KONE´S FINANCIAL STATEMENTS FOR 2014

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Katri Saarenheimo: Good afternoon and welcome to KONE's Q4 and Full Year Results Webcast. Present here in Espoo, Finland today we have CEO, Henrik Ehrnrooth; and CFO, Eriikka Söderström. I am Katri Saarenheimo, Director of IR at KONE.

As usual, we will take first a look at the key figures from the Q4 and full year results, discuss the recent market trends as well as our outlook for 2015. After this, we will have good time for a discussion on your questions.

But let's take a look at the Q4 review first. Please, Henrik.

Henrik Ehrnrooth: Thank you, Katri. And also, welcome, on my behalf. It's, first of all, my great pleasure to announce and report the first full year result as CEO of KONE. And it's particular pleasure because we have good news to tell, again, today. And we had a good end of 2014.

But let's go straight into the numbers so we can look at a little bit more detail how we developed, particularly in the last quarter but also in the full year last year.

So we had a good finish to the year. We had good growth in our orders received and a very strong cash flow. Our orders received reached EUR1.7 billion, they grew at 15.6 percent or 10.7 percent in comparable currencies. Also, our order book continued to grow, it's very strong, close to EUR7 billion with a growth of 24.4 percent or 15.6 percent in comparable currencies compared to previous year. And this, of course, gives us a good basis going forward in 2015, the strong order book that we have.

Our sales growth was now somewhat slower than in earlier quarters this year. I'll address that little bit later in more detail. But sales reached close to EUR2.2 billion, a growth of 6.5 percent or 3.9 percent in comparable currencies.

What I would say is very important is that our growth continued to be profitable. Our EBIT for the quarter reached EUR315 million, and our EBIT margin improved from 14.4 percent to 14.6 percent. So our growth has been profitable, which is of course very important and something we focus a lot on.

What I would say what I'm particularly pleased with in the quarter is what I would call an exceptionally strong cash flow. EUR368 million. As you know, Q4 is seasonally usually not the strongest of our cash flow quarters, but despite this, we were able to generate very, very strong cash flow. And this came really across the board from the business, which is good.

Our earnings per share for Q4 was EUR0.40 compared to EUR0.36 last year.

So that was Q4, but let's look at little bit also how the full year 2014 developed for us.

So also in orders received, we had a good development throughout last year. Orders received were close to EUR7 billion, a growth of 10.8 percent or 11.9 percent in comparable currencies. I think I would say that this is a very strong achievement in an environment that it keep – continues to be challenging many parts of the world. Our sales grew to EUR7.3 billion, growth of 5.8 percent or 6.7 percent in comparable currencies.

And then in EBIT, we reached an important milestone for KONE in that our EBIT, for the first time in our history, exceeded EUR1 billion. Our EBIT was EUR1,036,000,000. And again here, same trend throughout the year was that our growth was profitable. And in the year, we improved our EBIT margin from 13.8 percent to 14.1 percent.

And also our cash flow throughout last year was very strong, EUR1.3 billion. This we can be very pleased with. Earnings per share, EUR1.47 compared to EUR1.37 in the previous year.

Then finally, our Board of Directors has proposed to the Annual General Meeting that we pay a dividend of EUR1.20 for each Class B share. So I think we can be pleased both with how our year ended but also with our full year development.

And of course, at this stage, I'd like to thank all of KONE's employees for continuing to develop the company very proactively, improving our competitiveness and executing very well in environment that has been challenging in many parts of the world, but also finding good growth opportunities where they have existed. So that's great, very pleased about that.

So that's our key numbers. But let's, as usual, go a bit more detail in the first orders received, then sales, then EBIT.

So we had strong growth in orders received in the last quarter of 2014. Our growth was very strong in the new equipment business, whereas our modernization business declined somewhat. In orders received, we grew in all geographic areas. Growth was strongest in the Americas with very strong growth in both United States as well as Canada. And also, we grew significantly in Asia Pacific, driven by strong growth in China, Australia and Singapore.

We had a slight growth in Europe, Middle East and Africa because of strong development in the Middle East. We also grew slightly in South Europe but we declined clearly, obviously declined clearly in Central and North Europe.

China, I know that's important. A lot of focus on that in China, we continued to outperform the market quite significantly. Market growth in China in the last quarter was approximately 10 percent and we grew over 20 percent. China's share of our orders received was a bit over 35 percent in Q4 and about 40 percent for the full year.

So if I look at the orders received for all of 2014, we can say that we had a very good development throughout the year and we were even able to, if we look in comparable currencies and also in historical, accelerate our growth in the second half of the year. So I would say very good performance.

And reason I'm particularly pleased with this growth is that despite the fact that we have had strong price competition in many parts of the world, we have been able to maintain a good level on the margins on our orders received. They have stayed at the previous good level despite the strong price competition that we have. And I think that tells a lot about the competitiveness we have in the market at the moment. So overall, very pleased with level of orders received and how they have developed throughout the year.

If we then go to sales. As I mentioned, our sales growth was now, if you look at comparable currencies, slower than it has been in the prior quarters during the year. And this was due to the fact that we had now slower growth in our new equipment business.

But first off, what I'm pleased with is that we had good growth in our services business, with overall 7.6 percent in comparable currencies. Our maintenance business continue to grow at its previous good rate, 5.3 percent. And now our modernization business accelerated and growth was 11.9 percent in comparable currencies.

So if you look at – I mentioned that our new equipment business grew slower now than earlier in the year. What is first important to note here is that our growth in new equipment and overall in Asia Pacific continue to be in a solid double digits. So we continue to have strong growth in Asia Pacific.

