# KONE Q1 INTERIM REPORT FOR JANUARY – MARCH 2015

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**DECO MEDIA**
**Moderator: Katri Saarenheimo**
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Operator: This is conference # 952512.

Katri Saarenheimo: Good afternoon, everybody. And welcome to KONE's Q1 results webcast. With us today in Espoo, Finland we have our CEO, Henrik Ehrnrooth. Unfortunately our CFO Eriikka Soderstrom is ill today and she couldn't join, but she sends her regards. Instead, we have Senior Vice President, Corporate Controller Roberto Molteni with us today.

My name is Katri Saarenheimo, and I am from Investor Relations. As usual, we will first start with a short review of our Q1 results and highlights on the markets and in our development. After this, we will have plenty of time again for Q&A and discussion. But let's have a look at our Q1 results first. Henrik, the stage is yours.

Henrik Ehrnrooth: Thank you Katri and welcome also on my behalf. I'm, first of all, pleased to say that we have again good news and what I think is particularly important is that, as you know our overall environment was more challenging in the first quarter than it was in previous year. But despite this we continued our good development. This speaks a lot about the strength of our competitiveness and how we are continuously developing.

So we had a good start to the year. Our orders received exceeded EUR2 billion for the first time in KONE's history. So these were at an all time high. Growth was 18.7 percent compared to last year, or 5.5 percent in comparable currencies. Also, our order book reached an all time high of EUR8.5 billion, which is 38 percent growth over the prior year, or 15.6 percent in comparable currencies.

Sales was close to EUR1.7 billion and sales growth accelerated, if you compare to the end of last year and is now 17.3 percent or 7.1 percent in comparable currencies. So we can, of course, see from all of these numbers that translation exchange rates are having a significant impact on our reported result. What is also good is that our profitable growth continued, operating income was EUR212 million, a growth of 18 percent from last year. And our EBIT margin stayed at the good first quarter level of last year at 12.5 percent. So overall, good development.

Our cash flow was now at the level of EBIT, so that was a lower level than the very high level that we had last year. Here difference is that last year we had a very strong improvement in our working capital. Whereas, working capital this time around was more or less stable. But was still solid at the level of operating income. Earnings per share was EUR0.29 compared to EUR0.28 last year.

Our earnings per share did not grow as much as operating income, because our financial items were burdened again by the revaluation of option liabilities related to acquisitions, as these are non-euros, the euro value of them increased and that caused a revaluation expense for us. So that was what burdened earnings per share. Otherwise good development there as well.

So we can see again that we had good development. Of course, again, want to thank all of KONE's employees for their good efforts and for the commitment. I think these together with our good culture, strong culture, are really the key basis behind our continuous good development.

Let me go, as normal, a little more in detail, first, into our numbers in more detail. I'll then look at our market development. I'll do it in a slightly different way than previously, I'll explain why, and then we'll go through our market share for 2014 and then how we have developed, and finally, our outlook.

So, if you look at first orders received, good growth in orders received. As I mentioned, exceeded EUR2 billion for the first time in KONE's history. Growth of 18.7 percent or 5.5 percent in comparable currencies. We grew both in new equipment and in modernization. In new equipment, we had a good development in our volume business and we grew our volume business on a very broad basis in all geographic areas. So I'm actually quite pleased about development there.  Our major projects on the other hand now declined in the quarter.  As you know there can be bigger seasonal variations in major projects.  We had a very high comparison level last year.  So, now, at a slightly lower level in this quarter.

We also had good growth in our modernization orders received.  They grew at a good level in all geographic areas and also good development there.  Our best growth in orders received was in North America, where we continued to have very strong growth.  So I must say I am very pleased about that continuous good development at the moment in North America.

But we also had growth in both Europe, Middle East and Africa and in North America – Europe, Middle East and Africa, particularly good development on a broad basis in the volume business.  Asia-Pacific, key growth drivers were Australia and China.  In China, we continued to strongly outperform the market.  The market in the quarter was more or less stable.  Whereas our growth was more than 5 percent, so we continued to outperform the market at a pretty good margin.  So that's good.

If you look at pricing, overall, in markets, we can see that price competition is tight in many markets.  But despite this, we have been able to keep overall our margins of our orders received stable at the prior good level.  We've also talked a lot about price competition in China.  We could see that this increased again somewhat, and despite the fact that we have been able to outperform the market overall in pricing development, we could also see that our prices have come down slightly.  But again, I would not say that this is anything dramatic, because at the same time, we have had actually a very good development in our product costs.  So this way, we have been able to compensate a good part of this price competition.  So as a result of that, overall margins of our orders received has stayed at a previous good level.

If you then go to sales, here sales, as I mentioned, if you look at comparable currencies, sales growth now accelerated from (end of) last year and was 7.1 percent.  We had good growth in both our new equipment business, as well as our maintenance business.  New equipment business continued to grow at a good rate, close to 11 percent. And our maintenance business grew at over 6 percent.

