KONE Q1 2016: INTERIM REPORT FOR JANUARY-MARCH 2016

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Katri Saarenheimo: Good afternoon and welcome to KONE's Q1 Results Webcast. Here in Espoo, Finland we have today our CEO Henrik Ehrnrooth and CFO Eriikka Söderström. I am Katri Saarenheimo from the investor relations. As usual, we will start with a brief introduction to our quarterly figures and the trends in the markets that we saw during Q1. After this we will have plenty of time for Q&A and discussion. Henrik, please.

Henrik Ehrnrooth: Thank you Katri, and also welcome on my behalf. It's my pleasure to share with you the good operating performance we had again in the first quarter and also share with you some exciting news of how our market share developed last year, something we tend to do in connection with our first quarter results. And as usual, what I'll start with is going through our key figures. Then we'll go a little deeper into orders received, sales and EBIT. I will talk about how we're developing KONE, how markets are developing, information on market share and then finally our outlook.

Let's go straight into how our year started. We had strong operating performance in the first quarter, although orders received declined slightly but we're at a good level of €1.9 billion. So orders received declined at 5.4% or 4.3% in comparable currencies. Our order book remains strong. It's at more than €8.5 billion, in fact exactly the same level it was last year but in comparable currencies it has grown by 7.6% from last year. Our sales has continued to grow. It is now €1.7 billion growth or 3.4% or 4.2% in comparable currencies. The most important point with our sales growth was it continued to be profitable, and, as we can see, some of the factors are EBIT continued to grow. It was €221 million and that EBIT margin improved from 12.5 to 12.7%.

Our cash flow was strong at about €306 million, and that shows that also in a more changing environment that we have had, in many places a challenging and competitive environment, we have maintained good and healthy business practices and therefore maintained a very good cash conversion in our business. Also our earnings per share grew very well from €0.29 to €0.37. The strong growth came natural from an improvement in EBIT, but also in our financial items we now had a positive impact from re-evaluations and what translated to acquisitions, whereas that same line had a negative impact last year, so it delivered impact from this one as well. And I would like to say that a good performance such as this in a challenging environment is not possible without a motivated, dedicated team with clear direction how to develop the business, so again a very big thanks to all of KONE's employees for their very good job done during the first quarter of the year.

So that's the key figures. Let's dive a little bit deeper into orders received to start with. So orders received; a decline of 5.4% or 4.3% in comparable currencies. They declined due to decline in China. The market in China declined at about 8%. Our orders received declined in units a little bit over 10%, in monetary value a bit more than that. However, what was good is that we were able to compensate quite a lot of this with new development again in both North America as well as in Europe, Middle East and Africa and a few other markets. Europe, Middle East and Africa, we had a broad-based good development, strong growth in the Middle East and continued good development in central and north Europe, and this was very broad-based, this good development. Also in North America we continued to grow, and we grew from a high and strong level, so that was positive. Also if we look at Asia Pacific outside of China, a good development, in particular in important India market where we had good growth. If you look at our various businesses, the best performance was in our major projects business as well as in modernisation, and then we had a decline in our volume in your equipment business.

In the competitive environment that we are living in, of course pricing is very important. In this environment, we have been very focused on pricing and finding good opportunities and we can see from our competitiveness that it's good, and therefore we have been able to maintain healthy margins at a relatively stable level, even at this environment. So again, good performance shows that our competitiveness is strong and we have good positions going forward from here.

Wandering next to sales, we continue to grow 3.4% or 4.2% in comparable currencies. We first will look at it geographically. The strongest growth was in North America at 11.3%, and we also grew somewhat in Europe and Middle East, sorry, in Asia Pacific, whereas Europe, Middle East and Africa were more stable. In this quarter, we now have the fastest growth in our services business driven by very strong growth in modernisation. Our maintenance business also continued its healthy growth, although it was slightly lower than we had last year. We had continuous very strong growth in Asia Pacific showing double digits, in China over 25%. The slightly lower growth was due to a slightly slower start in Europe, but we have to remember that the end of last year was very strong and that perhaps slightly impacted the beginning of this year. The equipment business was now more stable, but again here we have to remember that follows a very strong growth in quarter four. So overall I would say good progress in sales as well.

Then we go to operating income. Our profitable growth continued. EBIT was 221 million, and we improved our margins from 12.5 to 12.7%. And here perhaps the most important factor was that improvement was very broad-based across geographies and across businesses. The best improvement was in North America and in Asia Pacific. We have continued to increase our investments in areas that support our competitiveness in the future, such as R&D, IT process development and also by expanding our footprint in some of the key growth markets around the world. Last year, if you remember, we had a good tailwind from currencies. Now we have a slight headwind from currencies this year, so there was a slightly negative impact from that overall on our EBIT. The most important point here is that profitable growth continued.

If you then turn to our business mix, here what we have seen for many years is the share of new equipment is increasing. However, now, of course with a strong growth in modernisation, the share of modernisation increased and was now 13%. Maintenance was stable, and then share of new equipment slightly lower than last year. Geographically, also we saw the trend during the second half of last year, the share of North America growing, and as we can see was now 18%, and that is good, gives a little bit more balanced overall sales from various geographic areas.

This was key financial developments for the first quarter. Then we turn next to how we developed our business and how markets overall developed, and let's start with some highlights from our development programs. As you know, we started our current development programs in 2014. We had three years these development programs, so we are in the final year, very much pushing the accelerator to have a strong finish. We have achieved a lot in these development programs, but there's still a lot to be done.

