other things?

Henrik Ehrnrooth: I think - you have constant productivity but when you look at other investments you are doing you need of course, growth is the easiest way to create space for further investments but clearly, we need to make sure you can make productivity to offset that and then if you then grow then it then helps you to develop your margins.

Glen Liddy: Thank you. Thanks very much.

Henrik Ehrnrooth: Thank you.

Operator: And we'll take our final question from Tom Skogman from Carnegie.

Tom Skogman: Yes, hello, this is Tom. I was wondering if you could give a comment on the incorporated China equipment and the modern compared to the group average that you have in your group for this year. Just do you expect better than the group average for this year?

Henrik Ehrnrooth: Right. Our margins are better than group average and we expect that to continue.

Tom Skogman: Right. That's what you said earlier. And then on the cash conversion, it's clear that your cash conversion is weak and then in Q1 and you clearly had higher cash flow than if it was most years and most quarters historically. Is there anything we should be worried about with just you had exceptionally strong cash flow in Q1?

Henrik Ehrnrooth: We look at the cash flow not in quarters. I think you have to look at it in context of a bit longer term. Even if you look at the first half, we aren't clearly having a positive cash flow generation there and there's always some cash flow fluctuation quarter by quarter. Also, in this quarter, currency is actually play a negative role in cash flow so actually that's the main driver there on the change, so, nothing dramatic there.

Tom Skogman: And then on the acquisitions, is there any reasons you have closed record efficient this years than in other years and even if all seems very unlikely that you close the big acquisition with an elevator have you started to open the box and look in? I'm just in differences like access controls or anything else. Are you more and more interested in going out with elevators if you cannot close the big elevator acquisition?

Henrik Ehrnrooth: I would say that the fact that we've had less acquisitions now both the second half of last year, first half of this year, it's just been less available. We have continued to be active and there are number in these things and they come and go. So, nothing -- I would say -- noteworthy there. Clearly, we are interested in finding more and we hope that we will be able to find more. What we have said is ask more about people flow. We are in a good business with good position here. That is a wonderful strength and if we look at adjacent it has to be very much linked to the business with our current people pro-business that we have. That's what I can say. But, I think we are looking at this in a very disciplined manner.

Tom Slogan: Okay, thank you.

Henrik Ehrnrooth: Thank you.

Sanna Kaje: Thank you Henrik. Before closing, I would like to remind everyone that we have our capital markets day coming up on September 29th in London and you will get a bit more color on our progress then for the next time. Thank you for your active participation, I would like to wish you a nice rest of the week.

Henrik Ehrnrooth: Thank you.

Ilkka Hara: Thank you.