So good rate for the maintenance business, so good continued performance there. Now, seasonally our modernization business declined somewhat. But as you can see from the heading, we had growth in all geographic regions. Fastest growth continuously in Asia Pacific, where growth was close to 11 percent. And also, I am pleased that we were able to now accelerate our growth in North America. So we can see that we are delivering upon the strong order book that we have and growth now in North America was 7.9 percent in comparable currencies in Q1. But Europe, Middle East and Africa, we also grew at 3.6 percent. So, again, I would say a broad based good development overall.

And then if we next go to our operating income, our EBIT, here most important point is that we continued our profitable growth. Our EBIT grew by 18 percent, and was EUR212 million. Margin was at last year's level of 12.5 percent. If you look at the drivers behind our EBIT improvement, we can first of all see that translation exchange rate naturally have had quite a significant impact, and they are a little bit over EUR20 million, the impact from FX on the results. But as you can see, beyond that also, we had good improvement in our businesses, both in our new equipment business, as well as our maintenance business. Geographically, we had the best – the best performance from an improvement perspective was in North America.

We continued to have areas that burden the development of our operating income, because we continue to increase our investments in areas that support future growth. These include process development, IT, research and development and still footprint in many of the key growth markets. And when we look forward, given the technological change we're seeing overall happening around us, we will continue to increase our investments in both process development and in R&D. But overall, I would say that's a good profitable growth again in Q1.

If you then look at our business mix, here we can see that the trends we have seen during the past years continued and share of new equipment increased.

And new equipment was now 51 percent of sales compared to 48 percent in the last quarter, in the first quarter of last year so 3 percentage points increase in share of new equipment. But maintenance was at 38 percent. So, the shift in mix was both due to underlying faster growth in new equipment, but also due to exchange rates, naturally more non-euro sales in new equipment than in maintenance.

And also, same trend as we've seen before in sales by market. Share of Asia-Pacific increased, was now 41 percent, compared to 38 percent last year so again, yes we had faster growth in Asia-Pacific than over all but also, of course, exchange rates impacted slightly this mix. So we can now see that Europe, Middle East and Africa and Asia Pacific in the first quarter were similar sizes. We're also pleased that share of North America increased from 15 percent to 17 percent, as we were able to improve our growth in that region. So this is about – summary about our performance.

As I mentioned, I will go through the development of our end markets in a slightly different way than before. I will do it business by business so that we can better see how we have performed relative to the markets overall. So if I look at our development in the new equipment business, what I mentioned earlier is that we had a good growth on a broad basis in our volume new equipment business and that is of course important. That is our basic bread and butter business and that drives business forward and of course, great, good service opportunities in the future.

So that happened in all geographic regions, good growth in that business. And then the second thing that China, we continued to outperform the market and grew clearly faster than the market again in Q1. So all of this, of course, good for a healthy development of our business and providing future good service opportunities.

If we then look at the development of the new equipment markets in total, so first of all, if we start with Europe, markets now declined slightly in Central and North Europe and remained weak in South Europe. When we look at Europe, I would say that even though markets remained weak in South Europe, development was perhaps slightly better, but I would underline the word slightly than we saw end of last year. Particularly in France and Italy, the rates of decline decreased and recovery of markets in Spain continued.

Also in some Central and North European markets, we could see a slightly better development, but I would underline the word slightly. The Middle Eastern markets stayed at previous year's good level, as we had expected. The key growth market globally continues to be North America and that market continued to grow at a good rate in the first quarter and we expect that good development to continue.

Then Asia Pacific, overall, markets rather stable. So if I first address the other markets, apart from China, we can say that Australia continued its good development and also we now saw some growth in India. It is not strong yet, but at least we can see India market is developing in the right direction.

If we then go to China, of course an important market, and let me pause here and spend a little bit more time on China. So first of all, in the first quarter, the market was stable, quite as we had expected. And as I mentioned, we continued our good outperformance by growing it over 5 percent. Pricing in the market remained challenging and intensified even somewhat. Again, I wouldn't say this is anything dramatic, given the good development at least we have had in product costs, and naturally here also good raw material prices are helping this.

When we look at the market a bit closer, we can see, first of all, that good development continued in the tier 1 cities. Here we see, fundamentally, good development, good transaction volumes from apartments, reasonably low inventory rates. So there overall business continued developing well. Then, it’s when we look at the lower tier cities, here is where we see significant differences and we've talked about a slight increase in the uncertainty.

This (obviously) means, particularly in lower-tier cities with higher inventories, there we can see some hesitation amongst our developer customers to progress with projects given the higher inventory levels. But I would say, even in lower-tier cities, there continues to be many good markets, a lot of good opportunities. It varies a lot. The best segments continue to be infrastructure, as a result of stimulus, and commercial. When we look at standard residential that now declined slightly. Affordable housing was stable at last year's level.

So what do we think when we go forward from here. First of all, our base case for this year is that the market will stay approximately at previous year's level. If the stimulus that has been announced recently and actually over the past months, related to the property market, if we start to see a bigger impact from that, then we can start to see a growth towards the end of the year. And when we talk about the high uncertainty, it's particularly when we look at the lower tier cities with a weaker situation, if we start to see here better transaction volumes amongst apartments, we believe that would also improve the confidence amongst our developer customers.

