KONE Financial Statements 2015

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Katri Saarenheimo: Good afternoon, everybody, and welcome to KONE's Q4 & Full Year Results presentation. Here in Espoo, Finland, we have today with us our CEO Henrik Ehrnrooth and CFO Eriikka Söderström. I am Katri Saarenheimo from Investor Relations. As usual, we will first go through some highlights from the Q4, as well as our past year results. After this, we will have plenty of time again for Q&A, and some discussion. So let's get started with the review of Q4, and the full year. Henrik, the stage is yours.

Henrik Ehrnrooth: Thank you, Katri, and also a warm welcome to everyone, from me, both here in the room and people who are following the webcast. First of all, it's a great pleasure for me to present our full-year results. We had a very good performance throughout 2015, and we had a great finish to the year, the fourth quarter. I would say that in the fourth quarter, we performed strongly on a very broad basis, so I'm very pleased about that. As usual, I'll got first through our key figures; after that I will go deeper into some of them. I will also talk about, then, our businesses, our markets, and a few highlights from 2015, and after that about how we're developing going forward, and our outlook. So, diving straight into what happened in Q4. As the heading says, we had a very strong finish to the year. We continued to grow; our orders received were more than €1.9 billion, growth of 14%, or 7% in comparable currencies. We have a very strong order book, at €8.2 billion, has grown in comparable currencies almost 12% from last year, so this of course gives us a good position to continue from here. Our sales growth accelerated in Q4, and was more than €2.5 billion, growth of 10.8% in comparable currencies, and the good growth in sales also drove a good improvement in our EBIT: the EBIT was €378.5 million for the quarter, and the EBIT margin improved from 14.6 to 14.8%. To round off the great development, I'd like to highlight also our cash-flow, which was more than

€400 million, so we continue to have a very strong cash conversion. Which shows that, again, in the last quarter of the year, like we've done throughout last year and last years, is that we have maintained very healthy business practices, and this of course shows in our cash flow. Earnings per share, 71 euro cents, but in these earnings per share we have a one-time gain from a dividend we received in December from Toshiba Elevator Company, so if we back out that one-time gain, our earnings per share was 49 euro cents, compared to 40 euro cents a year ago.

So that's quarter 4. What about, then, the full year 2015? Again it gives a little bit longer perspective of our development, and as you can see, I think the highlight here is that we had a profitable growth in a changing environment. As you know, our market environment changed quite a lot during last year, and we've showed that also in this kind of environment, we can perform strongly. Orders received grew, to almost €8 billion, 5.6% in comparable currencies. Our sales, good growth throughout the year, 8.3%, and sales was €8.6 billion, and also throughout the year we had profitable growth, and we had a strong EBIT of a €1,241 million, and our EBIT margin improved from 14.1 to 14.4%. And also for the full year, very strong cash conversion, with a good cash flow, of almost €1.5 billion, so we had €1,473 million in cash flow, on EBIT, a little bit over 1.2 billion, which again shows health and strength of our business. Earnings per share €2, but again here we had the one-time gain from the Toshiba dividend, so we back that out, it was 1.79 earnings per share, compared to €1.47 a year ago. Given the good improvements in our EPS, and our cash-flow and our results, our board is proposing to the annual general meeting to increase our dividend to €1.40, when last year it was €1.20.

Again, the great development we had in 2015, in a changing environment, would of course not have been possible without great contributions from our employees. I must say that, and we can see from all of our operations, and from how we lead the company, is that we have a great spirit and strong motivation and commitment amongst our employees, and I would actually argue that we have the best team in this industry, and that really has helped us perform very strongly, and will help us to perform strongly in a continually changing environment. So, a very big thank you to all of our employees for a very good job done during last year.

So that's the highlights of the results; let me first go into our orders and see it a bit more in detail. So quarter 4, again a strong growth in orders received, as we have throughout the year, and now our growth was driven by continued good growth in North America, and also a strong growth in Europe, Middle East and Africa. Our growth in North America, Europe, Middle East and Africa was in both geographic areas, strong double-digits. Orders received was now more stable in Asia Pacific, and they were stable due to a slight decline now in our Chinese order, orders received in China. But if you look at the developments in China, we continued to outperform the market. The market in the fourth quarter in China declined at a little bit over, a little more than a 5%, and that's in number of units; if we measure our development in the number of units, we increased a little bit, by the monetary value it was a slight decline. It's a good development also there, in a challenging environment.

If I then turn to our sales, as I mentioned, we were able to accelerate our sales growth in the last quarter; in comparable currencies, it was 10.8%, and of course, we had again good headwinds from currencies. But the good thing here is that we had growth in all geographic areas; we grew at almost 19% in North America, 12.4% in Asia Pacific, and 6% in Europe, Middle East and Africa, so good growth across the board. Growth was very strong in new equipment, so you can see we're delivering on our strong order book. Growth in new equipment was 15%, and what I'm very pleased about is our maintenance business; we were again able to slightly improve our growth rate, so our maintenance business, we grew at 7.5%, so a constant improvement in the growth rate in our maintenance business. For the full year, growth remains and it was 6.7%. Overall, strong development, and good acceleration or sales growth in Q4.

The good growth in sales resulted also in a good development in our operating income, in our EBIT, and here development was due to a broad base positive development; I would say the biggest contributor was again in new equipment, because of the strong growth there, but we also had a good contribution for services, and we look at geographically, a good development overall. So, very good profitability improvement, and very good profitably, with both new equipment and our maintenance business. When we look at overall, our EBIT, we can also see that we have continued to invest in our future, so what is lowering our EBIT is a continued increase in our investments in R&D, process development, IT, and we also continued to strengthen our resourcing in areas where we're growing, and where we have a strong order book, to make sure that we can continue to perform well in this market. So we also, in this environment, also continue to invest strongly into the future. Throughout the year, translation exchange rates were a strong tailwind for us, so for the full year, positive development of about 120 million, positive contribution from exchange rates, and the last quarter about 25 million, but even if you back this out, you can see that in comparable currencies, also the EBIT had a good development in 2015, and in the last quarter. So overall, strong profitability development.