What burdened our new equipment growth was the fact that sales in new equipment declined in Europe, Middle East and Africa. And it declined clearly in the Americas. Now you may ask that why did our sales decline in the Americas despite the fact that we have had strong orders received growth for the past 1.5 years, particularly in the United States? But here, we have to remember that our – the lead time from orders received to sales in the U.S. is clearly longer than, for example, in Europe. And also our orders received are more and more mid-sized and larger projects, which have a longer rotation overall. So that's the reason that we now – we're delivering orders from period of time in U.S. when orders received was still weaker.

When we look towards 2015, we believe that the development in our new equipment business in the Americas will be clearly better. So but, I think, again highlight that sales growth in new equipment in Asia Pacific continue to be solidly in the double digits, so that was good. So overall, good growth throughout the year, slight slowdown towards the end.

But if we go to our EBIT, our operating income. Here, as I mentioned earlier, what is important is that we have had profitable growth throughout the year and reached EUR315 million in the last quarter. Our growth in EBIT now in Q4 was driven by good development in all businesses, in Asia Pacific and the Americas.

Our result continue to be burdened by the fact that we continue to invest in areas that support our long-term growth. These include IT, process development, research and development. And also we continue to expand our footprint in the key growth markets of the world. All of these are, of course, increasing our cost, but we believe that these are fundamental to develop our long-term competitiveness.

If we look now at Q4, we had a slight benefit from currencies, they were – benefited us about EUR10 million and a slight but not significant positive impact from raw materials. If you look at the full year, then foreign exchange was EUR10 million negative, but clearly it improved towards the end of the year. So I would say, overall, good profitable growth throughout the year. So that I can be quite pleased with.

If we then look at our business mix, same trend that we seen for a while continued. If we look at business mix, that the share of new equipment continue to increase, and share of new equipment was now 55 percent of our sales.

But what I'm happy with is that the share of maintenance remained at 32 percent because of the good growth we have continued to drive in that business.

Naturally, biggest change in our business mix is the geographic mix, where the share of Asia Pacific continues to increase. It was now 41 percent, up from 38 percent of our sales during last year. And naturally then, the share of Europe, Middle East and Africa and the Americas declined somewhat. Now China's share of sales, if we look at the full year, was a bit over 30 percent.

But if you look at our business mix over a longer period of time, it's always good at the end of the year to have a little bit longer perspective. And we can see first the geographic mix. Naturally, what is, I think, familiar to all of you how much our share of Asia Pacific has grown. It was last year, as I mentioned, already 41 percent, up from 12 percent in 2005, and 17 percent as recently as in 2009. So this of course has been a very important growth driver for us. And our compounded annual growth over this period has been 25 percent in Asia Pacific, so very strong growth.

But also what is important is that despite the fact that many of these years, or most of these years, have been very challenging in both the Americas and Europe, Middle East and Africa, we have also grown in these areas. 4.5 percent compound in Europe, Middle East and Africa and 5.2 percent in the Americas. So that's also provided stability to our – and breadth to our growth.

And also what's important is if we look at the sales by business, here, naturally the trend has been that the share of new equipment has increased, where we are compounded at little bit over 13 percent. But I think what is also very important here is that we have grown both our modernization business and our maintenance business both at around 6 percent per year. So that also has made sure we have grown in all of our businesses, which is very good.

So that's about KONE's businesses. Next, let me go through our end markets a little bit. So if we look at just how the end markets have developed, let's start with Europe, Middle East and Africa, as normal. And there, the market remained challenging in most parts of that region.

In new equipment, and if we start with Central and North Europe, the market now declined slightly. Residential segment was more or less flat, whereas, the other segments decline. In Central North Europe, the positive situations are, particularly in Germany and the U.K., whereas all other markets are either declining or flat. South Europe continue to be weak in new equipment. And Europe, particularly France and Italy, continue to decline already from the weak level. Perhaps a slight positive here is that the Spanish market has now started to slightly recover during 2014. Of course from a low level, but at least it's going in the right direction.

Also what's positive is that Middle East and Turkey continue to grow from a good level last year.

Modernization markets declined now in both Central and North Europe as well as South Europe. So here, we can clearly see the overall economic weakness that I think is very familiar to everyone.

Maintenance markets. They grew but very much the same trend that we have been talking about earlier in the year that there's significant variation between countries. Pricing environment continues to be very competitive. And it's clear that the markets where we have had a prolonged weakness now in new equipment is also naturally impacting the maintenance markets as well. So in Southern Europe particularly, clearly tougher situation. Whereas we have a better situation in countries such as Germany. So overall challenging in Europe, Middle East and Africa.

But let's go next to what has been the most positively developing market in 2014 and where development has been very positive. And that is North America. Clear growth continued in the – in new equipment market in the United States. We saw a positive development in all segments. But the most positive segment, the most positive development was clearly in residential and commercial. And we expect that, that good development will continue.

Canada was rather stable. But as you probably remember, Canada has been at the good level already for a while. So we're stable at a good level. Also in the Americas, both in U.S. and Canada, we can see the impact of a more – of a better economic environment, and therefore modernization markets are growing.

Also maintenance markets, they grew slightly but price competition continues to be rather intense. And here, we remember now that the maintenance market's naturally impacted by the deliveries of the past years where new equipment was naturally at quite a low level before the growth we have started to see in orders received now. But overall, good development in North America.

Then Asia Pacific. Overall markets continue to grow solidly because of good development in China. And as usual, let me first pause a little bit on China. So as I mentioned already, the Chinese market in quarter 4 grew at about 10 percent. And the full year growth was also about 10 percent. So very much as we had expected throughout last year.