But I think it's important to put this in perspective, market continues to be very big. We have a good competitiveness in the market, we have continued to outperform, so we continue to see lot of opportunities. Yes, competition is very tough, but we are, of course, determined that we can continue to develop, if you look, over the long-term better than the markets overall. And I think we have all the possibilities to do that. So that's about new equipment and a little bit more in detail about China.

Then if you go to the maintenance business. First of all, maintenance sales grew in all geographic areas, so we had good development here and clearly fastest growth in Asia Pacific. Our sales in maintenance in China continued to grow at a very good rate. So very pleased about the performance and I think good performance overall globally.

If you look at the markets; Europe and North America, we can see very similar trends to what we've seen in the past, markets where we have had a better new equipment deliveries over the past year is of course a stronger maintenance market and then South Europe, for example, clearly continues to be very tough and very competitive and we expect similar situation going forward, but overall growth in the market.

And, good thing, naturally, is the Asia Pacific markets continue to develop very positively as a result of high new equipment deliveries in the markets overall of the past years feeding into the business and the market. So we see good growth there. And, of course, big part of our strategy is to capture a big part of that exciting growth in the maintenance market in Asia Pacific.

And then finally, if you look at our modernization business, I would say highlights here was the good growth we had in orders received, both in North America and Europe, Middle East and Africa, and also we had a good development in sales in North America. Now seasonally it declined in Europe, Middle East and Africa.

When we look at the markets, I think what we see, as we all know, there is a very significant modernization need in both Europe and in North America. And we can see that the markets where we have a stronger economy that modernization markets are developing well, North America for example. We can also see that in European markets where economy is improving, we can see quite an immediate impact also in the modernization market overall.

I think Spain is a good example here. Spanish economy, as we know, is slightly recovering and we can see a clear impact in the modernization market in Spain at the moment. So, I think this again shows to us that when we have a better economic environment, there is very good modernization opportunities and clearly lot we can do to improve that as well. So, markets grew well in North America, slightly in Central and North Europe, but in South Europe they remained weak overall.

So that's about our businesses and our markets. And then as we usually do in conjunction with Q1, we go through our view of the market for the full year of 2014, including our market share. When we look at the total elevator and escalator markets in 2014, our estimate is that it was about 815,000 units, up from 750,000 units the year before.

So growth of about 8.5 percent. In the same period, KONE grew at about 12.5 percent. Key growth drivers for the market overall were actually China and North America. But we also had growth in some Europe, Middle East, and Africa markets, particularly Middle East and some of the Asia Pacific markets. But the key growth drivers were clearly China and North America.

If you look at is KONE's market share last year, it was last year 19 percent, up from little bit less than 18.5 percent in the previous year, so continued good improvement in our market share. Drivers of our market share increase was China, also where our market share reached about 19 percent last year, close to a 1 percentage point increase, little bit less, but a good market share increase there, and also a very good increase in our market share in North America. Europe was more stable. So I would say, again, we succeeded in growing our share in the key growth markets of the world and that has been our strategy for a long time. So I would say continued good development and improvement in our overall market share.

If you look at the maintenance base globally, total units of elevators and escalators serviced, that was now end of last year, a bit over 12.5 million units, up from about 12 million units the year before. Of course, here as expected, biggest change is that share of China was now 26 percent compared to 23 percent and Europe. But Europe, Middle East and Africa were still 45 percent. I think what's important when one looks at this chart of the breakdown of the global maintenance base, is to remember that Europe, Middle East and Africa share 45 percent, about 5.5 million elevators and escalators, most of those are in Europe. It's clear that the European urban population is much smaller than the Chinese urban population and in Europe; people still live a lot mixed between higher rises, single-family homes.

So we can see that over many years it's clear that the Chinese market will and should become much bigger than the European market. If you look at urban residents and how people in that market and not only in China, is of course rest on Asia Pacific, as much of growth and that's of course one of the important growth markets that we also going after, I would say, we have had a continuously good development there. So this is our view of what happened in the market last year and of our market share.

Let me then little bit address how our development programs have continued. As you know we launched new development programs bit over a year ago, so we have been executing them for a year and I'm pleased to say that they are delivering results. I will today address the second one was a winning team of true professionals where one of our key objectives is to help every KONE employees to perform at their best. In supporting that, we continuously see that we are improving our performance management and training of our people.

One of the ways we measure this is that we have an annual employee survey. We did that again in Q1 and I must say I am actually quite proud of the fact that out of KONE's 47,000 employees, 93 percent answered a survey. It shows that it matters, is meaningful and people believe it has an impact. And also, so I think was most important that the survey is meaningful, but I think with a response rate like this, it is meaningful. Secondly, our results improved on a broad basis, so we can see that we are making KONE all the time a better place to work. We still have work to be done here that we are progressing and I think these are really essential parts, our culture, our development are really essential behind our good development and I think will enable continued good development of the company.