Our business mix, the change in our business mix continued along the same patterns you have seen before, so the share of new equipment was now 57%, compared to 55% a year ago. Now, the shift in mix with two percentage points, was as much due to underlying growth as translation exchange rate, because in new equipment we have more non-euro sales than in the other businesses, and the same thing, when we look at sales by market; for the first time in KONE's history, Asia Pacific became the largest geographic area for us. That was now already 44% of our sales, compared to 39% for Europe, Middle East and Africa. Here again, about half of this change in mix was due to currencies. Our North America share increased due to the growth we had in that area.

That's about 2015, and when it's a full-year result, it's always good to look a little bit longer perspective of our development. Here I have, since 2005, how our sales has developed by market, and as we all know, a very significant growth driver for KONE over the past ten years, and over the past five years, has been our growth in Asia Pacific. Since 2005, if we look to today, our business has, is ten-fold today compared to 2005. But as important as that, is that we can see that we have compounded the good rates in both North America as well as Europe, Middle East and Africa. In fact, if you compare 2005, our North America business is double, and we have compounded that over 5%, also Europe, Middle East and Africa. So I would argue that it shows that our growth has actually been quite broad-based, and not only Asia Pacific, but of course, strongest growth from Asia Pacific. This has of course changed KONE a lot over the past years, in a very positive sense.

If we then look at sales by business, similar story. Strongest growth in new equipment, due to growth in Asia Pacific, at 16% compound over this period of time, but here also, our maintenance business has been growing at 7.9% for this period, so over this period of time, it's doubled, and also, modernisation business at 6.7%, again, highlights, yes, new equipment, Asia

Pacific has been great growth drivers for us, continue to be important to our growth, but also we are growing in all other parts of the world, in all of our businesses.

So that's about a little bit longer perspective. Now I'll turn back to Q4, and our various businesses, and what's happening in the market. Let's start with the new equipment business. I've commented already on our overall orders received, but if we just look at the new equipment business, here, same story, growth in Europe, Middle East and Africa, and North America. Asia Pacific, at previous year level, due to a slight decline in time, but as I discussed already, China, we clearly outperformed the market. So then what's happening in our markets overall, in new equipment? Europe, Middle East and Africa, in new equipment, we have a clear growth in Central and North Europe; their market looked stronger during the year. Some growth in Middle East, and South Europe is then more stable, at the weak level. North America has been the strongest-growing market over the past couple of years; here the market continued to grow, and it's at the high and strong level at the moment. And you look at Asia Pacific overall, now the whole market weakened slightly, due to declining markets in China, but the rest, we saw some growth in the rest of Asia Pacific.

Let me here, as usual, now pause a little bit, and talk a bit more about what's happening in China, because I know many of you have a lot of questions about this, and I'll try to answer some of it here up front. First of all, as I mentioned earlier, the market in China, for the full year, declined at about 5%, and in the last quarter, at a little bit more than 5%. Price competition in the market continued to be very intense. Competitional market share in this market has been very tough, and we can see that in the pricing. However, in this environment, we performed very strongly. For the full year, our growth was a little bit less than 5% in units, and in the last quarter, a little bit, just a little bit in units, and then a slight decline in monetary value. If we look at our sales, very strong, deliveries have continued to be strong, and also in this market, we have continued to improve our profitability, so very good development in a challenging market, and that speaks a lot about the great competitiveness we have in the Chinese market, and I believe it continued to improve last year. So what's happening in China? First of all, again, as we discussed many times before, it is not one homogeneous market. If we look at the higher-tier cities, Tier 1 cities, are in pretty good shape. Inventory levels at pretty normalized levels, transaction volumes have grown very well throughout the year, and the same story for the majority of Tier 2 cities. In China overall we've seen ten months, now, of improvement in transaction volumes for real estate, and that means Tier 1 and the majority of Tier 2 cities, actually development is quite okay. However, if you look at the lower-tier cities, Tier 3, Tier 4, smaller cities, situation is challenging, and it's tough. There, the inventory of unsold apartments is at a high level, and despite the increase of transactions, it has not significantly changed, so that will take a while before this market turns healthy. If we look at, what do we think about going forward, when we look at the year 2016, you will see it in outlook, that our expectations for the market this year will decline between 5% and 10%, and the price competition will remain tough.

So what's, then, our strategy for this year? Our overall, if we look at, again, a longer period of time, full year or even longer, our objective continues to be to out-perform the market, to grow faster than the market. Again, this is not on a quarter-by-quarter basis, it's on a full-year basis. If you look at it historically, and also the same thing in 2015, our out-performance compared to the market tends to be the strongest in the first half of the beginning of the year, and that has worked well for us. We're probably looking at the more even development this year, but let's see. Overall, if we look as longer period of time, and full year, still clear ambition to outgrow, and I feel good about our ability to do that, because we are in a very good position, we are in a very strong team, and we have a very good product competitiveness. That is a great combination to have. So that's a little bit more in detail about China, and the new equipment market there.

Let me turn next to our maintenance business. Here, as you can see, the headline growth accelerated in the maintenance business, very happy about that, that's a key strategic objective, which we set two years ago for ourselves. So we were able to grow in all geographic regions, and strongest sales growth was in Asia Pacific, overall. In China, our maintenance business continued to grow at clearly above 20%, and in rest of Asia Pacific, growth was also strong double-digits, so good development there. What's happening then overall in the market; if you look at Europe and North America, maintenance markets grew somewhat, but pricing environment continues to be very competitive in many of these markets, so we have clear differences market to market, but that's the general trend. Asia Pacific market continues to grow as a result of good new equipment deliveries over the past years, and what we can see is that we have been very good at capturing good parts of this growth.

And then finally, our modernization business, here, same thing as our maintenance business, our objective is to accelerate our growth, and what we can see now in the last quarter in particular, we're able to accelerate our growth in orders received, so we had good growth in orders received, and we grew in all regions. Sales didn't grow so fast, but in North America, we grew at a good rate. The order book has strengthened here. If you look at the markets, I'd say in Europe, overall modernization market got slightly better, would underline slightly, but slightly better during the year, particularly in Central and North Europe. Here the market continues to grow; however, in South Europe, it remained weak, and not much improvement in sight there. North America, market continued to grow, as well as in Asia Pacific, very strong market. So, as you can see from our various businesses and markets, that there's lots of different situations, and of course, what we need to do is find the good opportunities in this varying market environment that we operate in.

