KONE Q1 2019: INTERIM REPORT FOR JANUARY-MARCH 2019

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Sanna Kaje: Good afternoon and welcome to Kone's Q1 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 Q1 highlights, Ilkka will then take a closer look at the numbers and Henrik will conclude with the market and business outlook. In the end, we will again have time for you questions. Henrik, please.

Henrik Ehrnrooth: Thanks, Sanna and welcome also on my behalf to our Q1 results webcast. Today, we have more good news to share that I am happy about. I'll start with talking about the highlights of the quarter, our key numbers but also the usual in connection with our first quarter results, we also have updates on two of our strategic targets, namely whether we have grown fast in the market last year and how we develop this sustainability. I'll share update on those, talk about the market, as Sanna said, Ilkka will dive a little bit deeper into our financial performance and I'll wrap up by looking at our outlook for the year.

But to start with, highlights of the first quarter. We had a good start to the year. Orders received grew strongly in all businesses. That is great. Also, I'm very pleased about our performance in our maintenance business that developed good on a very broad basis and in all geographic areas. That was a really good start and good consistent development that we have had for a good while.

Our cash flow was very strong. That's great. Shows a good development for our business and also adjusted EBIT grew. And we can also see that the strategic targets which we have updated, that they developed well.

But let's start with the key figures. As I mentioned, highlights here, orders received and cash flow. And orders received at about €2.1 billion grew at 8% in comparable currencies. In this environment, it's a good achievement. We have a good solid order book at about 8.5 billion, which has grown about 4.6% year over year. Also in sales, we had a good start. Almost 2.2 billion for the first quarter of growth of 7.6%, which is a good growth rate. Our operating income 215 compared to 211 last year. If we look at our adjusted EBIT, which is the main way we measure of financial performance, was 228 million compared with 218 a year ago. So growth in adjusted EBIT; however, we continue to see a number of things that burden our margin, therefore margin was slightly lower at 10.4 compared to 10.9%. This was very much as we expected for the first quarter. As I mentioned, cash flow very strong at €378 million compared to 179 million last year and then finally our earnings per share at about last year's level of €0.33.

If we just take a few of the highlights of the first quarter. We have now grown many quarters in a row fast in the market very consistently and on a very broad basis. It shows that our differentiation has strengthened. And if I just take a few examples of this, what we have done to strengthen our differentiation, for example, in the infrastructure market, which we see that will be very active over the coming years and has been very active, we have improved our differentiation competitiveness by setting up competence hubs in our key areas to do this. What we have done is that we have structured teams in a totally different way, instead of having people dispersed in different places, we put them together in confidence hubs to be able to serve our customers in a better way and to be more competitive here. And at the same time, we have strength in our offering with our new infrastructure offering over the past roughly a year. And we can see that this has clearly improved our positioning in the growing infrastructure segment.

If I look at our new services, which we have talked a lot about, what is important here is that we are not only strengthening our competiveness in our services business where we can see clear and good improvement but they're in fact also improving our competitiveness in new equipment business because we are talking about services that support our customers a much better way, it gives us an even better opportunity to have a life-cycle discussion with them to make sure that our product and services and solutions get more specified and therefore stronger customer relationships. So we can see that also being stronger in services helps with our new equipment side and for orders received, we can see that this is the case

Accelerate programme, which is important to us, is speeding up our ability to bring new services and solutions to our customers, improve our customer centricity and also improve our efficiency is developing well. Here I'll just take a couple of highlights of what's happening. We have total restructure of our customer solutions engineering organisation. In fact, it's a new organisation we have set up, how we restructured our engineering organisation to support our customers even better and also support our sales organisations better. That organisation is now ramping up in a restructured and more efficient way and we can see that that is helping our frontline unit in serving our customers better, freeing up time to serve customers in a better way. We have also further harmonised our ways of working across business units, particularly on a geographic basis and we can see that this is definitely bringing efficiency into our business and that is where we are starting to see savings materialise as we speak. So many things are progressing there. We still have a lot to be done there in Accelerate but it is progressing according to our plans.

But as I mention in connection with first-quarter results, we also look at two of our strategic targets. As you know, we have five strategic targets through which we measure our longer-term success. Now we have an update two of them. It's whether we have grown fast in the market and how we're doing toward being leader in sustainability.

So let's start with how we have developed compared to the market. And now we have, again, a more deep dive into market sizing and market shares for 2018.

In 2018, the new equipment market grew slightly in number of units but it grew a little bit more if we look in monetary value. When we look at the total new equipment markets in 2018, we expect that they were about 900,000 units globally. Now, we have slightly reassessed the total market size, so you cannot completely compare to previous years' numbers. They re-assessed it because we have gained additional official data, particularly from China, which has shown as the market is a little bit larger than we have previously assessed. But still, we have a comparison now year over year that is consistent.

When we look at our development last year, we grew clearly fast in the market. Our market share in the countries that we operate was about 20%, up about 1% from prior years. So we clearly grew fast in the market. Our market share gains were driven in particular by China and Europe, while we had many other areas that also continued to develop well. So if you look at new equipment market, yes, we did grow fast in our market and have good development overall in 2018.

Service markets also continue to grow. Here also we have – based on the same data we have slightly re-assessed the total install base globally and we expect that the total install base of elevators and escalators is about 16 million units. Market continues to grow slightly and we could see the fastest growth was in China, as expected. Europe, Middle-East and Africa continues to be the largest market and in particular by far the largest market in measuring monetary value. If you look at the faster growing market, it is clear china, which starts to be a significant share of the world market. In maintenance, we continue to grow faster than our key peers and we have year after year slightly improve our market position, although we continue to be a challenge with about number three market position globally. But it's our strong position, or very strong position, many of the key markets around the world in new equipment that gives us the ability to continue to grow our service business in a very attractive way at market leading growth rates. So both in maintenance and new equipment business, we grew faster than the market in 2018.

And if you look at our overall market positions, we can see that in the really key Asian markets, China, rest of Asia Pacific, which are the largest markets in the world where urbanisation is the strongest, we have a very good position. Number one position overall in these markets. Europe, Middle East and Africa, our market position varies but has strengthened. But in many markets we continue to be a challenger and of course that gives us good impetus to drive further growth. North America, we continue to be number four both in new equipment and maintenance; however, if I look at all the past five, six, seven years where it continues good and strong development and in new equipment, we particularly have a very strong position in the most important segment that is growing the fastest, which is the machineroomless segment. There is a very large hydraulics segment still in North America but there we are not present but we focus on modern energy efficient equipment that we think are the best solutions for our customers and also the fastest growing market. So overall, our market positions of course gives us a good bases to continue to develop KONE going forward.