A couple of highlights; our winning team, our crew of professionals development program continues to have high activity and strong focus. Our objective is that our people is a key differentiator for KONE when our customers look at us. We have continued to improve people's opportunities for development through job rotation, and also we have over the past years now and rolled out more broadly mobile training tools to be able to bring better training to our people, and in particular people who work out in the field. More than half of our employees are out in the field every day, and again what we have done is again supporting every KONE employee to perform at their best. I have talked about many other areas. We have the connection to help every KONE employee to perform at their best, and it's again a feature in how we're bringing better training solutions for them.

In our preferred maintenance partner, here an important milestone was the agreement that we signed with IBM to start the cooperation with them and using their Watson IoT cloud platform. With this we will collect data from our equipment to be able to improve the quality, reliability of our equipment, improve the performance for our customers, but also in providing new services and new ways of working with our customers. This has started very well and it will truly transform how we do service and what happens in our industry over the coming years. It's an important and good milestone in development for us. This last year, we have high activity in all these programs and then we are looking forward already to the next phase.

Let me then turn to what's happening in our markets, and let's start with the new equipment market and what's happening in the first quarter. Let's start with Asia Pacific. That's an actually very important new equipment and here the markets weakened following the market decline in China. I mentioned already the market in China declined; I'll revert in a while and go through that a little bit more indeed then. Our markets in India and Australia continue to grow. Other markets though in the region remain more varied. In China in particular, price competition continued to be tough.

In Europe, Middle East and Africa, good growth in central and north Europe that we saw also during the second half of last year and that has continued, and also south Europe, we're starting to see the markets are now stabilising. They're no longer declining as they have been but more stabilising. In the Middle East there are still good opportunities in that market. North America, the markets, they grew slightly driven by United States, but let's remember that particular US markets are at a strong and high level and they grew a bit further from there. You can see the good momentum in that market continued. And also because of the strong markets, pricing has improved somewhat in the US markets.

So let me pause a little bit now and look more into China. As I mentioned already that the markets in China declined, measured in units by about 8% in the first quarter, and this was very much in line with our expectations. The markets remained challenging and the competition for market share is high. Then it's important to remember that China is not one homogeneous market. We have very divided markets with a strong situation in tier one and many tier two cities, whereas the situation in many tier three and four and lower tier cities is very challenging.

So the overall market situation remains challenging in China. However, if we look at the property markets, we can also see some positive news. Real estate investments have increased by more than 6% in the first quarter. New construction starts after a clear decline last year now starts to grow. It's grown 90% in the first quarter, and property transactions have increased by 33% in the first quarter. So the increase in transactions has reduced inventories in all tiers of cities, but inventor situation in tier one and many tier two cities is a healthy good level, although in tier three, four and lower tier cities, inventory levels continue to be high.

So then we said that KONE, our orders received declined by a bit over 10%, so we declined more than the market. Why is this after a very long and consistent out-performance of the market? Well, first of all, as the largest player in the market, we clearly took the approach at the beginning of this year that the priority for us was to maintain a commercially healthy business.

We are by far the market leader and we felt that this made a lot of sense in the first quarter. I would say the first quarter went very much in line with how we had expected. When we look at the situation going forward, the priorities for us are to have a very deep understanding of the market so that we can find good opportunities and we can continue to find good pricing.

If you look at our ambition, that hasn't changed at all. Our ambition continues to be to grow faster in markets and to grow profitably. Those are important parts of ambition, and I must say that I have no doubt that this would be possible. We can definitely do it because we have a strong competitiveness, we have a strong brand, we have a very strong distribution and we have a good team in China. So overall we have a good situation in a market that is at the moment quite challenging. So that's about the new equipment markets and China a little bit more in detail.

Let me then turn to the service markets, and if we start with maintenance, here the trends in the maintenance markets have remained pretty much the same in both Europe, Middle East and Africa, and in North America markets are growing, although clear variation from market to market and price competition continues to be intense. In Asia Pacific markets continue to grow at a good rate following the strong new equipment markets over the past year there, and the good thing is that we are really capitalising on this good growth in the markets in Asia Pacific.

In modernisation, as we already indicated in connection with our first quarter results, we are starting to see a bit better market development from a global perspective. The business continued, and there we particularly see central and north Europe where the markets are improving, particularly driven by markets such as UK, Germany and a few other markets. And also if you look at south Europe, we see more stabilisation now following a decline over the past years. In North America, modernisation markets grew slightly from a high level and continue to grow in Asia Pacific. So overall, modernisation going in a slightly better direction.

As I promised in the beginning, I'm happy to share some exciting good news about our market share in 2015 overall. So if you look at the global new equipment markets in 2015, the total market was about 840,000 units compared to about 850,000 units in 2014. For the ones of you who are reading carefully now, remember that last year we said that the global new equipment market was 815,000 units, and now it's at 850. So we have slightly reassessed the markets based on a better understanding of a number of markets including Iran that we, a little bit bigger than we expected a year ago.