So that is a highlight of our what's happening, and some results from our development programs.

And then finally a market outlook. Starting with new equipment market; Asia-Pacific, expected to grow slightly in 2015 and as I mentioned, China, we expected a base case, the market is approximately stable at the good level of 2014 or if stimulus starts to have an impact, we could start to see slight growth towards the end of the year. Europe, Middle East and Africa, rather stable with Central North Europe, we expect stable or slight growth and South Europe expected remain weak, but as I mentioned here perhaps slight improvement compared to end of last year.

Middle East market very much according to expectations, stable at previous years' good level. And key growth market is North America that continues to grow. Maintenance markets expect to see very much same development as we have seen in the prior years, so a good development in Asia Pacific, overall growth in both in Europe and North America, but clear variation in those markets. And modernization overall expected still to be rather stable in Europe, but continued to grow in North America and Asia Pacific. And total market as a result of this stable or slight growth because Europe is a very significant part of that modernization market. So therefore there was slight growth overall.

So we can see that compared to prior previous year and exactly in line with what we said, in full year results overall market is somewhat more challenging this year than it was with last year, but I think this is very much as we had expected earlier, already and communicated earlier.

And then finally, our business outlook which I would say, essentially is unchanged, as specified our sales growth is unchanged between 6 percent and 9 percent in comparable exchange rates and our EBIT, we have slightly specified. We expect the EBIT to be in the range of a EUR1.140 billion to EUR1.230 billion and here we now assume that translation exchange rates stay at the average level of the first quarter of 2015. Previously we are talking about average level of January for translation exchange rates and the range was EUR1.130 billion to EUR1.230 billion.

Now, as you know some currencies not all, I think it's important to mention all of some currencies have continued to strengthen compared to the euro, particularly the dollar but that's only part of our sales. Some have been quite stable, but there's still a slightly better and more positive impact from translation exchange rates compared to what we expected, beginning of the year, then we will talk about 75 to 100 million range of positive impact now we’re saying, that's probably approximately positive impact to our EBIT.

But I would take that very much as an approximate number and that's why we still have a slightly wider range than we have had, for example, last year in EBIT, to also gives room for some volatility in currency. So I would say our message overall is that operating income, I would say de facto, pretty much the same as it was beginning of the year and that we continue to expect a good development. Overall in 2015. So I think this is what I had before we go to Q&A. I think Katri had a quick message for you.

Katri Saarenheimo: Thank you Henrik, just before we go to the Q&A part of short reminder about our upcoming capital market today which we will be holding in our in Shanghai, China this year on September 25 and the day will consist of presentations by management in Shanghai and also there will be an opportunity to see our production facilities in (Xonshan) close to Shanghai.

We will be sending more information soon regarding the details of the day and also the registration details. But now let's go to the Q&A and let's starts from questions here in Espoo.

(Elami): Hello. (Elami) from (Evia Bank). United Technologies commented yesterday on the – what they are seeing for all this in Europe and they said that they see broad based strength in new equipment in Europe and also that on the back of that they expected or expect that service pricing is going to improve towards the end of this year. How do you relate that to, how you see the market?

Henrik Ehrnrooth: Where they are commenting on market overall or their performance?

(Elami): Well I'm assuming that it's their performance that they are commenting on.

Henrik Ehrnrooth: And of course then I still see what the comparison point is, but I would say that Europe as I said, we have slightly better, but we don't see a broad-based growth. We see good development in Germany and the U.K. for example and improvement in Spain.

I would say if you look at our performance, what I mentioned earlier, what I am actually very pleased with is that we had broad based good performance in our volume business. Just now major projects tend to be more seasonal, we now in this quarter happen to be little bit less of those. But I would say good broad-based performance also for us in the volume business. But still markets, I would say markets continue to be very challenging. There's no question about that.

(Elami): What about the service pricing part, do you share the view that there would be improvement on that side?

Henrik Ehrnrooth: I don't think we are seeing that yet. I think particularly southern parts of Europe continuously and the markets where we have had a prolonged weakness in new equipment. We see very strong competition in fact and I don't think we've seen any changes to those trends.

(Elami): And then one more question on Southeast Asia, you say that orders declined significantly in Southeast Asia. What's happening there?

Henrik Ehrnrooth: This is simply that we had in first quarter particularly in Southeast Asia last year, a number of very significant major projects. Now we have slightly lower major project activity. Nothing more than that.

(Elami): Thank you.

(Beck Pointer): (Beck Pointer) from (Poeba Bank). I would like to ask about this price situation in China and you said that you see the prices are somewhat easing. Could you can give us some scale, what do you see question about couple of percentage points down or what kind of trend is at the movement?

Henrik Ehrnrooth: I would say depending on the segment and different parts of the market and so of course, there was a market prices probably, let's say 2 percent to 5 percent or something like that it will be spending and so nothing dramatic, but clear continued pressure of course on a big market, but that has an impact.

(Beck Pointer): Have you mentioned this 2 percent to 5 percent (that’s slow), where you have also seen your own pricing?