Announce the full-year result, let me share a few highlights from last year, and start with our new equipment business. First of all, overall, we were able to strengthen, again, our offering in the new equipment business, and strengthen our competitiveness. The end of the year we launched an important product for the India market, the KONE I MonoSpace, later in the year the I MiniSpace, also for the India market. For the Chinese market, second half of the year, we launched the Z MiniSpace, which is for the affordable housing market, and all of these new introductions, these are just some examples, our most important introductions, were very well received by the market. In China, also we know that the fastest-growing segment is the infrastructure segment, although it's not a huge segment but it's growing, because of government stimulus, here we brought to the market an up-rated version of our infrastructure escalator, the so-called TransitMaster 140. Also, I think most of you are aware, in the last quarter, we inaugurated our new test tower in Kunshan, in China; that's one of the world's highest test towers, at 236.5 m. It's not only a beautiful tower, it's really a landmark where it is. The most important thing, it is a truly a world-class R&D and testing facility, so it will again further help us strengthen our competitiveness and improve our capabilities, so it is an important milestone, again, how we can develop going forward.

In 2015 overall, our expectation for data we have, is that the new equipment market declined globally, slightly, for the first time in well over a decade. But we were able to increase our new orders this year. So, in total we booked about 161,000 orders for elevators and escalators, that's about a 5% increase over the prior year. And last year we delivered, to our customers, about 137,000 elevators and escalators. And here to just put a little bit in context: in a year, there is about 120,000 working minutes, so that means that during working hours, we deliver more than one elevator or escalator per minute, so during this presentation, we would have delivered 25, 30 elevators or escalators, just to put it in context. So we're moving forward all the time. So, good improvements in our competitiveness in our new equipment business during the year.

Our services business, we were able to accelerate our growth, as I mentioned; that is important objective of ours, and that was because of good conversions from new equipment into the service base. We also improved our so-called competition balance, how many units we win and lose in the market, with existing base; it was still negative, but an improvement over the prior year. And the reason we've been able to do this, one of the reasons, is that about two years ago, we started a programme to sharpen our focus in sales; with more clarity, sales rose, sharpen our sales management, and we can see that that is leading to results, and we have been able to accelerate our growth in services. Also, as a non-important development last year, we were able to improve the response time of our technicians, and the speed of problem resolution, by the introduction of a new generation of field mobility devices. That's of course on a device that they have, that's important, but it's the whole process and system we have behind it that provides them with better capability of serving our customers. Our maintenance base, at the end of the year, was close to 1.1 million units, when it was a bit over a million the year before; a good growth also in the maintenance base overall. So, good development, I would say both in our new equipment and our service business.

As you also know, it was two years ago we launched our latest set of five development programs; we've been developing these now for two years, we're coming into the last year, so putting in a final push here. We have still a lot to be done in each of these programs, but we have had also good development. In our first in customer loyalty program, we have been able to improve our customer loyalty, very strongly, in the past two years, so you can see we're making improvements here. In a winning team of true professionals, one of our key objectives here is to help every KONE employee to perform at their best, and we can see that now virtually all of our employees have an individual development plan, and we have continued to increase our investment in training and development, so we can see from our surveys that we're making also good progress here. In the most competitive people-flow solutions, a couple of objectives, to have the most competitive elevator and escalator offering, and bring new solutions for smart buildings. I talked earlier about our competitive position in the new equipment market, which is very good, and we have also brought important solutions for smart buildings, that we call people-flow intelligence. Preferred maintenance partner, we have a lot of activity here, to bring a new and absolutely much better customer and end-user experience through developing our service business, and it's a lot about digitalisation, but it's the end goal here, is to improve the customer and user experience, and again, we have good developments here, and we can see that we have been able to accelerate our growth. And the top modernization provider, here the same, to make sure that we have, improve our capabilities, and we can see that our orders received is starting to grow here as well. So we still have a lot to be done in each of these programs before we can also see a good development overall.

So with that, let me finish with our market outlook for 2016. What do we expect of overall markets? First of all, Asia Pacific. I already talked about China, here we expect the market to decline by between 5% and 10%, and the price competition will continue to be intense. Rest of Asia Pacific, we expect to see some growth. Europe, Middle East and Africa, market is expected to grow slightly, with growth in Central and North Europe, and a more stable development in South Europe and the Middle East. And North America, the market is at a strong, high level, we expect that to continue growing a bit from here. In the maintenance market we expect to see very much the same trends we see in this year; good growth in Asia Pacific, but also growth in most other areas, although clear variance outside of Asia Pacific. And modernization, expected to grow slightly in Europe, the market, and continue to grow in both North America and Asia Pacific. So, a mixed environment overall, as we can see.

And then finally, our business outlook, what do we expect, what are we committing to deliver this year? We expect that our sales growth is in the range of 2-6% in comparable currencies, and we expect our EBIT to be in the range of a billion, 220 million, to a billion, 320 million, and this now assumes that translation exchange rates will remain approximately at the average level of January 2016, and as all of you know, translation exchange rates have a very significant impact on our EBIT, but we expect this. If it stays at the average level of January 2016, then in this year, we now have some headwind, from currencies; with this current rate, it would be roughly €20 million on a full-year basis. So with that, let me summarise. We can see that we have a changing market environment, but in that environment, we have been able to perform very strongly. We have been able to accelerate our growth in our maintenance business, and despite a challenging environment in China, we have performed very strongly, so I feel that overall, we are in a very good position. So with that, happy to turn over to questions.

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

Elina Riutta: Hello, Elina Riutta from Evli Bank. You mentioned on China that the first half of the year tends to be stronger for you, and just out of curiosity, why is that?

Henrik Ehrnrooth: That has been, I think that's partly target-setting and partly you want to get very strongly out of the box, but has been, if you compare previous years, in the market share, first half compared to second here, it's not a huge difference, but a little bit stronger.

Elina Riutta: Thank you. And then, still on China, are there any changes now in behaviour in the Chinese market? In how competition acts, or has it been similar all year?