But the most important one is the development of the market, so if we look at, our development of the markets declined by about 1% whereas we improved, we grew at about 5%. So we continue to take market share by over 1%-ish point. So our market share increased from about 18% based on reassessed figure to a little bit over 19%, and the most important thing here is that our market share grew on a very broad basis. We grew our market share strongly in China. We grew our market share by about 2%-ish points in the US, and we also grew our market share clearly in Europe, Middle East and Africa as well as in Asia outside of China. So a very important feature of last year was that we were able to grow and increase our market share on a very broad basis, and I think this speaks a lot about the competitiveness we have in the market.

If we look at the equipment base in the world, there's about, end of last year there are about 13.5 million units in service overall, growth coming of course mainly from Asia, but continuing good growth in the total service base in the world. We can see that Europe, Middle East and Africa continue to be the largest market in the world with 43% of all installed equipment, and China is now 28%. I think it's very exciting to look at this picture and see what growth opportunity we continue to have in our industry. If you think about where the majority of the world's urban population are and where they're growing, it's in Asia where the big development is happening and we have more people living in urban environments in Asia than in Europe, for example, and there more and more people of course live in buildings, higher buildings that need elevators. So we can see the penetration improvement that can still happen for long term in overall Asia Pacific and in China, and as we also see, we also have growing markets in rest of the world so we can continue to see a good continued growth opportunity in the services businesses in this industry.

If we look at our market positions which are strong, if you look at our market positions in the new equipment business, Europe, Middle East and Africa, we are a number two player. In North America, we have clearly strengthened our positions and now we have caught up with the competition and we're already at the shared number three place, so a very strong improvement over the past years. In China, we strengthened our market leader position and also we grew in the rest of Asia Pacific where we're also the market leader. So we can see new equipment, we have very strong positions. In maintenance, we continue to be a challenger company and because of that our mission is to continue to grow fast in the market and we can see that we are number three in Europe, Middle East and Africa, number four in North America. Although in Asia we have strong positions in both China and rest of Asia Pacific, what is most important from this picture is knowing we have very strong positions in new equipment in Asia Pacific overall, and that of course gives us great opportunity to continue to capsulize on the growth in the maintenance base in the years going forward. So again this picture shows our good positions we have when we look at the situation going forward.

Good news on market share, and let me then finally touch on our outlook which is unchanged, both, let's start with market outlook which is changed from what we said in connection with our full year results. Here we expect the new equipment market in Asia Pacific to decline, driven by a decline in China of five to ten percent, and we expect the price competition to continue in that market. The rest of Asia Pacific, we expect to see some growth, particularly in India, Australia. Europe, Middle East and Africa, market is expected to grow slightly due to a good growth in central and north Europe and we start to see more stable markets west and south Europe and quite stable also Middle East. In North America, we expect the markets to grow somewhat from a strong and high level. Maintenance markets, very much the same trends as we have seen before. Some growth although varied in both North America, Europe, Middle East and Africa and continued good development of the markets in Asia Pacific.

Any modernisation, we expect the markets to grow slightly in Europe, particularly in central/north Europe, more stable in south and continued growth in North America and Asia Pacific, so very much the same as we said the beginning of the year. And our business outlook is also unchanged. We expect our sales to grow between 2 and 6% in comparable currencies, and we expect our EBIT to be in the range of 1,220 million to 1,320 million. The only slight change here is that now we say that we assume here that translation exchange rates remain approximately at the average level of January to March. We previously said of course the average level of January. Euro has slightly strengthened since the beginning of the year which means that the currency headwinds are a bit more than we predicted at the beginning of the year, so maybe 30-ish million at this rate, but we're still maintaining our outlook intact.

So with that, we can see continued good operating performance, strong development in our market share last year and the good development we had in many parts of the world. We're able to in a very good way compensate for decline in China. Again, very good confidence in looking forward. Our competitiveness is strong, good brand, good distribution and a strong theme across the world.

So with that, happy to turn to questions.

Katri Saarenheimo: Thank you Henrik, and let's start with the questions from those present here in Espoo, Finland.

Question: The comment about not wanting to maximise growth in China in this, well, in the first quarter, and then that against your ambition still to grow faster than the market. Is it fair to assume that during this year you would have the same attitude as in Q1, that you wouldn't be looking to maximise growth in this market situation or before the market gets stronger? How should one see that?

Henrik Ehrnrooth: We don't make comments on the commercial approach we're going to take going forward. I think what I'm talking about is what continues to be our ambition level and then we have to see how we develop.

Question: Thank you.

Henrik Ehrnrooth: Thank you.

Katri Saarenheimo: Thank you. And let's then to the questions from those present on the line. Operator, please.

Operator: Thank you. We will now take our first question from Lars Brorson of Barclays. Please go ahead.

Lars Brorson: Hi, good morning and good afternoon Henrik and Katri. A couple of things, if I could, just on pricing Henrik. I mean, I take the point; you're being more disciplined on pricing. Obviously the loss of market share implies that others aren't. Can you talk a little bit about where in the market you're seeing pricing pressure, and also where we are on pricing? I think earlier we talked about down sort of mid-single digits year over year on an apples to apples basis. Have you seen that further deteriorating in Q1, and what's different here in your approach from what you did in 2015? Thanks.

Henrik Ehrnrooth: Well, first of all when we talk about market share let's remember, as we have always said, that we don't measure market share on a quarterly basis. That is too short of a period. Our development was very much in line with what we ourselves had expected the beginning of the year. Pricing trends overall, the trend overall has remained pretty similar to last year, so we're talking about probably, I mean, it's very rough and depends on segment and geography and so forth, but on average probably roughly 5%-ish on average.