The other strategic target where we have an update is we have a target for being the leader in sustainability in our industry. We know that sustainability is a very broad subject and we have decided we want to be good overall but that we want to be really a leader when it comes to energy and resource efficiency. That we measure two ways. We measure, first of all, the carbon footprint from our own operations. Here we have a target of reducing our carbon footprint revenue sales by 3% per annum. That we have done consistently. Last year, we improved it by 4% if you look at overall operations. And it may not sound a lot. 2017 was slightly less improvement in the other years but if I go back 10/15 years in history, we have every year we have improved by more than our target. And that means we actually continuously improving our operations. So we are meeting our targets here.

The other aspect for us is we want to have the most energy efficient elevators and escalators and solutions for our customers. We have 14 elevator models that have the highest energy efficiency rating based on new ISO standards. This is more than any of our competitors and we know that we are the market leader here. We have three escalator models that have the best in class energy efficiency rating. So we also help and ensure that our customers can have efficient – energy efficient and sustainable buildings. We have also continued to receive a lot of external – external views and also awards for the work we do in sustainability. If you look at the CDP, there we have an A- rating for the sixth consecutive year. That is clearly best in class in our industry. Also, Forbes has ranked us as one of the world's 100 most innovative companies very consistently over the past years and last year also one of the world's best employers. That is important in sustainability. And we are part of FTSE4Good Index. You can read much more about this in our sustainability report, which was published today.

That is about the highlights for first quarter and a little bit more about our strategic targets that measures our performance on a longer-term basis.

Then, let's briefly look at market development for the start of the year. Here, we can see that markets in new equipment grew slightly year over year. In North America, they stayed pretty stable at the high level. Europe, Middle East and Africa, they actually now grew a bit and they were pretty stable in Q4. It is particularly in Europe that they – many European markets was growing whereas Middle East continues to be challenging. Asia Pacific, slight growth in China, good growth in India and South-East Asia and then Australia declining, we've had this slight growth overall. There is perhaps a slightly better development, particularly Asia Pacific markets, than what we had expected for the first quarter of the year.

Service markets, not much new here. Maintenance continues to grow everywhere slightly, North America, Europe, Middle East and Africa, and good growth in Asia Pacific and modernisation also slight growth in the developed market and strong growth particularly in China.

As always, let's look a little bit closer into what is happening in the Chinse market. We know it's very important to us, very important to our industry and we can see that our performance was strong there. So what was driving that? Well let's start from the market overall. While there continues to be uncertainty in the Chinese property market, the start of the year was somewhat better than we had expected. Why was this? So you can see last year when Chinese economy was cooling down, we could see that some restrictions that we have seen in the property market were slightly East. And that immediately grew up the activity and particularly the prices in the property market. That clearly gave an incentive for developers to speed up products and we could see that both in our deliveries and our orders received. But we even then clearly out performed this slightly higher activity.

So if you look at the markets, we can see that housing inventories have slightly increased and that's particularly due to cooling measures where it has slightly increased in lower tier cities. Higher tier cities it's at pretty good level but that's something, of course, we need to continue to watch, inventories in lower tier cities.

Housing sales, as I mentioned, slight growth but the perhaps most important is that prices have increased and if you look at total real estate investment, they are actually growing at about 12%. Last year, when we were talking about growth in real estate investment, that was mainly driven by increase in land prices and land sales, now actually it's construction activity. And this increase in construction activity, clearly driven by demand for housing but also a slightly better liquidity situation for developers that helps them drive projects going forward. And we saw then slight growth in our market. When we look at the situation going forward, what we can see is that if we have now a clear uptick in the market particularly in prices and we can see that PMI also in China is improving, I think it can be likely that we see again that many of the restrictions get put back in place to make sure that property markets don't get hot because it's clear that that is something the government seems to be very focused on. And because of that, we expect that for the full year markets are pretty stable. That is a slight improvement to what we believed beginning of the year when we said that we expect the Chinese markets to perhaps slightly decline or be stable, now we expect them to be stable overall.

So that's a little bit more of our views and thoughts on the Chinese market overall. And with that, I'll hand it over to Ilkka to dive a little bit deeper into our financial performance.

Ilkka Hara: Thank you Henrik and welcome also on my behalf to this result announcement webcast for the first quarter 2019. As usual, I'll go through a bit more in detail our financials and I'll start with orders received.

We saw orders received at 2.094 billion for the quarter, which report – which on a reported basis represents 9.7% growth and on comparable basis 8% growth. So clearly good start from orders received point of view. And we saw growth in all businesses and particularly from an area perspective driven by China and Europe, Middle East, Africa from a growth perspective.

We look at the important Chinese market and the development of orders received there. We saw in units clear growth for orders in China. Also price – like for like price as well as mix contributed slightly positively. And from a monetary value perspective, we saw significant growth in our orders received in China. At the same time, when we look at the margin for orders received in a quarter, it continues to be stable as we saw last year and since end of 2007. So overall, good growth in orders received for the quarter.

Then, looking at sales that 2.199 billion, growth of 9.5% on a reported basis and 7.6% on a comparable basis. Good growth in all businesses with new equipment contributing at 9% growth on a comparable basis, maintenance at 5.4% and modernisation at 8.3%. From geographical perspective, we saw Europe, Middle East, Africa growing at 1.7% growth and had to remember there was a strong comparison point last year for the sales in Europe, Middle East, Africa. America's at 4.6% and Asia Pacific at 17.4%. And there a growth was driven by strong deliveries in China. Henrik was talking about the strong activity in the construction sector. That's also visible here for deliveries for us in China where we saw our sales growing the first quarter about 20% for the quarter. It's good to note that we don't expect similar growth to continue from the sales perspective but more stable development for the rest of the year in China.

Then looking at adjusted EBIT. So we continued to grow our adjusted EBIT as we did in fourth quarter last year and it reached 228 million, which represents 4.6% growth for our adjusted EBIT. At the same time, if we look at the margin, so it came down from 10.9 to 10.4% as expected for the quarter. And as we said, we are seeing the cost headwinds more pronounced at the beginning of the year and at the same time see better development towards the latter part of the year for March.

Restructuring cost for the Accelerate programme were 13 million and the savings from the Accelerate programme in the quarter were a bit less than 10 million. Currency has had a positive impact of 5 billion and also I'll go a bit more in detail but the impact of IFRS16 for the quarter was a positive 2 million. I'll come back to that ta the end of my presentation just to summarise the impact of that change in our accounting standards.

