**KONE H1 2019: Half-year Financial Report for January-June 2019**

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Operator: Good afternoon and welcome to KONE's Q2 Results Presentation. My name is Sanna Kaje, and I'm the Head of KONE's Investor Relations. As always, I have here with me today our President and CEO Henrik Ehrnrooth and CFO Ilkka Hara.

Henrik will first present the Q2 highlights and tell you a bit about what's happened in the market. Ilkka will then take a closer look at the numbers and Henrik will conclude with the outlook statements. After that, we will have time for your questions. Henrik please?

Henrik Ehrnrooth: Thank you, Sanna, and also a warm welcome to our Q2 results announcement. It's my pleasure to announce or to review our results today because we have many good news to share today in this presentation.

I'll start with the highlights. In the second quarter, we had very solid growth of orders received. That was really the highlight was that our margins of our orders received improved. Also, we continued a strong momentum in modernization. Sales growth continued to be very strong, which has actually been now already for several quarters

I'm also pleased that our adjusted EBIT is back on a solid growth path and the development in the first half on the second quarter is very much in line with our full year targets and what we had expected. So, I think that was a good performance as well.

As usual, let's start with the key figures for the second quarter. As I mentioned already at the highlights where really our orders received and also that our adjusted EBIT is back on a solid growth path. Our orders received was €2.3 billion of growth 8.1% in comparable currencies. That is good growth rate in this environment.

Also, we have a very solid order book €8.4 billion has grown at 5.9% year-over-year. Also, good growth in sales. Sales was about €2.5 billion and growth of 7.9% in comparable currencies. Our operating income grew from €280 million to €306 million. Our adjusted EBIT, which is a key performance metric that we follow in profitability was €320 billion compared to €300 million last year, so growth of 6.4%. However, our adjusted EBIT margin continued to decline slightly, although we can see that the pressure margin is lower than in prior quarters. I think we're going into a better direction here. Cash flow was at a solid level of €324 million, not that strong, at a very strong level we had a year ago. And also, EPS grew at about 6% to €0.46.

As we've always said is that one quarter is a very short period of time and always better to have a longer perspective of the performance, and now we have half year behind us. I would say the story for the first half year is very much the same as for the second quarter; in particular, very strong orders received for the first half. Orders received of €4.4 billion, 8% growth year-over-year.

Also, good growth of sales, sales about €4.7 billion and 7.7% growth in comparable currencies. Operating income grow €492 million to €522 million. Adjusted EBIT from €519 million to €548 million. And here we can also still see slight pressure on our adjusted EBIT margin. So, the first half year, we had a very strong cash flow of €701 million and also earnings per share €0.78 compared to €0.77 a year ago.

We all know that our whole industry has faced a lot of headwinds over the past years. We've taken a lot of actions in response to those headwinds, and we can see that we are going very much in better direction; we can see that from our orders received. And all of this is again down to the great and hard work done by all of KONE's employees. So, once again, I'd like to thank them for the great work that they have done in driving KONE forward and improving company as we are.

So, let's go into some of the highlights for the second quarter. As many of you probably remember in the past quarters, I have talked a lot about how we differentiate through our new services and solutions. We can see that our competitiveness is strong, and that is really the background to our strong growth in orders received, and also to the fact that we've been able to improve the margins of orders received.

Now, to drive overall competitiveness, it's clear that you need strong services and solutions. We talked a lot about those how we continue to develop and drive differentiation here. But to be competitive, it is not enough just to have great services and solutions. This is also very much about execution, how we deliver on our promises to our customers. And we can see that this is definitely one of the very strong ways how we differentiate and one of the reasons of how we have grown so well over the past both in 2019 but also 2018.

Why is that? Well, we've put a lot of emphasis which is I will say very much down to KONE's culture in how we constantly meet and exceed the promises that we have to our customers. And we have taken further action in improving this and making sure that continues to be even a stronger competitive edge. We have developed a lot further how we manage our installation resources, how we drive project management, and also processes and tools to help all of our employees out in the field.

We are making progress here. I believe this is a strength of KONE. It's really who we are. And all of this how we execute, what's our customers, our service and solutions that is of course what forms the KONE brand, which I believe is very strong and helps us grow very well in our markets.

A little bit on how we develop KONE and give a little different perspective than in prior quarters. We also have some another changes during the quarter. A few weeks ago, we announced some changes in our executive board. This came as a result for the fact that Heikki Leppänen, who has been leading our New Equipment Business since 2005, decided to retire.

Heikki has very successfully managed and driven KONE's new equipment business since 2005 from a clear challenger in the market to a clear market leader now where we are in new equipment. So, during Heikki's period as leader, KONE has taken a fantastic leap, so a huge thank you to him for all his contributions. And I'm also very happy to have Tomio Pihkala taking over Heikki's role as the new head of our new equipment business.

Tomio has a very broad and strong leadership experience from within KONE. He has had many roles; of course the latest three and a half years he's been our Chief Technology Officer. He has also broader experience within research and development. But in addition to that, he has been leading our product strategy and marketing in China. He has been leading our service businesses in China. He has also been leading our installation quality functions globally, and now this. So, I think he has a very broad and very strong experience takeover. I'm very happy to have Tomio taking over our new equipment business.