Lars Brorson: Okay. Can you comment a little bit on the competitive situation? As I said, I mean, obviously I appreciate your point that, you know, the quarters will swing around but obviously Q1 breaks a trend of five years of out-performance in China, so it's important only from a fact of, you know, you're under-performing the market versus five years of out-performance. What are you seeing competitively, and particularly perhaps relative to your western competitors in terms of a pricing approach?

Henrik Ehrnrooth: We don't comment on specific competitors but it's clear that what we're saying is that the competition market share is high in the market, but I would again, let's remember, we're talking about one quarter. Overall orders received were at a good level of 1.9 billion. Last year we increased our market share strongly in China, so I think our development has been very, very good and we took this approach now in quarter one. I think it makes sense, the approach we took, as clearly the largest player in the market, but, yes, clearly what we are saying is that the price competition is tough in the market. We're strong competition for market share. A lot of players with high ambitions there and in a declining market, this is usually what happens.

Lars Brorson: Thanks. Just on, secondly, your sales guidance for the year, sorry, the 2 to 6% growth, can you just talk about whether that is predicated on an improvement in your order intake in Q2? Obviously China down, it must have been 15, 20% value in terms of Q1. That's a third of your 2016 sale, what it should be, and of course lead times here are shorter so it should impact to invoicing this year. Talk a little bit about what is embedded in your guidance for the year as far as your China development in Q2 is concerned.

Henrik Ehrnrooth: Again, as I said earlier, we don't guide our orders received. We are very committed to our sales guidance. We have a strong order book. We are growing our service business, and with that we have good confidence to get to our guidance this year and that's why we are maintaining it. I think that's all I can say on that. As you know, we don't guide or comment on how we expect our orders received to develop, but we have a strong and good order book. That's important.

Lars Brorson: I just wondered whether it was predicated on the chart in China in Q2, but I understand. Just finally from my side, in EMEA, new equipment, I was a bit surprised to see new equipment sales declining significantly. You've obviously grown orders in EMEA in the last couple of years, but presumably that's been more driven by modernisation. Can you talk a little bit about what the sales bid is in EMEA and what's driving that new equipment significant decline in the quarter please? Thanks.

Henrik Ehrnrooth: We have to remember that when we look at our new equipment overall that we had a very strong growth in Q4, so it's partly seasonable. We have a good order book in EMEA as well, so more seasonably lower sales now, both in EMEA and other parts of the world. So I don't think there was anything dramatic related to this.

Lars Brorson: Thanks.

Operator: Thank you. Our next question come from Andre Kukhnin of Credit Suisse. Please go ahead.

Andre Kukhnin: Yes, good afternoon. Thanks so much for taking my questions. I'll go one at a time please. Firstly on China, obviously, could you let us know, how did the KONE brand do versus Giant in Q1?

Henrik Ehrnrooth: Well, as you know, we have two brands because sometimes one brand is doing better than the other. The feature too of last year was that, you know, slightly better development for the KONE brand and GiantKONE. Now it's perhaps slightly reversed, but that's, you know, that's why we have two brands that they are going to develop in a different way in each time of the market. So that's not a big deal which one is developing better. We have two strong brands and that is how we approach the market in China.

Andre Kukhnin: Sure. That's what we sort of sensed, and given that the tier one, two cities are doing much better and my understanding was that you sort of skewed the other way, I'm just trying to understand, was that just to compensate for KONE having done particularly well in Q1 15?

Henrik Ehrnrooth: You always have comparison effects and others, so that was of course, yeah, we have to remember that Q1 last year for KONE overall and for the KONE brand was very, very strong.

Andre Kukhnin: Got it, thank you. And could you just help us to calibrate where you are right now across the whole portfolio in China in terms of the mix of tier one and two cities versus tier three, fours?

Henrik Ehrnrooth: The market is probably split about half and half but we would be a little bit more in the higher tier cities overall as we have been in the past as well.

Andre Kukhnin: Got it, thank you. And the second sort of area of question was just on cash side. Your orders declined and that normally kind of, I'd say, should lead to slightly less cash with prepayments, but the opposite seems to have happened on your working capital, so could you help us to understand the movement there a little bit better?

Henrik Ehrnrooth: Eriikka, you want to answer that?

Eriikka Söderström: Sure. So first of all, talking about our networking capital and it was negative, -€1.1 billion, so a very strong level and we saw a strong level of advanced payments and also a good collection of receivables, and I think what is important to note that we saw this improvement from all parts of the world, and from China I can say that we saw a good strong capital from there as well.

Andre Kukhnin: Right. And my sense is that what's been happening in China just of late is that there's acceleration in actual construction activity, trying to capture the higher property prices, and that is resulting in kind of faster or a step up in the stage payments and milestone payments to actually get the production going for elevators. Is that something that you've seen in Q1 in your operations?

Eriikka Söderström: So if I continue, so from the payment terms if would say that it's part of the pricing. Yes, the competition has been intense but we have only adjusted in some cases the payments terms for our important customers, nothing dramatic there.

Henrik Ehrnrooth: So I think Andre what you're saying is that we could see that we had good deliveries in China, so, yes, customers are taking deliveries and, you know, a healthy cash flow as Eriikka said it, because we have maintained good commercial discipline in our business.

