

WÄRTSILÄ CORPORATION

Björn Rosengren
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Operator: This is conference # 56579541.

Björn Rosengren: Good morning and welcome to the Wärtsilä Q3 results presentation. With me here today I have our new CEO, Jaakko Eskola, and I have also the management team that will be helping me to answer some of your questions. I will start to present a number of slides to give you a little bit an update where we are.

Starting up, if we summarize the third quarter we can say that sales and profit is in line with our expectation and also on the way to be able to reach our guidance for the full year. On the other side, the orders were lower than expectation, and that is mainly related to the power solution business. We'll come back to that a little bit later.

We are geared up, we all know that fourth quarter is a big quarter for Wärtsilä, that's a tradition and also this year, so we are well geared up to be able to deliver what we need to do during the fourth quarter to reach our target and our guidance.

Starting up with the orders which was lower than expected when it comes to energy solutions. I would say that things takes a little bit longer time than we are expecting but at the same time we are optimistic about the fourth quarter.

And I said during the last presentation that second half would be better than the first half and we stick to that. We do believe there is a lot in the pipeline and we believe that we will be able to close this during the quarter.

Also in our other businesses we believe that the next quarter will be good when it comes to orders. Service continues to be strong, the new order up 10 percent, I think year-to-date about 18 percent up in orders, so that is well.

The two areas where we are operating in it's pretty clear, both the marine market with the offshore which is suffering, it is a tough market. The energy solutions side, it is a tough market, not least because of all the thing that are happening in the world and softening of China. But at the same time a lot of exciting things on the way.

The sales were up 9 percent, both marine solution and service was up. We were down 14 percent in energy solution, which is very much related to the lower orders that we've had during the previous quarters.

Looking at the split between the businesses, the service has continued to strengthen and to grow, which is reflecting, which today represent 45 percent, the marine solutions 33 percent and energy solution 22 percent.

So even though our orders in the quarter were low, our book-to-bill ratio for the first nine months is still over 1, is 1.03. And I think that gives a good indication for the coming. And also looking then at the orders on hand to be distributed during this year and next year, we're actually in a better situation than we were one year ago.

Profit for the quarter was in line with our expectations 13.1 percent, which is result of a lot of hard work and keeping the costs under control within the Company.

Moving over to the power plant business, we can see that the activity in the market is good, a lot of quotations, and that is also why I'm referring to that -- our project list is quite long and there is a lot of exciting things in the coming periods.

But the orders for the first half is about 19 percent lower than last year even if though you look in megawatt it's almost the same as previous year. But we do expect some better during the last -- the coming quarter. You can see that gas

is only 36 percent so far this year and that is very much related to smaller orders and also one of our big customer, the Karadeniz, (which is not up there) barges for this which are being used with heavy fuel.

We do not see any change when it comes to the use of gas in the future, which still the majority of the quotations as you saw are related to gas as a fuel.

The distribution of the orders during the first nine months, we can see that Europe and that's very much related to Turkey and then Americas and Africa, while Asia has been weak this far.

Market share, these are not any new numbers. These were the numbers we showed after -- for the first six months because that's where we had the statistics from, but we can see that it's not only the Wärtsilä market which is weak but the whole energy market is weak.

Moving over to the marine side, after a number of months and quarters where we're seeing less contracting of vessels we had a pickup in September. This is very much related to container vessels and oil tankers. Also, we do believe that this can be related to the new emission standard that is coming up by the end of the year. But we do not see any major shift in this setup. We believe that the marine market will continue to be challenging during the near future.

On the order side, we continue to get orders even though the market is challenging. You've probably seen on the offshore side, and I'm going to say that if you go back two years, 41 percent of our orders actually came from the offshore side and today it's year-to-date or for the quarter it's only 11 percent. So it's significant.

There are still areas where we see a good development. The gas carriers continue to be good for us. We see cruise and ferry but also special vessels where things are happening. On the joint ventures, year-to-date we are EUR163 million compare to last year EUR126 million.

If we're looking at the market share, we can see significant improvement during the quarter and we can see there 63 percent market share for the main

engines and an increase from 5 percent to -- to 9 percent from 5 percent in the auxiliary market. This is very much related to certain orders that we have.