I'm also very happy Maciej Kranz joined KONE. He joins us from Cisco where he has had a very long and successful career. The reason we decided to go external and hire someone from outside of KONE as our new Chief Technology Officer was that we can see that the way the world is developing. We wanted to augment the capabilities we have within KONE. We can see that ecosystems are becoming much more important.

To differentiate, we need to develop much more in our ecosystems together with our customers and we can see that to differentiate, you need both good products and how you combine those with digital services that helps your customer succeed in their business. This is where Maciej has a very strong and successful background. So, I'm very happy to have him on board taken the role of KONE's Chief Technology Officer as of 1st July when Tomio took his role as our Executive Vice President for new equipment business.

So, those are some changes within KONE and how we are developing KONE overall. As usual, let me next touch on the external market environment. Starting with new equipment business, I would say overall the new equipment business has developed slightly better than we would have expected earlier in the year.

North America, Europe, Middle East and Africa has developed very much as would have expected markets overall stable, although variation within those markets. Asia Pacific has grown slightly, and perhaps what has developed better than we would expected is China where we had expected markets to be pretty stable, and now it's grown slightly in units. Also, Southeast Asia, India has grown just like growth overall in the market.

Services markets have developed very much as would have expected. Maintenance growing everywhere; of course, the strongest growth in Asia Pacific, a slight growth in Europe and North America. Modernization European or Europe, Middle East and Africa has returned to slight growth, perhaps slightly better than Middle East than previously North American continues to grow slightly, and then strong growth in Asia Pacific overall.

As usual, let me touch a little bit on the Chinese property markets. We know that it's a very important and large market to us. And as I mentioned already, market has developed slightly better than we would have expected earlier in the year. And if you look at the number of units order, the markets has grown slightly year-over-year. Also, pricing has been fairly stable.

Now looking at the property market overall, we can see that there has been lot of balancing from a government perspective of restrictions, and maybe some stimulus. And we can see that the construction activity has remained high. But to put it in perspective, we can still see that it is much more restrictions in the market than what has been stimulus. I would say that there's been some restrictions selectively eased in some places immediately we've seen then growth come through.

But as I talked about the construction activity, real estate investment continued to grow at 10% year-over-year, although sales volume of real estate is slightly down, but prices are up. We can see that there is strong demand and is because of this now, again, clearly increasing prices that we have seen again clear view from the government that they want to control housing prices to avoid any speculation to occur.

Also, one of the other important trends that we talked a lot about is the consolidation amongst the top property developers. The top 100 property developers in China they now represent in, if you look at just number square meters built, more than 50% of the market. That is more than doubling of their market share in the past three years. This consolidation has many implications for us. We could say it has been positive because we have a strong position with the top developers. That is one of the reasons why we have grown so strongly in China. But clearly, competition is tougher amongst this, but also, they are demanding and they do appreciate very strong field execution, strong services in combination with good products. And we can see that our competitiveness is good in that field. That's why we have grown so nicely in that area.

There's a little bit perspective also then on the external market. Let me next hand over to Ilkka and talk a little bit more about our financial performance and what is behind it.

Ilkka Hara: Thank you, Henrik, and also warm welcome on my behalf to this second quarter results announcement webcast. I'll go through our financials in more detail and start with orders received development.

Orders received in the second quarter reached €2.3 billion in the quarter representing a 9% reported growth, and on a comparable basis 8.1% growth in our orders received. This development was driven by China as well as Americas. And if I look at the orders that received development in China, we saw significant growth in our orders received both in units as well as in monetary value.

And when comparing year-on-year, we saw like-for-like prices having a slight positive impact as well as mix having a slight positive impact to the monetary value. Also, as highlighted by Henrik already earlier, we saw in the second quarter, the margin of orders received having improved slightly. And this development was driven by an improvement in our prices. Clearly, something which we've worked for quite some time hard and it's good to see now the price is having a positive impact to our orders received margin.

Then looking at sales. So, in the quarter we saw sales at €2,541 million, which represents a 9% reported growth, and on a comparable basis that is 7.9%. If you look at the growth what is good and it's broad-based. If we look at the business lines, modernization having the strongest growth at 13.7%. Also, new equipment contributing at 8.1% as well as maintenance growing at 5%.

From a geographical point of view, we saw the strongest growth in Asia Pacific at 9.6%, which was driven by strong new equipment deliveries in China. In China, we saw our sales growing more than 10% in the quarter. But also, Europe, Middle East, Africa grew 6.8% as well as Americas at 6.6% in the quarter. So, overall good broad-based growth in our sales.

Our adjusted EBIT grew to $320 million, which a year ago to 6.4% growth. And as highlighted by Henrik, our EBIT margin was at 12.6%, so slightly down from last year, but clearly closer to last year's level than we've seen in the past quarters. Our adjusted EBIT development was driven by growth driving an improvement in adjusted EBIT. At the same time, profitability had a slight negative impact.

And as indicated already earlier, the cost headwinds are more pronounced in the first half of the year impacting our profitability. Currencies had a positive €3 million impact as well as IFRS 16 having a €2 million positive impact to our results. In the quarter, the cost from in our Accelerate program were €13 million impacting our EBIT in the quarter.

Then lastly cash flow. We saw continued strong cash flow in the first half of 2019. And our cash flow reached €701 million. Our net working capital contributed positively driven by strong advances received as well as progress payments from our customers. And when you look at the comparison, it's good to note that IFRS 16 had a positive impact of €58 million to our operating cash flow in the first half of 2019.