Andre Kukhnin: Right, right. So do you think it's sort of the trend that can continue? Because we had that extension in the backlog to sales conversion for three years, I think, and now it looks like we may be accelerating the other way, i.e. the orders to sale should be shrinking. Is that something that you think is a sustainable trend?

Henrik Ehrnrooth: It depends a little bit which part of the world you look at. If you look outside of China, the share of midsize and larger projects has increased over the past years significantly, well, partly in each market but also because of the strong growth in the US. In China, rotation continues to be good. We can see that our delivery is at a good level, so overall you probably look at, you know, slightly, compared to some historical trends, slightly longer order rotation because of the mix of the order book, but again no dramatic changes here.

Andre Kukhnin: Great, and very final question is, I think you launched a kind of low-end product in China recently, a Z Mini for the sort of more kind of price sensitive customers. How would you expect the margins to evolve on these sort of products that I think sound like sort of completely stripped of any bells and whistles?

Henrik Ehrnrooth: I can tell you that the Z Mini is for the residential segment. It's actually a very good product. It's standardised and that's why we can make sure it's very price competitive, but it's actually, when you see it, when you use it, it's a great elevator. So we can deliver very good value to our customers at good pricing. It's by very high standardisation that you can become competitive in that, so I wouldn't call it a stripped product. It's a very good product with a great ride comfort and good value to the customer.

Andre Kukhnin: Got it, thank you. It was second-hand knowledge; I didn't have a chance to test it myself and hence the question, but it sounds like profitability on that should not be too different to kind of view average of the portfolio as a result.

Henrik Ehrnrooth: We have a good product competitiveness overall.

Andre Kukhnin: Got it. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We will now take our next question from Phil Wilson of Redburn. Please go ahead.

Phil Wilson: Yes, good afternoon everyone. Thanks for taking the questions. I'll do one at a time. Firstly, thanks for your help on Chinese pricing for the market. Can you comment where your pricing was for the first quarter and how that compared to the fourth quarter? Thank you.

Henrik Ehrnrooth: Well if we look at I think what we have commented earlier on our pricing trends, if we look over, you know, second half of last year, beginning of this year, I believe we have out-performed the market in terms of pricing slightly. I can't say by exactly how much, but it's clear there are price pressures and price declines for everyone. But at the same time, we've been able to work quite well on our product competitiveness and therefore we have kept a good profitability in the business.

Phil Wilson: But has that outperformance fallen a little bit into the first quarter as the markets become a bit more intense?

Henrik Ehrnrooth: I think overall we had a pretty good performance in the first quarter on this, so I can't say exactly but our understanding is that we have, when we look over this period, that we have outperformed the market.

Phil Wilson: Okay, thank you. Secondly, sorry to stay with China, but China seems to have taken some recent cooling actions in property, given the very high price rises which have boosted activity, and I know tier one, tier two city demand for you is quite strong currently, but are you seeing the impacts of cooling when you look at your forward looking indicators like tenders or customer dialogues that maybe some of the strong tier one, tier two demand may not be sustainable?

Henrik Ehrnrooth: Cooling measures have just recently been taken but at the same time there are two approaches the government is taking at the moment which I think is very sensible. Cooling measures in some of the cities where the prices have been rising very fast, such as Shanghai and Shenzhen and Beijing, but at the same time they are working very actively on reducing, finding ways to reduce the inventory in weaker cities. So this is something we see but the fundamental driver in the tier one and many tier two cities is one of a healthy level of inventories and a lot of people want to move into this city, so that's not changing overnight and what they are doing on cooling some of the markets I think is quite sensible.

Phil Wilson: Sure. And have you seen that impacting your tender activity yet or not?

Henrik Ehrnrooth: We continue to see a pretty good development in those markets. We don't comment on our tender activity specifically but good activity in those markets still.

Phil Wilson: Thank you, and then just a final question. The maintenance growth, just at a group level, slowed in the quarter from 7.5 to 5 and I would have expected this to carry on accelerating because the Chinese maintenance business is becoming a larger part of the mix and growing faster. So can you get some detail where maintenance slowed regionally, what growth rate you're seeing in Chinese maintenance and, you know, why are we seeing this slowdown in your maintenance growth rate? Thank you.

Henrik Ehrnrooth: So our maintenance growth in China continued to be very strong. As I mentioned already, it was over 25% beginning the quarter, so continue to compound that at a very good level. We had a very strong finish the last year at 7.5% and the very strong finish the last year in the maintenance growth probably a little impacted beginning of this year, so I wouldn't read too much into it. And the main impact was in Europe where growth was now a little bit slower than last year.

Phil Wilson: I'm really sorry; I do have one final question I forgot. It's the most important one really, but residential construction improved the quarter, whether you look at starts, investments, completions, work in progress. Why don't you think the elevator market saw any real improvement? Is there a structural trend here going on that started that we need to think about?

Henrik Ehrnrooth: Now we have to remember that we've seen one quarter of solid improvement in new construction area. It started a little bit last year but not very solidly at first following a decline in both 2014 and 15. So when the markets were declining, our market wasn't declining as much and therefore we don't see immediately this upturn either. Of course, it's a good positive indicator improving the fundamentals of the market but we don't expect that to impact in the same way that when it came down it didn't impact as much our market either the other way. But it's still good that the market is developing. I think the important indicator as this growth enters the real estate investments, it shows that more money is going into the sector. Developers are driving their projects forward and also customers are buying apartments. Therefore total transactions are going up, but you can't read a direct link between these two in the short term between our market and new construction starts.

