KONE Q4 2017: FINANCIAL STATEMENTS BULLETIN 2017

JANUARY 25, 2018

3:45 P.M. EET

This transcript of KONE's results webcast and conference call is produced by a third party. KONE Corporation takes no responsibility for possible discrepancies between this transcript and the original webcast and conference call.

Sanna Kaje: Good afternoon, and welcome to KONE's Q4 and Full Year 2017 Results Presentation. My name is Sanna Kaje, and I'm the Head of Investor Relations. I have here with me today our President and CEO, Henrik Ehrnrooth, and CFO, Ilkka Hara. Henrik will first go through the Q4 and full year 2017 highlights, as well as the market environment. Ilkka will then talk about the numbers, and Henrik will then present the 2018 outlook and how we are progressing with the strategy. In the end, we will have time for your questions. Henrik, please.

Henrik Ehrnrooth: Thank you, Sanna. It's also my pleasure to welcome you to our Q4 and full year result presentation. And we have some interesting news to share with you today. In particular we know that some of our largest markets have been very challenging for a good while. And you also know that we have taken determined action to improve our performance in these markets – in the stock markets. And I'm happy to share that actually we're making good progress. With that, let's go straight into the highlights for the fourth quarter.

Most important highlight for the fourth quarter was that our orders received grew – it grew in all markets and in all businesses. And also, that after several quarters of declining margins for orders received, our margin for orders received now stabilized. That's good. So, we can see that our pricing actions are working. However, our profitability is burdened by a number of headwinds. But we are taking actions here and we're making progress. What I'm also happy about is the roll out of our new services is clearly gaining momentum. And finally, our board of directors have proposed to the annual shareholders' meeting that we will pay a dividend or €0.65 cents for last year.

Now let's go straight into the highlights, if we look at the financial numbers for last year. As I already mentioned, our orders received grew, but also our sales grew in all regions and all businesses. However, our EBIT margin declined. Our orders received was roughly €1.8 billion, in comparable currencies they grew by 5.3%. Ilkka will go a bit more in detail into that.

Our order book remains at the solid level or €8.2 billion, the reported currencies decline of 4% for the growth for 3% in comparable currencies. So, we can see that the strengthening of the euro has quite a significant impact on our numbers. Sales, a little bit shy of €2.7 billion and a good growth of 6.8% in the last quarter. Our operating income, €366 million, down from €392 million a year before. If we exclude the program costs from the Accelerate program, that we'll also talk a bit later about, our adjusted EBIT was €376 million compared to €392 million the year before. And our relative margin was 14.1% compared to 15.1% a year ago. So, it's fair that we cannot be satisfied with the fact that our margin is declining. That is something we continue to take very seriously and work on. Earnings per share last quarter was €0.55 compared to €0.58 the year before. But one quarter is always a short period of time, and now our full year numbers for 2017 is a little bit longer perspective of how we're doing.

Orders received of half a billion euros growth 1.7% compared to 2016. It's good; we got back to a growth path, particularly in the second half of the year. Sales, just shy of €9 billion; 4.2% growth and an EBIT on €1,217,000,000 compared to €1,293,000,000 the year before. The adjusted EBIT, again when we exclude the cost from the Accelerate program was €1,230,000,000, margined 13.8% compared to 14.7% the year before. The same comment that we see a clear need that we need to improve our margins.

Cash flow, €1,263,000,000, also in a solid level, but clearly not as strong as, I would say, exceptionally strong level of 2016. Ilkka will dive into this as well. EPS was the €1.89 compared to €2 the year before. At this point again, like to extend my thanks to all KONE's employees. We know that the market is moving very rapidly. Expectations of our customers are changing very fast. And that's good because in the changing environment, we can see a lot of new opportunities. And I can see a great spirit, a momentum within the organization to find new and better ways for capturing these opportunities and drive differentiation. So, I believe our people have done a great job again in 2017 taking KONE forward.

If you look at our business mix, not a big difference. Share of service is growing a bit. Share of maintenance is on 32%, up a bit year over year and both maintenance and modernization are growing faster at KONE overall. Also, if you look by geographic area it's Europe, Middle East and Africa and North America that is growing overall faster; clearly North America being our fastest growing region at the moment, but no significant changes here.

If I then look at the highlights for 2017, I would start with our new equpment business. Last year, our total number of elevators and escalators ordered were about 158,000 units; about at the same level as in the year before. As you know, our objective last year was not primarily to increase our share of units. Our explicit objective was to increase our share of value of the market. And that, I believe we did – and I believe we clearly outperformed the market here. And share of value of the market that we get when we can add value better to our customers and increase prices. In a stable where actually sometimes declining market that makes much more sense than fighting for increasing share. So, I think we achieved that objective. Last year we delivered 141,000 units to our customers, up 5000 units year over year. Our maintenance base continues to grow at a good rate. It grew again over 6%. That was clearly over 1.2 million units at the end of the year. Here, I believe we are growing clearly faster than our key competitors.

If I look at the business highlights, what I mentioned already is that the actions we are taking, if offset the margin headwinds, just starting to show positive results. Actually, the most important one is pricing, and also gaining productivity. In pricing, we started to take very determined actions over a year ago, particularly in the large and very heavily competed Chinese market. And to be able to increase prices in a stable or sometimes declining market that is highly competitive requires many things. It requires that you have your competition – sorry, your competitiveness in good shape, just strong competiveness. It requires a strong and capable organization. You have to be very determined and in particular, you need to have courage. You need to have strong courage to everyday to step forward. And I think our team has done an excellent job here. We can see that we are going in a different direction than most of our competitors. That, I'm quite proud of. We're showing the direction where we need to grow in the market.

Also, our service business overall continued to develop very well, and our strong growth in China continued. What we decided to do ourselves was to invest more than ever in innovation and new technologies. And I'm very happy to say that we can see results out of that. As you know in February last year, we brought to the market a set of new services, very cutting edge, I would say in many case, revolutionary service for our industry. We're really showing the way here, partly with our flexible KONE care maintenance offerings, but also with 24/7 connected services.

We had then several other smaller launches through the year, for example the residential flow towards the end of the year, all of which are very important. So, we see that these larger investments are already bringing us very interesting results.

We launched our Winning with Customer strategy a year ago, and it's resonating very well with our employees and with our customers. The customers that really see that when we work in this way, we're helping them succeed. That's the whole essence of that strategy. And in order to speed up the execution of the strategy that we see is taking us in the right direction, we decided to launch a program to accelerate it; we call it Accelerate Winning With Customers that we did back in September.

And then our dividend, our Board of Directors has proposed to again increase our dividend to continue our good track record for dividends and their proposal always €1.65 per Class B share, up €0.10 year over year. And if you compare to the share price at the end of the year, that will give us a dividend year of 3.7%, quite a good an attractive dividend once again.

Then we move over to market. That was KONE's development. Let's turn over to what's happening in the markets overall. Europe, Middle East and Africa, here we can see that markets are growing slightly, particularly in South Europe and the Middle East. Central and North Europe, more stable at the high level. North America continues to grow slightly; it's at a good level both in residential and commercial segments. And given the good growth, we're already in the eighth year of market growth in North America. We can also see a more favourable pricing situation there and in many other markets.

In Asia-Pacific, the new equipment market in China was now more stable in unit and we also saw a stabilization in market pricing as well. But it remained highly competitive, the market. But I'm very happy about the Indian market now; it started to grow in the last quarter. We know that the Indian markets had three significant reforms within a 12-month period. Each of these reforms I believe are good long-term, but they did cause quite a turbulent short-term in the market. But we saw that in Q4, market started to get over this and grow at a good rate. And in South East Asia, markets are growing, but situation varies from country to country.