We continued our very strong outperformance in China last year. In Q4, our growth was over 20 percent when the market was about 10 percent. And for the full year, we were over 15 percent when the market was around 10 percent. If we look at what was driving the growth in the Chinese market towards the end of the year, continued to be standard residential and commercial as well as now infrastructure, which has had a positive impact from stimulus measures.

If we look at the market geographically, there are significant differences within China. I would say that there are big differences even within provinces. In most of the market, we continue to see the trends we have been talking a long time about driving a positive development, such as urbanization, growing middle income population and also smaller household sizes. All of these continue to drive good demand for residential housing. And therefore, we continue to see a big part of the country, a good development. But it's clear also that we have certain cities where there is overcapacity and where we see a weaker development.

If we look at government measures, recently, we can see during the past 6 months and particularly in the past quarters, they have taken a number of measures to stabilize the market. They have relaxed many of the restrictions they have had in the real estate market. We have also seen relaxation to mortgage rules to ensure that consumers have better access to mortgages, and also selectively improved liquidity in the market for companies. And all of these have ensured that the market has had a stable development throughout last year.

Price competition in China continues to be pretty much the same level we have experienced throughout last year, so there is a tight price competition while the trend is pretty similar to what we've seen earlier in the year. So I would say, overall, China developed very much as we had expected over the beginning of the year and also throughout the year.

Let me then go to the other markets and start with India. And here, we have positive news in that India market now turn to growth. As you know, we have talked for a while about the good potential in the India market, but until now, we have seen a lot of hesitation in decision making and also difficult access to financing. This improved now, so we saw now a slight growth in the market, and that's good.

Australia continues to develop very positively. And Southeast Asia grew somewhat, but clear differences between the markets.

And in modernization, Australia is the biggest modernization market in Asia Pacific and that saw some growth. And what is very positive is if we go to maintenance markets, those markets continue to develop very well throughout the region. It's a good positive development in maintenance.

So that about our markets, how they developed in Q4.

And as we are now talking about the full year result, let me also touch upon some of the highlights during last year. And I'll start with our new equipment business. And first of all, what's important is that we have solid growth in our new equipment business both in the volume business as well as in the major project business. So we developed well in both of them. We continue to improve our competitiveness in both the volume segment and major project. And this, of course, can be seen from our good development.

We had a number of very important orders during the year. And here, we just wanted to highlight one, which is the order for what will be world's tallest tower or tallest building when it's completed, the Kingdom Tower in Jeddah. And why this is so interesting is that not only will it be the tallest tower in the world, but also they will employ very much of KONE's latest technology, including our UltraRope hoisting technology. So in that sense, was an important order for us.

Also, we continue to broaden and strengthen our overall People Flow offering and People Flow concept by starting selling our People Flow Intelligence Solutions globally. And we also introduced KONE Turnstile 100. That, again, broadens our whole People Flow offering and concept.

During last year, our orders received totaled to approximately 154,000 elevators and escalators. That's compares to about 137,000 units in the prior year. We delivered, last year, about 130,000 elevators and escalators compared to about 120,000 in the prior year. So good increase in both number of units ordered as well as number of units delivered. So we can be quite pleased overall with our development in the new equipment business.

Let me then go to our service business, where we reached a very important milestone during 2014. During 2014, our global service base exceeded 1 million units. This was an important milestone for us. And as you can see here, it took us about a century to reach 0.5 million units. But then it took us only a little bit over a decade to get the other 0.5 million. And now we have our eyes clearly set for the next million. This is important and good development.

So that about our development last year. And let me a little bit talk about also how we have developed our competitiveness during 2014. As you know, we launched our Development Programs about 1 year ago. These Development Programs are valid for a 3-year period. And I would say that we have, overall, had a good development in our Development Programs overall, and we continue to drive them forward. I would just touch on a few highlights of these Development Programs rather than go in detail into all of them.

So first, in our first in customer loyalty. As we have talked about, one of the areas we have worked a lot on here is customer communication, customer feedback and how we strengthen our processes to be able to better react to our customer's needs. And we can see a good development here, and that we can see from our customer loyalty surveys, that improved clearly last year.

In our winning team of true professionals development program, one of our key objectives here is to help every KONE employee to perform at his or her best. This means that everyone should have an individual development plan, this is about training, it's about leadership and it's about development of our people. And we can – we're pleased to say that all of these measures we continue to make good progresses to make sure that we can support all of our people to really perform at their best.

Then if we look at our most competitive People Flow Solutions, here, our objective is to have the most competitive elevators, escalators and solutions for smart buildings in the market. We launched important additions to our offering in the Asia Pacific affordable housing segment to further strengthen our competitiveness there. And we also launched important additions to our major project offering.

Also as I mentioned, we started to sell our People Flow Intelligence Solutions and introduced KONE Turnstile 100. So again, good development here, and that can, of course, be seen from our good growth during last year.

Then if we look at preferred maintenance partner. As you know, our objective is to improve our growth rate in maintenance, putting a lot of effort here. And about 1 year ago, we started very active development of our sales setups, sales competencies and sales management. And the good thing here is that we're starting to see results of that already now. As you know, over the past years, we have had a negative competition balance, which measures the number of units we win versus we lose in the market. We still, last year, had a slightly negative competition balance, but a very clear improvement from the prior year.

Also if you look at our conversions, we were able to accelerate how many units we converted last year. So overall, what we saw last year in our maintenance business is that we were able to improve our organic growth. So good development there.

In our top modernization provider, we have focused on our product offering, on our processes, but also here on our sales capabilities. And I believe that these will enable us to much more proactively generate demand in the coming year. So overall, I must say that I'm quite pleased how all of these Development Programs have gone forward and how we have strengthened our competitiveness through the year.