Henrik Ehrnrooth: Well, we have to remember that 2015 was the first time in a very long time of, I don't know how far back in history it would go, we see that the market declines, so of course it was a new situation for everyone in the market, and completion of market share is tough there, so we can see that a lot of companies with growth ambitions, but despite this environment, we could see that we had a good development, both in new equipment and stronger also in services.

Elina Riutta: Okay, and then finally, on the Middle East, can you talk a bit about what you're seeing? You say in your outlook that you expect it to be relatively stable. Is it, with a lower oil price, what kind of attitudes are you seeing?

Henrik Ehrnrooth: Good question, and what we see now in the Middle East, was firstly, last year, quite a lot of infrastructure investment, and you know, you have growing populations, so they need that. But also we can see that a lot of the countries continue to invest in their tourism industry, to compensate for the oil price, but also quite a lot of good standard business, housing and so forth because of a growing population, so I would say, development has been quite good in many segments, but perhaps the strongest in more the standard business now, rather than, standard business and infrastructure, rather than high-rises and such.

Question: Coming back to China, again, first about the pricing there. If I recall right, during last year you talk about the price declined to be somewhere between 3 and 5%. Is it still the same, or have you seen more deep declines in the prices?

Henrik Ehrnrooth: I would say if you look at the market overall, probably talk about a little bit more than that, but [not significant] somewhere. I mean it's difficult to say exactly where the market is, but probably a bit more price decline than what we talked about.

Question: And your own price declines, are they in line, or still smaller than the market, on average?

Henrik Ehrnrooth: Well, it depends on, always, quarter to quarter, you know, how you adjust, but actually, in the last quarter we had a pretty good development compared to the market. That's our understanding.

Question: And then about the projects and their progressing in China. Have you seen any delays in the projects, that people are becoming more hesitant to continue, and have you seen any cancellations in the projects in China?

Henrik Ehrnrooth: First of all, cancellations, again, throughout last year, continued to be at a very low level, so no change really there. If you look at our top-line growth, and how important China is, about 35% of our revenues, for the full year, you can see that actually deliveries have done well. We are perhaps seeing a slight increase in the rotation, but it's nothing dramatic, but overall, what we can see from our top-line, and after our profitability, that actually deliveries have done well last year.

Question: And the last question about this competitive balance you mentioned, that it has improved, but still some was negative, this your assessment. What are the reasons behind this to be negative, and what you should do with that?

Henrik Ehrnrooth: The most challenging area is clearly South Europe. Here we have a weak new equipment market and weak modernization market; a lot of smaller, independent players, so it's very high competition for them, and also order price competition, and perhaps we are very strict on where are willing to go with our pricing, and then we have costs, a little bit more than we have wanted, particularly in South Europe, so the markets, they continue to be challenging and competitive. All the small, independent players, who historically also have installed some elevators and modernized, well, that business is low, so a lot of people chasing the same business.

Question: Thank you.

Katri Saarenheimo: Thank you. So let's then move ahead, and now we are ready to take questions from those present on the phone lines. I hand over to the operator, please.

Operator: Thank you. Ladies and gentlemen, a reminder, to ask a question via the telephone, please press *1. We will take our first question from Andre Kukhnin from Credit Suisse. Please go ahead, sir.

Andre Kukhnin: Hi everyone, this is [unclear] asking questions on behalf of Andre. Our first question is that, in your 5 to 10% decline in China order outlook, what kind of underlying assumptions do you have behind the outlook, and has anything happened at the end of the year that would make you feel that a decline was accelerating for next year? Thank you.

Henrik Ehrnrooth: Ah, well, first of all, that's the whole market, 5 to 10%, so that means that at the best end we're saying about the same as 2015, at the worse end, the decline would be worse than this year. I would say that if you look at the underlying market, we expect largely to see the same trends as in 2015; if you look at by tier of city, or if you look at by segment, so the most challenging areas are lower-tier cities, higher tier doing better, also affordable housing and commercial infrastructure doing a little bit better than standard residential is, more challenging. This is what we, largely similar trend that we expect for the coming year.

Andre Kukhnin: Great, thank you very much. The second question is that on outlook, you said that modernization market in Asia is expected to grow strongly? We were just wondering, what is that maybe driven by? Is that mostly Australia, South East Asia, or that includes China too? Do you see any change in the underlying market trend there? Thank you.

Henrik Ehrnrooth: Yes, so first of all, as you know, the modernization market in Asia Pacific, outside of Australia, is still quite small, given a lot of new, much newer equipment base there. So Australia continues to develop well, it has developed very well over the past years, and there we continue to see good development, but also, we're starting to see good growth in China. The market is not huge yet, but it's growing at a good rate, as in other markets. But also we have to remember that China also, equipment starts to age there, or is aging every year, so the opportunity will improve year by year. But clearly, the largest modernization markets are Europe first, then North America, then Asia Pacific.

Andre Kukhnin: Sure, understood. Thank you very much. Um, the last question would be, Iran, we know that the sanction has been lifted, and you have been supplying to that market before. We were wondering if there has been any progress on going back into the market, and when would we expect you to have any meaningful progress there? Thank you.

Henrik Ehrnrooth: So, Iran is a very interesting market. It's a large elevator market, and we see good opportunities there. We are monitoring the situation closely, and so we're staying close to the situation.

Andre Kukhnin: So there is nothing material at this moment?

Henrik Ehrnrooth: Nothing material to announce right now.

Andre Kukhnin: Okay, thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We will take our next question from Guillermo Peigneux from UBS.

Guillermo Peigneux: Good afternoon, everyone, Guillermo Peigneux from UBS. Just a question regarding your backlog. As China slows down, and you say North America continues to grow, outgrow the rest of the industries or regions, is it fair to assume that the margin in the backlog, the mix in the backlog is deteriorating as we speak? Thank you.

Henrik Ehrnrooth: Ah, so, clearly, as you know, our new equipment profitability in China is very strong, and stronger than we have in other parts of the world, but on the other hand, also in North America, we're clearly improving, but the margin is not as good there, so from a mixed perspective, yes, that's a slight headwind.