It's always good to take little bit a deeper look into the Chinese market. We know it's by far the largest market in new equipment, and very important to us. I would say there are two specific things I would like to bring up – trends I would like to bring up with the Chinese market overall. First, I believe that the Chinese market has gone into a healthier direction over the past year or two years. What I mean with this is that the housing inventories, one-floor apartments, is going in a better direction. They're actually at a pretty good level in Tier One and Tier Two cities. They've improved in lower tier cities, but going clearly in a better direction. So, I believe that the fundamentals of the market is healthier than it's been for example, a year ago.

If we then look at the activity in the market that is the second important trend to understand, activity in the market underlying is strong. However, government has imposed significant restrictions in many of the cities where restrictions in about 100 cities around China. And it's clear that the government's objective is to restrict the growth, particularly price growth, in many of the larger cities to ensure that bubbles don't occur. And we believe it's a right thing longer-term even though it's clearly pulling down the markets right now. If we look at both of these trends obviously in our market, we see as our market has been more or less stable, and when we go into 2018, we expect a similar-ish trend to continue that we expect in 2018, the market to decline slightly or be stable, are the key drivers is what I talked about first.

If we then look at the service markets, here not much new to say. Europe, Middle East and Africa and North America, both growing slightly, of course variance market to market. And Asia-Pacific continues to grow strongly in maintenance. Same modernization, slight growth in both North America, Europe, Middle East and Africa, and strong growth from a lower level in Asia-Pacific. That's what happening in our markets.

With that, I would now hander over to Ilkka to review a bit more detail our financial performance for Q4 in 2017.

Ilkka Hara: Thank you Henrik, and also welcome to the call on my behalf. I look at the financials more in detail for the fourth quarter, but also as it is a full year 2017 result announcement, so I'll look at some of the figures in context to the full year as well.

And let's start with orders received. Henrik already talked about how our orders received reached over €1.8 billion in the quarter and that we are seeing growth in all of the regions as well as in all of the businesses in our orders. And, in a comparable basis, we grew 5.3% of our orders, clearly something where we are seeing a good momentum towards the end of the year.

Also, one of the things to highlight is the margin of orders stabilized in fourth quarter. That's clearly something where we're now seeing a trend turning. We had six sequential – we have six quarters of decrease in margins and now we're seeing stabilization happening. And clearly that's good development where we're seeing the pricing access having an impact.

Also, I would highlight at this stage the good performance in China. So, we grew 7%, our orders received in china and majority of that is pricing, that we captured value. Our volumes were stable, and mix only had a very small positive impact to that. So clearly, that's something where we're seeing good progress being made in our business.

We then look at sales. Similar to orders, we saw growth in all businesses and in all regions in sales. And we reached €2,670,000,000 in sales in the quarter. That represents on a comparable basis 6.8% growth in the quarter. We look at it in more details. So, from the new equipment business, we saw 7.1% growth. And as you know, we preannounced our results. So, that growth was more than we expect in the quarter. So, we were able to deliver more orders than we expected. That was another positive surprise for us. Also, our maintenance business grew 5% as well as the modernization business grew 9.1% in the quarter.

From a geographical perspective, first of all we need to highlight America's strong at end of the year, 17.1% growth in sales as well as Asia-Pacific contributing 5%, and Europe, Middle East, Africa 3.6% growth.

Then looking at EBIT in our operating income, clearly can't be happy about results. We reached €376 billion, which is down compared to current period in last year. And that's something where we're seeing more headwinds than tailwinds in our results. And we are seeing similar drivers for that development in fourth quarter as in context of the full year.

So, let me take a look at the full year 2017 and talk a bit more about how our EBIT developed during the year, starting from 2016 and then what are the key drivers in 2017.

So, first of all growth clearly is positive and we saw growth in all businesses contributing to improve operating profit. At the same time, the strengthening of the euro, especially against Chinese renminbi and other dollar had a negative impact of €37 million into our results. Also as Henrik highlighted, we invested more than ever to R&D and IT and continued to see good opportunities to drive value with those investment. But in this, 2017, those had about €40 million negative impact to our operating income. That's the increase we talked about the 40 basis point increase as a percentage of net sales that we've highlighted. Also, increasing raw materials, had an impact of more than €60 million to our results. Then there's also product – other factors that contributed to the development. I would highlight the fact that the productivity improvement that we've been making continued to deliver results and clearly positively contribute to our operating income.

Pricing actions are starting to see positive impact of profit, but as I said now we are getting the orders to stabilize in terms of market, take some time then to get those to be delivered. Also, the fact that our maintenance business increases in our business mix has a positive impact. And also, then at the same time pricing pressures that we've seen in early quarter in China is having a negative impact as well as the fact that China is a good profitable business to us. And the share of that has decreased in the business mix, and that's negatively contributing to the operating income. But to draw this all together, so, if you at the impact of currencies as well as the increased investment to R&D and IT that's pretty much a large part of the development in operating income close to €80 million.

Then lastly, talking a little bit about the cash flow as well, it's good to look at it in a context of a year. We know that there's fluctuations quarter by quarter, but now that we're ending the year, it's good to look at it. We reached almost €1.3 billion of cash flow in the year, which is down compared to previous year. We continue to see healthy commercial terms with our business. We have a good positive cash flow generated business model as KONE.

But let's look at the drivers that cost us to see our cash flow decrease in the year. So, clearly the fact that our EBIT decreased has a negative impact of €76 million. So, our net working capital having a €68 million negative impact. But if we look at it in more details – so, advance it to a received to inventory's ratio actually improved slightly, and now reached 145% which is up one percentage point compared to previous year.

We did see our receivables increasing somewhat. That highlights the fact that the deliveries at the end of the year where some are stronger than we expected. So, those increases are receivables from a networking capital point of view. But what we didn't see this year was, I speak of improvement in working capital as we saw in the previous year. So, we maintained the good levels that we've had in negative networking capital, but they didn't improve as much as previously on a high comparison point in 2016. But overall, we continue to have a good cash flow generating business model for the business.

With that, I'll actually hand it over back to Henrik to talk a bit more about the market and our business of 2018 and the expectations for the business going forward.

Henrik Ehrnrooth: Thanks Ilkka. And I'll start with outlook for 2018; both the markets and KONE's outlook, and then we would head over to how we're developing KONE going forward.

Now starting with the market outlook, new equipments, the equipment market in Asia-Pacific, we expect in China markets to decline slightly or to be stable in units ordered. The competition will remain intense. Rest of Asia-Pacific, markets are expected to grow and here India is expected to be a good growth market in 2018. Europe, Middle East and Africa, market is expected to grow slightly, particularly in Southern Europe and in Middle East; Central and North Europe probably more stable. North America continued slight growth from a good level, so that market continues to develop well. Maintenance markets and modernization markets, very much in same trends we've seen in 2017. The growth in all markets, strong growth in Asia-Pacific in both and then variance market to market in Europe and North America. But still slight growth in all markets.

Then if you look at the KONE's business outlook in 2018, we expect our sales to grow at similar rates as in 2017 in comparable rates. Our adjusted EBIT margin is expected to continue to decline in 2018 in a similar way that we witnessed in 2017. However, we expect that the margin pressure will start to ease towards the end of 2018 because of the pricing actions and productivity actions that we have taken and actually we see with our already yearly results.