We do not believe that keeping these high market shares is to sustainable in the long run. It might be a little bit high, this might change a little bit over time. But on the auxiliary side this is very much related to that our engines are used as auxiliary engines in the gas market, as well as our new joint venture in the south part of China, which is adding volumes into this targeted segment.

You know, we launched a new engine during last quarter or the quarter before, that was the W31, which is actually the world's most efficient engine and actually also received the Guinness World of Record.

We have sold now the first three engines for an icebreaker, the Russian icebreaker. So it's good that we get the new engine into the market, so we have -- get references for future sales. We do believe that this is a good engine both for the power plant business, with high efficiency, as well as for the marine industry.

On the service business, I've been always talking a lot about this during the last years, and the good development continues, that relates both to growth as well as the profitability. So in the quarter we saw a growth of 12 percent and that is above the 5 percent which I have said that this is what we should be expecting during the coming years.

The different service businesses stays the same. No change actually in that distribution. And when it comes to contracts, which is an important part of the growth strategy of the service business, we can see that the marine side continues to grow and we are signing more contracts.

And today it is almost, if we're looking at the amount of megawatt that is under contract today, it's almost as large as the power plant business. We do believe that this will continue to grow, very much related to the gas as a fuel and gas engines in the market where many of our customers here believe that we can add value by servicing the engines.

Looking at the market, we can see that the active fleet actually went up during the last quarter and there are less anchored vessels, so some activities there. When it comes to slow steaming there the industry continues to run the ship in low speed.

On the financial side, we have solid financials. Even though the cash flow was weak in the quarter, it's a lot of gearing up for these big supplies that we are having during the fourth quarter, and there is also some made prepayments which are less because of the low orders received.

So inventory is up mainly related to power plants but also for the deliveries that is going to take place during the fourth quarter. By the end of the year we do believe that the gearing should be down to a similar level as we were last year.

By that I would like to invite our new CEO, Jaakko Eskola. I think it's appropriate that he gives actually the market outlook for the near future. Please.

Jaakko Eskola: Thank Björn. And actually, first of all, there is no change in the market outlook from the previous quarter. Both energy and marine solutions are still challenging, I think that's the main point. Despite that, in the energy market we see the flexible and distributed energy solutions gain more market also going forward. So, that gives us a good ground.

In marine solutions the normalized level of the gas carriers is good and we see very positive development in the cruise and ferry market.

Services, I think it's also from the previous slides you can see that our customers are more and more interested in long-term service agreements and that's how it will go so going forward.

Björn Rosengren: Thank you, Jaakko. And then I think you're chained to the next and then, you can -- you may give the guidance for the rest of the year because

(Multiple speakers) –

Jaakko Eskola: The prospects are not -- they are not changing, so we still keep the growth rate between 5 percent and 10 percent and the operational profitability stays with that one between 12 percent and 12.5 percent.

Björn Rosengren: Thank you, Jaakko.

Jaakko Eskola: Thank you.

Björn Rosengren: OK, I think then we are ready for the Q&A session, so I think we give the world to our audience and to the lines.

Pekka Spolander: Pekka Spolander from Pohjola Bank. First question about the marine side, if I recall right, in the second quarter report you told that they were some delays in the deliveries, the customers were a little bit hesitant to go on with the project. Have you seen anything like that during the third quarter?

Björn Rosengren: I think Jaakko is an excellent person to answer that question.

Jaakko Eskola: That's continuing still. I mean, we still see customers who try to postpone, we haven't seen any cancellations, and nobody is actually taking about cancellations, but postponements you see there also going forward.

Pekka Spolander: OK. And my second question is more general one about the sentiment during in the third quarter. China is a big question and what are worries during the third quarter, have you seen -- made the changes in the sentiment when you talk to your clients during last months?

Björn Rosengren: Yes, I mean, you've been talking to a lot of clients and not least in Asia where you're living in Shanghai, Jaakko, how do you feel the sentiment is in the marine industry?

Jaakko Eskola: I would rather say that the sentiment is, at the moment, a little bit more positive. You can see it also on the third quarter vessel contracting, which is higher than the quarter before or quarters before. And China is a question mark. China has got a lot of bulk orders declining and that has affected the industry and there is a lot of consolidation going on in China.