Henrik Ehrnrooth: As I said that we believe that we have performed, slightly better than the market overall.

Katri Saarenheimo: Thank you. We are now ready to take the questions from those persons on the phone line. So, please operator.

Operator: Thank you. I have five people waiting. And if anyone else wishes to ask a question, they need to press star one. One moment. Your first question comes from the line of the (Jonathan Hanks) of Goldman Sachs. Please go ahead (Jonathon).

(Jonathan Hanks): Thanks for taking my question, just on the China orders, obviously flat by and for the market by volumes and the five percent for yourself, I'm just wondering how do we think about translating that into a value figure, is there any significant change in mix, given the different gross across the different tiers cities in China or really should the value moved approximately with the volumes x'ing out the pricing impact?

Henrik Ehrnrooth: So. you're right that in China, in volume with over 5 percent, it was somewhat lower in monetary value of a few percentage points lower, not the big difference there, it's both mix and pricing that is impacting, and we can see that, given the competition market that some customers are perhaps take a little bit lower platforms, but again for us that's not such a big impact. Given the good competitiveness with have on a broad basis in China.

(Jonathan Hanks): OK. Thank you and just one more if I may, just on the guidance, I know you talked about this at some point, but just to really clarify the change in the guidance, is that purely driven by FX or is there any other moving part clearly and it looks like the bottom of the range has moved up to EUR10 million, the top end has stayed where it is, I'm just wondering if there's anything at all, anything else that's moving or going on behind the scenes?

Henrik Ehrnrooth: Yeah, thanks for that. I think as I mentioned that the reason we took EUR10 million, may seem a small number, but just a signal that de facto, we would say that, if you take out the changes in currency is that it's effectively more or less the same, that we had at beginning of the year, something with really else is going on there.

Operator: Your next question comes from the line of Andre Kukhnin of Credit Suisse.

Andre Kukhnin: I'll just give one at the time. Firstly on coming back to your comments on backlog operating profit margins being on par with the past year, that implies that if we see any operational gearing, that would be from growth in service. So, I guess should we expect operational gearing from growth in service or are there pricing dynamics there that are also working the wrong way?

Henrik Ehrnrooth: I would say that when we grow up service basis again like when the first quarter has been profitable growth. But if you look at our overall business, we still expect this year that the new equipment business grows faster than the service business overall. So from that you can say if I think from mix perspective probably a slight headwind there.

Also, as we mentioned in connection with the first quarter result is when we look at our new equipment business, we now start to have more larger project deliveries, which have a slightly lower margins, still at a good level, but slightly lower margins. Those are perhaps mix wise slight headwinds, but not significant.

Andre Kukhnin: Got it. Thank you. And just thinking about the cash flow dynamics and what you said about working capital no longer being outright positive, but rather being kind of stable factor in cash flows. Is this how we should think about it for the rest of the year and going forward or should we factor in any normalization of abnormally strong cash contributions from working capital before reversing in the future?

Henrik Ehrnrooth: So, first of all, remember we come from a year, last year where we had exceptionally strong cash flow and a very strong improvement in our working capital as a result of improvement particularly in the ratio of our advanced payments compared to inventories.

It's clear if you have a lower growth environment that that ratio will not improve as much. But I think also one of the important impacts not the only one, but one of the impacts also for the cash flow in the first quarter is that if you saw in Q4, our payables, if you look at comparable currencies increased and now they decreased.

So that paid some cash, but you can say that we were able to get some of the 2015 cash flow already in 2014 and that's why, if you remember cash flow in Q4 where we said at we were at exceptionally high level. So perhaps little bit ate from Q1 cash flow there. I would say that's one of the impact and then there were number of smaller, I think we still have an objective is to continue to have a good cash flow, and I don't see a change to that.

Andre Kukhnin: Sure, got it. It was more about -- I appreciate the factors of Q1 year-on-year and sequential comparisons just whether we should normalize to 100 percent cash conversion or given that would be running at well over above 100 percent and last couple of years, you will be normalizing to sub 100 percent going to forward, if you could comment on that?

Henrik Ehrnrooth: We don't guide cash specifically. I would say that if you look at, our working capital is now about EUR880 million negative and that's improved from about zero in 2009. So, of course, a very strong improvement. Of course, strong growth has contributed to that. I think much of that has been the difference between our advanced payments and our inventories, we can still improve that, but I think the rate of improvement we have had has been we're probably not going to have high of a rate of improvement as we have had so far.

Andre Kukhnin: Great. And just a last question. On footprint in China, you continuing to expand and if could you update us on the latest number of selling and service points that you have that, I think 500 last time you mentioned?

Henrik Ehrnrooth: So if I refer back to cash flow, I mentioned only one part of cash flow. I think we still have many cash flow items where we have good improvement potentials. No reason is why we were going forward as well, and then in China I would say that we are particularly expanding our service footprint in China.

So we continue to expand it's clear that when the market is now more stable rather than growth is, of course, we are also looking at our expansion and our cost base more carefully there, but we still see that we need to expand the number of service locations that we have in that market.