And then finally let's go to our market outlook, and then after that, to our business outlook. First of all, in new equipment, we expect the market in Asia Pacific to grow slightly in 2015. And here, we expect now the Chinese market to stay at the good level of 2014 or to grow slightly. What gives us confidence to this situation to have a good 2014 level or grow slightly, all the measures we have seen that the government has taken and also the trends we can overall see in the market right now.

In Europe, Middle East and Africa, markets expect to be rather stable. Central, North Europe, stable or grow slightly. South Europe to remain weak. And Middle East, here also, we expect the market to be rather stable at the good level of 2014. And for North America, we expect market to continue the good development and to grow.

When we look at modernization, overall, rather stable in Europe, continue to grow in North America and Asia Pacific. And given a big weight of Europe in the modernization market, we believe that overall, the markets will be rather stable or grow slightly if we look at the global situation.

If we look at the maintenance market, we expect very much a similar trends to what we've seen last year, which is that markets developed rather well in most countries, but of course clear differences from market to market.

And then finally, our business outlook. In terms of sales, we expect that our sales will grow between 6 percent to 9 percent in comparable currencies. When we look at the growth throughout the year, we expect to see a similar development to what we've seen in the prior years, which means that our sales growth in beginning of the year is somewhat slower. And then growth to accelerate from quarter 2 onwards.

When we look at our EBIT development, we expect our EBIT to be in the range of EUR1.130 billion to EUR1.230 billion. And here, we now assume that translation exchange rates will stay approximately at the average level of January 2015.

Now I think it's important to a little bit talk about the impact of translation exchange rates to our EBIT because currently, about 70 percent of our sales are in other currencies than the Euro. And as we all know, Euro has been very volatile recently and has clearly weakened. But if we look at the situation that we have used as a basis here, and we are using a range also for this because situation is so volatile, that if the translation exchange rates stay approximately at the average level of January, then the positive benefit from translation exchange rates would be about EUR75 million to EUR100 million. And this EUR75 million to EUR100 million is reflected in our outlook already.

It's clear that when we come to end of quarter 1, we will have again a little bit more visibility and at least a quarter behind us, but this is important to, of course, to note the big impact that translation exchange rates has on our EBIT.

But overall, this shows that we expect to continue to have a good development in 2015.

So with this, I think we are ready to go to your questions.

Katri Saarenheimo: Thank you, Henrick. And let's start questions from those present here in Espoo, Finland.

Elina Riutta: Elina Riutta from Evli Bank. A couple of questions on the different geographic areas. Can you say what the market growth in North America and in the U.S. has been last year?

Henrik Ehrnrooth: The market growth has been, particularly if you look at monetary value, has been clearly strongly in the double digits. But here, we have seen also the overall market shift more towards large, midsized and larger projects, so the growth in monetary value has been clearly faster that in units. So very solid double digits in terms of monetary value and probably in the double digits in units as well.

Elina Riutta: And how does your growth compare to that?

Henrik Ehrnrooth: We have clearly outgrown the market in the United States.

Elina Riutta: OK. And then on Middle East, can you say how much of 2014, the order intake in Middle East was?

Henrik Ehrnrooth: Well, we don't – as you know, we don't disclose order income by geographic area. I would say it's reasonably an important part, but it's not the huge part of our overall orders received.

Elina Riutta: Does that change to the outlook for the Middle East end market, that you now expect the market to be flat, is that a reflection of what has happened with the oil price? Or is there something else that is factored in?

Henrik Ehrnrooth: Well, we have to remember that the development has been very strong in 2014, so that's a – so I would again highlight that it's been a very strong development that we expect it to remain at that good level. In Middle East, there were a lot of very large projects awarded during 2014. And of course, we have to see now 2015. But so far, we have not seen changes to plans amongst our customers.

Elina Riutta: And then finally, on China and the market dynamics and your faster growth than the market, has it – your faster growth, is it coming from kind of similar sources as before? Or has there been any shift in the market? Is it still that smaller players are losing out mostly? Just looking at Otis numbers, they – their growth was well below the 10 percent market growth.

Henrik Ehrnrooth: Well, as you know, we don't comment on specific competitors, but I would say that perhaps the fastest-growing players, as it seems now are – well, we are very fast grower there. Then probably the mid – the middle tier segment has been growing quite fast. And then again, very small local ones have grown less.

Elina Riutta: Thank you.

Pekka Spolander: Pekka Spolander from Pohjola Bank. You already mentioned the competition balance which was negative last year. Could you discuss a little bit more what are reasons behind that? And could we expect that it could turn positive during 2015?

Henrik Ehrnrooth: So as we discussed before, the reason for the negative competition balance is the strong price competition we've seen, particularly in Southern Europe. That's where the biggest challenges have been. And I think it's a sign that we have not been willing to participate fully in this very strong price competition. Now rather than do that, we have developed our competencies, how we better retaining and finding the right units.

Clearly, we set ourselves ambitious targets here. But the good thing is that where we have seen – where we started our development in terms of our sales setups, we have competencies, we're very much in South Europe, and that's also where we've seen the best improvement. So it was only slightly negative anymore last year, very strong improvement from 2013.

Pekka Spolander: And the next question. If I recall right, in the third quarter report, in the conference call, you referred that in China, you might adjust pricing to keep the growth above the market growth. What was the situation during the fourth quarter? Did you need to adjust your pricing? And how do you see the 2015?

Henrik Ehrnrooth: Well, first of all, I would again highlight what I said when I talked about orders received, that we have a very strong in orders received, but we have been able to keep our margin of our orders received at the prior good level. So overall, I think we have a pretty good situation.