But otherwise you see some of the segments are doing well and there probably the sentiment also comes a little bit more positive than it used to be.

Björn Rosengren: Maybe we should also ask Rakesh regarding the energy solution side, what is -- the orders were lower than expected and how is the sentiment in the market?

Rakesh Sarin: That's right that our orders intake slipped in the quarter three in spite of the fact that we have a very robust pipeline. And the uncertainties in the markets whether it's a money market or it is related to oil prices, related to the currencies, it's taking more time to put the ink on the contract and get money on the table.

At the same time, I would say the basic fundamentals are strong, the energy demand is still there in the emerging markets and we have solid projects in the pipeline. And what we are doing is that we are getting very focused in terms of closing those projects, that's the task at hand, and we are optimistic for this quarter that we should be able to close those orders, what we have in the pipeline.

Björn Rosengren: Thank you. I hope that reflects a little bit of what I have given. But I think also service is a good part because that's actually meeting all the customers.

Pierpaolo Barbone: The sentiment in service is positive, we are going strong, apart from regional peculiar aspect but to answer to your related to China, for example, we are growing 2015 also in China.

Björn Rosengren: So service is good, but I think, maybe on the sentiment here, maybe related to a lot of these contracts, I think that's an important part and one of the growth factors that we have had during the last years.

Pierpaolo Barbone: Absolutely. And let's say we have been very strong on the power plant side and we continue to have -- to be on the same level. We are also selective in terms of type of contracts now in order to be more efficient. And on the marine side we are growing, pushed by the LNG installations.

Pekka Spolander: Thank you.

Male: Thank you.

Operator: Ladies and gentlemen, if you would like to ask a question from the telephone lines, please press star one on your telephone keypad.

Our first question today is from the line of Manu Rimpela from Nordea Markets. Please go ahead your line is open.

Manu Rimpelä: OK, good morning gentlemen.

Male: Good morning.

Manu Rimpelä: My first question would be on the oil plants and probably the same question I asked in the previous quarters that what gives you the confidence on being able to sign those contracts. And if you look at the contracts you were able to sign during the third quarters it looks like the gas -- we've seen very significant drop in the gas related power plants orders. So, maybe more specifically, how confident are you on those gas orders in this market environment?

And then the second part of the question would be related to the pricing, and you mentioned the price pressure, so how was that developed during the quarter?

Björn Rosengren: Starting on the order side on the power plant business, it is true that it came out lower than we expected. This doesn't mean that these projects have disappeared or anything. It's taking a little bit longer. We are, and I was trying to give that impression, both me and Rakesh here that we do believe that we have a very good chance to close these deals.

You know the power plant business is lumpy and you get a big order you jump up in sales, and if you don't get that one within the quarter the number get significantly lower. But we have a solid pipeline and we -- it's not that it continues to deteriorate when it comes to the projects in the market, it's the other way around. We are more optimistic today regarding the pipeline and the possibility to close them during the fourth quarter. So, we stick to the

prediction that I have said that H2, the second half will be better than the first half. That was on the power plant and the gas orders.

The second one was the price pressure. Yes, it is price pressure in our businesses, and I think I communicated that during the part on the power plant business, many of our competitors who are not getting the orders in the marine side anymore wants to fill up factories, so everybody is pressing with the tough price. So that pressure continues. I think on the marine side, it's not more than before if I understand it right.

Jaakko Eskola: There are no changes.

Björn Rosengren: No changes. It continues. And it has been since actually 2008, 2009, it's been hard pressure on that part. But it's more normal part of the business I think today. On service side?

Pierpaolo Barbone: On the service side there is always tendency to be more efficient from our customer perspective. But we sell value, we sell value, we don't follow the trend of discounting.

Björn Rosengren: Yes, and I think, yes, service has shown a good part. We've worked with this value-based pricing that we have been working during the last four years, and I think that has really developed very, very well, and we are implementing that also in our other businesses. So there are still opportunities.

Manu Rimpelä: And maybe if a comment on the power plant pricing, has that worsened during the quarter?

Björn Rosengren: No, I don't think it has worsened, but it continues to be tough. But it's very much also related. It's from project to project because when it comes to gas-fired plants, we actually have, when it comes to the engine technology, we have 90 percent market share. So that's a big difference.