Andre Kukhnin: And what was the current number of locations in China?

Henrik Ehrnrooth: It continues to increase. I would say when you have more service locations it’s smaller locations. So in that sense, I mean, I think last time we talked was over 500 it has continued to increase from there. I think the exact number is not that relevant. Other than that we continue to increase our service locations throughout China.

Operator: Your next question comes from the line of Rizk Maidi from Barclays.

Rizk Maidi: Good afternoon. Thank you for taking my questions. I actually have two, one on the pricing pressure in China. So firstly, on that one can you just tell us the pricing pressure by segment and also I am keen to hear you talk on why we're seeing those pricing pressure?

I think in the past you've mentioned that some players are taking advantage of raw material prices. Just keen to see if you see something else now? And finally, who is driving those pricing pressures, is the local players, is the Japanese or is it coming from all players including the western ones?

Henrik Ehrnrooth: So, we have talked about pricing pressure for a while. We have had quite a favorable raw material situation for a while and that has naturally meant that for a cost have gone down from many players and lot of players have price that out to customers. But I think price pressure for most players has been beyond that as well.

I think when we have a slower growth market, I think a lot of players who have very strong growth ambitions to be able to capture the increasing service opportunity that is coming in China and seeing that that is the biggest market in the world and you want to be big there. It just a strong growth ambitions. But again I see that if we can continue developing our competitiveness, the way we have been doing in China, there's no reason to believe that we can’t have continuously good development there.

Then, who is driving it. I wouldn't pinpoint anyone. I think usually when you get price competition in China, in a big market, there is usually broad based and many different players. I won't pinpoint any specific one.

Rizk Maidi: OK, thank you. And on the productivity improvements in China specifically, given that we have had so much improvement so far. Do you see scope for more going forward?

Henrik Ehrnrooth: There's always scope for quality, productivity and cost improvements in every market.

Rizk Maidi: That's clear. Thank you very much.

Operator: I apologize for the delay. Your next question comes from the line of (Drew Picker) of (Tesl). Please go ahead

(Drew Picker): Good afternoon. My questions have already been answered. Thank you so much.

Operator: Your next question comes from the line of Phil Wilson of Redburn. Please go ahead

Phil Wilson: Good afternoon everyone. Thanks for taking the questions. At the first one, just on the Chinese maintenance, can comment on what the actual growth rate number was in the quarter compared to the 25 percent you saw in 2014. And I know you said good growth, but a number that would be helpful? Thanks.

Henrik Ehrnrooth: It was at that 2014 levels, it was a bit over 25 percent so continued growth there.

Phil Wilson: The (GCA) based an acceleration in the maintenance growth versus 2014 levels or the end of 2014?

Henrik Ehrnrooth: So you have to remember that, the bigger your base is, that you keep up the same growth rate in you need to have increasingly more units that you converts into the base. You can say from absolute perspective, yes we saw an acceleration.

Phil Wilson: OK. How do you think the market's growing in terms of Chinese maintenance?

Henrik Ehrnrooth: It's growing at the good rate you know last year probably maintenance base increased from something like EUR2.6 million to somewhere between EUR3.1 million to EUR3.2 million. If you think about the new units that came into the market.

Phil Wilson: OK, thank you. And then just beyond 2015 for China in the past you've said, that you see a favorable development in the Chinese market, has anything over the past few months lead you to just to change your view on that.

Henrik Ehrnrooth: No, we continue to see a longer term favorable development. But I think, it's exactly as we have been talk about for long-period time that if we have a growth trend in sometimes, we have above growth trends with this year have been below growth trend, I think last year was probably above growth and you know we're going to continue to see fluctuations like this, so that's why we continue to develop our business, we continue to see opportunities there and believe in a long term favorable development of the market and increasingly more interesting growth opportunity in maintenance. Not talking about modernization yet because I think it’s also coming years.

Phil Wilson: Sure, and just on Europe, actually. Can you comment where European new equipment EBIT margins are versus historic levels or peak level, we see some signs of a slight improvements in European new equipment demand you could change from and just going to scale of the opportunity?

Henrik Ehrnrooth: So I would say that European new equipment markets have been challenging over the past years, there is no question of about that. We are seeing a slightly better improvement. I would not say it's a huge improvement yet. Yes, but we had a good development broad based particularly in the volume business beginning of this year. I think that's the business where we can have an attractive business. We don't comment on margins by different market in our business.

Phil Wilson: As you said sort of European margin new currently below the historic level you want it to be at.

Henrik Ehrnrooth: It is not at it’s peak level, no.

Operator: Your next question comes from Tomi Railo of SEB.

Tomi Railo: Hello. Couple of questions. Is it possible to specify the currency impact in the first quarter EBIT?

Henrik Ehrnrooth: As I mentioned, it was a bit over EUR20 million.

Tomi Railo: A little bit over EUR20 million. Thank you. And secondly on the financial items, how much was sort of option liability acquisition related to the cost?

Henrik Ehrnrooth: EUR20 million and above.

Operator: Your next question comes from the line of (Austin Oh) of (Marshall Waste).