So, what is driving the performance? It's this old order book we have, a good maintenance base and actually it's a good growth we have in our services business and the continued improvements we have in our performance. However, we have a number of factors that are burdening our results which is putting a pressure on the margin. Clearly, the most important ones are the pressure in our margins because of the orders received we have booked earlier particularly in China, and also the fact that raw material prices are again expected to be clearly higher in 2018 than in 2017. The expected headwinds from raw materials is about €100 million in 2018. Also in translation, exchange rate is expected to be a clear headwind for revenues about €300 million and for EBIT roughly €40 million.

We are planning to give a more detailed outlook in connection with the Q1 results. Before that, we will publish figures that will be in line with a new accounting standard that we will have from 2018. So, in 2018 we go to IFRS 15 which will slightly change our revenue recognition. And the comparative numbers will be out in – for 2017 will be out in March and then the Q1 based on those we will give a more concrete outlook.

We will then look at how we develop KONE going forward. As you know, we launched our new phase in our strategy exactly a year ago. We call our strategy Winning With Customers. It's really good to look back and say why did we choose that theme. We chose a theme simply because when we look at the megatrends in the world, urbanization is a logical disruption. What do they mean? What are the implications of them? But we can see that customers and consumers expect to receive services, solutions and product that fit their individual needs. And I must say that I think the most exciting thing with new advanced technologies is the ability to deliver solutions that fits the exact need of individual customers and that is where we're going. And that is how we're developing our strategy.

We say that when we develop our solutions, our ways of working, we call it collaborative innovation, new competencies. That means that we collaborate much more with partners and with the customers. And we're constantly building new competencies within KONE to do this. When we do it, we can come up with solutions that we can tailor-make to the individual needs of our customers. And the new services that we launched last year, several of them are exact examples of this. They are services that we can tailor-make at a scale to our customers to fit their individual needs. That is what people expect today. That is what each of us expect also when we receive services.

The next one we call fast and smart execution. Our customers expect us to be role models on how to execute a site or how to perform maintenance and services and we need to do it constantly faster and smarter. We have great development here and we're constantly giving better capabilities and tools to our people and how we are helping them to perform out in the field in a much faster and smarter way and we've again made great progress forward to make sure that all of our people should be out in the field, can be mobile out in the field all the time. We have developed that for many years and we started to be in a pretty good shape here.

And last one is true service mindset that KONE is known for; someone who always meets an exceed customers expectations, that's those who work with each other and how we work towards our customers. And a good thing is that this strategy is resonating very well with our customers. We can see very concretely that when we work in this way, that we benefit and get good long-term relations with our customers that benefit them because we can help them improve their business. That's what it's all about. Then we benefit as well in pricing and in growth.

Because we see good benefits on this, we decided in September to launch program we call Accelerate Winning With Customers and the idea here is threefold. We have three objectives with this. To improve our customer centric capabilities, to increase speed and efficiency. It's really about how we speed up our strategy. Why is it important to improve customer centric capabilities? When we come with advanced services, it is about providing totally new outcomes to our customers. It's not about selling features anymore; it's about selling outcomes and performance. That requires new capabilities and requires all development in our frontlines. We want to provide even better capabilities for people in our frontline units to serve our customers. Speed is about getting our service and solutions faster to the market. We have a better pipeline than ever in bringing new services and solutions to the market and we want to do it faster. And of course, always in a competitive market we need to constantly improve our efficiency. That is why we've done this and we're progressing well. One of the first concrete outcomes of this is we have renewed our HR organizations, went live with that in September – sorry, November and here concretely we designed it so that our HR organizations can help every KONE employee do the best job for our customers and help support our business in the best way. So, we're driving this constantly forward.

And then to wrap up, instead of showing any specific services and solutions, I thought that we actually go through a number of customer cases where we can highlight how we have worked with these customers and why we have won their trust and how we add value to them because that is important, how we add value to them. First one to the left is China Zun, the landmark of Beijing, highest tower in Beijing today – we started to work early on with this customer and because of the solutions that they purchased from KONE, they can finish the building faster than planned several months ahead of schedule and save a lot of labour time.

What does it mean? They get the commercial revenues faster. They can save an interest costs, huge benefit for them. But it's not only that. It's also how that building is designed for long term performance and have the best experience for everyone moving in that building. It is all KONE's latest solutions. I think it will have an experience for moving around the building like hardly any other building in the world.

Next one, Science Museum in Denver. They had a big challenge. They needed to change their escalators, but they did not want to move their exhibits. No one else could do this. Everyone wanted to rip up everything. We modernized all the escalators in place. We call it the KONE EcoMod solution. They could keep the museum open with their – with the guests coming in and all the exhibits in place. We did faster and cleaner than anyone else could do.

Next one, Harmony of the Seas. One of three sister ships, we have delivered the elevators and escalators to all of them. They're the largest cruise liners in the world. We truly have people flow challenges boarding and un-boarding thousands of people in a short period of time with all the luggage and all food and so on. And then you also need to have an experience while they are cruising on the ship, how help them during the construction phase and how we work with them to make sure that the guests have the best experience throughout the journey. It's a very unique solution and something we're working very closely with the carnival – sorry, the Royal Caribbean Cruise lines that owns this ship.

Next one, we have Humlegården Fastigheter in Stockholm. They were one of our first customers on the 24/7 connected services. They own a lot of A class properties around Greater Stockholm area with very demanding tenants. They want to ensure that there are never any unscheduled callout or unnecessary services that interrupt the flow of the building during the day. That's why we work with them; a very advanced property owner and manager who we're helping ensure that their tenants has the best constant experience.

Next is Royal Adelaide Hospital, a fantastic very advanced hospital in Adelaide. And here again, not only during construction phase, but planning how patients are moving around, how they have intuitive good people flow throughout the building, but also support them through the construction phase to do it efficiently and safely, again helping to ensure that the hospital really serves its purpose.

And the last example here is the Oslo Airport that was expanded during last year. It's one of the fastest expanding European Airports today. Probably one of the world's most, if not the most, sustainable airports in the world. They have very specific requirements and targets what they want to achieve. Working closely with them during construction, expansion and planning with people flow has again helped them achieve their targets. That is what we are very proud of. And these are examples of how we want to work with our customers, how we add value to them, how we benefit as the result of that. This is what our strategy is all about.

So, in summary, we have a good order book, good maintenance base, our sales growth is continuing. We have started to take very determined actions to counter the margin headwinds and we're starting to see positive results. It's also about the pricing we have improved for example in China. Our latest solution services resonates well with our customer. We are strengthening again our differentiation. With that, we are ready to go to your question.

Sanna Kaje: That's right. Questions from the telephone line and I would kindly ask everyone to state one question at a time. I'll hand over to you operator now.

Operator: Thank you. To ask a question, please press star one. If you wish to cancel your request you may remove yourself from the queue by pressing star two. Again, star one to ask a question. Our first question comes from Klas Bergelind of Citi. Please go ahead.

Klas Bergelind: Yes, hi Henrik and Ilkka. It's Klas from Citi. I've got three questions please. The first one is on price versus cost. When you look at the price hikes which were impressive at the headline level, but you now have pushed through, do you feel that is enough to protect the margin i. e. , for the margin to expand towards end of 2018 or do you need to hike again at current raw mats?