With that, I'll hand it over back to Henrik to go through markets and business outlook for 2019.

Henrik Ehrnrooth: Thank you, Ilkka. To wrap up with our outlook for the rest of the year. To start with the markets outlook overall. Here, we have slightly changed our new equipment outlook. We now expect the new equipment market to grow slightly to be stable for the full year.

The background for these changes that's now in China, we previously expected the market to be stable, we now expect it to be stable or grow slightly units ordered, and that's really because of the better development in the first half, and rest of Asia Pacific to grow slightly as well. North America, Europe, Middle East and Africa rather stable.

In maintenance markets nothing new, continued to see growth with the strongest growth in Asia Pacific. And in modernization also slight growth in Europe, Middle East and Africa, North America, and strong growth in Asia Pacific, so very much the same trend as we saw there in the second quarter.

KONE's business outlook, we have specified that we now have six months behind us. So, we clearly have now narrow the range little bit, which we have done. Sales, we expect that to be in the range of 4-7% at comparable currencies. Previously, we expect that to be 3-7%.

Our adjusted EBIT, we now expect it to be in the range of a €1,170 million to €1,250 million. Previously expected to be in range of €1,160 million to €1,260 million. What's also changed is that connected with Q1 results, we expect that currencies would contribute €30 million positive. Now that's slightly less positive, so it's about €20 million.

If you look net-net at our adjusted EBIT range, if we keep currencies out of the picture, we have actually taken slightly up on the bottom end or range. Now, really, I would say it's a tighten specification of it. We continue to have many areas that are driving our performance, a solid order book where now margins are starting to improve, our service business how that's developing and growing, and a continued performance improvement that we're driving.

Accelerate savings as we have talked earlier about €50 million for the full year, slightly more impacting second half than first half. But there are also areas burdening our results, raw material prices and credit tariffs so its €50 million, and also then labor and subcontracting cost increases, which have been higher than we would have expected earlier particularly in Europe are cost of burdening the result overall. And I would say first half, very much on track for this outlook.

So, I would say just to wrap up before with the question, we can see that our broad-based competitiveness is helping us driving a good growth in orders received and now also margins improving. That's very good. The results that we had for the first half sets us up very well to be on track for the full year targets that we set. With that, very happy now to go to your questions.

Sanna Kaje: Thank you, Henrik. Now is the time for questions. So, operator you can start taking the questions from the telephone line. Thank you.

Operator: Thank you. If you would like to ask a question please press star followed by the digit one. If you're using the speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, star one to ask a question and we'll pause for just a moment. And we'll take our first question from Lucie Carrier with Morgan Stanley.

Lucie Carrier: Hi, good afternoon. Thanks for taking my question. I have three question actually. I would go one at a time. The first one was actually around the margin. And I was just trying to think about that a bit more conceptually. So, you now have I would say China kind of strongly back on track after a couple of years, where the market was with high price pressure relatively low orders. The drop-through however, if we can exclude FX, raw material and so on is still quite low in the quarter. I mean this is still below 10%. What should we reasonably think as a normalized drop-through for the business I would say if we consider the China market to be in the current condition that it is now, which is I think it's probably a bit surprising for most people to see how your margin is continuing to drag despite the recovery in China? So, that's my first question

Henrik Ehrnrooth: So, I'll let Ilkka comment a little bit more in detail on this. I would say of course, you always have fluctuations from quarter-to-quarter in margin. When we look at it, yes, we were still slightly down year-over-year, but if you also look at it, the drag that we had was now slightly lower. If you look at our outlook, then we think we have a good potential to have a better performance second half of the year, but I don't know Ilkka if you want to go deeper into that question.

Ilkka Hara: Well, what I would add to that this is always quarter-by-quarter, there are some fluctuations. And for example, in this quarter overall, we had a bit more larger projects as well as modernization, which both of them have a slightly less lower profitability impacting overall the margins. And at the same time, I think what we indicated earlier was that the forced headwinds, especially the raw materials are more pronounced in the first half, and that's also impacting the margins in this quarter.

Lucie Carrier: Understood, I appreciate the variation quarter-by-quarter, but when we think about a normalized drop-through for the business not on a specific quarter, but if we kind of look at it more on an annualized basis, considering all of the efforts you've also made with Accelerate and so on, what should we think in terms of like normalize drop-through for the business in a normal condition?

Henrik Ehrnrooth: I can't comment exactly on the drop-through rate. We don't necessarily look at it exactly that way, but I understand your question perfectly well. I would say our margin in China is higher than that, but of course, as I said you have fluctuation in other businesses. And as Ilkka mentioned more organization now in larger projects, but compared to the number that you quoted, drop-through should be and is higher.

Lucie Carrier: Thank you. My second question was around the China market, and thanks for all of the details you've provided. You are of course quite closer to the property market, the developers and so on. If I look at your guidance especially on the topline and some of the comments you made, I just was curious if you – if this is a short-term concern for you that maybe we could go back to tightening considering the increase of prices we've seen since the beginning of the year in the property market. Is that something that concerns you and maybe one of the reason why you may be not increasing a little bit more the guidance on the top line considering the first half we've seen which was very strong of course?

Henrik Ehrnrooth: As you also know that the actions by the government, which I think overall they steered it quite successfully, the market, it has a clear impact. What is also in the second half, what we don't really know exactly what the outcome would be with China celebrating the 70th anniversary now in October, we may see a little bit longer national holidays for that. So, there are a few uncertainties like this that we're not quite in the clear how much they will impact.