Lastly about cash flow, at 378 million, it's clearly a strong cash flow for the quarter. And it's good to note that cash flow on a quarterly basis does fluctuate but clearly we saw a good start for the year from a cash flow perspective, driven by networking capital developing positively, especially in our advances received as well as in progress payment for the quarter. Also here IFRS16 had a positive impact of 28 million to our cash flow.

So lastly just to summarise the impact of IFRS16, the new lease accounting method in our results, very much aligned with what we already explained earlier but from a balance sheet perspective we saw a 358 million increase in our opening interest-bearing debt. We saw 5 million increase in our capital expenditure due to the lease agreement in there. From an income statement perspective, there was a 2 million positive impact on Q1 EBIT and correspondingly on a financing expenses, we saw 3 million increase in the expenses. And then from a cash flow statement perspective, on a cash flow from operations, there's a 28 million positive impact. At the same time, there's a 2 million negative impact on cash flow from financing items and taxes and then 26 million negative impact on cash flow from financing activities. So overall, the net impact naturally for cash flow is zero but line by line there are some change.

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

Henrik Ehrnrooth: Thank you. So that's the history start to the year, the midyear review, what we expect from markets for the rest of the year and also for our performance for the rest of the year.

So if you look at the outlook for 2019, we expect a new equipment, the market to be relatively stable overall. China, as I mentioned, we expect now to be relatively stable in units ordered, while the rest of Asia-Pacific is expected to grow slightly particularly driven by India and many South East Asian countries. New equipment in North America and Europe, Middle East and Africa expected to be rather stable. Maintenance, very much the same trend as we see for a long time already. Slight growth in Europe and North America and good growth in Asia Pacific. Modernization pretty stable in Europe, slight growth in North America and good growth in Asia Pacific. So pretty much in line with what we've seen so far.

Then our business outlook for 2019, which we have slightly specified. We expect our sales to grow between 3 and 7%. We previously expected it to be 2 to 7% and of course, it's comparable exchange rate. We expect the adjusted EBIT to be in the range of 1.160 billion to 1.260 billion, we previously expected to be 1.120 billion to 1.240 billion. Now this assumes that exchanges rates stay at the level that they were about in April. Now, if they stay at about the April level, then we expect to see about the 30 million positive impacts from currencies where the same number was about 10 million previously. So this difference is one of the reasons we have slightly specified our guidance but also particularly at the lower end, we can see that a good start to the year, which means we are pulling on track with thee targets that we have for the year that we could also slightly improve it from that end more than currencies.

If I look at that performance, we can see what is boosting our performance, the solid order book we have, the continuous good development of our services business, performance improvements we are driving and Accelerate savings. Then things burdening our result and that's probably higher at the beginning of the year than end of the year, raw material prices and trade tariffs slightly less than 50 million and then a clear increase in labour and subcontracting cost.

Just to wrap up with the Q1 results. We are fully on track to meet our full year targets. It's actually a good start to the year. All metrics, we were either on track or what we had expected or actually a little bit ahead. And we can see that our strategy, how we're driving differentiation works, we can see it from our growth and that is positive. So that is what we will continue executing on in the same way that we had. So I think that this start of the year sets it up for a clear improvement potential and a commitment to clearly improve our EBIT this year compared to last year.

With that, we are ready for your questions.

Sanna Kaje: Thank you, Henrik. As said, I guess we're ready for the questions. So operator, you can stat taking them from the line. Thank you.

Operator: Thank you. If you would like to ask a question, please signal by pressing *1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press *1 to ask a question. We will now take our first question from Andre Kukhnin from Credit Suisse. Please go ahead.

Andre Kukhnin: Good afternoon. Thanks very much for taking my questions. I'll start with one on China and your relative performance there. You've now, for a few quarters, taken share there in units while also outperform the market on price. Could you just talk us through how you're doing that and how should we think about that into the rest of the year. I mean, at some point, do we need to think about your performance normalising toward the market or not?

Henrik Ehrnrooth: Well I would first say that we have a had a good performance in China. It shows the competiveness we have in the market overall. You know, we have a very broad reach in the market, which means that we have been, again, able to be very good at finding the growth opportunities in a more uncertain market, a market that varies a lot from region to region. Also we have good competitiveness if we look at services, our product and solutions. That is good. Now, when we look at the rest of the year, as you know Andre, we don't guide orders received for the rest of the year but clearly always our ambition and our target is to grow fast on the market but at the same time we want to be very clear that we – we also need to make sure that our pricing stays a good level and we are at the level where we have been able to slightly improve pricing year over year and at the same time grow volume. And that is clearly a place you want to be. But then let's see how we perform in the rest of the year.

Andre Kukhnin: Thank you. And just on the China market outlook itself that you expect stable after a small up in Q1 and what looks like an okay Q2 shaping up. I know you didn't say that but there's not tightening happening kind of right now, there's just talks about it. So it just seems to imply that you do expect things to turn down, at least a bit in the second half to end up flat. Or is that just kind of normal conservativism? Just wanted to check if you're expecting tightening already within your flat guidance or not.

Henrik Ehrnrooth: What I think we can – we of course have to see what happens but we know that government policy has had a very significant impact on development in the market and the restrictions that we see also in place and also liquidity.

Now, what we can see is that the government very much emphasises that houses are for living in, not speculation. That means – that we read in a way that if we start to see a significant increase in housing prices, there is a likelihood – quite a high likelihood that we see more restrictions coming back. So that is probably not unreasonable to expect. And then we have this illiquidity, how that will shape up. You know, we are seeing a slightly better PMI and economy picking up in many places and perhaps that means that likelihood of more restrictions later in the year or even quite soon is probably there.

Andre Kukhnin: Got it, thank you. And my last one, just on that combination of factors that impacted the margin in Q1 and the higher costs, could you just give us a bit more detail on what were those costs that ramped up a bit more in Q1 and that you expect to normalise in the next few quarters in the year or as you say, you expect performance to improve just for us to have a better idea of the moving parts and sensitivities.

Henrik Ehrnrooth: Yeah, I'll – Ilkka can answer that a little bit for you in detail. I will say, well first of all is that we expect performance to improve as we go through the year already in this coming quarter but particularly further we go in the year we are also to remember some specific things but at the end you also have a – quarter to quarter you have some fluctuation that may impact your margin and clearly always some of those things. But Ilkka, maybe you want to take that a little bit more in-depth.