And if you're looking at these flexible base power we are around 70 percent market share in that part. We take a big part of that. So when it's -- the technology is that we are very strong on we have a better chance to close these orders with the right margins. And we are -- we have talked about this a lot

during the years. We are not giving away power plants. And if competitors are coming in and dumping prices to get the volumes out, we do not go that route. I think the history tells that that can only be devastating for your business because in the end every power plant is a risk and you need to complete it and we'll build a lot of EPC plants and we need the margin. Just selling power plants without margin does not make sense. And if that is the case then we will not take the orders if the margins are too low.

Manu Rimpelä: OK. My second question would be on the Group margins. Could you just maybe help us understand a bit better what is driving the very impressive margin in the quarter? Are we seeing that services strength in sales is starting to come true into the margin or is there also a component on the equipment side? Just help us understand, because you don't report it separately.

Björn Rosengren: Sure, sure, I'll help you on that. The service continues to improve. And I think we've been saying that all the time and that helps a lot. When service takes a bigger piece of the pie we call that the mix. But also marine solution have had a good development during this quarter and delivering good numbers. So that's fine. And then it comes a little bit down to the structure that we have. We have what we call business units where they have the total responsibility for their businesses. So they drive the efficiency in their operations and they have to deliver the numbers that they promise. And that entrepreneurial drive gives a lot of good effect in our business.

Manu Rimpelä: OK. My final question would be on the net debt. Could you also help us understand there, I mean you mentioned like two factors why the seasonality differs, what you usually have, that net debt comes down in Q3 but maybe breakdown how much would have been the impact from the kind of prepayments and how much came from inventory buildup in expectation of Q4.

Björn Rosengren: I think I'll let our CFO, Marko, to answer that question.

Marco Wirén: Yes. I would say that the biggest impact is inventories and accounts receivables in our cash flow. That's the biggest impact.

Manu Rimpelä: OK. Thank you. No further questions from me.

Operator: Our next question is from the line of Max Yates from Credit Suisse. Please go ahead.

Max Yates: Just my first question would be looking at margins into next year and I think looking at the orders that you're taking at the moment and looking at consensus for next year there isn't a huge amount of growth in the numbers. Do you think there's more that you can do internally whether it be on your service business or taking costs out of the marine business, that means that we could see margins up year on year next year even if we don't see any top line growth? That's my first question.

Björn Rosengren: Yes. I mean when we look at the our direction in, we have the target to reach 14 percent and we've been very open with that. So we do drive a lot of efficiency in our operations. We have our efficiency programs. We had one last year which was completed. We are now running the second one in the marine side, but also each of the businesses are working with improving their own profitability. It's pricing, it's their costs, how they operate each of the businesses.

And services, going as a trained forward, very stable and improving all the time and that will help. And if the service takes a bigger part of the cake, sure that will have a positive effect on our margin.

So I think we have not changed our viewpoint when it comes to the 14 percent, that is the direction that we are driving. And we should see an improvement every year even though I don't want to guide next year. We'll wait with that until next quarter. I'll let Jaakko do that.

Max Yates: OK. Thank you. And just my second question would be on the gas carrier segment. When you look at the data in the market in terms new orders, I mean it's slightly worse that the declines you're seeing in your business which is kind of currently -- your business in terms of gas carriers is currently coming down at about 20 percent, 22 percent, I think the orders in the market are coming down significantly more than that. I mean can you give us confidence that we won't see further deterioration in your gas carriers business in the

remaining quarter of this year than in 2016 or are you expecting this business within marine to actually get worse before it gets better? Thank you.

Jaakko Eskola: Actually you're right. Last year the number of the vessel orders were extremely high and we rather say that it's normalizing now. I don't think it's going to go further down anymore. I mean there is the LNG carriers are very much dependent on the LNG projects and there has been some delays on the project. So the LNG carrier market has affected a bit.

On the other side, the LPG price has been going down which has got the lot of the interest in Asian markets where we see a lot of LPG orders now coming back. So basically what comes to our business it looks in a good way.