I think even if you look at our outlook range, if things go really well, we can see similar development at the first half. But also, if you have more tightening and more impact of this Golden Week holidays then we could have some impact so. But I don't think that we're talking about massive differences H2 compared to H1, but let's see.

Lucie Carrier: Thank you. And just my last question, I think you were on the press call earlier and you were saying, and you said that before that you would be happy to take part into industry consolidation. Just on that kind of wording and what that means precisely. Would you see from your standpoint when you think about consolidation, does that necessarily mean being a majority owner in another company or in a combined business or, actually, could you see consolidation also happening via what I would call more innovative structure, maybe consolidating certain functions or part of the elevator business?

Henrik Ehrnrooth: I would repeat what we have consistently said that our industry continues to be quite fragmented overall, and therefore we continue to see that there would be benefits of consolidation. That could clearly happen in many different ways. You have some bigger players, but also you have midsized players, many of them in Japan or Germany or Spain.

I think our comment is that we would be interested in participating in these. Clearly when you think about consolidation, then you more think about taking control or another company, whichever it may be. Of course, one could always think about more innovative structures, but I think that is what we have said and that is how we conceptually think about the situation.

Lucie Carrier: Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: And next we'll move to James Moore with Redburn.

James Moore: Yeah, good afternoon everyone and thanks. I too have three. I'll go one at a time as well please. Firstly, remarkably strong double digit order volume growth in China, and thanks for your commentary on the property market. One of the things you perhaps didn't mention is that China land sales from the data I see seem to be down 40% year-to-date. I don't know if that's a data point that you follow whether you think it is a lead indicator and whether you see a softer pipe coming in from land sales through the developers or not.

Henrik Ehrnrooth: If you look over the past years, the land sales of course, is if you look over a longer period of time, it's something that developers need to have landbanks to develop. That's clear. We understand that they have quite ample landbanks to develop at the moment, and that can fluctuate that land sale number quite a lot month-to-month or quarter-to-quarter. I think that's something worthwhile to follow on a longer-term basis, and that's been quite a –

If you look at the development over longer period, you can see as a leading indicator, but not shorter, but quite a longer-term leading indicator. That's at least the experience that we would have of it.

James Moore: Very helpful, thanks. And secondly on your US modernization business seems to be going very fast. I just wondered whether there's something specific individual project, etc., driving that or whether it's more a function of a sustainable market environment that you think can continue. Basically, what is your US modernization outlook after this quarter?

Henrik Ehrnrooth: As we say, the market is growing slightly. Clearly, we have had a good development in the first half there. Yes, there were some larger projects, but as you know, sometimes you have them, sometimes not. And if you have them, you're probably going to have even a little bit more growth. But the point is that it's not only one individual project or projects, it's more broad-based than that. And the team, they have done a great job.

James Moore: Thanks. And then lastly, I think last time I caught up with [inaudible], your digital service offerings were progressing well. I think 24/7 was less than 5% of maintenance sales. KONE Care a bit over 5% of maintenance sales with KONE Care being 10% penetrated in Europe. I wondered if you could update us with how that's progressing or in terms of rates of growth. And I think you've got to the point to breakeven previously. Are you now starting to see some EBIT's contribution yet?

Henrik Ehrnrooth: New KONE Care of course, we have had a market for more broadly for a longer period of time, and that is how we operate in Europe today, and we have also then started in many Asian countries to introduce it now. I would say that, that is something that is there what we sell, particularly in the residential, I would say standard volume side. That is what we sell today. So, that's been developing very nicely and we continue to see the benefits we've seen before.

24/7 Connected Services, yes, momentum is good. Clearly, it's taken time to introduce into the market to get both our own organization, our customers used to it, we start seeing the benefits. Many customer start smaller testing it; when they see the benefit, then they take it more broadly.

And as you know, we have taken a very clear view these are not services that we just give to our customers. These are value-added services that helps our customers run their buildings or facilities much better, and therefore, we sell them as a commercial offering. And when you introduce with this way of working, it takes a while, but we're constantly building momentum and we can see that the customer take-up is very good.

So, in the countries where we started earlier, there again momentum is stronger, but we can also see that it takes time to really penetrate every market. But I'm actually quite pleased how we see progress going now. And we haven't said that we're probably at the level where we're covering our cost and maybe a bit more of that, but I think that's pretty good for a totally new service that didn't exist a couple of years back.

James Moore: And in terms of growth rates, is anything you can share? Are we growing at 50%, a 100%, 10%? I have no idea what speed this is.

Henrik Ehrnrooth: The growth rates are very strong. But of course, we're starting from a pretty low level. So, therefore, I actually don't have the exact growth rate, but they are very strong. But I think in the beginning when you have, when you start from a low level, you need to just see all the time how you're building momentum and how many absolute units you have because in the beginning, you would by definition have very, very high growth rate.

James Moore: Thanks Henrik.

Henrik Ehrnrooth: Thank you.

Operator: And next to move on to Andre Kukhnin with Credit Suisse.

Andre Kukhnin: Good afternoon. Thanks so much for taking my question. So, I'll go one at a time as well. Can I start with the China competitive environment and ask you whether you noticed any changes in that as you kind of progressed through the quarter and towards the end? I have realized the comment that you put out is very similar to before competitive in large projects, but overall on the quality[?] trend, just wanted to check if that changed at all in terms of kind of month-to-month gains?