Ilkka Hara: Yes , so if I look at the development of the margins of what we talked about, potential and headwinds for cost, clearly we talked about the impact of raw material prices from a component perspective. We also talked about the cost for labour as well as staff contracting. We look at how that develops, so we've seen those headwinds to be more pronounced in the beginning of the year and that's very much in line with what we expected as a development.

Andre Kukhnin: And sorry, Ilkka, if I may just follow up. Why would you expect labour inflation to be less prominent later in the year or was there any kind of particular spend in Q1?

Henrik Ehrnrooth: I think it has perhaps more that I said, what is less prominent later in the year is the material cost.

Andre Kukhnin: Right.

Henrik Ehrnrooth: What you start to see on raw material cost towards the end of last year, we don't see it yet because it always comes with delay to us but that – clearly then will be less pronounced therefore as we go through the year.

Andre Kukhnin: Got it. Got it. Thanks very much. Thanks very much both of you for your time.

Ilkka Hara: Sorry, Andre. So just to repeat your question, was there anything particular? No, there was nothing particular for the quarter from that perspective.

Andre Kukhnin: Got it, got it. Thank you. Appreciate it Ilkka.

Henrik Ehrnrooth: Okay. Thank you.

Operator: We will now take our next question from James Moore from Redburn.

James Moore: Yeah, hi everyone. Henrik, Ilkka, Sanna. I've got three questions, if I may, and I'll go one at a time if I can. Firstly on China, can you help us understand the comparable order growth development in the quarter a little bit more. You were relatively clear with nominal and unit growth. And you talk about nominal growth being about 10%. I wondered if you could just be a bit more precise as to say whether you were talking 11% on 14. And within that, there's obviously a very good price mix dynamic that we can see as continuing. Could you help us understand it a little bit which is bigger, price or mix? That's the first question.

Henrik Ehrnrooth: Do you want to take that?

Ilkka Hara: Yeah. So both price and mix had a slight positive impact in the quarter. They're not that different in compared to the impact that they had. And I said earlier, I mean, we do a good job trying to estimate the impact but it's not an exact science either. So both had a positive impact there.

Henrik Ehrnrooth: . And I think we do growth...

James Moore: Sorry, on the nominal growth, are we talking –

Henrik Ehrnrooth: So units, we were kind of mid-single-digit growth in number of units and then more than 10% in value but less than 15.

James Moore: Thanks. And on your savings ambition, I think you previously raised the ambition from 100 to above 100 and again, I'm trying to nail down the range here. And I know that's difficult but can you say if that's closer to 100 million or 150 million to give us some idea of quantity.

Henrik Ehrnrooth: Cl oser to 100 million.

James Moore: That's very kind of you, thanks. And just finally, so returning to this margin point, the margin's down 50bps year on year. I think you did a good job coming into the course explaining that there would be some challenges here and I understand the point on the installation sub-contracting costs, but we have had six quarters of stable equipment order margin and we see this decline in the reported margin. And I understand that you have to make some assumptions on cost and then that can then deviate in the out turn and it feels like subcontracting costs have ended up being more than you had anticipated they might be. I wasn't clear as to why it is that you think those are going to improve as the year progresses, so could you just help us with that? Thanks.

Henrik Ehrnrooth: Well, of course, always in execution you have plusses and minuses, and some are external costs, some is your on performance. I would say our own performance as pretty much as we had expected. I don't think we said that subcontracting cost per se would improve as we go. Perhaps more we talk about material cost not being such a headwind as it's been last year and still beginning of this year. So that is perhaps one of the other factors and the, you know, the variation will come from how well we execute. And overall, we are pretty much on track for what we were expecting at the beginning of the year.

James Moore: Thank you very much, Henrik, that's helpful.

Operator: We will now take our next question from Lucie Carrier from Morgan Stanley. Please go ahead.

Lucie Carrier: Hi. Good afternoon gentlemen and good afternoon Sanna. Thanks for taking my question. I will have three, actually, and I will go also one at a time. Follow up, maybe, on the margin question. I think if I understood well during the call you were mentioning that china sales were approaching growth of something like 20%. I mean, this is significantly higher than the Group and if we are looking at the margin, it's taken another leg down versus the first quarter, which was already down significantly. And I remember in the past that the China business was quite accretive to the group mix. So I'm just trying to understand why we are not seeing, you know, this quarter. Any benefits from this strong momentum you've had in China on the sell side and whether this is something that has changed, you know, meaningfully around your China margin or whether this is another part of the business? That's my first question.

Henrik Ehrnrooth: Do you want to?

Ilkka Hara: Well I'll start. Thanks for the question. So if I look at it in the context of – first, the China margins. So what we've said is our new equipment in China is about Group average and it continues to be so but it is not as much about group average than it used to be given the price pressure that we've seen and well we've said that our prices have enabled us to have stable margin. It hasn't meant that we've been able to increase the margins yet. So that's the one part. And yes, it does have a slight positive impact to our mix but overall, if we look at the margin developments for the key driver, negatively impacting our margins for the quarter was as expected, the more pronounced cost headwinds that we've talked about already.

Lucie Carrier: Apologies to push a little bit on this just for understanding but if you – I mean, the question I have maybe even more directly, but if you are growing 20% or strong double digit, let's say, in China and the margin is not able to lift up, I mean, the headwind must be quite significant but when you are talking about the headwind also from a raw material standpoint it also seems that you are expecting less for this year. I understand that you are more concentrated in the beginning of the year but, you know, how much headwind then are we really – can you quantify that for us to be able to kind of back out a little bit what's going on the margin bridge here between, you know, what you see in terms of very strong momentum in China, which you have not seen in a while sales wise, and the margin, which is coming down.

Ilkka Hara: Well, first, if I think about it on a quarterly level, there's always a number of things that fluctuate. So which projects get delivered and if you look at the profitability that's the hard part that there's so many moving parts underlying it. And then if we look at the raw material impact at the whole. So what we've said that it's a bit less than 50 million including the tariffs for the year and that it's more pronounced in the first part of the year, first quarter of the year than the latter part year on year comparison there. So we haven't given guidance on a quarterly impact of that but it's more pronounced in the beginning of the year. That's what I would say.

Henrik Ehrnrooth: Also we have some seasonal fluctuation in our business. We know that Q1 is the smallest quarter in most markets. So this was more or less as we had – actually, this is very much as we had expected and with this result we are on track for what we were expecting for the year. I don't think there was anything special. We know there are some things that are burdening some things are helping it and then we had slower growth in some markets and higher in others and I think those kind of then take out each other. So I can't see anything that special in this result. Clearly, our desire and our target is to improve the margin and we think we can do so as we go forward this year.