Now given that market pricing rises having going down in China for a good while, it is clear in certain circumstances, we have to adjust a lot – I'm sorry, a bit. But this is nothing significant. It's actually quite a small thing because at the same time, we have had a favorable raw material environment, and also, we have continued to be able to improve our cost competitiveness. So while we, in certain circumstance, have done a little bit, I wouldn't make big point out of it.

Pekka Spolander: OK, thank you.

(Maria): (Maria) (Inaudible), BNP Paribas. You mentioned that you have benefits from the low raw material prices. Could you comment about the size of the impact in your EBIT?

Henrik Ehrnrooth: Well, it's – we've had, in each quarter last year, maybe let's say very roughly EUR5 million to EUR10 million probably with less towards the end of the year, more early in the year. Not a significant impact anymore last year. But remember that raw material prices have now been at a favorable level already for a longer period of time, and they are, overall, at the very favorable level right now.

Eriikka Söderström: Thank you, we are now ready to start taking questions from those present on the line. So go ahead, operator, please.

Operator: Your first question comes from Tiantian Li from Credit Suisse. Please ask your question.

Tiantian Li: It's Tiantian from Credit Suisse. It was mentioned in the statement that in Q4, the order for volume business grew significantly while it was (more stable) for major projects. Is it right for us to assume that this will lead to higher outlook (inaudible) going forward and therefore a higher sales growth in 2015?

Henrik Ehrnrooth: Well, first of all, we have to remember that our comparison point for orders received in quarter four 2013 was very high. And that's why we didn't have as much growth, and you have to remember, it fluctuates from quarter-to-quarter. So this was not a very significant impact on us. Also you have to remember that when we talk about volume business, also in our volume business, we have seen more a shift towards mid-sized and slightly larger projects, which is good, and that's OK in itself, but the rotation of them is slightly slower.

Tiantian Li: OK, got it. Thank you. And my second question is that your forecast for the China market is to be flat or growing slightly in 2015. I was wondering what is the underlying assumption for that in terms of construction new starts?

Henrik Ehrnrooth: Well, we have not looked at a forecast. We haven't communicated a forecast for construction starts. I think one of the most fundamental drivers is overall real estate investments. And, of course, we look at how they have recently developed and the measures have been taken to market and the trends we can see and discussion with our customers. So I think our forecast is kind of a triangulation of all of our various news for the Chinese market.

Tiantian Li: OK, so just to be clear, is it right to assume that next year we watch the investments if it grow slightly or remain flat then average market can be flat or grow slightly. Is that consistent with your view?

Henrik Ehrnrooth: Well, that's probably one of the drivers. And again, I wouldn't like to highlight one driver more than others, but that's, of course, one important, important driver.

Operator: Your next question comes from Guillermo Peigneux-Lojo from UBS. Please ask your question.

Guillermo Peigneux-Lojo: Good afternoon, everyone. It's Guillermo Peigneux-Lojo from UBS. I was actually following up on your comments on China, the new elevator and escalators. I guess your flat to small up comment goes to new installations. So this will be already on the markets backlog, so to say, right?

Henrik Ehrnrooth: When we talk about the overall market, that's the aggregate of all new orders in the market. So that relates to new sales of elevators, not deliveries.

Guillermo Peigneux-Lojo: OK. So when it comes to the current outlook, when you look at China, overall construction as measured in total floor space under construction, is it fair to assume that with new starts actually still declining, more so than transactions per se and completions, you may actually face a situation at some point in 2015 – this is not for you specifically, but for the Chinese market, in which total new elevator and escalator orders placed may actually decline?

Henrik Ehrnrooth: Well, Guillermo, as you know, what we have, our view – if you look at the mid- and longer-term development in China, we still continue to see a favorable development. It's clear that a development is never linear, that last year and the previous year was very good development in the market.

We are not forecasting how each of the quarters develop in the coming year, but if you look at the future years, it's clear that we're going to have stronger quarters, and we're going to have quarters where development is a bit weaker and could be negative. But again, the way we develop our business, the way we focus, of course, and looking at the long-term opportunity in the market, which we continue to see is a favorable one. Therefore, I won't comment on, and don't have a clear view on how it sequential develops in the coming year.

Guillermo Peigneux-Lojo: And then a question on the service and the new legislation. We actually had conversations with a few elevator companies in China. And apparently, they all say that it doesn't have any impact whatsoever so far because the new legislation still places the decision on the owner or the developer of the buildings where the service is actually not on the – the service decision is not on the OEM's hands.

And then second to that, it's the local government that gives the certification to these service providers and in many cases, these are the distributors of elevators. So my feeling was that, overall, all these companies felt that they were not helped by the new legislation. Do you feel the same or do you feel differently?

Henrik Ehrnrooth: As you remember, when this new legislation was introduced about a year ago, it related to installation of new equipment. And that means that anyone who installs needs to be certified and authorized by the OEM. So then already we said that it does not impact, and there's not a specific legislation as such for the maintenance market, that it has to with the installations. But of course, this regulation and law on new installations, what it means that over time, we can increase the share of own installations that we do in the market. And that, of course, usually it gives you a better possibility to convert elevators into your service base.

So in that sense, I don't think we have a different view on what you say, but I think the implications of having this law on installations may, in longer-term, I think is going to be positive but not an immediate but over time. But also we see, in many parts of China, that focus on service quality is from the government side. The local governments is increasing all the time, and I think that will be a positive for the OEMs.