Henrik Ehrnrooth: I don't think it has changed month-to-month. We know that the competition continues to be very tough there. There are a lot of large and also midsized players, and, of course, everyone is working very hard to win more business over large developers. So, their competition is tough. I wouldn't say that it would have changed and – I do not expecting it to change very much from where it's now. But overall, I'm actually quite pleased how we've done in this environment.

Andre Kukhnin: Indeed, and just to follow-up on this, in terms of the kind of smaller local players' behavior, just to double check that you have noticed changing either?

Henrik Ehrnrooth: No, but it's clear that many of the small players, this environment is very tough for them. There's no question about that.

Andre Kukhnin: Right, okay, great, thank you. And just while on China, I was just going through your disclosure on percentage of sales from the country and trying to compare the quarter year-on-year. And it sounds like after a very strong growth in Q1, Q2 is more small down if I got the numbers right. Could you give a bit more color on the revenue development in China in H1?

Henrik Ehrnrooth: China overall grew faster in our group revenues, so the share of China has both in Q1 and Q2 is slightly increased. Your thoughts – any thoughts?

Ilkka Hara: So, we had a very strong sales growth in China in first quarter. Now, we did grow also in second quarter now more than 10% our revenue in China. So, as such its share of the revenue is increasing.

Andre Kukhnin: Go it, thank you. I'll double check that. And just a much broader one on China and slightly following up on the question of profitability before. Could you give us some idea on where is China profitability although now versus the peak? I mean we got some numbers that suggest that the peaks were somewhere in high teens and we are now in low teens. Is that kind of right ballpark that we have five, six, seven points off from the peak levels in terms of China profitability?

Henrik Ehrnrooth: Instead of going through specific numbers, it's clear that China peak profitability was probably back in about 2015 or in 2016, and it's clear that we've come down a fair bit from that. Having said that, China profitability continues to be good, but it's clear that it was at an excellent level back then, but still it is good. And it is many percentage points that it has come down in that time, and that's of course the main reason for headwind on our margin. But as we said again, I think we are now in a more stable situation, and we're starting to go in a better direction overall.

Andre Kukhnin: And do you see any structural reasons to not get back to the previous peak or kind of at least halfway there?

Henrik Ehrnrooth: Clearly, that's what we're working on all the time. And the way one can do it is that we need to make sure that we can constantly differentiate more. We can command a premium because of very good service we provide to our customers and all of those things. But clearly, it's a super competitive market and I don't think that's going to change. And we just got to continue to work super hard to build our brand and continue to develop our business there. But that's what we do day in day out.

Andre Kukhnin: Got it, thank you. And if I just may, very final one. On a large consolidation opportunities, the question we've been getting more is the long lines of – is there an absolute backstop for you even in a position of being an entity that is capable of generating most synergies; is there a kind of a numerical backstop for you at which you stop and say okay, this is not for us and walk away, or in this very strategic deals environment you would be happy to push all the way?

Henrik Ehrnrooth: I'm not going to promise any specific things, but of course there is. We can see, again, from this quarter and how we are now growing orders received and improving margins and our competitiveness is in a good shape. So, we can continue as we are. But at the same time, if there are increasing consolidation opportunities, clearly, we are going to be interested in those. But, of course, at the same time, as always, you need to be comfortable with what you buy.

Andre Kukhnin: Got it, thank you. Thanks for the time.

Operator: And next we move to Daniela Costa with Goldman Sachs.

Daniela Costa: Hi, good morning or good afternoon. I wanted to ask two things basically. I wanted to follow-up back on margins, and, actually, some of the comments on the prior question, is clearly your margins have come down in China. Can we attribute all the margin drop that we have seen in the group just to China or if you look that individual components on other regions and products categories? Is there any other place where you have seen a more structural margin pressure?

And then one small question just looking at raw materials, and how they've been developing lately, would you see a tailwind even perhaps towards the end of the year or the beginning of next year? How – because your guidance stays the same, but obviously raw materials have moved quite a lot since 1Q. Thank you.

Henrik Ehrnrooth: Thank you. Firstly, give you a little bit perspective on your margin comment. I would think that there are a few different things at play here. First, we know that when the China market started to decline in value, but also in units, we could see a tougher competitive environment both in China but also globally. Clearly, the whole global market were smaller everyone was fighting for that share.

But I would say clearly if you look at the individual market where the price pressure was the toughest historically, that was clearly China. But at the same time we had several years of raw material cost summing up, and that's of course impacted business globally.

Now as we see, it takes a while, but now we are improving those margins over the orders received, we're starting to get up prices that – it's been hard work and we're getting there. So, I would say it's a combination of cost headwinds – and then what we saw back in I would say 2015, 2016, 2017, particularly pricing in China.

Ilkka Hara: Question, the second part was the raw material question that you had. So, overall, our comment is the same. So, we still see raw materials combined with the tariffs having a little bit less than €50 million impact to 2019. And I would say that raw materials actually have been relatively volatile lately, but we had a pretty good visibility through the reminder of the year. So, in that sense, let's see how the exact deliveries and which project gets completed that has some impact. But relatively good visibility to 2019 on the prices.

Operator: And next we move to Omid Vaziri with Jefferies International.