Lucie Carrier: Thank you. My second question was on North America. Just, you know,, I know you're guiding the market to be relatively stable. It seems that you're starting the year order wise kind of on a slightly negative foot. One of your competitors has also reported, you know, strongly negative order in the first quarter already. So what are your visibility to kind of assume that the market is actually going to improve during the year to kind of effect that negative start to the year from a negative standpoint?

Henrik Ehrnrooth: I would say North America you have a higher proportion of larger projects, so that means that it can be more lumpy than other markets and I think the way we look at it is we can see the activity of tendering or new opportunities and so forth and we see that that's – we expect that to be pretty stable. So if we look at it just basic volume business, that is more stable but then perhaps a bit less of larger projects and then it just fluctuates from quarter to quarter and our performance in the quarter was nothing more than, you know, the difference in how many large projects you had yea rover year. So visibility is reasonably good and looks pretty stable.

Lucie Carrier: Thank you. And then just my last question. If you could remind us the impact or the benefit you expect on EBIT from IFRS16, you know, for 2019 was 2 million, I think, in the quarter. How do you see for the full year?

Ilkka Hara: Yes, so that full year impact on EBIT is about 10 million. That's what we expect for the full year.

Lucie Carrier: 10 million. Okay. Thank you.

Operator: We will now take our next question from Manu Rimpelä from Nordea. Please go ahead.

Manu Rimpelä: Good afternoon. My first question would be on the general pricing environment in the industry. I mean, we're seeing that the whole industry margins have come down for the last two to three years, especially for one of the main competitors a lot longer. So are you seeing any kind of changes in the way prices are behaving, that you are talking about this maintenance pricing initiatives you have and also your competitors. So could you just run through a bit what the current pricing environment is looking at and do you see if it's changed in the last kind of 6 to 12 months?

Henrik Ehrnrooth: Yeah, of course it varies a lot and varies by business and geography and so forth. I would say we have now been developing every systematically our services business with new ways of working, with new offerings and new types of services and therefore we can see that on the maintenance business we are improving our pricing and we can see that through how our average value per unit or so in all markets are developing positively. So let's say that's clearly – but I think that that's more through what we are doing, markets continue to be competitive, a lot of small and mid-sized payers, so there is a tough fight every day in the service business, while I think what we've done we can see that that's helping us to improve. What you always want to do is make sure that you differentiate and therefore you can drive your pricing. I would say that if we look at china, which has been perhaps where pricing has been the toughest over the past four/five years, you know, it's a combination of a lot of players wanting to increase their market share, at the same time markets declining. That of course give sit a tough environment. We can see that it's more stabilising and I would think that one of the main reasons for that is not everyone earns money in

China anymore. We continue to have a good profitability. Clearly, it's come down a fair bit but it continues to be at – we have a good level but there are – we expect that there are a lot of players who are not making good money at themselves and it gives you a certain floor, particularly in the very standard volume, basically.

Manu Rimpelä: And if specifically you think about the new equipment business, I mean, for instance, looking at your orders, you've been able to grow your orders like 6/7% organic last year and now very strong in the first quarter and it still doesn't feel as the new equipment pricing is improving. I mean, growth has been – even if you exclude China, the growth has been strong. So why haven't we kind of start to see any type of improvement in the new equipment pricing, for instance outside of China even though volumes seem to be accelerating.

Henrik Ehrnrooth: I would say that in many markets we have seen a slight improvement in pricing but actually it has been needed because we can see that both the labour force and other costs have gone up. You know, I don't think that there is that much of a link between costs and competition drives market pricing. But I think a lot of – we have a strong focus – pricing is a high focus area to be able to improve our margins and we can see development in some areas but at the same time we need to do that because of cost headwinds in many areas. So I think that pricing in many markets have come up a bit but clearly work continues to be done.

Manu Rimpelä: Okay. And final question on the cost and pricing differentials. I mean, given that labour cost in the – increasing in most regions and the pricing environment looks tough, so do you think that you'll be able to get this year in this situation where you're actually able to get the margins on your orders up or are we more looking like it's still going to be challenging to do this year?

Henrik Ehrnrooth: We don't, you know, predict what our pricing and margins for orders will be going forward. We continue to execute on whatever commercial stagey we have and that's of course something that we hold close to our chest, so we have to see then how it develops. I think the ambition we have shouldn't be unclear. But we don't give guidance or predictions for where we think it's going to be.

Manu Rimpela: Thank you.

Operator: We will now take our next question from Daniela Costa from Goldman Sachs. Please go ahead.

Daniela Costa: Hi. Good afternoon. Thanks for taking my questions. I have two things I wanted to ask about. First, can you give us maybe a little bit of an update on KONE care and 24/7 connected services on where the penetration standards and when do you expect that to start to show some margin accretion. And then the second thing I wanted to ask was about one of the initiatives that we have seen one of your competitors doing recently. I guess, Schindler have announced building mines have a platform to connect many people in the building. What do you think, sort of, of that? Do you have something parallel to that? Does that change the dynamics potentially on the aftermarket? Sort of how shall we read that? Thank you.

Henrik Ehrnrooth: When it comes to new KONE Care and 24/7 connected services, new KRONE Care of course we've been longer in the market, there in Europe where we started, probably I'd say 10%-ish penetration and yes we can see it in pricing, yes we can see it in growth. It has a positive impact on both. And 24/7 connected services, penetration still less than 5%, momentum is constantly building, actually at quite a good rate. We can see that, you know, pricing for that continues to be good because we can see that the benefit to our customers is very tangible and real and that is why we have decided this is a commercial service that we sell because of the benefits that our customers get, how it improves them running our business. So I would say both of these are developing well. Are we – do we want to get speed into both of them? Of course, but I think we are – we can see that the business case and the benefits are there and that's why we continue to drive them forward.

Then as to other services, you know, we – as you know, we don't comment specifically on what competitors are doing. I would say what we are focused on is we say it's on people flow. How can we help people move safer, move smoothly and more conveniently in and between buildings? Those are the solutions and systems that we focus n. We think that that's where we are good, where we have an edge and where we have a lot of knowledge in the company. So that is where we are solely focussed on is on helping people move in efficient good ways and that ay making buildings and also the surroundings more efficient. That is where we are putting our money we are investing and you know, it's good that various companies test various things but this is our direction and what we want to do.

Daniela Costa: Thank you. Very quickly on KONE Care, have you now rolled it out to 100% of your locations? I remember the number was something around 85% you mentioned a couple of quarter sago that you had rolled it out. Is it now 100%?