Guillermo Peigneux: And it will be a headwind more for 2017? Right?

Henrik Ehrnrooth: We'll have to see how orders received develop in the coming year, and we have to see how we are able to improve our competitiveness, so on the other hand we are also growing many of our other businesses, so that's one aspect of it, but if you just look at new equipment, there, yes, you have strong growth in North America, which would be from a new equipment perspective, a slight headwind, yes.

Guillermo Peigneux: Thank you. One more question regarding currency contribution to your EBIT in Q4. I maybe missed it in your commentary.

Henrik Ehrnrooth: About 25 million. Full year, roughly 120 million, quarter 25 million.

Guillermo Peigneux: Okay, thank you. And I think I'll leave it at that, I'll come back if I have any.

Henrik Ehrnrooth: Yep.

Operator: Thank you. We will now take our next question from Ben Maslen from Morgan Stanley. Please go ahead.

Ben Maslen: Yes, thank you. Hi, Henrik. Firstly just a question on China pricing, if I can, which you say is difficult, and maybe the market level got a bit worse in Q4. Have you been able to offset this, do you think, with lower raw materials prices over the last 12 months, and how are the gross margins in China that are in your backlog trending at the moment? That's the first question.

Henrik Ehrnrooth: Yes, so, as you can see from the profitability development, we have done very well in that market, to improve our overall competitiveness, including cost competitiveness. Raw materials is actually one aspect of it, but that's only part of it. Also, the actions we have taken on our product, on our sourcing and so forth, have resulted in a good situation, so the relative margin has stayed at a good level. Clearly, though, if prices are lower than the absolute contribution is somewhat lower, but we have been able to perform well in that market, and of course you can see it from our results.

Ben Maslen: Thank you. Apologies about this echo. And then on orders, you said in the statement you're seeing much faster growth in large projects at the moment – I saw the €8.2 billion order book. Can you give any sense of how much of that is large projects, and how much falls into, you know, 2017 and beyond, in terms of deliveries? And I assume that the length of that order book is still expanding? Thank you.

Henrik Ehrnrooth: Eriikka, why don't you comment first on the structure of the order book, and I can then talk about the trends?

Eriikka Söderström: So, as we have communicated earlier, already, so the situation is about the same, so from the order book, about one third is these longer, major projects. They usually take from two to five years to complete.

Henrik Ehrnrooth: And, when you said, Ben, that we see now more growth in major projects, again, that's a quarter-to-quarter question. If you remember when we had our capital markets day, we talked about this then. Until then, year to date, our growth had been more driven by the volume business; now in the last quarter it was more larger projects, so again, I wouldn't, it's quarter-to-quarter fluctuation, between these, between two categories, but as you said, over the past years, structurally, perhaps the rotation has become a bit longer as, if we look over two years, then orders we see for the major projects has grown even faster.

Ben Maslen: Got it, thank you. And then, just finally on the services or maintenance market in China, sorry, I missed it earlier, could you just say how fast that's growing, and would you expect it to slow down, with a lag, as the equipment business starts to slow down, or you see opportunities to penetrate that market further? Thanks.

Henrik Ehrnrooth: So, we were clearly above 20% again, growth in maintenance in China; we have to remember that the units that we're converting now, are what has been installed perhaps on average a couple of years ago, so we continue to see a good backlog of conversions, and we see that that opportunity is definitely there, so the market is developing well, and it's growing. We have to also remember that every time we get the higher maintenance base, we have to convert even more every time to maintain that growth rate, but we have been able to maintain a very good growth rate over the past years.

Ben Maslen: Got it. Thanks, Henrik.

Operator: Thank you. We will now take a question from Erik Carlsson from Bode Capital. Please go ahead.

Erik Carlsson: Thanks for taking my question. I had a question on the maintenance business, specifically about the competition balance. I think you said the competition balance was negative in 2015, but less so than in 2014. I mean we know you're a very ambitious company; what's the target here for 2016? Do you think you can go into net positive competition balance, this year, potentially?

Henrik Ehrnrooth: Well, as a target, anything but positive would be, would not be like us, so clearly we have a target of being positive and capitalising on all the good actions we take in our maintenance business. Is it easy? Absolutely not, are we going to get there? Let's see – we are working very hard on that. I think the most important thing, though, in the maintenance business last year was kind of good improvements we had, or overall growth in number of units we converted, so that was what was really driving our growth.

Erik Carlsson: Can I just ask a follow-up on that? You talked about the maintenance part that is broadly similar in growth profile 2016 versus 2015, then on top of that we have conversion at continued good levels, maybe even a little bit higher in some regions such as China, and then you have a competition balance potentially moving from a small negative to, let's hope then, a small positive, perhaps. Is there a reason to believe that maintenance growth would not be higher in local currencies this year than it was last year?

Henrik Ehrnrooth: Well, we don't guide each individual business, but clearly our ambitions are, we continue to be ambitious. You have to remember that in maintenance, there are many different aspects to our maintenance growth: there's conversions, there's the competition balance, then there's acquisitions, then the units taken out of use, which continues to run at about a percent of the maintenance base, and then we have repairs and spare parts and things like that, and they have also performed well in the past year. So there are many different things that come into it, but of course the most important thing is conversion. So, of course we have a good objective to grow. So when you said the markets are growing, well, where is the market growth coming from? It's clearly coming from conversions, and then the point is that we need to of course capture as many of those conversions in the market as possible.

Erik Carlsson: Sorry to harp with this, but on the conversion rate, then, are you seeing declining conversion rates anywhere?

Henrik Ehrnrooth: No, we're not seeing declining conversion rates anywhere; if we look at the total mix for KONE, given that China here also becomes more important, over average, perhaps, not going forward, because China conversion rates are lower, but overall, good growth in absolute number of conversions.

Erik Carlsson: Sure. Very good, thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Thank you very much. We will now take our next question, from Maneu Arintela from Nordea. Please go ahead.

Maneu Arintela: Good afternoon, can you hear me?

Henrik Ehrnrooth: Yes.