Max Yates: OK. And just a follow up, just checking on the lag of Wärtsilä engine being ordered on a gas carrier as opposed to any of the other shipping segments. Is it still around that three to six month lag that you've previously talked about or does it differ for any reason within the gas carrier segment across the (multiple speakers) –

Jaakko Eskola: No. I don't think the -- no, I don't think the engine order lag is different. But you have to remember that we are not only delivering or selling engines to the gas carriers, we are actually selling the gas systems and in certain cases the gas systems are even higher volume wise than the engine. So please remember that.

Max Yates: Would those also be ordered when an engine is ordered?

Jaakko Eskola: No they -- sometimes they are ordered in a different time but still we can talk about the three to six months today.

Max Yates: OK. Thank you.

Operator: Your next question is from the line of Sven Weier from UBS. Please go ahead.

Sven Weier: Yes, good morning. Just two question left please. The first one is just on what is that on marine order intake? Did I understand you correctly that Q4 you expect also better than Q3?

And probably the second question also related to that, specifically on the cruise segment, we're reading a lot of reports about quite a bubble of cruise ship orders that is coming in the next month still, so I assume that this is part of the guidance probably.

And maybe Jaakko, what you think about the Chinese cruise market in particular. We've seen some reports that's you see a bit of an overcapacity now, some pricing discounts there. So how do you see the markets beyond the current order activity? Thank you.

Jaakko Eskola: First of all I would rather say that if you look at Q4, it's going to be a good quarter also in marine solutions. There is a good pipeline on orders. And based on the vessels which have been ordered than vessels which will be orders still. Cruise market, it's right, there is still you call it bubble but there is an activity in the market. There is a lot of cruise vessels still to be ordered.

And today for Wärtsilä it's good to remember that MSI or our E&A business is heavily involved in every cruise ship order what you have in the market. So that's a very healthy business for us.

What comes to China, you have seen a lot of press releases and I think the latest probably came yesterday again where Carnival has signed again a joint venture with CSSC and Chinese ship owner, CIC, if I remember right, which means that they are now pushing for the market where there will be even Chinese-built vessels. When that will happen is still a question mark.

But at the same time all of the major cruise companies, Carnival, RCCL, MSC and the Norwegians have moved vessels to China and that activity -- the Chinese cruising is increasing. I don't know if it's overheated today, at least living in China you can see it overheated, yet, I mean there is a lot of people in China who want to go to cruising.

- Sven Weier: OK. And I take it if you say Q4 is going to be a good quarter that means it's going to be up sequentially in terms of the order intake.
- Jaakko Eskola: I said that it's going to be a good quarter.
- Sven Weier: OK. Thank you.
- Operator: Thank you. Our next question is from the line of Antti Suttelin from Danske Bank. Please go ahead
- Antti Suttelin: Yes, thank you. Could you explain me why actually is your marine order intake not down more than what it is? I can see that you're organically down something like 26 percent according to my calculation. The underlying ship orders, the relevant ship types are down something like more than 50 percent. So what keeps you so much better off than the underlying market?
- Jaakko Eskola: Thank you. Good question. First of all the portfolio is larger. And the mix is very favorable to us today. As you said, the organic numbers are down but when you look at the MSI now included in our portfolio, we have been able to survive. And the way how we sell, I mean more solutions, not only selling one equipment here and that has to be our strategy going forward.
- Antti Suttelin: So are you basically saying that in the equipment you sell, you must have taken a lot of market share or then you have been able to for some reason expand the product portfolio and then sell more value per ship –
- Jaakko Eskola: Both.
- Antti Suttelin: -- than the year before it?
- Antti Suttelin: Both questions. Definitely market share. You can see those on our numbers. What comes to the four-stroke market share, but also we have been able to take market share in any other product lines. Plus, as we talked about here previously, we sell value.
- Antti Suttelin: So when eventually the ship orders start to go up some day, you should go up and get much more than the ship orders. Is that right?

Jaakko Eskola: I definitely hope so.

Antti Suttelin: And then on the marine side, why is the graph looking positive on ship orders? You said something about this. Can you repeat why do you think the ship orders were towards the end of the Q3?

Björn Rosengren: The container side is growing, the tankers are growing, cruise is still growing, ferries are growing and then you have some special segments where you see activities also going forward.

Antti Suttelin: And is this sustainable, you think?