And then secondly on cost inflation, this is related to the first one, cost inflation beyond R&D and IT, headcount is up quite a lot towards the end of the year. And I understand this relates to maintenance in China. But I'm still wondering how we should look at the wage bill versus the growth outlook. We're hearing from several companies that wages are in the up, especially in Europe. Am I right that we should see the wage bill jump quite a lot this year and by how much?

Henrik Ehrnrooth: So, to start with the pricing question and I think you referred – I can talk quite generally and specifically with China. So, if I start with China, I think as we mentioned our orders received in units were pretty stable and value was up about 7%. Actually, most of that was pricing. Mix – actually some even adverse mix, but it always goes in both directions. So, we said now that our margin is stable. We can see that over the past two years, costs on raw materials have come up significantly. And it is starting to come through. Now, we had quite successfully been able to lock it down to delay the impact. We can now see the impact really coming through.

So, it is not something – pricing is not something that you say that you put the list price and increase today and then stop. It's something you work with everyday and you need to get – to be able to get momentum in pricing – I talked about it, you need to have good competitiveness. You need to have a strong organization. You need to have customers that appreciate the work that you do and the determination and courage. And when you get the momentum, you continue going.

And of course, it's our objective and sometimes you have – I would say in Q4, we did really well and some quarters you may be doing a little bit slower and a little bit faster again. So, it's always going to fluctuate. But clearly, it's not a onetime thing. It's an ongoing thing that you need to do. Most inflation beyond R&D, you talked about increase in personnel. Actually, as you – you mentioned already, a big part of this increase in personnel is because of a fast-growing service business in China. When that business goes more towards services, we have more own people. In new equipment, much of the installation work is subcontracted. In services, it's all our own employees. So, that will – that increase – so the question is that – otherwise you have cost for subcontractors which of course is a wage bill or then you pay it for yourself. So you have to remember this balance. And I would say the rest of the world; we have actually had quite a good discipline in where we have increased and how we have increased.

But you also – you are right that actually labour costs are going up, particularly in Europe where there it's been quite moderate for many years. Now that the economy is clearly stronger, we can see increases. So, that's what's happening in the markets.

Klas Bergelind: So, Henrik, how I think I think about if EMEA cost inflation is going higher and we see that particularly in Germany and orders in equipment are flat, modernization is slightly higher, Northern Europe, Central Europe is at a quite high level and we have a continued price pressure in maintenance, should we be concerned that price cost can be a problem in Europe now all of a sudden?

Henrik Ehrnrooth: If we look at Europe, we have actually been quite successful in offsetting this so far as well. I would say in the maintenance business in many markets actually, the fact that you have increase in labour cost and if it comes through an inflation, it's usually not a bad thing for our maintenance business. Of course, if economies are stronger, usually you get a little bit more favourable pricing environment as well. So, I think, clearly we are working on offsetting this. But – and I think that we can do quite well.

Klas Bergelind: My question –

Henrik Ehrnrooth: Sorry, Ilkka would just add here something.

Ilkka Hara: Sorry Klas. So, I just wanted to highlight on top of what Henrik said that we continue to see good opportunities to further work on the productivity, also on the maintenance side which is something where we everyday have to make sure that we're making progress to continue making – improving that.

Klas Bergelind: Then on mix in China and I'm not talking about price, I'm talking about mix, there is a trend to build more rental in China which should mean lower margins for the developers. At the same time, there is less available land which should push up the cost of land even more this year. Could this drive a mix negative for you going forward where the developers maybe trading down to cheaper products and solutions because mix was an issue in 2016, then it improved, and I wonder whether mix can return as a negative in 2017?

Henrik Ehrnrooth: I'm not sure the market overall has changed mix so much as I said that most of ours was due to pricing. I wouldn't be too concerned about that. We know that affordable segment has anyway been the largest segment already in China. I think it's – with the type of customers we work, how we'd be able to find the right solutions for them and work with them. So, I'm not too concerned about that that specific trend.

Klas Bergelind: Okay. Final one and a quick one I promise is on new equipment and modernization in EMEA. New equipment, flat and then modernization slightly higher on new orders. At the same time as Europe is seeing a very solid macro we have BMI is at record high, capacity is very tight when we look at the manufacturing sector. I understand that Central and Northern Europe is at a high level. But if you could reflect a bit on the slow development elsewhere in Europe effectively flat versus this solid macro backdrop? It looks a little bit odd.

Henrik Ehrnrooth: You talk about the market overall now?

Klas Bergelind: The market, yeah.

Henrik Ehrnrooth: You have to put it in perspective. If you look at the Nordics for example, construction wise very strong, very high level and we expect it to stay strong, same Germany. UK has been quite strong even though there's a still a chronic need of apartment. But clearly, Brexit is having some impacts there. So, actually I think that many of these markets what was early on the economy was starting to drive them was construction going up and that's now staying and if you're consumers centric, the rest of BMI is also very strong.

So, I think to stay at a good level is pretty good. And we can see a good demand for apartments out there. Where we can actually – where the biggest difference I think in European economy is clearly in South Europe, that South Europe is recovering and there we see growth in the market.

So, I think it's quite consistent with the improving economies, and also we can see improving markets in new equipments for us.

Klas Bergelind: Okay, thank you.

Operator: Our next question comes from Lucie Carrier of Morgan Stanley.

Lucie Carrier: Hi, good afternoon. Thanks for taking my question. As presented, we'll go one after the other. The first one is on operating leverage. I have the sense that this has improved sequentially throughout the year. And I was wondering if it was maybe due to a productivity measure and if you could give us a bit more colour on how should we think about that as we go into 2018, the improvement we've seen during the year whether that could kind of continue as we go into 2018?

Henrik Ehrnrooth: We look at operating leverage, it's all about productivity, make sure we get leverage out of our growth. There is something we have been getting constantly year over year. Of course, it always fluctuates little bit quarter by quarter. Now, we executed pretty well in Q4, that is a constant that we are driving, and we want to continuously improve how we do our business. So, yes again in 2018 it will fluctuate. But clearly, we have ambitions and believe that we can continue to drive that forward. Ilkka, is there anything more specifically?

Ilkka Hara: No, I think the seasonality is something that is always there. We had a strong quarter in delivery. And if we look at them next year, I think one of the thing which comes out of IFRS 15 is actually a little bit more stable seasonality in terms of the revenue recognition.

Lucie Carrier: Okay. Clear. I wanted to – if possible, I wanted to come back on the point of – on the pricing in China. Last quarter you were increasing – you said you were starting to increase price. This quarter it's plus seven, so it's definitely a big step up here. My question is more for how you see the market and how you see yourself in this market. Do you think the price inflation could stop in China in 2018, and maybe if not for the market, how do you see kind of your own situation? And also, I'm curious to have some colour in terms of which segment of the market maybe you were more able to pass on prices and kind of really which initiative whether it was more on the volume business, on new offering, just to add some colour on what has helped you here to kind of pass the price.

Henrik Ehrnrooth: I would again like to remind that price is not something you say that you're going increase by a few percent when it happens. It's something – it's a systematic work with good analytics, but particularly you add value to your customers. So, that's an ongoing work. And as I said in Q4, we're particularly – it went really well. Some quarters go better, others a little plateau and then you go up again and so forth. But, to be able to achieve it, it's not something you go out and announce that anyone can do. In highly competitive market that's stable, what you need to do is you need to have your competitiveness in good shape, you need to have a competent organization with a determined drive to do it and I shall talk about courage is probably one of the most important things here. And that's what we continue to drive day after day. It's a daily work. And the most important thing is to understand, to work with your costumers to again see how you add value to them.