Maneu Arintela: Okay, a few questions from me. Firstly, can you give us some better understanding on the visibility that you have into the pipeline in China of new projects, and what kind of monitoring systems do you have in place, so last year, you fine-tuned the outlook for China as the year progressed, and I'm just wondering kind of how, how are you assessing the outlook you have for 2016, at 5 to 10% decline, and what other monitoring do you have in place, in order to see that you're progressing along with that?

Henrik Ehrnrooth: So, of course, there's not one source of information we use; we have to remember, we have a very broad organisation in China, with a network throughout the country, so of course we look at everything from macro data, we look at feedback from our customers, we look at our tendering pipelines and so forth, and all of this goes then into what is our best view of the market today.

Maneu Arintela: Okay. The second question, could you give us some light on how the profitability by the different reporting segments developed compared to the previous years? I mean, you mentioned that you saw Chinese new equipment margins still improving, but less new equipment as a whole, so improving margins? Just help us understand where the improvements came on a divisional level.

Henrik Ehrnrooth: So, first of all we don't break down margins by various businesses; what I wanted to highlight, the reason I highlighted China was that we know it's a challenging market, so we've shown, last year, is that also in that kind of a market we've performed very well, and I wasn't, we improved our profitability last year, our EBIT improved, because of improvement on a broad basis, both in service as well as in new equipment, and in many different geographic regions. Given the absolute growth of new equipment, which was, you know, for the full year, our new equipment growth rate was double digit, it was about 11% in comparable currencies; that clearly had a strong contribution, and the strength, you know, of our competitiveness, in new equipment meant that we were able to perform extremely well there.

Maneu Arintela: Okay, and final question, just to clarify – when you mentioned the Chinese maintenance growth of more than 20%, so, is that on an organic current basis, or an organic basis, and not including currency impact, or including currencies?

Henrik Ehrnrooth: Local currency, so all organic, local-currency growth.

Maneu Arintela: Okay, thank you; no further questions.

Operator: Thank you very much. We will now take our next question from Justin Bracken from Alliance Bernstein. Please go ahead.

Justin Bracken: Thank you, good afternoon, everybody, good afternoon Henrik. I'd like to ask three short questions, two about engineer availability and one on China maintenance growth. I'll start with the engineer availability, so, looking at your business model, Henrik, having a sufficient number of qualified engineers is fundamental to your growth rate in terms of the impact of them, or constraining your growth rate, particularly in high-growth countries. Could you comment upon how big a concern is a potential shortage of engineers, to KONE's growth rate? And how you can reassure investors that you're able to build up a sufficient number of qualified engineers in high-growth countries, particularly with the increasing safety standards in a few places?

Henrik Ehrnrooth: So I think that where you need capacity to be able to grow new equipment business, you need in engineering, when you design the products, particularly if you have non-standard products, then you need to have confident field people, supervisors, and installers, but very much the supervisors who are supervising, and they're testing and commissioning the installation of the new equipment. If you look at our development over the past years, I think we have a pretty good track record of doing that; we invest quite a lot in field competence development, to make sure that we have those competencies there, and of course we are able to move around resources around the company, when growth rates between different areas change. Where do we need most new competent people? On supervising, and testing, commissioning and so forth; clearly, countries such as South-East Asia, where we've had a lot of growth over the past years, but we are building that up. North America's also growing, so we're building it up, it's something we've been dealing with for a long time so I'm not – of course, it takes a lot of efforts, but I'm not too concerned about that.

Justin Bracken: Okay, thank you. And lastly, a quick question about what's driving your maintenance revenue in China. You're quite positive about maintenance growth here, as you mention in your presentation; could I ask if this revenue's purely driven from your own install base or are you acquiring maintenance, if I can use that phrase, from other people?

Henrik Ehrnrooth: 100% organic, converting KONE installed equipment to our maintenance base. Virtually all of our units we service in China are KONE or Giant KONE branded.

Justin Bracken: Wonderful. Thank you very much.

Operator: Thank you. Our next comes now from Martin Flueckiger from Kepler Cheuvreux. Please go ahead.

Martin Flueckiger: Yes, thanks for taking my question, Martin Flueckiger from Kepler Cheuvreux. A couple of questions if I may. I was firstly wondering what you were, what you think about the growth rate currently seen in the European new equipment and modernization market? I know you've talked about it in qualitative terms, but I was wondering whether you could put some numbers to it? That would be my first question. Then the second question would be on orders received; I think I've read this correctly, you started to register orders received differently now. If you could explain what exactly has changed, and why you've decided to change that format? And thirdly, on orders received again, they grew by – sorry?

Henrik Ehrnrooth: One question – sorry to interrupt, but let me take the first two questions, and then you can come back to your last one.

Martin Flueckiger: Okay.

Henrik Ehrnrooth: So, first of all, Europe growth: there's some markets are growing well, particularly in Central and North Europe, we're growing well, and there we have been able to, in the second half, particularly, of the year, we've clearly had a strong double-digit growth rate. Germany's doing very well, UK, Sweden, and some other markets around also, doing quite well. So in the good markets, we are clearly growing at double-digit rates. Then we have not changed anything in our principles for how we book our orders received. I think what you probably refer to is that we just explained a little bit more in detail in the interim report, but otherwise, no changes to that.

Martin Flueckiger: Okay, thanks. And then my last question would again be on orders received, that grew about, that grew by 5.6% in local currencies, in '15, 11.9% in '14, and yet you're guiding for net sales growth as 2 to 6% at comparable exchange rates to 2016. So I'm wondering, why does KONE think that sales growth will be below order intake growth over the past two years? Many thanks.

Henrik Ehrnrooth: First of all, remember, order intake covers only part of the business, the order-bound business, but I would say that first of all we expect to continue to grow in 2016; secondly, what we discussed a little bit earlier, what Guillermo was asking about was more mixed towards major projects, and North America – there, the rotation of the order book is slower than in some other markets, so it's, we're seeing a little bit of a shift in the order book from mix perspective, and perhaps in China a slight slow-down in rotation, but as I said, the key thing last year was a very good continued good deliveries. So all of these bring the mix, and with that we expect to achieve the growth that we are guiding for.

Martin Flueckiger: Okay, many thanks.

Operator: Thank you. We'll take our next question now from Antti Suttelin from Danske Bank. Please go ahead.