Jaakko Eskola: You know, the market is always -- it's a challenging market and let's now talk about the Q4.

Antti Suttelin: OK, and then power plants. I can see that the order intake was negatively affected by number of megawatts, but also because of considerably lower value per megawatt compared to year before it. Why was the latter one?

Rakesh Sarin: We sell the power plants in two ways, one is equipment and engineering, which is sold and other is EPC. So depending on what is the mix of EPC and EQ in our sales or the order intake, the euro per megawatt changes. So apparently this time it is more of equipment and engineering what we have sold as compared to EPC.

Björn Rosengren: When you see the EPC side that's also normally the bigger plants –

Rakesh Sarin: Yes.

Björn Rosengren: -- that we sell. And you see it's been a lack of large plant orders during the last three quarters. So when they pickup again then you will see bigger value also in them, because many of them are in the EPC.

Antti Suttelin: So they have nothing to do with price pressure?

Björn Rosengren: No, no.

Antti Suttelin: It's just that you had no EPC.

Jaakko Eskola: No.

Rakesh Sarin: No. No. Absolutely not.

Antti Suttelin: OK. All right. Fair, thank you.

Operator: Our next question today is from the line of Michael Kaloghiros from Bank of America. Please go ahead

Michael Kaloghiros: Question on cash, I think that the Q2 results were still forecasting, guiding for a similar cash generation in 2015 compared to the one that you did last year. At the 9 months we are significantly low, do you expect to recover all of that in Q4?

Björn Rosengren: Yes, we do. We do believe that we should be on a similar level as last year on the cash flow during the -- by the end of the year. I said that our gearing should be inline with last year. Yes. It's lower this quarter, but it is related a lot to this inventory buildup, lot in relation, we need to ship out a lot of equipment during the Q4.

Michael Kaloghiros: Just on the other swing factor in your cash, the receivables, can you just give us a bit more details on what's going on there? Is it like people are delaying deliveries and you're not getting the cash, because I mean we hear a lot of cash payment issues in emerging markets. So are you seeing any of that or is it like completely (inaudible) related?

Björn Rosengren: The work comes also of a prepayments. So when you get orders, you get a certain payment in upfront, which is also important when it comes to the cash flow. And when you haven't received any large orders during the last quarter that also affects.

Then during the projects, part of completion is also a part when you invoice the customer when you come to certain stages, that also adds to the cash flow. And then on the receivables when the projects are being paid. So it's a mix of all these three sides.

There is little bit on the inventory side. All the inventory buildup is not fully related to what is going to be shipped out during Q4. There is also a little bit on some engines for power plants that orders that we thought that we would be able to close during this period that we could also deliver these engines and they are a little bit delayed. So there might be a little bit delay on that side.

But we should have a healthy cash flow for the full year. We need to get the orders in and the prepayments paid, so there is still challenges during the quarter, but our prediction is that we should be on a similar level than last year.

Michael Kaloghiros: OK, good. Just on energy solutions, I think if we look at your quotation activity, if we look at your market comment on power, if we look at basically peers reporting on power it looks like its all right market, but just your orders being down year on year, I mean do you think it's just like the product mix, do you think it's the geographic mix? You're a bit more exposed to emerging markets players. What's your take or is it just like really timing that is against you at the moment?

Björn Rosengren: I think every project has its own life. We have a lot of different projects spread out in different continents of the world. And it's true if you see the distribution of projects, Asia has been lower during the start year and we do believe that we have a chance there to pick up. But it is always when you come to these power plant and these big orders, when you close the order, it jumps up a lot. If you don't manage to close an order during a period, it affects you. Then you have many small orders, but that does not carry up the big numbers that we have in power plants.

Rakesh wants to add something here.

Rakesh Sarin: And adding to what Björn said, if you look at the market share, we haven't lost the market share. We were at the level of 9.3 percent in the first half of last year and we are at the same level around 10 percent during this year, the first half. And I would say it is more a question of timing that when we are able to close the orders.

Björn Rosengren: I mean we're helping you a little bit in the guidance here. Normally we do not guide the orders, but just that you shouldn't lose totally confidence in the thought. We are just giving you that little bit of the sentiment that is in the market that we are pretty optimistic. We still need to close these orders, so just because being optimistic doesn't mean that we close them so. But there's a lot of hard work being done out in the market and we are giving you a little bit of an -- guidance on that side that you should not mistrust fully.