Omid Vaziri: Yes, thank you for taking my questions. There are two in fact. First of all, I wanted to touch base on the recent trend of more increasingly orders that have been made up of a very large infrastructure orders. I was wondering if you tracked and have available to provide to us what portion of orders today that's in very large infrastructure projects. And from your view, could this make your earnings profile lumpier? Could this make cash flow profile lumpier going forward?

My second question is in relation to the modernization market and in China in particular. What's the size of the modernization market there? Do you have the figure at hand available and how do you see it specifically growing within China?

Henrik Ehrnrooth: Let me start and Ilkka then fill in to my answers. The infrastructure market is not one of the larger segment in our industry overall. So, maybe because when you get orders, they are not that many of them and they're usually with size that we announced, and therefore it may seem that it's a high share, but – actually when you had number, but it's not very high share of our orders received overall, and that hasn't changed meaningfully. Probably a little bit up, but it's not a meaningful change there.

Ilkka Hara: And I think from a revenue perspective given, that we have a percentage as a completion so it's – I see less lumpiness there. And also from a cash flow perspective, there's probably a bit tougher commercial terms on those, but it's not the major driver for going forward on volatility in my mind.

Omid Vaziri: Okay, thank you. So, is that a function of the size, but also the timing of delivery that in your view makes it less lumpy than other revenue, other projects?

Ilkka Hara: What I was saying is that we have a percentage of completion. So, as these projects, they also have ongoing work and they're taking the longest time, but we constantly recognize the revenue. And similar to other contracts as we progress, then we also get payments from the customer. So, in that sense, I don't see that big of a volatility coming out of from them.

Henrik Ehrnrooth: And the other question was related to the Chinese modernization market. Overall, it's quite a small share of China. Still today for us, it's only some percentage points of our sales. However, it is growing very rapidly. And again, that was one of the drivers of our modernization growth that we have very fast growth in China, in that business. But it's still coming from quite a low level.

Omid Vaziri: Okay, thank you. Would you agree that it would – the very large infrastructure projects can still make your order development lumpy?

Henrik Ehrnrooth: If you have some of the really large infrastructure projects, they may – they are going to have some bigger impact on the orders received, and that's one reason for orders received. It can fluctuate a little bit quarter-to-quarter. But if would look at Q2, in fact, it was actually modernization, our volume business that was growing more than the new equipment major projects. But clearly, if you get some of the really large ones, it can have little bit of impact, but it's still, I'm going to call it very meaningful.

Omid Vaziri: That's very interesting. Great, thanks very much for that.

Operator: And next we move to Lars Brorson with Barclays.

Lars Brorson: Thanks. Hi Henrik, Ilkka, Sanna. Three questions from me. Henrik, if I can start with your backlog margins or orders received margins, encouraging to see those point up was now for the first time in five years, so well done for that. I was curious as to, A, the order of magnitude of that. Tens of basis points, or what are we talking about, any color will be helpful. But also, if you could break down the key components of that, is this purely a function of price cost or are you seeing a more meaningful impact from modularity and other improvements around your cost of goods sold?

Henrik Ehrnrooth: So, first of all, it would only be some basis points. That's still flat because it will have fluctuation always quarter-to-quarter. So, clearly, we are – when we comment this, then we see a change. And it will have an impact rather than a comment exactly how big it is because you always see fluctuation quarter-to-quarter. But clearly, we are we are seeing improving margins of our orders received.

You always have a combination of price and cost. I would say in this environment where we are, the majority, the biggest part so this is clearly pricing improvement. Again[?] talks about strength our brand and our competitiveness.

Lars Brorson: Understood. Thank you. Secondly, if I can ask to your European modernization market, curious as to the raised outlook. I know again the rate of change is small, we're going from stable to slight growth. But directionally I was a little bit surprised to see some of your core Northern European markets perhaps getting a bit weaker in terms of the indicators. I look at Scandinavia, UK. So, I'm assuming that what you're seeing in that market is perhaps more driven by Middle East, Southern Europe. Can you help me a little bit with what's driving that raised outlook?

Henrik Ehrnrooth: What I would say exactly as you mentioned, it's Middle East is somewhat better. South European markets also have a bit of life in them, so yes. This is not a big change I would say. Magnitude-wise, we do not talk about the big change from being stable to slight growth, but perhaps Middle East is the biggest area where we're seeing some better development.

Lars Brorson: That's helpful, Henrik. And then maybe finally just on China on the market outlook. I don't think great surprise to see a raised outlook. But I wonder how sustainable you think it is. I mean I get the top down picture; house price inflation running suddenly in the double digits, government tightening probably more to come second half this year. I wonder what you're seeing from a bottom-up standpoint in terms of the sustainability of that improving outlook. I mean we've heard some of your developer customers asking for very fast delivery times with lead time down two weeks I think in some cases. What do you read into that and what do you see from a bottom-up standpoint in terms of the sustainability of a slightly better market in the first half?

Henrik Ehrnrooth: I would think that when I think about the market overall, I would think that from the top down perspective and there the comments that we had are very much irrelevant. And let's not speculate about next year, but I would still see that we have still a lot of restrictions in the market. And you can see that immediately it's even slightly loose in these restrictions we see growth coming through. So, that indicates that there is demand underlying that.

But, of course, the government is very focused on making sure they avoid speculation. Now then as to developer how – why are they looking for shorter lead times. I think they're looking for speed. They're looking for efficiency all the time and the faster they can be, of course, they're going to preserve cash flow and that's good for their business to be quick. And again, if you can deliver to their very fast lead times, that is a competitive advantage, and that is a strength that we have that we have very short lead time from order to be able to deliver to their site and start the installation.