Antti Suttelin: Thank you. You know, China, China, China: you said you improved your China margin in 2015. Where are we now, with China versus rest of KONE, in this market? That's my first question, please.

Henrik Ehrnrooth: China has a very good margin, it would be above KONE's average margin.

Antti Suttelin: Okay, so, KONE China is higher than KONE on the average. And then we know that China is very much still geared towards new equipment, so new equipment margin must be the driving force there. Is it, do you really think that the Chinese new equipment margin can remain on a strong level, given that the market is now falling, for the first time in the history?

Henrik Ehrnrooth: Well, you saw where I explained what we did last year; we have a very good competitiveness, so we're working for that all the time, but I would also say that we are improving in other parts of the world, so of course, our overall profitability comes from mix, what we deliver to various parts of the world. We are, globally we are in a good position from a competitiveness perspective, and that's how we plan to drive our business going forward.

Antti Suttelin: But specifically on China new equipment, are you budgeting for, you know, still improving margin, or same margin in China new equipment as you have in 2015, or how are you thinking about that?

Henrik Ehrnrooth: First of all, Antti, as you very well know, we don't guide for various businesses, or go through what we have as budgets. I think our commitment is the overall guidance that we have, and clearly, the market is more challenging in China, but as I said, in a challenging market, we are in a pretty good spot, with our competitiveness. Do we have to continue to improve that? Absolutely, so our margin development will be dependent on how we can continue to improve our competitiveness in that market. It's as simple as that.

Antti Suttelin: Yes. I just wonder what is the reason that the Chinese equipment margin wouldn't converge to the same level where it's at globally?

Henrik Ehrnrooth: Well, I don't know if everyone has margins like us in China, I think we are very competitive, and then we have this, of course, when services become a larger share, and that's also a good business in China, no question about that, so we see opportunity from many different perspectives.

Antti Suttelin: Yes. All right, thanks a lot.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. We take now our next question from Phil Wilson from Redburn. Please go ahead.

Phil Wilson: Yes, good afternoon everyone, thank you for taking the questions, I've got three, please. Firstly, your US new equipment market outlook for 2016 appears to have been toned down a bit compared to the growth rate you saw in 2015. Can you give some commentary why you see a slower rate of growth in the US? As I imagine the residential side of your exposure still should be pretty strong, given the multi-family shift. That's my first question.

Henrik Ehrnrooth: So, we expect a continued good development of the North American and US market in particular, but remember the market is already at a high level, so we continue to expect a growth from a high level, so I think that that's quite a good situation, that's just, in summary, how it is.

Phil Wilson: Okay, so no particular end-markets within the US that you see as softening?

Henrik Ehrnrooth: Not necessarily.

Phil Wilson: Okay, thank you. Secondly, apologies if I misheard this, but did you say that your growth in China in 2016 may be more in line with the market, than it has been in the past? Um, so your market share gain's easing? And if that is the case, can you comment why you expect this to happen?

Henrik Ehrnrooth: What I said is that our ambition continues to be to outperform the market, and I feel pretty good, when we look at full year, for example, that we can do that. What I said is we will probably look at a more even development throughout the year, rather than a very first-half weighted.

Phil Wilson: Oh, okay, thank you, that's clear. And then, finally, I imagine that the strong maintenance growth, 7.5% in the quarter, is helped by the mix of this Chinese growth growing at 25%. As this mix changes in your maintenance revenues, are you able to maintain the same level of EBIT margins? In maintenance?

Henrik Ehrnrooth: The margins in our business, of course they vary from market to market, but overall we have good margins in our maintenance business, but I think the most important thing is to achieve on a maintenance base that you have, a growth of 7.5%, it was not only China, we actually grew in all geographic areas; it was a, let's say, good performance across the board.

Phil Wilson: And then I know this is often asked, but as it becomes more material, can you give a little bit more colour as to where the Chinese maintenance margin sits?

Henrik Ehrnrooth: This is at a good level.

Phil Wilson: Okay, thank you very much.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. Our next question comes now from Daniel Gleim from Mainfirst. Please go ahead.

Daniel Gleim: Yes, hello everyone. Thank you very much for taking my question. The first one would be on the lead period in China; I think during the capital market day you mentioned that the lead period between order intake new equipment and revenue recognition for new equipment is around six to nine months, and you mentioned in the call today that there has been some changes in the order book rotation. Could you please comment, within your guidance 2016, what is the expected lead period between order intake and revenue recognition in China?

Henrik Ehrnrooth: As I commented first, there is no significant changes; what I said was we experienced last year was a slight lengthening, but at the same time it's important to remember that if you look at our top line growth, our deliveries have been very strong in China last year, so actually we did very well there, and so no dramatic changes. The biggest difference, from a rotation perspective, is the geographical mix, the mix between, if you look over the past years, between volume business and major project business.

Daniel Gleim: So given that order intake has been rather stable last quarter and this quarter, we should expect sluggish revenues in the second half of 2016 in China? Is that the correct way to look at it, or am I missing something?

Henrik Ehrnrooth: Well, we don't guide specifically quarter by quarter, or by market; we have our overall guidance, and we have to see how the Chinese market develops. When we look at our overall situation we look at it to 6% growth for the full year. And this of course, as always, there fluctuations quarter to quarter.

Daniel Gleim: Okay. Then, briefly, on the recognition of maintenance revenues in China, am I correct that this is different to the recognition in the maintenance days, that is, that after you have installed the new equipment, you would record revenues during the initial service period, in the maintenance business already?

Henrik Ehrnrooth: So, you accrue a part of the new equipment revenue, and then record, you recognise that over the first service period, which is part of your new equipment price when you sold it.

Daniel Gleim: But it's recognised within the maintenance business?

Henrik Ehrnrooth: Yes.

Operator: Thank you. We will take now our next questions from Tomi Railo from SEB. Please go ahead.

Tomi Railo: Yes, good afternoon. Hope you can hear me. I think I need to come back on the China and to the '16. Are you expecting revenues to grow in China in 2016?

Henrik Ehrnrooth: We don't, we are guiding for our full revenues, we don't guide it for a specific market.

Tomi Railo: But have your order backlog been still up in China, in the end of 2015?