Michael Kaloghiros: Last one just on services. I mean, I might have missed that but have you indicated what was the organic growth in the quarter? That would be the first part. And just going back to your services agreement slide and we see like there were good developments so far this year in the marine solutions, megawatts under agreements. A bit more sluggish on the energy solution. If we look maybe one, two, three years down the road, where do you think these share of market -- megawatts under agreement should be in marine solutions and energy solutions?

Björn Rosengren: Now, I think it's difficult to speculate in this part, but indicating clearly is that we are lot of focus in getting new contracts. And there are certain segments which are more positive towards -- the LNG market is very good. And we have ,I think we almost have 100 percent of all the new LNG going into the market with contracts and there is a lot coming also in the near future.

The cruising is very important for contracts and there we see a tendency in the market that even customers that we do not have contract with today, we will have a chance to close these contracts in the near future. So these are two important segments. Also the offshore is normally good, but that segment is down. So there we should not expecting too much going forward.

So we are optimistic. On the power plant side, there is about little bit less than half of the big plants, new, that we managed to sign a contract with. I would say that it is easier to sign a contract with an independent power producer than it is with the utility, because utilities, their business is actually running power plants. When it comes to IPPs, that's more related to the emerging market business, there we have a bigger chance to close these contracts. But maybe

you want to add something on these contract side, how optimistic you are going forward.

Pierpaolo Barbone: Well, I must say that when years ago we set certain targets then we can say that now given to the result we have, these targets are obsolete. So, let's say, we have to have additional challenges and we have -- we are very optimistic on that.

On the power plant, it is difficult to maintain a contract for a number of years, 10, 15 and more, but let's say it is, the technology is developing and the new technology is boosting also the need for expertise and this is in both side, the marine side and also in the power plants. So let's say we are optimist and we believe that our targets can be met, are met. And we need new challenges for the future. So we are positive for the future.

Björn Rosengren: I think this digitalization and condition-based maintenance is one of the products that we are focusing on a lot in the service business. Meaning, adding value to the ship owners by actually giving the status of the engine when it's time to the maintenance, how you can adjust the engine to become more fuel efficient. And if the customer feel that this will add value he will be prepared to go into contracts.

Pierpaolo Barbone: And connecting to what Jaakko said about the value proposition in marine solution, I would like to underline the fact that, in services we have a number of product lines. We are growing significantly on our main business, that is four-stroke but we are being percentage-wise growing more significantly on the other product lines. And this is very important also for the future.

We have an untapped potential on propulsion system, two- stroke, seals & bearings, all the product lines that we have, that are growing at a pace that it is higher compared to our bread and butter.

Björn Rosengren: And we also are optimistic about this environment solution side. I think in the quarter we sold 19 scrubbers, just giving you the data there. So things are happening. We are optimistic about the ballast water, an agreement that will come later on which will add possibilities to extend our market portfolio there. So there are things in a tough market where there are opportunities.

Michael Kaloghiros: The organic growth in services?

Björn Rosengren: Organic growth, how much was the current -- I would guess about 5 percent.

Rakesh Sarin: Yes.

Björn Rosengren: I'm sorry, 7 percent organic growth.

Michael Kaloghiros: 7 percent, OK, good. OK. OK. Thanks very much and best wishes Jaakko and Björn in your new roles.

Björn Rosengren: Thank you.

Jaakko Eskola: Thank you.

Michael Kaloghiros: Thank you.

Operator: Our next question today is from the line of Peter Reilly from Jefferies.. Please go ahead, your line is opened

Peter Reilly: Good morning. Two questions please. Firstly, you've had a big jump in the proportion of your marine solutions business on the service agreements. Can you talk a bit about the quality of that increase, whether it's been -- going to be enhancing or diluted in a short term and whether there is a phasing issue, whether those contracts are less profitable in the early years and they get more profitable later as is often the case with the long-term service agreements?

And then secondly, this is your first full quarter with MSI, I wonder if you could share some thoughts with us about what you found in MSI, whether there've been any positive or negative surprises?