Phil Wilson: Okay. Thank you very much.

Operator: Our next question, ladies and gentlemen, comes from Antti Suttelin of Danske Bank. Please go ahead.

Antti Suttelin: Yeah, thanks. This is Antti. I mean, even if you play down the importance of the Chinese stimulants actions, I would like to ask your view. What do the Chinese really want? Do you think this stimulus which we now clearly see impacting the construction numbers and statistics? Is this something which is short term only or is this, you know, beginning of a new big construction boom in China? What way are you looking at this?

Henrik Ehrnrooth: We have seen stimulus in China as we, the biggest stimulus has happened in infrastructure, and that's of course needed to drive urbanisation going forward, and we also see stimulus to help the real estate sector and help people to buy apartments. You see, if we understand right what the Chinese government is trying to do, again, very sensible targets, is to continue to improve the urbanisation and get more and more people to live in cities and work in cities and therefore they have this target of 100 million HUCOs over the next five years which is a very fundamental change. So the way I understand it is to make sure that economy continues to develop by improving the urbanisation, having people move into cities. Now they're further helping us by starting to relax the HUCO rules. So that is what we are seeing. A stimulus of course can have more short-term impact. These ones I talked about are more long-term drivers. What we continue to see, hearty cities, good demand, lots of people want to move there for more than is even possible and then action is to reduce inventories in lower tier cities where the inventories are quite high. So that is where we still need to see some type of improvement before that inventory situation improves. So I think that's perhaps more of a broad answer to your question.

Antti Suttelin: Yeah, thanks. May I ask differently, do you expect the strengths that we have seen in first quarter in statistics, I mean, starts up 19%, for example, would you expect that strength to continue over the next several quarters or would you expect that strength to eventually fade during the remainder of this year?

Henrik Ehrnrooth: I think we have to see. We are not the best forecasters of macro-statistics for that market. I think where we give an estimate, where we have a good view, where we understand the development is a total elevator and escalator market, and there we have given our clear outlook on what we expect of the market, and that's what we feel we have a good understanding on and good confidence in. I wouldn't like to comment on where we expect some of these other indicators to move over the coming months.

Antti Suttelin: Yeah, and you didn't raise this guidance, even if the Chinese construction market has clearly picked up. Does this mean that you don't expect this pick-up to last or does this mean that you don't think the pick-up will yet in 2016 affect the elevator demand?

Henrik Ehrnrooth: Let's put it this way, that the way the markets have been developing in the first quarter has not been a great surprise to us, and what we expected in the beginning of the year, we've seen that trend and we expect that our outlook is quite accurate for the full year between the 5 and 10%. It of course can be within that range. It's of course positive that things are going the right directions. Inventory levels are reducing in some of these lower tier cities, but I don't think we're going to quite see it yet in our industry.

Antti Suttelin: Yeah. Alright, thank you.

Henrik Ehrnrooth: Thank you.

Operator: Our next question comes from Martin Flueckiger of Kepler Cheuvreux. Please go ahead.

Martin Flueckiger: Yes, good afternoon, ladies and gentlemen. Many thanks for taking my questions. Again I'll take one at a time. First one, coming back to the question in China regarding the multi-performance of tier one, two, and tier three, tier four cities. Could you provide your best estimates of new equipment market growth in these two categories please?

Henrik Ehrnrooth: Well, if I would first give my, perhaps if you look at segments in China as to where we see growth, is infrastructure more stable and commercial under decline in residential? Would you calculate, Eriikka, to have a comment on what we say about exact growth rate by kind of higher gear versus lower gear?

Eriikka Söderström: I believe there is quite a lot, so you have differences depending on the province, depending on the city in question. Like Henrik described already, I think the general picture is that the higher tier cities are somewhat stronger.

Henrik Ehrnrooth: But in the lower tier cities, when we look at the map of all the various provinces and areas, there are very significant differences. Some there are quite stable, some declining a lot, and then we have markets really far in the west and around the east coast that actually are pretty decent growth rates. So you can't really give, it's really big differences between the development in different markets and provinces.

Martin Flueckiger: Okay, many thanks. And just to come back on the issue of the maintenance business or maintenance market in China, could you talk a little bit about the competitive environment and the situation regarding pricing in the Chinese maintenance business? And also, you know, if you could update us on your current share with respect to maintenance of China sales.

Henrik Ehrnrooth: So the competition in China in the maintenance market is quite different from the new equipment market because most of the competition there comes from small independent players. Most of the OEMs compete for their own brands in the service and then against small independent companies, and that's where there's strong competition and that continues. Of course, a lot of people see the growth opportunity there and therefore want to grow in that business. Not a big change in that market overall in the dynamics, and we have, of course, constantly improved our business which we have been doing to remain competitive and drive our meetings in a profitable way going forward as we have done. So that's what I can say.

Sorry, your second question was related to...

Martin Flueckiger: Your share of the maintenance business in China. It used to be below 10%. Is it now 10 or above 10%? Is it stronger?

Henrik Ehrnrooth: It has not quite reached 10% yet although the share has increased, but it hasn't quite reached 10%, 10% yet if you just look at the maintenance. If you look at service overall we are probably at that level about.