When you add value, when you improve their business, they are willing to take you and pay you a premium. And that's what it's all about and we continue to work on that. So, it's not about passing on costs, but the reason people have to increase prices is that costs have increased significantly, and we know therefore that margins for players in China has had a significant impact and clearly people have the fight against that.

We don't comment, although we think pricing going forward because it's always individual negotiation between us and our customers. But if we look at just a trend towards the end of the last year, we started to see that the market pricing was stabilizing that I think it was coming more to reality that hey, the trend before that was not okay.

Lucie Carrier: Thanks. And just a last question maybe to understand a bit better the raw material impact in 2018, I remember for 2017 you had guided initially for €50 million to a €100 million and ultimately kind of ended a little bit above €50 million. I would like to understand a bit better why you're guiding pretty much about the double so far in 2018, whether there was some hedging, you know, that have played out or whether there is some changing in your supply chain or in your contract that are kind of creating that – well pretty much a doubling?

Henrik Ehrnrooth: You want to take this?

Ilkka Hara: Yeah. So, you're right. So, were very successful actually in 2017 in the way we locked the pricing for our raw materials. And yes, we were a bit about €50 million in the impact in 2017. So, clearly a good job there. We don’t do hedging, but we do lock pricing and lock pricing for the components as we don’t really buy raw materials as such. And our best estimate now is that there is an increase in the impact in 2018, around about €100 million as we said.

And if you look at our 2017, so we had very little impact of increase in raw material prices in Q1 in 2017, some impact in second quarter and it got worse towards the end of the year. So, I think we were able to push and delay that impact into our results. So, that’s the difference between the two years.

Lucie Carrier: But just to understand, does that mean that the insurance of securing your contracts with your suppliers, it was more difficult for you this year to kind of get as good as a price, is that the message?

Ilkka Hara: No, I think we were successful in delaying and did a good job in 2017. In 2018, we've locked I would say less than half of the prices – are locked for 2018. And we continue to work on it. So, let's see how things develop and how raw material pricing develops to see how the full impact.

Henrik Ehrnrooth: Remember Lucie –

Lucie Carrier: Okay, thank you.

Henrik Ehrnrooth: What we had for last year is we had looked the India's prices when the markets were at much more favourable levels. Now the market has continued to come up. That's usually when you lock or hedge, that you delay – and now we see it coming through.

Lucie Carrier: Okay, understood. Thank you.

Operator: Lionel Rickdela[?] of Nordia, please go ahead.

Lionel Rickdela: Thank you. Relating to the previous question on the pricing and the raw material cost inflation, so, should we think that there is a lag impact that goes into 2019 as well, but if you're kind of having the €100 million cost inflation into 2018 from raw materials, you're raising prices. But how should we think about the lags? Do you expect that they will still be kind of a – just a mathematical lag into 2019?

Henrik Ehrnrooth: I think it's a bit too early to see. We have no idea where material markets would go in that kind of information. We have probably 50% of our prices locked in for this year. So, it's too early to talk about 2019 I'm afraid still.

Lionel Rickdela: Actually the other way around and how long do you think it will take for you kind of raise your prices to match the kind of current spots rates that you are providing in your raw material, can you comment on that?

Henrik Ehrnrooth: Well, it depends on where they are at the moment. As we said, now our margin is stabilized. Clearly what we have been delivering so far has been at higher margins than what our orders received had been. And now we're going in the right direction, but we still probably have a bit to go.

Lionel Rickdela: Okay. And can you then comment on pricing in maintenance? I mean obviously you have this program, you are starting to put this new pricing strategy in place. I mean, can you talk about the countries where you have had this strategy in place for sometimes or where you've started implementing it and what kind of an impact that has had on pricing in maintenance in those regions?

Henrik Ehrnrooth: It has had a positive impact. So, we can see that in maintenance, particularly in Europe in the countries where we introduced this, we saw a positive impact on pricing there.

Lionel Rickdela: And does the program come with added cost? So, is that also a net positive impact on the margin?

Henrik Ehrnrooth: It is a net positive impact on margin. We have to remember that the change on maintenance base, that takes many years. But at least we can see that overall, go through – that's another actions, but overall in Europe we did better in 2017, than in the prior years.

Lionel Rickdela: Okay. And then the final question, can you just talk about the maintenance pricing in the U. S. and Europe, just a standalone? Are you saying maintenance prices actually increasing in the net basis in the U. S. ? I mean I think you delivered a lot of equipment there over the past years. But we haven't really see that filtering down into the kind of maintenance business.

Henrik Ehrnrooth: Yes, we have seen it filter down to the maintenance business, but it's growing slightly faster. We have to remember though that still the absolute volumes in new equipment, in number of units is not quite as high in North America as in other markets. But we are starting to see a slightly better maintenance market, but highly competitive. It always comes with a delay. But we're seeing some slight positives there. And, actually yeah, we're growing that business as well. So, it's moving forward.

Lionel Rickdela: But are you able to expand the margins with the pricing – in price you're taking?

Henrik Ehrnrooth: Last year, probably stable-ish. They are – I would say in that market, they approach we've taken – some segments, we are doing quite well. Then you have some segments such as retail for example that is quite a big segment in the U. S. Is clearly very challenging. So, I would say probably more stable overall.

Lionel Rickdela: Okay. Thank you.

Operator: Omid Vaziri of Jefferies. Please go ahead.

Omid Vaziri: Thanks. Good afternoon gentlemen. It's Omid Vaziri from Jefferies here. Thanks for taking my questions. I have two questions. First one; taking the focus back to China, I was wondering if you could help us understand what percentage of your China sales came from maintenance and service in full year 2017 or the fourth quarter. And, generally what are you seeing in terms of the large foreign OEM's share of the maintenance service market in China? Are you seeing positive development there, share being taken? Can you please tell us what the KONE's current share is of that market if possible? And also, what about OETA maintenance conversation rates? Are you seeing positive development on that front as a result? My second question relates to the OE margin development outside of China.

Henrik Ehrnrooth: Excuse me; I think you had three questions already. So, let's take that one at a time and then we move forward.

Ilkka Hara: So, first question, share of service is in China I guess. So, that's around about 10% of the sales in China.

Henrik Ehrnrooth: And you talked about the share of international players. I mean, the top OEMs may have the quarter a bit more than market. It's a very fragmented market still. But they are taking constantly, slightly taking share. We are the market leader, or maybe a joint market leader in the market and our market share is still not that high. So, there is clearly room to expand. If we look at our conversion rates in China, they improved slightly last year, particularly for the KONE brand.

Omid Vaziri: Thank you. Can you also tell us roughly what range conversion rates we're looking at now in China and where they are outside of China?

Henrik Ehrnrooth: So, we have been communicated by China for the KONE brand, we are a bit over 60%, overall for KONE around 50-ish. Rest of the world, it's 85-ish.

Omid Vaziri: Thank you. And, my – so, the second part of the questions related to the OE markets – OE margins rather, all[?] the margins outside of China. Could you please just high-level comments on development in EMEA and North America, please, in fourth quarter?

Henrik Ehrnrooth: Well, if I look at just some – instead of specific markets, specific quarter, I would say the trend is, North America has continued to be positive. Europe, Middle East and Africa, mixed; some market improving, some market continue be challenging and it depends really on where –

what stage the markets are. But long-term trend what we have achieved in North America has been – we've been taking market share there and we have been improving our pricing.

Omid Vaziri: Thank you. So, just to clarify, your comments relate to margins, not just pricing. Is that right?