Lars Brorson: Understood, thanks.

Operator: And next we'll move to Guillermo Peigneux with UBS.

Guillermo Peigneux: Hi. Good afternoon Guillermo Peigneux from UBS. Just a few questions as well. First, I wanted to ask about the USA strongly surprising growth outlook in order intake. But I wanted to get more granularity as to whether you are seeing the same trends across the different segments, i.e., multifamily, commercial and office also infrastructure. And then I'll asked the other two questions afterwards. Thank you.

Henrik Ehrnrooth: If I look at the North American order intake, clearly, now modernization was the strongest. But also in volume business, we're doing quite well in major projects in the new equipment business perhaps slightly less than it was a year ago. And perhaps that means is more of a standard building rather than very large ones. And then I would say in the housing side pretty stable market overall.

Clearly, there's a lot of difference in different geographies in the United States and Canada, United States particularly very large country with many different situations. And, again, one needs to make sure that you are active and driving where you're seeing growth at the moment. I would say what has had an impact on our why we having grow now, our new equipment orders in North America strongly has been smaller number of large projects. And the volume business has been doing quite well

Guillermo Peigneux: Thank you, and then out of curiosity, I was wondering about the period between 2017 and 2018 in which price competition was in China's – particularly the name of the game. I was wondering who led price decreases? Was it the local players? Was it the Western players?

Henrik Ehrnrooth: I don't think – I think it's not worthwhile speculating who was leading competition. Everyone who is in the market who is selling at those prices are a part of that competition. There's no question about that. So, I wouldn't start pointing fingers towards anyone. It was just a lot of players looking for market share in a declining market of course created a very, very competitive environment. Then many could see that probably that one maybe[?] too far and now, therefore, we've seen a stabilization overall.

Guillermo Peigneux: Yeah, no, I agree. But in the end, Chinese OE makers and elevated manufacturers margins were significantly lower than Western players. And I was wondering whether what – it will not be very clever for them to – or rational for them to actually start pricing competition. But maybe are we seeing Chinese not behaving rationally markets at times, so that's fine.

My last question is on consolidation and it goes again into China. Would you include Chinese maintenance/service as part of the consolidating argument that you suggested before?

Henrik Ehrnrooth: Clearly, both the new equipment and the service market in China are very fragmented particularly, the services market. I think there is some consolidation clearly be helpful over time.

Guillermo Peigneux: Thank you so much. Very helpful.

Henrik Ehrnrooth: Thank you.

Operator: And we'll move to Wasi Rizvi with RBC Capital Markets. Looks like we'll move to Guillermo Peigneux with UBS.

Guillermo Peigneux: I already asked my questions.

Operator: Andre, did have another question?

Andre Kukhnin: Yes, I didn't hear the announcement. Am I on?

Henrik Ehrnrooth: We can hear you, Andre.

Sanna Kaje: Yes, you are.

Andre Kukhnin: Thank you and think for the opportunity to ask follow-ups. Couple of things to check first. On North America, pricing comment, where you now highlight that it's become a bit more intense. I just wanted to get a bit more color on kind of degree of severity and do you think this is beginning of a trend or is this kind of response to the start wobbling earlier in the year, and just showing that is pro-cyclical. Would just love to hear a bit more color on that.

Henrik Ehrnrooth: I don't think it's been dramatic in any way I would say. A change from what we said before, perhaps it was more a favorable pricing environment there than in other parts of the world. So, it was prices were increasing, but of course costs were also increasing there. Now, we start, we see that cost are increasing because of partly raw materials and tariffs and things like that. But also, we see that that market is now more stable, perhaps competition has been a little bit tougher. So, the environment has in that perspective changed, but I wouldn't call it dramatic that change.

Andre Kukhnin: Great. Thank you. And another one; on China modernization, it is something we're going to try to keep a close eye on. And I wanted to ask whether in your view, China modernization profitability is likely to follow kind of the global profitability trend, i.e., from my understanding that modernization work is not that profitable, but obviously secures a multiyear service, or do you think that China modernization market actually follows the trend of China OE or new equipment and proves to be above average versus other modernization markets globally?

Henrik Ehrnrooth: So, today, again, we have to remember that the market is still quite small. And I would say it's in infancy but growing very nicely. Today we're somewhere in between those, so perhaps slightly better than globally, but not quite as level of new equipment there.

Andre Kukhnin: Very clear, thank you. And, finally, on digital, you mentioned breakeven or slightly above, and I'm thinking that you're spending somewhere between €50 - €70 million. I think that was a kind of the cost ramp-up that you indicated a couple of years ago, or more like three years ago now. Am I right to think about your level of sales from 24/7 being in that order of magnitude of up €200 million from there?

Henrik Ehrnrooth: We're not at that – I think when we say breakeven, we say that the cost of developing today, and the cost of running of those services. And then of course, you need to look at the investment you've done more from a amortization perspective.

Andre Kukhnin: Got it. And can you give us any idea on maybe what the percentage of new service contracts that you sign that also get 24/7 monitoring attached?