Martin Flueckiger: Okay, thanks, and then finally my last question on Europe, if I look at building permits and housing starts and important European markets, you know, I believe this would suggest a healthy recovery for the new equipment market going forward. Do you share this view? Do you see any signs of this? What's your view, let's say, 12 to 18 months on the European and new equipment market?

Henrik Ehrnrooth: Well, for this year, as I said in our outlook we continue to expect a good development in central and north Europe. Spain continued recovery and there more stable markets in France and Italy, although as I said in France you probably have now building permits have improved a bit but a little bit too early to say how that impacts your market. But I agree with you in many central and north European markets actually the trends are positive, and we can see that there are, many cities have the same issue that there is a lack of apartments in the cities, so residential activities is where we see good activity.

Martin Flueckiger: Okay, thanks, and just a final one if I may. What do you think is a good proxy for the time lag between, you know, building permits being granted and new orders received by you guys, for instance?

Henrik Ehrnrooth: Difficult to say. Of course depends very much on the segment. If you think about residential, I don't know. There's clearly a time lag because you need to get your permits first and then you start planning it and then you're planning quite far and then you only order elevate to usually it is a very standard building when you start it, so there can be a clear lag between the timings of those two. I can't say exactly how long that will be.

Martin Flueckiger: Okay. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Our next question comes from Rizk Maidi of Berenberg. Please go ahead.

Rizk Maidi: Yes, hi. Thank you for taking my question. Just a follow up on the China maintenance and on the conversion rate there. So if my memory is correct, I think the combined conversion rate for KONE and GiantKONE brand is roughly 50%, and that number has remained stable for the past two, three years. Correct me if I'm wrong but I think this number should be going up as time goes, and secondly, just a question for you Henrik. Do you think we'll see a further consolidation in the Chinese elevator market now that the new equipment sub-market has kind of matured and, if so, is KONE keen to play a role in this consolidation game?

Henrik Ehrnrooth: If you look at our conversion rates, they have remained quite stable. Of course we're working hard on improving them, though it depends on what segments are growing and so forth, so KONE brand being at 60% no significant changes over the years, and the consolidation, I mean, they probably see a consolidation in the market. I would say that we are very focused on organic growth. We have very strong market positions in China, very strong brand or two brands, in fact, that are both very strong. So we are in that sense in a good situation. On the maintenance side, we have strong organic growth and that is what we, we focus on how we drive our growth going forward.

Rizk Maidi: Thank you.

Operator: Our next question comes from Manu Rimpela of Nordea. Please go ahead.

Manu Rimpela: Good afternoon. Just one question from me; can you comment about the maintenance pricing? I mean, if we're seeing US, I think you mentioned the prices are going up, so was it also for the maintenance or mainly for new equipment? And also what's happening in China and Europe on that front?

Henrik Ehrnrooth: So the pricing and maintenance in the US continues to be, because we have tough-priced competition, not quite as severe as in Europe, particularly south Europe. South Europe continues to be challenges. A lot of small companies there are fighting for the business. No big changes to the trends in China overall.

Manu Rimpela: Can I just follow up on the US pricing? So why are we not seeing maintenance prices starting to recover if we are starting to see a pretty meaningful uptake in the market in terms of the new equipment?

Henrik Ehrnrooth: You have to see that the new equipment deliveries have only now started to pick up in the past kind of six to nine months, so they are now still in the first service. So I think we will start to see that, or we would hope we would start to see some of that impact going forward. But you have to remember that we have had strong orders received in the past years with the rotation in the US. It's started to only come through now. So let's see; it's, you know, better not to give any forward looking comments on what pricing maybe we have. Pricing, it's an individual agreement between us and customers always.

Manu Rimpela: Okay, thank you.

Operator: As a reminder, ladies and gentlemen, please press *1 on your telephone keypad to ask a question. Our next question comes from Ben Maslen of Morgan Stanley. Please go ahead.

Ben Maslen: Thank you. Good afternoon Henrik. Just a question please on China revenues and what the growth, or did they indeed grow in the quarter? I think you've given Asia Pacific growth of 4.3. I just wondered what China revenues did within that firstly. Thanks.

Henrik Ehrnrooth: So China's share of revenues was about 30%, and they, I would say they were stable-ish in China over revenues.

Ben Maslen: Got it, thanks. And then if orders stay down 5 to 10 for the next few quarters or for the year, as is your guidance, you know, at what point would you expect revenues in China on the new build side to go into negative territory? Thanks.

Henrik Ehrnrooth: The outlook we have -- that's for the market overall. We haven't guided our orders received, but with the rotation we have orders received in China. Of course, if the orders received go down it will be reflected in your revenues with a, let's say, six to nine month lag.

Ben Maslen: Okay. Thank you very much.

Henrik Ehrnrooth: Or sometimes even shorter.

Ben Maslen: Thank you. And then just coming back to cash flow, can you give us, what is the typical cash flow profile of an order in China, if there is such a thing, you know, how much you get upfront and what are the stage payments, I guess, just the phasing of the cash? If you can generally. Thanks.

Henrik Ehrnrooth: So for KONE, we don't book an order unless we have a down-payment, and their usual down-payment, that's not the largest part. Then you would have, you know, throughout, when you start manufacturing equipment, you have a down-payment, and then by the time of delivery you have quite a significant further payment, and that means that you want to be focused on covering your risk as you go forward. And down-payment itself, when you order is, let's say on average, we look at minimum 5% down-payments to book an order, and then you have milestone payments after that throughout the process of delivering a new equipment.