Henrik Ehrnrooth: Yes.

Omid Vaziri: Okay. That's all my questions. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: James Moore of Redburn, please go ahead.

James Moore: Yeah. Thanks for taking my questions. I'll go one at a time. I know it's coming in March, but will IFRS 15 adjust that, would it be above or below the 12. 30 reported today?

Henrik Ehrnrooth: Well, as they released the comparable numbers for 2017 in March and we still have some works to be done to put those numbers together as we wanted to first focus on getting these numbers out. If I look at the number overall just to give you an idea of the impact that we see, so, from a revenue perspective, we're now estimating that there's around about $150 million negative impact our revenue in 2017 compared to where we are in today with current recognition. And, we don't expect an impact to margin as such. So, that would come then to a similar margin.

James Moore: Okay, thank you. And on saving, you've got your $100 million target. What was achieved of that in 2017, please?

Henrik Ehrnrooth: We started that program very late. So, I would say a small – very small portion; so, most of the impact we'll start to see as run rate coming out of this year then. But, a much more substantial part – so, Ilkka, you can probably comment on exactly what we expect there.

Ilkka Hara: Yes. So, we are now – we don't see really coming out from 2018 with much savings yet. There's a lot of work ongoing to push those forward and really makes them tangible. And, what I look at this is really the end of 2018, that was the run rate savings coming out and we're now estimating and targeting something in order of magnitude of $50 million coming out of 2018. The impact to 2018 is not going to be much. It's going to be like the part of – when we see start to see those materializing. So, that's the current understanding. We'll update you as we progress with the work as well. So, we'll continue to get transparency on that progress.

James Moore: Okay. And so, when you talk about the order margin being stable, does that include the $100 million raw mat and whatever the 2018 saving numbers are, they're all embedded together in that statement?

Henrik Ehrnrooth: When we look at the margins of orders received, then we look at a contribution margin. So, you look more at today, what is the – margin, the orders received and then you look at it, okay, what happens on the input cost, so it's more the raw material and the orders received that you – you look at them.

James Moore: So, if you save, I don't know, $30 million, $40 million, that's on top of that as incremental to that?

Henrik Ehrnrooth: That's the idea.

James Moore: Okay, thanks. And you say that the pricing market is tough in China. Are you talking about, sort of basically stable market pricing and you being 5% or 6% market price? It's quite a difference. So, are there any signs of market share impact from that? Am I'm right about that degree of difference between you and the market for China order pricing?

Henrik Ehrnrooth: I think before there was clearly – probably a bigger difference than in other quarters. So, you forwarded it really well. Always difficult to exactly say what market pricing is, but there's clearly a gap that we are outperforming. If we look at last year, we come with the exact market share numbers with Q1, but with information we have today, in units we're probably about stable. But it's clear that when we look at monetary value, I think we took share. And that's clearly what our objective is as well. When you have a stable or actually slightly declining market, then it very seldom makes sense to go for unit market share, then you want to go from value market share. That's what we have done. And yes, I think there is a gap between us and the market.

James Moore: Thank you. Two more quick ones. Can you say what China maintenance growth was in the quarter?

Henrik Ehrnrooth: Ilkka, you want to –?

Ilkka Hara: Yeah. So, we have good maintenance growth in China. So, we were around about 12% to 20%.

Henrik Ehrnrooth: What's that –

Ilkka Hara: 12% to 20%.

Henrik Ehrnrooth: High double – they're clearly double digits. The revenue growth and the service base increased by about 25%-ish; so, the number of new service contract. We have to remember that what's happened in China, so we are growing our service base again by about 25% in the quarter, why is sales growth not the same? I think you remember in CMD, we talked about also the first service period and giving us new equipment orders have been stable. So, the first service period revenue is not growing, but the contract revenues aren't growing.

James Moore: Yeah, I understand. Okay, thank you. Lastly, free cash flow; a bit below 100 for the year. Do you expect that to sort of reverse to be above 100 for this coming FY2018 or do you think around a 100 or sub a 100?

Ilkka Hara: From a cash flow perspective, due to the fact that we had very strong deliveries that impacted then the working capital and receivables is something that is more of a timing difference and was related to this fourth quarter. We continue to have good commercial terms and we haven't seen a change there. So, in that respect, we continue to see good cash flow generation for the business. We don't give guidance for the exact cash flow, but from fundamental business terms we haven't seen change there.

James Moore: Very helpful answers. Thanks.

Operator: Thank you. As a reminder, to ask a question, please press star 1. And in order to provide an opportunity to ask their questions, please limit your questions to one. Our next question comes from Andre Kukhnin of Credit Suisse, please go ahead.

Andre Kukhnin: Yes, good afternoon. Thanks for taking my questions. I'll limit to a couple, if that's okay. Firstly, on your growth guidance, you expect similar growth in 2018 versus 2017, yet your orders have inflected from -1. 6 to +1. 7, so just wanted to check if you expect anything to slow down in kind of outside of the order book in the maintenance business or is there is a lead time expansion or is this just conservatism?

Henrik Ehrnrooth: If you look at – actually, we grew quite nicely this year compared to what the order was in '16. There's always going to be fluctuations in lead time. I don't think there will be any significant change in lead times if that – this is, you always have some timing differences, what size, do you have more larger projects, geography and so forth. So, all these come into the mix and with that we think to be about the same level.

Andre Kukhnin: Got it. Thank you. And just on the margin evolution guidance with the message of sort of margin pressure beginning to ease towards the end of the year, if your margin – contribution margin, as you've just described, stabilized in Q4, 2017 and with lead times of sub a year overall in nine months in China, shouldn't that drive margin to be stable by Q4 2018 with potentially as you talked about saving? Was there anything else in there that you can sort of comment to this equation that we're not seeing?

Henrik Ehrnrooth: Well, I think – we do explain – I think it's quite consistent probably how we see. We haven't talked about exactly when, but it's clear that the margin pressure is going to be more significant begin of the year and first parts of the year than towards the end of it because of the better orders received now and the fact that we've been able to turn pricing. And when that starts come through, it should start to contribute more positively.

Andre Kukhnin: Great, thank you. And can I just, if I may just one more – in Giant, specifically in China, how did that perform in Q4 and may be in the year generally we've picked up some talks about sort of similar name competition ramping up from the ex-partners. And generally that's a slice of the market being probably a bit tougher. So, yeah, would be keen to know how that business has done and how are you thinking about that in the context of your guidance?

Henrik Ehrnrooth: Actually – well, as you know that the smaller players have had a tougher period of time in China overall and we can see the same. But actually, if I look at last quarter, actually GiantKONE had a really good performance. They also grew nicely, and we continue to have a very clear strategy in China where each of our brands have a clear purpose and we continue to invest and develop GiantKONE. I think it's in a pretty good shape. So yeah, I think actually it had a pretty good end to the year.

Andre Kukhnin: Great. Thank you very much.

Operator: Our next question comes from Daniela Costa of Goldman Sachs. Please go ahead.

Daniela Costa: Hi, good afternoon. So, my first question – I just wanted to check if it's fair to say that when you look at the 2017, the margin drop, it is the vast majority is concentrated in China or are there also sort of slight decreases in other regions because of – for example, your R&D, the sales step-up spreads across the board in some regions and that are also being down? Just one – we'll start by that one and then I'll ask something else.