Henrik Ehrnrooth: It varies a fair bit to[?] the markets, but there, when we look at the conversions there, the heat rates are higher than for existing building. The majority is still without them, but I would say that's increasing and the heat rates are actually increasing up pretty good in new installation. So, that's where we see actually a big part of the ramp-up happening there. So, I think that we have lot of potential that way as well.

Andre Kukhnin: Is it over a half in the markets where 24/7 kind of as you described has been kind of tried and tested by the customers, and is something that has been around maybe for a year or 18 months now? In those kind of markets, would you say you're now over a half of newly signed service contracts that get 24/7 attached to or is it too early?

Henrik Ehrnrooth: Not quite yet but I would say some of the very early markets are clearly – they look quite promising here, but we're not quite at those levels yet.

Andre Kukhnin: Great, thank you very much for your time.

Operator: And we'll move on to Daniel Gleim with Mainfirst.

Daniel Gleim: Yes, hello, thank you very much for taking my questions. I actually also have two of them. First one would be on prepayment trends. So, maybe Ilkka, could you please comment on whether higher pricing in China comes along side, potentially also better prepayment terms or have they been unchanged? And maybe on the bigger picture scheme, where do you see net working capital develop as a percentage of sales, maybe 12 months out? It's just going to be unchanged or do you also expect a slight improvement on that front?

Ilkka Hara: If I comment on the China, so from a payment terms perspective, commercial terms perspective, we haven't seen a change. Obviously, it is true that liquidity in the market for our customers has been tightened and that's something we've been successful continuing with good commercial terms that we've had, and that's also then visible in our cash flow.

And going forward from a net working capital perspective, I think we have good commercial terms when it comes to our customers, and maybe it's less likely to see any improvement there. They're already in a good level. But at the same time, I think where the opportunities for us are in working capital are maybe more on the receivables side as well as on the payable side, and there we continue to work on improving on those. But I don't see a dramatic change as such. It's more about just continuing to see a good development there.

Daniel Gleim: Thank you very much. I was disconnected on your raw material answer. But just to double check. When you speak about raw materials in your report and also during this call, you would assume the same trends then in your component input prices or would you expect a material difference on that front?

Henrik Ehrnrooth: So, when we comment on raw materials. So, what we're trying to do give a more transparency on is that what is the impact that we see from raw materials on the component purchases that we make. We don't actually buy that much raw materials, it's the components. But we want to try to estimate the impact of the raw material changes in that component price base. And that's what we comment on.

Daniel Gleim: Very clear. Thank you very much.

Operator: And next we move to Wasi Rizvi with RBC Capital Markets.

Wasi Rizvi: Hi, thanks for the question. Just one left from my side. The insight to China market was helpful, but I'd like to dig into that a bit more. Have you seen any difference in the growth rates between the tier one cities and the lower tier cities? And I'd expect the government to be reluctant to stimulate the market in tier one city, so I'm wondering whether the other with the lower tiers are growing faster.

And then following on from that, could you just remind us how you're positioned in the lower tier cities and whether there's any difference in the competitive in pricing dynamics there?

Henrik Ehrnrooth: That's actually even though you're correct that the restrictions are stronger in the higher tier cities, but we can see that the bigger cities are drawing people to them and the satellites around them. So, you can really see these satellites forming around the big cities, and the big cities themselves; that is where you have actually most of the growth because that's where you have better jobs, gives you better education, better healthcare, and that's drawing people even though they have stronger restrictions on the lower tier cities.

Our market share across China is pretty strong. So, competition is tight in both of them. So, actually this doesn't have a huge impact on us.

Wasi Rizvi: Okay, helpful, thank you.

Operator: And next, we'll hear from James Moore with Redburn.

James Moore: Yeah, thanks for taking the follow-up. So, I wondered if I could ask about the China maintenance growth rate in the second quarter and its percentage of China revenues.

Henrik Ehrnrooth: Sales growth continues to be into double digits. Also, strong growth in the maintenance base I would say very much the same trend we've seen before. And you have to remind me total services share of China revenues is about 15%.

James Moore: Okay. Thank you. And on China earlier, you were commenting on the overall margin at the business and how we moved up from the peak and we've come back down. I think we all understand that. And I think back in 2011 or 2012, I forget exactly, when you talked about the margin being broadly in line with the group, which is about 14% at that point. And I was wondering if you might be able to help us a little bit more with the absolute level today, and whether we're back at that 14% level or we're somewhere above or somewhere below that?

Henrik Ehrnrooth: I would say ballpark-wise not too far away from group average.

James Moore: Thank you. And raw materials, I didn't catch your answer earlier either. I wonder whether the question was about 2019 or 2020. But my question is about next year. If we stay – and I understand there's been some volatility in raw material spot markets, but if we stay broadly at recent raw material price levels, do you envisage a headwind or a tailwind or a neutral environment for the raw material cost impact in 2020?

Ilkka Hara: Well, there are still many moving parts if you look at 2020. So, in that sense, it's equipment that is hard to make at this stage, still orders to come and exact understanding on which ones we will deliver in 2020. But if I broadly look at it at these levels, the raw materials will be less of a headwind next year than they are this year, but there are slight headwinds still.

James Moore: Very helpful, thank you.

Operator: And at this time, I would like to turn the call back over to the speakers for any additional or closing remarks.

Sanna Kaje: Many thanks for all the good great questions again. We look forward to continuing these discussions with you after a couple weeks of holiday. Thank you.

Henrik Ehrnrooth: Thank you.

Ilkka Hara: Thank you.