(Austin Oh): I just had a couple of questions, I guess, both sort of clarification. One is on the working capital. If I understand what you're saying is after a very good 2014 you may be having a little bit of payback in that, but there hasn't been any change in payment terms?

Henrik Ehrnrooth: No significant change in payment terms. We can see perhaps in China market little bit more competition of payment terms, but overall, we have been able to collect good money there and collections continue. So yes, we can see – with tight situation where developers, there's some more competition. But again that's a slight, so overall I would say, the situation is quite healthy.

(Austin Oh): But when you say in what way is that prepayments or what is it that that's changing a bit?

Henrik Ehrnrooth: In an new equipment basis, we have both have down payment on the order and then you have milestone payments throughout the project at least for us, down payments are unchanged. But then there can be some competition and how the milestone payments are scheduled. But again, I wouldn't make a big point out of this.

(Austin Oh): OK. And my second and final question was just on the currency. I understand that the main impact is translation I guess from renminbi or dollars into euros. But is there any transaction impacted and if so is that positive or negative?

Henrik Ehrnrooth: I would say quite limited transaction impact. Clearly, we deliver some of our more major projects from Finland, which of course in euro. So, little bit of positive there, but personally I remember service business, all local currency and – (virtual) all local currency and local costs. So no impact there. Most of our supply is in the same currency as we deliver. So actually from a transaction perspective, some slight benefit, but not significant one.

(Austin Oh): Great. Understood. Thank you very much.

Henrik Ehrnrooth: And still to that question, I think most of our competitors have pretty similar currency breakdown. So I think from a competitiveness perspective, we are pretty much in the same boat, I think.

Operator: Your next question comes from the line of (Max Louis) of JPMorgan.

(Max Louis): Hi, thanks for taking my question. My very first point was just regarding where specifically you think Chinese stimulus could be relevant in kind of which market. So in which region specifically, that could be helpful.

And then, my second question is a little bit more around your supply base and I suppose if you felt there was any more potential to look at there perhaps outsourcing energy supply to the who has historically proven to be quite an important (market) to our supply chain or there's any further potential for growth through I suppose the ongoing supply relationship.

Henrik Ehrnrooth: First of all, on stimulus, so there are different types of stimulus we've seen over the past, I would say, six months, actually a little bit more. First one is we saw that releasing of real estate restrictions to many of the second-tier cities, that was the first thing.

Then, we've seen also the relaxation in mortgage down payment requirements and as well as property taxes on transactions. So all of these are to help the transaction volumes in the real estate – I think the residential real estate market.

So that to help those, but then you have had more broad-based stimulus, interest rate cuts and of course the latest big cut in the required reserve ratio for banks, which of course will provide lot more liquidity to the markets.

There has both been liquidity in the overall market as well as targeted towards real estate. And I think both of these are important. Our developer customers

– our customers need financing the broad-based liquidity in the market helps them and of course for their confidence and it's of course important apartment transactions would develop positively.

Second one was on supplier base. I think we continue to have opportunity to work with our suppliers, they have had some raw material benefits, many of them, but of course, we're looking at manufacture methods for them. We look at designs and things like that. That is an ongoing process. What I mentioned is that we have had a good progress this year, in this field; and of course, we continue to have good opportunities.

We have already a very significant part outsourced. We have strong partners we all the time look at things, what should we do ourselves, what should be outsourced, we may bring some things, given back short sales, that beneficial and vice versa, this is on going process and not anything that is fixed in stone. And I think we have made good partners that we work with.

Operator: You next question comes from the line of Antti Suttelin from Danske Bank. Please go ahead.

Antti Suttelin: Thank you. It seems to me that the factor holding back KONE's EBIT margin improvement is the fast employee growth. And that's the same thing that we saw happening in 2014. Now, I understand that it may be a wise thing to do long term. My question only for how are you planning to continue to spend excessively in order to build platforms, if it's only 2014 and 2015 or will continue in 2016 and 2017, how do you see upon that?

Henrik Ehrnrooth: Increased number of employees, they reflects the higher working progress and the cost of our big order book, we are not recognize revenue for March but work in progress and reporting the work is increasing, and of course, we need more labor force. I think we had increase in our employees in a weaker environment. Of course we need to look at that much more carefully than before.

Antti Suttelin: OK. But that's the kind of that platform, footprint, R&D spend, that you have referred earlier, is that something you continue to do short term or medium term or even long term?

Henrik Ehrnrooth: I would say the expenditure process development, R&D and technology platforms. I think that is of course long-term, I think trend-wise increasing, I think footprint that's very much dependent on the market growth opportunity that we see that can vary more.

Operator: Your next question comes from the line of Thomas Skogman of FHB.

Thomas Skogman: If I remember right, I think you said after Q4 that the earnings growth and sales growth likely it will be a bit slower in the beginning of the year than for full year of 2015 and when I look at your 18 percent EBIT growth now you know if you are adding to the full year, you come to the upper end of the, the guidance range.