Henrik Ehrnrooth: So, clearly the biggest impact given the size of the new equipment business is China. But clearly also when you have headwinds on, for example raw materials, they impact all business. But the impact is not as significant as in other parts. So, in those other parts, we're able to compensate that – all those too. China was clearly – I would say Asia was clearly the biggest impact. But then, as you mentioned, when we look at total cost, we also had an increase then in R&D and IP cost which is a global cost for us.

Daniela Costa: Okay, thank you. And then just to sort of sum it up with this and some of your earlier comments and this is probably a follow up to what people have already asked, but you've clearly said just a couple of questions ago that margins could – all of those margins could stabilize towards the end of this year. What is the evolution of R&D and IP to sales now and is it fair to say that you think 2018 is the trough in group margin?

Ilkka Hara: So, first to just to clarify, I think to a many – as with you statement, just to be clear, what we have said about the market first of all is that we started to see a stabilization of pricing in the market. What we have said about ourselves is that we've been able to increase prices to be able to then stabilize margin. That means to offset the increasing costs and this is all 2017. Going forward to 2018, if you look at share of R&D and IP, in 2017, there's an increase of 40 basis points in R&D and IP. We don't see similar increase – if I would have to give a number, it would be around about 10 basis points of the increase, mainly on the IP side, but clearly more stable than we had in 2017.

Daniela Costa: So, regarding whether the margins could drop in 2018, what's your view for the group?

Henrik Ehrnrooth: That would mean, we would have to give guidance into 2019, and that we are not doing. I think our ambition level is pretty clear.

Daniela Costa: Okay. Thank you.

Henrik Ehrnrooth: Thank you.

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

Martin Flueckiger: Yeah, good afternoon gentlemen. Thanks for taking my questions. I have three and I'll take one at a time. Could we just go through your China new equipment market outlook again? Again, preferably if you could highlight your main concerns going forward because it seems to me like nothing has changed really in terms of dynamics over the last few quarters. Is that a correct perception or am I missing something here? That's my first question.

Henrik Ehrnrooth: I think you are pretty correct there and that's pretty much what our view is. Let's see of course – if that's our view, let's see what ends up being the case. But if we look at the Chinese market, we can see a pretty healthy demand. But at the same time, we can now see that the restrictions that the government has imposed have continued to be rolled out. So, we're in about

100 cities now. And that's clearly – it's cooling down the market. But if I look at what we expect for 2018, I don't think it's that different from 2017; perhaps a slight decline or stable; so similar trends, yes.

Martin Flueckiger: Okay, thanks. And, then my second question would be if you could elaborate a little bit more on the latest developments in your 24/7 connected services, your digital maintenance platform, I think you've launched it, if I remember correctly in February and you've already given some titbits on the developments in Q2-Q3. What was the particular highlight of Q4 in that respect?

Henrik Ehrnrooth: I think the particular highlight for Q4 is that it's now available in over 10 countries and particularly in our largest countries to a very significant part to our maintenance base. So, to build up the capability, to sell it, it's not only that we have a technical solution that we put in to an elevator, it's a whole organization, how we work to get to be able to drive all the benefits and show the value to our customers here. And now we have changed our organizations, would replace in 10 countries, we're ready to sell and we are selling in these countries. That's perhaps again, how we have spread the reach of it and now we can clearly see that in the countries where we have launched earlier, it is clearly building momentum now. So, that's perhaps the most important development right now.

Martin Flueckiger: Okay. But just to clarify in terms of the financial impact, I suppose it's not significant yet. Could you provide a ballpark number how much it's been helping your EBIT line?

Henrik Ehrnrooth: We don't still talk about big numbers. But when we start growing, what we have seen and what we have been very clear on is that we're actually not rolling it out just as fast as we can, just putting it everywhere. We are taking it forward; we are selling it as a value added services; service to our customers. We are showing them, why it actually helps their business and therefore we have good commercial prices for them. So, that is very good. And therefore, for last year and beginning of this year, the impact is not so big. But towards 2019, we should start to see a clear impact for revenues here.

Martin Flueckiger: Thanks. And then my final question; I've heard some comments about cost savings from restructuring, only expected for 2019 to be significant. Could you talk about the restructuring costs here – expecting, maybe I've missed it, but I haven't seen it yet, the restructuring costs you're expecting for 2018?

Henrik Ehrnrooth: Yes. So, for us like you said, so expecting the savings to ramp up during 2018 towards latter parts of the 2018 and at the same time, we continue to see – we need to invest to make those happen. So, we're estimating around about $15 million impact from the Accelerate program during 2018.

Martin Flueckiger: Those are the costs, yeah?

Henrik Ehrnrooth: Yes.

Martin Flueckiger: Thank you very much.

Operator: Daniel – Daniel Gleim of MainFirst, please go ahead. Your line is open.

Daniel Gleim: Yes, good afternoon. Thank you very much for taking my question, and apologies for belabouring the margin commentary on the order intake. When you said the order intake margin is stabilizing, I understand this is a group statement, do you refer to local currency comparison or is this actually reported, because before you included raw material into that, what is the FX impact, i. e. , mix of the China share, is this included in the – is this a local currency statement?

Henrik Ehrnrooth: We always make these statements in local currency because as you remember that for example, China we know that's the biggest market, what we sell there, that majority of the costs are also local. So, it's local cost versus local revenues and therefore the only thing that make sense to talk about what happens in local currency. But when we talk about stabilizing, it means that we have been able to increase prices to attune that and compensate for the increasing input costs.

Daniel Gleim: Yeah. But the softer Yuan, the impact of China will be less than this will act diluted from the over – order intake, that's what I was referring to. The reference point for the stabilizing margin; I was not sure because during the call you referred to the current sales. Is the reference point the order intake one year ago or the current sales?

Henrik Ehrnrooth: It's always referred to what it was a year ago.

Daniel Gleim: Okay. What does this mean for the order book in China in terms of quality? So, I mean the order book, not the order intake. Has this already stabilized or will we only see this stabilizing down the road?

Henrik Ehrnrooth: As we mentioned in Q4, our deliveries were still at a higher margin than what we're ordering. But as we go forward, clearly if we can improve pricing, then we will start to see a stabilization. But of course, we want to see stabilization more to impact the margin rather than it averages it out. But yes, in the fourth quarter margins where the deliveries were higher than for orders.

Daniel Gleim: Thank you very much. And my last question would be on acquisitions and service in China. I think we saw a turnaround in terms of communication in the last quarter. Have you made any progress in terms of staying on targets? Is this something you can report on or this is something that has been continued?

Henrik Ehrnrooth: As you said. Again, we grew our maintenance base by about 25% in China. So we are growing really well there organically. That is our objective in the maintenance business in China is to grow organically. In other parts of the world as you know particularly in Europe and North America, we continue to be very interested in finding also acquired growth.

Daniel Gleim: All right. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: The next question comes from Tomi Railo of SEB. Please go ahead.

Tomi Railo: Thank you, most of my questions have been answered. But coming back to the Chinese maintenance, can you be a little bit more specific in terms of absolute level for example, how much the maintenance business for you is in China because I would assume that it surely must be bigger than around about 10% of your revenues as you suggested, even the growth, you also commented?

Henrik Ehrnrooth: Yeah, now also we grew our new equipment business quite nicely. So, of course that – it's mostly relative how the two are growing. But yeah, it's roughly 10% of our sales in China and yeah, roughly to – that what it is. It's been growing nicely. I said in revenues, we grew at very solid double-digit numbers in monetary value and maintenance base of about 25%.

Tomi Railo: Okay, thank you.

Operator: The next question comes from Glen Liddy of JP Morgan. Please go ahead.