Henrik Ehrnrooth: We have a strong order backlog both in China and in rest of the world, as well. We are in a good situation there.

Tomi Railo: Thank you.

Operator: Thank you. We now take a follow-up question from Guillermo Peigneux. Please go ahead.

Guillermo Peigneux: Thank you very much. Just a follow-up on pricing again. Is there a month or a period in the year, in which the main operators in the Chinese market announce those price decreases, or is that on an order-by-order basis?

Henrik Ehrnrooth: There is no such thing as people who announce prices, or anything like that. We have to remember that pricing is something, each individual order is a negotiation between us, or someone else, and a customer, and when you have enough of these it becomes a market price, and that's where pricing is then formed, and we of course make a view of what our understanding was of all of these transactions, as what prices have happened, so it's naturally, it's an ongoing process, it's not a step change at any point in time.

Guillermo Peigneux: Okay, thank you.

Operator: We have now another follow-up question from Andre Kukhnin from Credit Suisse. Please go ahead.

Andre Kukhnin: Hi, it's [unclear] again. What, my questions, I have two quick follow-ups, is that how much is the maintenance, of China revenue at the moment? Is this still below 10%, or has it grown past it?

Henrik Ehrnrooth: Slightly below 10%, yes.

Andre Kukhnin: Okay, and the second question is that what's your split between Tier 1 and 2 versus Tier 3 and 4 cities, at the moment?

Henrik Ehrnrooth: So, the KONE brand in particular would have more than 50% of the business in Tier 1 and Tier 2 cities; ah, what would you say, Eriikka?

Eriikka Söderström: I would say second brand would be the opposite, so the total would be about 50:50.

Andre Kukhnin: The total would be 50:50?

Operator: Thank you, has that been answered, your question?

Andre Kukhnin: Yes, sorry, I just, line broken, thank you very much.

Operator: Thank you. We will now take another question from Erik Carlsson from Bode Capital. Please go ahead.

Erik Carlsson: Thanks for taking another question. I wanted to know, on the North American market you've shown very good developments; also there sister-market growth. Of course the trend to machine-room-less elevators is helping you here, but are there any other ways you're strengthening your competitiveness that can explain the strong performance versus the market here?

Henrik Ehrnrooth: Yes, good question. So, one of the areas is actually the shift from hydraulic towards machine-room-less, and we're being very strong in machine-room-less, so that's why we're taking a bigger market share all the time, there. But I think we have also, if we look at North America, our product competitiveness, particularly for the segments that are growing well, is strong, and we have had good development and strengthening of our field operations, so we strengthen that but also our overall competitiveness, so again, as you know in this business, it's not only about the product, it's about how we can install it in the field, and our field, we've had good development in both, and the segments are growing, that's where we have a good competitiveness as well.

Erik Carlsson: Thank you very much.

Operator: Thank you. Another question now also from Martin Flueckiger from Kepler Cheuvreux. Please go ahead.

Martin Flueckiger: Yes, thanks, thanks for my follow-up question. Just a clarification question, very quickly. Did I understand you, Henrik, correctly, that you were mentioning a €20 million headwind from currencies on EBIT in 2016?

Henrik Ehrnrooth: What is included in our guidance, and we said that if currencies would stay at the average level of January, that's what would happen. Where are currencies going to be for the full year, that's unfortunate, we don't know, but with the current level it would get roughly 20 million headwind.

Martin Flueckiger: On EBIT?

Henrik Ehrnrooth: On EBIT, yes.

Martin Flueckiger: Thank you so much.

Operator: Thank you. We now take a question from Michael Kaloghiros from Bank of America. Please go ahead.

Michael Kaloghiros: Yes, hi, good afternoon, thanks for taking the question. There is some cash-flow in the year, and you've basically ended up the year with net cash of 1.5 billion. My first question would be, at what point of the financial structure, you know, would you consider doing something with that cash, maybe returning it to shareholders? And my second question is, you know, if you don't see, you know, a return to shareholders as imminent, are you seeing anything in terms of transaction activity, especially on the maintenance operators in Europe, for example, now that the market has kind of stabilised?

Henrik Ehrnrooth: So, first of all, I think we're again handing out quite a lot of cash to our shareholders in March, so long as the shareholders' meeting decides on the proposed dividend, I think that would be around 730 million or something like that, that we would pay out in March, so that's, again, a good growth in our dividend, but yes, we continue to have a strong balance sheet also after that, and nothing has changed here. We continue to be interested in finding acquisitions, last year we bought I think 23 companies, again, so we continue to buy; they are small but also naturally have appetite for bigger targets, and that's why we think it makes sense to maintain a strong balance sheet.

Operator: Thank you –

Katri Saarenheimo: We're running out of time, soon, so is there still a final question from the line?

Operator: We have one final question in the queue, yes. We now take the final question from Daniel Gleim from Mainfirst. Please go ahead.

Daniel Gleim: Yes, thank you very much for taking my last question. Eriikka, could you please elaborate on the disconnect between reported net interest and the cash interest within your cash-flow statement? I assume it has something to do with the dividend payment from Toshiba, potentially a revaluation loss from option liabilities, could you elaborate on that, please?

Eriikka Söderström: Sure, so we have two extraordinary items now reported in our 2015 numbers in that sense of impact, and well, the option liability related to acquisitions we have had, and the impact there is round €37 million, interest impact about 10 million, and the bigger one, which is like an exceptional for 2015, is a dividend of almost €120 million coming from Toshiba, as Henrik was describing earlier.

Daniel Gleim: Okay, thank you, and maybe one last one on order intake. Has there been any extraordinary high orders in the fourth quarter? Or would you call this business as usual?

Henrik Ehrnrooth: Business as usual. As always sometimes you have bigger orders, sometimes not, but that fluctuates quarter to quarter, but I would call it quite business as usual.

Daniel Gleim: All right, thank you very much.

Katri Saarenheimo: Okay, thank you very much, everybody, for your participation today. It is time to conclude the call, so we would all like to thank you very much and wish you a good rest of the day. Thank you.

Henrik Ehrnrooth: Thank you.

Operator: Thank you. Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation, you may now disconnect.