Guillermo Peigneux-Lojo: And then maybe a follow-up on some of, not necessarily you, but some of your competitors in the Chinese market. (Inaudible) receivables increasing by a significant amount, which is actually outperforming the, let's say, order intake or even the revenues overall, so the receivables are misbehaving on their cash flow. I know this is not your behavior, but is this something that you cannot see in the Chinese market as if basically the risk within your competitor's operation is increasing?

Henrik Ehrnrooth: Well, Eriikka, could you be the first one to comment on our development in terms of that? And I cannot talk about our competitors.

Eriikka Söderström: So we haven't seen any material change in the development of receivables in China. The collection has been very good. And as you know, the cash flow from China continues to be strong.

Guillermo Peigneux-Lojo: Thank you. My last question is on the backlog margins for China. I guess, as you highlighted, the raw materials are going down. And you're also superefficient, so I guess that the backlog margins for the Chinese business are still very healthy at the same levels as before or can you, in a way, give us any clarity on how that backlog margin is progressing as we move along tougher competition?

Henrik Ehrnrooth: I would say that exactly as you mentioned and the reasons you mentioned is that we have a very healthy margin for our backlog in China. But it's clear, it's a very competitive market, so we need to continuously strengthen our competitiveness to be able to maintain that good level but that's, of course, that's what we've done many years and that's our ambition is to continue to do that.

Guillermo Peigneux-Lojo: That’s all for me. Thank you very much. Very helpful.

Operator: Your next question comes from Jonathan Hanks from Goldman Sachs. Please ask your question.

Jonathan Hanks: Apologies if I have one more question on China. I'm just wondering on your guidance, it seems to me like your guidance are kind of flat to slightly positive growth next year is maybe slightly lower than you're expecting earlier in the year, even though I know you haven't actually explicitly guided to it. Do you think it's fair to say your expectation has fallen slightly or do you think that's a bit unfair?

Henrik Ehrnrooth: When we were asked that question, of course, in connection with Q3, throughout Q3, I think we were very clear in our statement that said we don't expect – what we said in Q3 and towards the end of last year is that we don't expect to see any dramatic changes to the overall volume in the Chinese market. I think this is fully in line with it is so I think it's very consistent to the view we have had for a while already. Now we'll just specify that as we're getting closer.

Jonathan Hanks: OK, thank you very much. Very clear.

Operator: And your next question comes Rizk Maidi from Barclays. Please ask your question.

Rizk Maidi: Just another question on China, please. Can you give us a comment on the pace of growth we're seeing in the maintenance business in China, please?

Henrik Ehrnrooth: Overall market continues to develop very positively. Our growth in the maintenance business is about 25 percent last year, which is very good growth rate. As you remember, we all the time, have a bigger base underneath to grow so we continued the strong and good growth of our maintenance base in China.

Rizk Maidi: And just a follow-up on that one. I mean, clearly, the maintenance and opportunity there is very important. I was wondering that given – growth side that you see there, when do you think the maintenance earnings will become a meaningful part of the overall Chinese earnings? Because I guess, currency maintenance revenues are only 10 percent of China revenues?

Henrik Ehrnrooth: Maintenance revenues are still less than 10 percent of our China revenues. It's a good and profitable business. It has already a good contribution to our bottom line. Clearly, new equipment has significantly bigger contribution, but it already contributes nicely to our bottom line.

Rizk Maidi: OK, thanks. And one more on your guidance on China. I mean, do you – can you give us some color on the underlying assumptions for the different subcomponents of the market, I mean, raising and raising on social housing?

Henrik Ehrnrooth: So probably pretty similar to this year. So slight growth in potentially in standard residential, perhaps the most positive markets are likely to be infrastructure and commercial, that's the best trends. And then we have to remember, we are at the tail-end of the government's program now for affordable housing, which has developed very much in line with our expectation. But I would say perhaps the most positive ones are office and infrastructure.

Rizk Maidi: Thank you very much.

Operator: Your next question comes from Ben Maslen from Bank of America. Please ask your question.

Ben Maslen: First, just a small – just on currency, I may have missed it. How much did it boost EBIT in 2014 in the fourth quarter?

Henrik Ehrnrooth: It weighed on the full year EBIT about EUR10 million. And it benefited a little bit less than EUR10 million in the last quarter.

Ben Maslen: Got it, OK. And then if I look at your guidance EBIT for 2015, EUR75 million to EUR100 million FX boost is obviously quite a lot, but it seems if you kind of set that aside for a second and look at the organic improvement that you're forecasting, it doesn't seem a lot if you take the midpoint of your guidance, given that you're going to have 6 percent to 9 percent organic growth. And is that just a cautious approach, or do we have a weaker mix that you're kind of leading us to for 2015, maybe more OE and less service growth, weaker incrementals on what you have in the backlog? Thank you.

Henrik Ehrnrooth: So first of all, I would say that we have to run this currency that's quite a broad range we have because of the volatile situation of currencies right now. If we look at our overall range, if you take whatever point to it, I think you can see that we continue to expect to have a good profitable growth in the coming year. So we expect a good development.

As you know, we don't guide margin because business mix has quite a big impact on margin, that's also – because also – or develop very volatile situation, we also have now slightly wider range for our EBIT than usual. And we don't guide margin just simply because of the impact of our business mix on it.

I would say net-net, we expect a development overall in the coming year, perhaps if you look at new equipment business, the share of major projects in both sales – in sales is increasing somewhat, which have a slight impact on margin but it's nothing significant.

Ben Maslen: And then maybe just a final one on China. I mean, when this market was growing at 20 percent steadily, it still seems from what you were saying that pricing was – it's a difficult pricing environment. That's the structure of the market. It is this period now being flatter, I mean, how would you expect pricing to develop given that it is still a competitive market, and I assume that most OEMs, the agenda is still to kind of drive the growth in installed base for the future. Why wouldn't OEM margins in a flatter environment which are high relative to the rest of the world start to come down now?