Glen Liddy: Good afternoon. Two things. Firstly, in America, the aftermarket growth service business is much lower than your early installation growth. Is that purely the timing of when your new instillations have the service contract included for the first period and then the great pickup later or is it the competitive landscape in the half the market much tougher?

Henrik Ehrnrooth: I don't think it's those. I think it's actually – we're conversing very nicely everything that we all are installing in North America. And as you have seen, we have grown very strongly there. But it's just the absolute numbers of new equipment; the whole market number of units is actually not that large. The monetary value is quite high. And then it's not that big of a percentage of the installed base. If you think about the new equipment market, it is maybe in North America per annum, little bit over 3%, but less than 4% for the service base. Just you have to put those two in perspective.

Glen Liddy: Thank you. And the other thing is your balance sheet. I mean, yes, you've increased dividend quite nicely. You still have a phenomenally strong balance sheet. Are you still hoping to be able to do some larger acquisitions?

Henrik Ehrnrooth: I think it's pretty clear what starts – what was our ambition is that we like to do – we think it makes sense. We think that there could be some attractive targets. But as we said before, you need both a willing buyer and a willing seller. We are definitely interested to expand. We continue to do acquisitions. And in this environment, we think it make sense to maintain a strong balance sheet. But at the same time, I feel that we are also proposing a very attractive dividend.

Glen Liddy: Okay. But the mentions were also saying a year ago and the potential targets that we can see don't see any more likely to change their vision of their business anytime soon. So, do you see something different today to what you saw a year ago?

Henrik Ehrnrooth: Not necessarily. I don't think it makes sense to comment on individual cases, but things change and –

Glen Liddy: Sure.

Henrik Ehrnrooth: And hopefully this just shows what our desire and ambition level is. And so far, the determination of Board of Directors has been it makes sense to maintain a very strong balance sheet.

Glen Liddy: Okay, that's great. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: The next question comes from Erkki Vesola of Inderes. Please go ahead.

Erkki Vesola: Thank you. I would have just a clarification question. You have abandoned the previous practice of providing a numeric EBIT guidance for this year. Could you briefly walk us through the reasons why you made such a decision, I mean considering the order backlog size and the visibility at those margins, is there an increased uncertainty somewhere else or is it all about raw materials prices and for uncertainty we have already discussed?

Henrik Ehrnrooth: No. Actually, the reason is the fact that we are now stepping in – starting from 1st of January 2018 with IFRS 15. We're just changing the way we recognize our revenue. We want to get out the comparable numbers for 2017. We started coming out in March. And as we get those out, then we give guidance compared to the – comparable numbers as we announce our results in conjunction of third quarter. So, that's the reason for it.

Erkki Vesola: That's very helpful. Thank you.

Operator: Thank you. As a final reminder, to ask a question, please press star one. We will pause just a moment to allow you to signal. Our next question comes from Lars Brorson of Barclays. Please go ahead.

Lars Brorson: Hi, Henrik, just a couple of questions for clarification. I'll keep it short. But I was struck by the 20% growth Indo-China maintenance business in Q4. I think we have talked about sort of a growth deceleration over the course of 2017 down towards what I understood; it was a very low double-digit growth in Q3. Obviously, I don't know what the comparisons are year over year. But am I right to a) say that the growth here has accelerated towards the back end of 2017; and b) am I right in saying it's primarily driven by your modernization business or are you separating that out from the service quotes you're talking about when you talk about service – sorry, when you talk about claims and growth?

Henrik Ehrnrooth: So, what we've said that – first I would say yes, we accelerated growth towards the end of the year, not number one. Secondly, we are talking only about the maintenance business here, not about modernization. And when we talk about revenue growth, it was in the strong double digits. And then when we look at maintenance space, it grew by 25%. And then as I commented earlier, why is revenue not growing as fast as the maintenance space because of the significant part of revenue has come from the first service period and that is of course more – now stable because of stable new equipment deliveries.

But yes, we did accelerate towards the end of the year. So, we had a strong finish also here for the year. Maybe you asked about – so from a modernization point of view, we grow faster clearly. So, it's about 30% in the quarter.

Lars Brorson: That's clear. I just wondered whether Henrik you could elaborate very briefly on beyond the fact that first service period is less of a drag today, what is really driving that underlying growth. It's quite impressive that you're growing at these rates now and you mentioned business despite what we've been through for a service standpoint.

Henrik Ehrnrooth: I would say we have a strong and good service business in China. And what I think is important is that what we've talked about is that on the developer side, the Chinese market is consolidated which can create more competitiveness on the new equipment side. But these large developers, they clearly need a good service because they have a brand to protect. They want to compete with each other and for them, a high-quality service, a reliable service and reliability is extremely important. So, they actually are more of a service and that is clearly one of the ways we differentiate because of the capabilities we have in service, the scale of our service business and the quality of our service. So, those are some of the things that are driving it.

Lars Brorson: That's helpful. Just finally on your OR margin, could you help me quantify how much of that margin's stabilization you saw on Q4 was due to the pricing actions; so the 7% I think you mentioned in China, new equipment versus how much is really down to other self help measures working with suppliers et cetera?

Henrik Ehrnrooth: Always those things, you need to get – the 7%, that was just the difference between volume. The volume was pretty stable, but monetary value was up 7%. That is all clearly different in mix compared to last year end pricing. Most of that was pricing. And the stabilized margin, you need to move the price up and you need to manage your cost and I think we did a good job in both ends.

Lars Brorson: On that basis, do you think you can offset all of the $100 million raw material headwind you're facing in 2018?

Henrik Ehrnrooth: That is quite a tall order, but we're of course fighting, it's still lots to go for the year. And we have to see where we end up for 2017 where we have to compensate a bit part of the headwind of course. But then, you say why did our margin go down. Well, clearly that was the impact from pricing that had happened earlier and was in our order book.

Lars Brorson: Understood, thanks.

Operator: We will now take our final question today from Tom Skogman of Carnegie. Please go ahead.

Tom Skogman: Yes, thank you. I hope you could just quantify the P&L impact on the cost savings in 2008 and ’09 than it looks now and how large share of that comes from the equipment and then finally can you elaborate a bit about the productivity improvement of the equipment side that you're implementing this year?

Henrik Ehrnrooth: First, let me answer this in a few ways and I’ll hand over to Ilkka. When you talk about productivity on equipment side, we have productivity in all parts of business. There is something we do year in, year out and it’s a must. Always, there are precious salary costs going up and other cost pressures. And we need to of course – the pricing and productivity. That is a constant in our business and we’re getting it everywhere. And we’re making pretty good progress in many areas on that and that we will continue.

Second one, we have our Accelerate program which is about speeding up our strategy. Biggest impact of that will be how we can increase our growth going forward and that's where we get back to profitable growth, but also it has cost saving impacts. And, again, if you highlight how much you expect this year costs and run rates and so forth.

Ilkka Hara: We don’t – to summarize what I said earlier, so, from a cost saving perspective, we’re not expecting much savings in 2018 yet to materialize. But we’re expected to get to a place where the run rate impact of those savings is about $50 million at the end of 2018 and delivering on savings in ’19.

Tom Skogman: Okay, thank you.

Operator: There are no further question –

Sanna Kaje: Thank you very much for the active discussion again. I would like to close the event for today and wish everyone a nice rest of the week. Thank you.

Henrik Ehrnrooth: Thank you.

Ilkka Hara: Thank you.

Henrik Ehrnrooth: Bye.