Ben Maslen: Got it, thanks. And then a final one, in EMEA you mention a significant pick-up in modernisation demand during the quarter. I just wonder what was driving that. Is there any kind of legislative component to that, or is that pent-up demand, and is it sustainable? Thank you.

Henrik Ehrnrooth: There hasn't been any regulatory change so this is market demand. We know that the modernisation markets have been challenging for many years while there is a lot of need for modernisation. So we can see in the economies that are doing somewhat better, this demand, you can see pent-up demand is coming through. UK is a good example of that, Germany is another, and we can even see in the weaker south European markets, so the markets are now stabilising. So we know there is a lot of opportunity out there, and the good thing is to see that it started to come better through in the markets now.

Ben Maslen: Got it. Thanks Henrik.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. Our next question comes from Austin Earl of Marshall Wace. Please go ahead.

Austin Earl: Hi. Good afternoon everyone. I just wanted to confirm and make sure I understand this issue that you talked about after the full year results about easing the incentives in China for the sales people so you wouldn't be so first-half weighted in terms of growth, and I just wanted to understand how much of an effect you thought that that might have had on your orders and whether that will continue for the year and therefore whether you would expect your market share maybe to improve as the year progresses.

Henrik Ehrnrooth: As I said earlier, we don't make any predictions or any indications about how we expect our market share to develop or orders received to develop. Only thing I would say that the development in the first quarter was in line with what we had expected.

Austin Earl: Okay. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: We will now take our next question from Daniel Gleim of Mind First Bank.

Daniel Gleim: Yes, hello. Thank you for taking my question. There are actually two of them. Could you give us a little bit of guidance how sustainable the China maintenance growth of above 25% is? I mean, now that orders are coming down for new equipment, new installations probably at one point slowing and you're not actively acquiring maintenance business in China. Are we going to see zero growth in maintenance probably in 2017? What is your feeling on that? That would be my first question.

Henrik Ehrnrooth: Yeah. Well, I would first say that even if you think that we have had a slower growth in many markets outside of China for many years, sorry, south Europe, we have been able to grow our maintenance business in a lot of markets. So you have to remember that we have a maintenance base and the larger that becomes, to maintain your growth rate you of course need to have more and more growth each year. So over time, the growth percentage will come down but there is a lot of potential to continue to grow that business in a good way, and there's a lot of equipment that is being installed or has been installed that is coming into the so-called commercial maintenance base over the coming years, so we continue to see good growth, and as you can see we have been able to continue to compound it at a good rate, but again the bigger the underlying base becomes, the challenging all the time is to have the same growth rate, but the growth is, there's a lot of growth opportunities still there.

Daniel Gleim: Okay, thank you. And with regards to the order book rotation, you mentioned it is getting longer at the moment. If you look at the overall group order book at the end of the first quarter which still has grown quite substantially, can you give us some guidance what an adjusted number would be? Do you have any feeling how the longer order book rotation has impacted the order book?

Henrik Ehrnrooth: Well I don't think it has impacted the order book, per se, but it means that when we book an order, it goes in the order book and it takes a bit longer before it's recognised as sales. So in that sense, I don't understand how we would adjust our order book. It's just it takes a little bit longer for orders when they are booked until they finally recognise the final sales because of somewhat larger projects.

Daniel Gleim: Okay. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: We now have a follow-up question from Andre Kukhnin of Credit Suisse. Please go ahead.

Andre Kukhnin: Yeah, so thanks very much for taking this. Just two quick ones; firstly cash on the balance sheet. Could you just share with us how you're thinking about this for the rest of the year and kind of what the opportunities are for that?

Henrik Ehrnrooth: I wouldn't say there's any change here. We have a strong balance sheet. We are okay with that, and if there were to be any good requisition opportunities we are ready for them and we're ready to find growth opportunities, but overall we're quite comfortable with the balance sheet we have. It's strong. It's very good.

Andre Kukhnin: I think historically at this level you've kind of released cash back to the shareholders, so kind of what's holding back at the moment, if anything?

Henrik Ehrnrooth: Well, that's of course always the question to aboard how they deliver this, but there's always been one of decisions and nothing more I can say on that. We just recently paid our dividends, so we have just paid out about 730 million to our shareholders, so that was a good dividend pay-out again only some weeks ago.

Andre Kukhnin: Yes, indeed. And just last question on modernisation in China, I understand you've given the number so that way we can make some inferences on what size of it is that services about 10% altogether, and the majority of that is maintenance. But what do you think your market share is in the modernisation market in China?

Henrik Ehrnrooth: It's not very high. I don't think anyone has a very high market share. It's very fragmented, mainly focused on component replacement and modernisations, but as the equipment base ages we see a good opportunity there. We don't see anyone that really would have a strong market sharing modernisation today.

Andre Kukhnin: Got it. Thank you very much Henrik.

Henrik Ehrnrooth: Thank you.

Operator: As there are no further questions, I'd like to hand the call back over to the speakers for any additional closing remarks.

Eriikka Söderström: Thank you very much everybody for the active discussion today. So let's conclude the call. Thank you and have a good rest of the day.

Henrik Ehrnrooth: Thank you everyone.