Henrik Ehrnrooth: Well, I think first of all, Ben, that would presume that everyone has high margins in new equipment business in China. While we don't know what the margin is of our competitors, I would think that we are probably quite a profitable player overall in China. We have to remember that currently, a very big part of the overall profit pie in China is still in new equipment. And I think for companies to be able to grow, I think that, that will remain for a while. As we go forward, clearly, a bigger part of the pie will shift to the service business, which is good. That's what we've seen in other markets.

And here, our ambition is naturally to stay ahead of that curve. But we don't – overall, we don't see a reason at the moment why we couldn't continue to drive a good profitability in our Chinese new equipment business. But that we require all the time that we fundamentally strengthen our competitiveness and make sure that we have a very cost competitive offering as well. So that will continuously require this kind of development, what we've seen for a while already.

Ben Maslen: And then last one just on your financial net and the reevaluation of Giant, the negative impact was a bit bigger this year. I think you said that FX inflated that a little bit. I mean, is that a one-off? Or should we assume in the way we model it that the option revaluation of Giant will increase every year, that Giant grows basically.

Henrik Ehrnrooth: Eriikka, you want to talk about Giant option valuation.

Eriikka Söderström: So as we have been telling you, we do have this option liability on acquisition, which we value at the end of the year. And we do get the (FX impact) on a quarterly basis. And as you know, we have an impact of EUR50 million now in Q4, including the FX impact as well. And when the business is assumed to continue growing in China, I would say that the formula will take into account and also the growth. So maybe commenting that it could grow, and we hope it grows further.

Ben Maslen: Got it. And that makes sense.

Henrik Ehrnrooth: What annual impact of it is that we don't know. That depends on how the business develops and in the end, it shows how well that business as well has developed.

Operator: Your next question comes from Phil Wilson from Redburn. Please ask your question.

Philip Wilson: Thanks for taking the question. Firstly, just on the market in China next year, can you scale how much you expect to outgrow the market? You think you've outgrown it by 6 percentage points in 2014, and when you're doing your budgeting absolute level performance, do you expect in 2015 as the market growth slows, that's the first question.

Henrik Ehrnrooth: As you very probably know, we don't guide or give predictions for our orders received. Only thing we could say is our ambition and objective continues to be to grow faster than the market. We have not talked externally about at what rate we would outperform the market. And you have to remember as our market share continues to grow, the difference we can have becomes more challenging all the time. So we have to look at both percentage-wise and absolute-wise how we develop.

Philip Wilson: And on your exposure in China, different demand trends and housing trends going across the different tiers and cities. So can you perhaps say what your percentage exposure is in China across the Tier 1, 2, 3, 4, (50) across those 4 categories?

Henrik Ehrnrooth: Well, what we talked about before, I think, what is the most important points with our competitors in China is that we have a good competitiveness across segments and also very broad geographic footprint. So we have pretty good market positions in most parts of the country. And the objective for us has been to build a business that we are not dependent on certain geographies or certain segments to grow that we can find the growth opportunities in whichever the market really is in China. So in that perspective, I think that even if mix changes, we should be able to continue to find good opportunities in the market.

Philip Wilson: Just on capital allocation. I understand you raised the dividend, but can you outline perhaps anything of your plans for 2015 for capital allocation given the strong net cash position you've got at year-end?

Henrik Ehrnrooth: Nothing out of the ordinary. I think it's a good improvement of 20 percent in our ordinary dividend. I think in the environment we have, we have growth ambitions, we think it makes sense to maintain a strong balance sheet.

Philip Wilson: Thanks so much.

Operator: Your next question comes from (Phung Phung) from (Taiwan Capital). Please ask your question.

(Phung Phung): First of all, I want to understand – further understand the margin breakdown. Could you talk about what's the difference between your maintenance business and the new equipment, the margin difference?

Henrik Ehrnrooth: So as you know, we have not disclosed our margins for our various businesses. I think the most important point is that we have healthy businesses. All of our business are healthy and profitable. And that's why we have continued to be able to drive profitable growth. The maintenance business is more profitable than the new equipment and modernization business.

(Phung Phung): OK. So if we look at China's business, we talked with a few Chinese big player – elevators big players. It looks like their maintenance business margin in China is lower or at most the same as your new equipment business. Is that the same for you as well?

Henrik Ehrnrooth: We have a healthy service business with good margins. Our service business contributes a little bit more profits than sales.

(Phung Phung): So your service business margin is higher than your new equipment business in China?

Henrik Ehrnrooth: We have a good and healthy service business in China.

(Phung Phung): Yes, I know. I just want to understand, is margin higher or lower there?

Henrik Ehrnrooth: I think the most important is it's a growing business, healthy margin, a very good business.

(Phung Phung): Yes, but is it higher or lower?

Henrik Ehrnrooth: I think I've commented enough on it now.

(Phung Phung): OK, OK. The other thing I want to understand about your comment on the Chinese new equipment margin is you say going forward, it looks like the margin is going to stay stable. But the tailwind for the raw material and/or so the power supply and also the euro, weak euro, should be quite big in year 2015 for you.

Henrik Ehrnrooth: In China? Well. Did you talk about now about China or globally?

(Phung Phung): China.

Henrik Ehrnrooth: Well, first of all, a weakening euro does not really have an impact on the margin in our China business. It does not have an impact because what we sell in China, we source and assemble and manufacture in China. So it's local cost and local revenues, very little components would come from Europe. So that doesn't really have any impact on our fundamental competitiveness in China. And I think most of our competitors are very much in the same situation.