Henrik Ehrnrooth: It's not 100%. There are still a number of large countries where we are not – it covers a very large part of our service base that we started in Europe. This is where it makes most sense. It has absolutely the biggest value in smaller residential contracts but we also expanded it to commercial contract. That's where we started in Europe because that is a big market and Europe is the largest service market. We continue to roll it out and what is great that every country will roll it out, we see the same benefit. We see higher hit rates, we see higher customer satisfaction and we see an improvement in pricing because we're delivering an outcome that meets the customer individual needs and that is why it's so good.

Daniela Costa: Thank you.

Operator: We will now take our next question from Klas Bergelind from Citi. Please go ahead.

Klas Bergelind: Yes. Hi Henrik and Ilkka, it's Klas from Citi. A couple of questions from me please. Firstly on pricing there in China, out of these 6-7% price mix, it seems like pricing was slightly higher year over year and stable versus the fourth quarter. Did you push through any price increases during the quarter which is yet to impact order pricing further out? I.e., have you announced any list price increase? We're hearing that you might have made a push during the quarter. So I will start there.

Henrik Ehrnrooth: You know this world where you say that you increase your list prices and expect that things improve, I don't think we're quite in that world. We have a tough market competition, we set clear targets for our people and it's really how we can show our customers that we are actually adding value to our business. That is how you drive it. It is clear, it's a strong focus. You always need to have the right balance between your pricing and your volumes and that is what we're constantly trying to balance. With prices, we're coming a lot down. We focussed much more on pricing on value and it's always about finding the right mix. Where we're going to be in the coming quarters, we have to see that. I'm not going to comment on that anymore because in the end it's an individual agreement between us and our customers.

Klas Bergelind: Yeah, sure. Maybe a follow up, though, Henrik to that. Given the slightly better demand backdrop there in China with real estate volumes now improve, not only driven by land prices, do you feel that might be a bit easier to hike prices now or is competition still tough, means that you still have to largely depend on the cost inflation when you negotiate prices?

Henrik Ehrnrooth: I think the most important thing what drives prices, market competition and clearly input price may have some impact but I don't think that there's a direct impact to that. So it's really – if you want to improve pricing, please be able to tangibly show to your customers that it's better to work with you than the close alternative and that you add value to them. That is what you've got to focus on every day. When you do that, you add value and you can improve pricing. Clearly, the strong competition in a market has an impact and clearly the fact that the market is consolidated towards the bigger developers also has its own dynamic and we have shown that with that dynamic we can do quite well.

Klas Bergelind: Yeah. Good. The first one is on the follow up on digital. Seems like sales now is some 2% of group revenues, this after two-three years since the launch, contract renewals two to three-years on average within Krone Care, obviously it takes some time to get the uptake. But 24.7 connected should be quicker adoption, not depending on renewals but still lagging KONE Care. Can you help me, Henrik, a little bit to understand why 24/7 connected is not catching up fast?

Henrik Ehrnrooth: Well first of all, it is catching up and I think if you look at – I think we are definitely leading the way in our industry and selling it commercially out to the markets broadly to our customers. We have to remember that this is something new to our customers as well and it's something new that we are selling. It's something that we have to improve to our customers that their business is better off with them having this service than without it. And that's usually the sales process is a bit longer than a normal service contract where we can see that the customers is taking it in use and that there are clear and tangible benefits. So I'm actually very positive because we can see it's getting there, perhaps not quite at the speed that we had hoped originally but that's quite normal, but we can see the direction is the right one and we can see it's momentum is picking up. So I think we are in a pretty good spot here and particularly because of the fact we have something that is tangible, that it's real, it's working, customers are getting benefit from it.

So we are growing and I think momentum is picking up. Would we like to grow faster? As always, of course.

Klas Bergelind: Yeah. Good, good. My quick final one is on infrastructure by region. You're talking about this initiative of more hubs towards the infrastructure. You're typically a little bit less exposed versus peers infra in china but you're pushing out to expand outside. I mean, you're talking about infra hubs. Could you help us Henrik, how much is infra of your orders today roughly by region? If you have that number, it would be very helpful.

Henrik Ehrnrooth: I don't have it exactly by region. It's not the largest segment but it's some – one segment that we expect that even if markets can fluctuate on residential and commercial, this is something that there is such a strong trend and such big pressure on improving, particularly public transport, that we continue to see a lot of growth. And where are the big growth areas throughout Asia? And I'm not so sure that we have lower exposure in China than many of our competitors. We actually have a pretty good share there. Rest of Asia, we see a lot of activity because, again, the need for public transport, we can see France has a massive programme Middle East, they have many different markets where it's happening. So we can see both the United States, there are several projects. So we can see whatever market it is, there tends to be a big challenge on having enough capacity on public transport that we see that's going to be a growth trend for many, many years to come. And that's why just to highlight it as an example of what we do when we see growth, how do we strengthen our competitiveness to capture our fair share of that growth.

Klas Bergelind: Thank you.

Operator: We will now take our next question from Guillermo Peigneux from UBS. Please go ahead.

Guillermo Peigneux: Hi, good afternoon. It's Guillermo Peigneux from UBS. Just really a follow up on pricing and in China in particular. I guess we've seen some consolidation moves with Hitachi and Schindler tried up together and I just wonder within the commentary you just, you know, said during the conference call and during your press release, with lower raw materials especially, is it fair to assume that pricing going forward, you know, that for you to hike prices is going to be more difficult under the current scenario or would you see that, you know, now that the industry is becoming more consolidated it's a bit more disciplined on pricing? Just leave it at that. Thank you.

Henrik Ehrnrooth: As said, we don't comment on pricing going forward. We think, if I just look at competition, you know, there are so many competitors in China, if there's some consolidation, I'm not sure, frankly, that's going to have a huge impact on it. So we think that that is he world's largest market, it is probably the most competitive market in the world. We are in a good shape there. We are okay to compete in that one. I don't see any reason why it would not continue to be as competitive as it is. But then we continuously improve our operations and to stay at the forefront there.

Guillermo Peigneux: Thank you.

Operator: We will now take our next question from Antti Suttelin from Danske Bank.

Antti Suttelin: Yeah, thank you. This is Antti. I have to questions on China. First of all, since you are an order book company, have a strong order book, can you comment where in that order book is China margin for equipment? Is it up from a year ago, is it stable from a year ago or is it down from a year ago?

Henrik Ehrnrooth: Do you want to…?