So wondering if anything else changed here and I'm also a bit puzzled that you have not raised the upper end of the guidance range, just based on the FX (helps) is their something that these kind of still negative that you would like to highlight on the back of these two things?

Henrik Ehrnrooth: First of all, you're right it was related to sales growth, of course, we talk about sales growth, we talk about in comparable currencies, so we said that we expected to have a slight slower start to the year in terms of sales growth. Actually our sales growth in first quarter was somewhat better than we expected, particularly better progress in Asia Pacific as well as in North America.

So that this, we had a slightly better sales growth. Then and that of course helped earnings growth as well. Then you have look at the EBIT, there is of course is partly foreign exchange and partly underlying growth as well. But when it comes to our guidance as I mentioned earlier, the message we have is that it’s unchanged from beginning of the year. Reason we took up just 10 million from bottom end is to reflect a slight difference in translation exchange rates.

Thomas Skogman: But we didn't want to do the same change to the upper end of the guidance range apparently. So, I mean there must be something still that is an increased uncertainty or something that should be reflected in it?

Henrik Ehrnrooth: It depends from how many decimals we want to show, but I think we are pretty accurate that we show it already. And I think our message is pretty clear.

Operator: Your last question comes from the line of Michael Hagmann of HSBC.

Michael Hagmann: Good afternoon. Henrik, I would like to come back to the cash flow development or rather than networking capital development. I understand that you're saying we had a pretty good cash flow in 2014 and particularly the second half looked pretty good. They said we are looking at a swing from a positive contribution of 125 million from networking capital to deteriorational or cash absorption of 24 million, it's 150 million.

Even if you look then at the fact that last year, we had good networking capital contribution of 225 million over 180 million in 2013 and 2012. I just think it's a really, really big swing. So it would be really nice if you could explain a little bit more what that dynamics were in terms of advances in inventory build as you can see that on an underlying basis, because of the currency impact and also, what do you expect in terms of networking capital change for the full year? Thank you.

Henrik Ehrnrooth: First of all, we don't guide our cash flow. I think only think I can say that of course I think we can continued to drive good cash flow. I would say first of all, you mentioned we have pretty good cash flow in the second half of last year; there we had extremely good cash flow. Second half last year, we are proud of that. It shows that the fundamentals of our business are in good shape.

So therefore I will make the big point out of having one quarter, we have had I would say consistently over the past years very good cash flow continuously. Now we had a quarter where the difference between the advance payments and inventories did not expand, if you look at comparable currencies like it's been doing in the past. So it's been bringing us more positive. Now, we didn't have as positive contribution and then we had an impact from our payables.

So there are many different things that impacted our cash flow but if we look at it then, regionally, I think, continue to do well. It was more in certain areas that there was a change. But again, I think that objective and target is to continue to have good cash generation and we have to remember that our cash conversion was from EBIT 100 percent.

I don't think that that's a weak number. I think it's still a solid number. Yes, it was much lower than the very high number we had last year. And as you know cash flow can fluctuate quite a lot from quarter to quarter. So I think the way we look at this is on longer-term basis that we continue to have a good development here.

Michael Hagmann: But is it fair to assume that if you look at that balance between advances and inventories that there is not going to be a positive contribution coming out of a change here going forward?

Henrik Ehrnrooth: I think that will all depend on what kind of growth we can drive through our orders received. We have a business model in both new equipment and services where we have negative working capital. If you have good growth, a strong growth as we've had in the past years, then, you can expand it. So I think it will all depend on our order growth relative to our delivery growth. So that will be the driver of how we will continue to develop going forward.

Michael Hagmann: Thank you.

Operator: Your next question comes from the line of Andre Kukhnin of Credit Suisse.

Andre Kukhnin: You announced a couple of acquisitions in Europe in last few months. Is this the beginning of a firm trend? Is there more willingness to sell this pipeline better, kind of should we expect more? And just in the same theme, given the market dynamics in China, do you see scope for acquisitions there?

Henrik Ehrnrooth: I think our appetite for acquisitions continues to be there, has been there for a long time. Some has their bigger pipelines, some lower. Now, we closed two transactions early in this year. Again, all of them – none of them really big ones. So I say our appetite activity level is high. Still we would hope that there would be more to sell.

I think if you see a more challenging market in China, I suspect we're going to start to see more consolidation happening there as well both in the new equipment side as well as in the service side.

Andre Kukhnin: And would currently be open to be the consolidator in this market?

Henrik Ehrnrooth: I think we would have to look at it quite carefully, of course dependent on the target clearly more interesting on the service side. And of course we need to make sure that you get the service base that you can hold onto and so forth and new equipment, of course, it needs to be something that's complementary to us.

I think we are quite pleased with our set-top with two brands. I would add to that. And because it's also important to have clear purpose or what each of the brand does and if one could find that purpose, maybe we could expand there as well. But I must say that, that something would have to have to think about carefully.

Andre Kukhnin: Great, thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: There are no further questions at this time.

Katri Saarenheimo: OK, thank you very much. We are then ready to conclude this call. So, thank you for active participation and we wish you a very good rest of the day.

**END**