So I think the weakness of euro does not really change the landscape for profitability of the business there. Then you talked about raw materials, well I don't think raw materials will have a big tailwind …

(Phung Phung): And also the power supply.

Henrik Ehrnrooth: Sorry?

(Phung Phung): And also the power supply because we talked with some of the upstream suppliers, most of them are looking at 3 percent to 5 percent ASP decline, so that should flow into your input cost.

Henrik Ehrnrooth: Well, you have to remember, first of all, that raw material prices have now been already for a good while at very favorable levels. So there's not much tailwind to come from them anymore. I think as we have talked about a very price-competitive situation, so one of the ways we can also make sure that we improve the price competitiveness is, of course, then our suppliers need to participate in that. So from that perspective, again, I think these are all part of the trend in the Chinese market, but shows that it's a possibility to run a healthy and good business there.

(Phung Phung): OK. And you talk about the price pressure in China is quite intensive. So if you look at the orders overall like – like-to-like overall price of the new orders in the market, not for you, just in the market, what's the price cut year-over-year?

Henrik Ehrnrooth: Sorry, what's the?

(Phung Phung): Price cut, year-over-year.

Henrik Ehrnrooth: I think we're still talking about single percentage points.

(Phung Phung): Single percentage points. Low single percentage or high single percentage?

Henrik Ehrnrooth: I think probably in the lower ends. So much you know, segments change and so forth, so yes, I think low.

(Phung Phung): I just say like-to-like wise?

Henrik Ehrnrooth: I would say, what I said earlier, so single percentage points.

(Phung Phung): Single percentage points. Thank you.

Henrik Ehrnrooth: Thank you.

Operator: Next question comes from Glen Liddy from JPMorgan. Please ask your question.

Glen Liddy: Good afternoon. In Europe, you flanked up again the price competition during the course of last year and the impression I have is that it was getting even more intense or spreading geographically. Is that fair? And are there any areas where you're beginning to see stability or improvement in Europe yet?

Henrik Ehrnrooth: I would say that the situation we've seen for a while is that the price competition is very tough in the markets where we have had a prolonged weakness in new equipment and that we continue to see. Is it spreading? I would say trends are pretty similar to what they have been. I think what we have seen is that when we have fundamentally improved the way we work with this, it is something that we have been able to improve our situation a bit, and that you can see through the competition balance that I talked about.

But given the fact that the many of the markets the new equipment deliveries have been at the low level, that means that the growth in those markets are very weak and competition is high. So similar trends to what we have seen have continued, but that means the same as in prior years. We need to continuously drive better productivity out of these businesses.

Glen Liddy: And is the aftermarket price competition just as tough today or is it getting tougher?

Henrik Ehrnrooth: I would say that the trend has stayed pretty much the same.

Daniela Costa: And in terms of productivity improvement, sort of across the business rather than just in 1 region or another, how much are you typically improving each year in recent years, and can you keep that pace up?

Henrik Ehrnrooth: I think there's always improvement in productivity by new methods, new ways of doing, improving your quality and so forth. I think we're still talking about single-digit – mid- to low-single digit improvements, but if you compound them every year, they become meaningful.

Glen Liddy: Yes. And finally, in the U.S., there seems to be quite different pricing developments in (OE), renovation and aftermarket. What's driving those differentials?

Henrik Ehrnrooth: Well, in both new equipment and modernization, the markets are very strong. So that has helped market pricing. In the maintenance business, as I mentioned earlier, growth is still very weak. You have slightly different players also active there, a lot of small independents. And of course, it takes a good while before the good development we've seen in orders received now over the past 1.5 years, that they start to come into deliveries and then going to service. So the service business comes to be such a – it lag and clearly – somewhat different player as well in that market than, for example, the new equipment market.

Glen Liddy: And are you still getting a high conversion in an OE customer into an aftermarket customer?

Henrik Ehrnrooth: Yes, we do.

Glen Liddy: Is it improving, though?

Henrik Ehrnrooth: I think it's slightly improving, yes.

Glen Liddy: OK. Thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: The last question comes from Martin Flueckiger from Kepler Cheuvreux. Please ask your question.

Martin Flueckiger: Yes. Good afternoon, gentlemen. Thank you very much for taking my question. Two main questions for me remaining. Firstly, on the P&L, why was other income down year-over-year significantly in Q4? That's my first question. And then secondly, a question on orders received in Europe. Can you explain a little bit more in detail why you think that orders declined clearly in Central and Northern Europe.

Henrik Ehrnrooth: Eriikka, let me start with the orders in Europe and then you can talk about other income and expenses. Orders received in Europe – Central and North Europe declined because we had, in the previous year, we had a very strong comparison point particularly in major projects. That's one reason. But also, it of course reflects the weaker markets we have in many parts of that region. But I think it was mainly a very high comparison, that was the principal reason not the only principal reason, very high comparison in major project in the prior year. Eriikka?

Eriikka Söderström: And the other income and the expense, so basically, we are discussing about the financing expenses. And we discussed earlier about this option liability that we have related to acquisitions and the increase in the valuation and the FX impact, which is visible there in the financing expenses. And the amount was like EUR50 million related to this.

Martin Flueckiger: Thank you very much.

Operator: Thank you. Once again as a final reminder, it's star one to ask a question.

There are no questions. Please continue.

Katri Saarenheimo: Thank you. We are then ready to close the call for today. So we would like to thank everybody for your participation and wish you a very nice rest of the day. Thank you.

Henrik Ehrnrooth: Thank you.