Ilkka Hara: Form an order book margin perspective, I don't have the exact number here in my head but the way I think about it is actually is through the orders that we take in. And they are relatively stable, as we said, year on year and given the order book rotation, which in China is about nine months on average, so that's how you can do the maths. So relatively stable, I would say.

Antti Suttelin: Yeah. I've just also been surprised by your comments where you have been saying for a long time that the order intake market has been stable but despite a strong sale increase in Q1, that the group margin came down. So I'm just struggling to understand whether it could be that

China has some bad tails still in Q1, which pulled that China margin down or was it really so that it wasn't China, it was the world that was outside China that pulled the margin down from a year ago?

Henrik Ehrnrooth: I think it wasn't a ny specific – any specific reason? I think it's generally just higher input costs that had an impact on our total margin. I would say overall first quarter went as we expected. In many aspects, actually better than we had expected. So I don't – you know, there's always some fluctuation margin quarter. I don't think there's frankly much more to it.

Antti Suttelin: Okay, let me do my final try to get more clarity in this. You are a guiding group EBIT margin up for this year. In that guidance, what is the China margin that you are using?

Henrik Ehrnrooth: We don't guide –

Antti Suttelin: Or let's say that China margin compared to last year.

Henrik Ehrnrooth: As you know Antti, that we – we actually - I think we give quite a specific guidance on our sales and our EBIT. We don't give guidance specifically for each margin and each area but we also mention that our backlog margin in China is pretty stable overall year over year and, you know, if we get some benefit on – or less headwind or material cost toward the end of the year, maybe we can see some improvement there. But let's see. We don't guide specifically area to area margins, how they develop.

Antti Suttelin: Yeah. Okay. Thank you.

Henrik Ehrnrooth: Thank you.

Operator: We will now take the next question from Martin Flueckiger from Kepler Cheuvreux. Please go ahead.

Martin Flueckiger: Hi Gentlemen. Thanks for taking my question. Actually, three and I'll go one at a time. I realise you're not talking about pricing, except Antti, but looking back over Q1, could you indicate, you know, the overall – not for each business but the overall level of price increase across the Group that you have achieved? That will be my first question.

Henrik Ehrnrooth: I think it's difficult to say what it is overall because, you know, there are so many different markets, so many different, you know, specific products and so forth. It will – I think in many markets we are improving and in some markets we are improving more than what the cost headwinds are, others more or less in line with that. I can't – I can't really – you know, we have to go very much in detail, that question. I think in the services business, I would say more broad-based improvement and new equipment, various but overall actually okay-ish, I would say.

Martin Flueckiger: Okay. Thanks. Just to give me a feel for it, this 8% increase that you've had, is that – does that feel more like more than half is volume mix or…? Can you say something like that, just to give a very broad idea?

Henrik Ehrnrooth: I think Ilkka mentioned on China what are – why don't you just repeat the volume mix, which is of course the biggest one. The rest, you know, we had a few larger projects in the quarter which impacted it but, you know, you have sometimes do and sometime snot but perhaps China where the volume mix is the biggest impact always.

Ilkka Hara: Yes. And as Henrik said, China represents the biggest market at 63% of the total world market, so that's why we specifically called that out. But for us, the orders, we had a clear growth in our orders in unit and then we saw from like for like prices as well as mix a slight improvement, approximately similar improvement from it contributing to our orders value and the value then grew significantly, so more than 10%.

Martin Flueckiger: Okay but prices were raised strongest in China, right, compared to rest of the world or were there other key markets where you implemented similar price increases?

Ilkka Hara: So Henrik said we don't implement price increases. Prices, at the end of the day, is an agreement between us and the customer and we can't choose to increase prices. It's something that we really need to be able to add value to our customers. And like Henrik said as well, if you would say – it's hard to say a general statement about pricing across the globe because there's a mix on products, mix on countries, mix on the businesses. So there is no general statement to be made but at the same time it's in general, I think we did do a good job in working with pricing in the quarter across the globe in many markets.

Martin Flueckiger: Okay, thanks, got it. And then my second question would be on your investments into KONE Care, 24/7 connected services and other strategic initiatives. Have you stepped up these investments? Without going into specifies but have investments here Accelerated recently? You know, is that a key element in your EBIT bridge going forward?

Henrik Ehrnrooth: So we have grown them year over year but I would say more or less in line with sales. So, you know, if we think about why over the past years have investments in research and development and IT have increased, you know, historical world was more emphasis always on the, I would say, mechanical and product side. Now we have the whole digital side, so that is an additional aspect. But also gives us totally new revenues but year over year, as a percent of sales, it was pretty stable. It was pretty stable. So in that sense not more of a ramp up than what we are growing.

Martin Flueckiger: Okay, that's very helpful, thanks. And then my final question, I saw that you had some minor acquisition related pressure outflows of around 8 million. Is it fair to say that the sales and orders received impact was of a similar magnitude in Q1?

Ilkka Hara: No. So if you think about the acquisitions, talk about maybe last year or last years, so we do anything between 20-30 small maintenance acquisitions and individually none of them has a big impact to our orders or sales and the timing of the cash outflows depends a bit when we close and when we have certain milestones been met, so nothing particular there. We made a few acquisitions in the quarter but nothing particular that would impact either orders or sales as such.

Henrik Ehrnrooth: And if you look at the past couple of years giving acquisitions

Martin Flueckiger: Okay, would the impact be more than half of the percentage?

Ilkka Hara: No. Nothing material in the quarter.

Henrik Ehrnrooth: I mean, if you look at historically there were some little bit bigger acquisitions. Now, we haven't found those, it's good to have – it's had probably an impact from a percentage point or so to our sales growth in maintenance. Now, it's probably clearly less than half a percentage point if even that.

Ilkka Hara: Yes, and in the quarter we didn't do anything which impacted materially.

Henrik Ehrnrooth: Yeah, so very small impact on our top line. But there's always some we can find attractive. We would like to find more of those small, mid-sized acquisitions but sometimes they are available but sometimes not.

Martin Flueckiger: Perfect. Thanks.

Henrik Ehrnrooth: Thank you.

Operator: We will now take our next question from Daniel Gleim from Mainfirst. Please go ahead.

Daniel Gleim: Yes, thank you very much for taking my questions. First one would be when we think about the 50 million savings from the Accelerate programme, you mentioned less than 10 million in the first quarter, how do you see the split between the first and the second half. Is it more than evenly split? Let's say 20 million H1, 20 million second half or is it more geared towards the latter part? Let's say a little bit more than 10 in the first half and less than 40 million in the second. If you could provide a little more colour on how you see that evolve in 2019.

Henrik Ehrnrooth: So for Accelerate programme, what I said was that in first quarter we had a bit less than 10 million savings. So if you start to do a bit of approximation how do we get the 50 million, then I think that's a good way to approach it. So it's a bit more heavier on the second half than first half but already we are seeing the savings in the P&L.

Daniel Gleim: Thank you. And the second questions, and apologies to belabour the point, but if you think about the roughly 50 million around that tariff and we think about a rough calculation between H1 and H2 again, I assume the comparison base on the second half is much, much softer than the first half, so would it right to be assume – to see like 40 million in the first half and 10 million in the second? And just to t get a better understanding, how much does this towards the first half?

Henrik Ehrnrooth: Cost headwinds.

Ilkka Hara: I guess we haven't given a specific number on a quarterly level and part of that is that it's – we're trying to estimate the cost impact of raw material but we don't really buy raw materials, but component. So there's always a bit of an estimation there as well and on a quarterly level, obviously it gets a bit more difficult to give a number but it is weighted more towards the first half of the year and a little bit less then on the second half. And as I said, impact in the biggest in first and second quarter.

Daniel Gleim: How do you see the current prices evolve? Is there further softening or is there stabilisation when we think about supplier contracts going forward?

Ilkka Hara: Well I guess it's fair to say that in the beginning of the year we are saying it's approximately 50 million the impact of raw materials, plus the tariff. Now what we have seen so far is that the tariff impacts on from especially the least three which were supposed to be going up to 25 has been postponed, so it's now 10%. So there's a few million improvements coming from there and then from raw – sorry, materials, some millions of improvement and that's why we're saying that it's bit less than 50 million. So compared to what we expected at the beginning of he year there's some improvement but not that material compared to the total.

Henrik Ehrnrooth: But we can expect the – as Ilkka said, hasn't been a big change to what we saw the beginning of the year, I think we can expect it's quite close to volatility based on all the uncertainties we have in the world, so we can see the many different directions. We have seen oil now sharply increase from having, you know, come down quite a lot from the beginning of the year. So I think volatility is quite high and that makes, perhaps, the predictions a little bit more difficult to make.

Daniel Gleim: Very clear, thank you. Maybe one last question on the pilot project you were running in China on remote maintenance. Can you provide us an update on that already or it's too early to make an assessment?

Henrik Ehrnrooth: You refer to this one where we had some pilots with some of the local authorities?

Daniel Gleim: Yes, correct.

Henrik Ehrnrooth: Yeah, I think that is a – you know, they will always run certain pilots and tests and then usually as I said, there is no update on that. I think it's a willingness from the authorities to test there is alternatives and see how they work and we have worked closely with them on finding other opportunities but there is no update and no big change overall in the regulatory market.

Daniel Gleim: What do you think a timeline could be? Is this more a multi-year exercise or could this be more imminent, just to get a sense on how relevant this could become for 19 and 20.

Henrik Ehrnrooth: I think these are usually multi-year exercises because what you're looking at is that you have always a state level regulation, like you have also in Europe you have, you know, codes on a European level but then they have to be implemented in Europe in all countries. So if you look at in China all provinces separately, that's why they usually are multi-year projects but it shows the direction usually where regulators want to go and how they want to develop the market. So they see the benefit that there are technologies that can improve and they want to test them what they are. So I think we have to wait and see and then usually it then takes a while also then to roll it out throughout the country because we know the country is big.

Daniel Gleim: Very clear. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: We will now take the next question from Wasi Rizvi from RBC Capital Markets. Please go ahead.

Wasi Rizvi: Hiya and thanks for taking my question. I just wanted to focus on mix in China, actually. I found it interesting that you and your competitor earlier this week called out mix in China as positive in this quarter. Now, is that just a coincidence or is there an underlying market trend that means the mix is improving and is something that we can expect to be generally positive over the next few quarters. Now, I don't know whether that would be something like customer preferences changing or whether that's just where we are in the cycle for various types of investment.

Henrik Ehrnrooth: I think one of – I don't think there's anything fundamental behind I, it depends on which parts of the country that is growing what types of, you know, the more infrastructure than mix will be a bit heavier but also if you sell more units to higher tier cities, it tends to be a little bit higher specification. Mix can be higher. So it don't think there's anything fundamental behind it and there will always be shifts in mix quarter to quarter. So yeah, not much more to I, frankly.

Wasi Rizvi: Okay, thanks.

Operator: We will now take a follow up and our last question from Andre Kukhnin from Credit Suisse.

Andre Kukhnin: Hi, yes. Thanks very much for taking the follow up. I just wanted to take the opportunity to ask about those market size estimates and you said that you increased the China market size estimate because of some latest data. Could you share with us what drove that? IS that anything to do with the retrofit market, maybe?

Henrik Ehrnrooth: No it's just – you know, China's authorities have now more specific data available than in the past and, you know, there are so many players thee hasn't been exact data available and we just took into account what additional information we had and slightly reassessed based on that. That's kind of the – that's the background here.

Andre Kukhnin: Okay, that's the 20-30,000. Okay. And on modernisation, and I probably have to apologise in advance for this question, but we were just looking at the dynamics when you talk about development in Q1 and for the modernisation side of the market you stated North America being over 25% and EMEA over a third and then Asia Pac over 15% but that still is quite far away from 100% and I presume LatAm is the obvious one that's missing there but looks like quite substantial for a modernisation market in Latin America for what is about 3% in global deliveries and install base. I just wanted to check what's that kind of missing pocket of modernisation that's not there on that slide 12.

Henrik Ehrnrooth: Well we also – I think then we wouldn't have Japan, South Korea, South America, so there are places where we don't operate.

Andre Kukhnin: Got it. And could you specify the size of the modernisation market; i.e., are they in units or value, either globally or any of these regions that you operate in?

Henrik Ehrnrooth: So the largest market, single market is Europe, Middle East and Africa but North America is very big. So that's North – USA as a market is probably the biggest market overall but then European markets are big. The global market overall, including all countries, is probably something 8-9 billion, 9 billion maybe.

Andre Kukhnin: €9 billion. Great. Thank you very much Henrik. Appreciate it.

Henrik Ehrnrooth: Okay. Thank you.

Operator: This concludes today's question and answer session. I would now like to turn the conference back to the speakers for any additional or closing remarks.

Sanna Kaje: Many thanks again for all the questions and for being so active. I hope you have a nice and sunny rest of the week like we're expecting here in Finland.

Henrik Ehrnrooth: Thank you all.

Ilkka Hara: Thank you.