Björn Rosengren: OK. I can start with the first and then I give the MSI to Jaakko. On the service agreement, yes, you see a big drop there in that during the last year and this is related to that we got a big contract with the Maersk for the merchant vessels and we've been working together with Maersk now for a number of years.

And I think they have realized the value that we can create by our service organization and lately they signed a 3.5 megawatt service agreement for us to maintain their fleet of Wärtsilä engines. So I think that's a step in a good direction and knowing Maersk who always had very strong feeling at taking care of their own service, I think this is a good achievement by our service operation.

Peter Reilly: And could you comment at all and maybe because it's one contract it's too sensitive, but often if it's a very big long-term service agreement it's less profitable in the early years and more profitable later. Are we going to see anything at a Group level because of that contract going through or is it going to be largely invisible in terms of the margin impact?

Björn Rosengren: You know, the number of service agreements, we have a huge amount of service agreement, and they all vary between when you take your service -- if you take your service agreement when everything works fine and you manage to do what you are and the engines are operating in a very good way, you make good money on it. But if you have challenges, quality problems of product and so you are fully responsible to make sure that everything is up and running and that utilization of the product and then they are less. But we follow the contract part of our profitability and so far I think it developed good.

Pierpaolo Barbone: We have today 592 agreements of which 322 are related to marine applications and 270 are related to power plants, and this has been a big change that happened during 2014 when we had the switch between the two products.

Peter Reilly: But is that a profitable business for you?

Pierpaolo Barbone: And we don't like just to play. We like to win. So we don't work for fun, let's say.

Peter Reilly: Yes.

Pierpaolo Barbone: So it –

Peter Reilly: But I mean it's probably saying that your contract business is in line with your profitability (multiple speakers) –

Pierpaolo Barbone: The profitability is according to expectation. And if there are aspects that have to be improved in terms of efficiency we implement all the measures. In services, we are not commenting a lot about the efficiency how we do it, but we constantly upgrade and update our footprint globally, so that's the efficiency of the operation is secured.

Björn Rosengren: And you know my viewpoint regarding our service profitability, it has improved fantastically during the years and we are optimistic that this development should continue. They work in a very, very professional way, maybe on the MSI side.

Jaakko Eskola: MSI the company has now been basically part of Wärtsilä integration process has been going extremely well. It's part of our E&A business line. I would say that it has been very positive surprises what we have also found out from there.

The market is now supporting that business very much because they are a strong player in these segments where there is an increase going on. I also like to say that what comes to the new businesses and the digitalization, which is going forward also in the marine sector. MSI plays an extremely important role when you look at the data coming from the vessel down to their operators, the platform we have on the bridges, the Naxos platform is a first class vehicle which can actually transfer the big data from vessel back to the service centers and now combining our existing digitalization projects, we can actually be the world class winner in the digitalization of the marine industry.

Björn Rosengren: And MSI is very active in some of these segments which are doing very well at the moment which also helps the integration.

Peter Reilly: That's great. Thank you.

Operator: Thank you very much. The next question from the line of Glen Liddy from JP Morgan, please go ahead

Akash Gupta: Yeah, hi, good morning, this is Akash on behalf of Glen.

We have a couple of questions. The first one is on payment terms associated with new orders as we have seen some of the companies in sector recently telling that there is some deterioration in payment terms. So wondering if you are seeing that as well. And the second one is on environmental solutions side that whether people preferring to buy a new ship retrofit the existing one.

Björn Rosengren: OK. We'll start with the payment terms. The payment term are the same. I think it's a very disciplined industry that we are in. And we measure this very carefully from each of our business. So we see how much prepayment in relation to the total order that are coming in. And this is following the same trend as we have had earlier. So there is no change in that. So both our businesses are getting prepaid when the orders are being booked so that -- that is important, that is good. On the environmental solution business, maybe you should talk a little bit about what is happening there.

Jaakko Eskola: Actually, I mean our environmental business covers the exhaust gas cleaning systems, the scrubbers and the ballast water management system but it also includes, inner gas systems and water cleaning systems or waste water treatment system so it's many smaller business lines.

The big ones and what people talk about a lot is the scrubber business and as - - as Björn mentioned 19 orders of scrubbers this quarter and it's actually if you compare it to the previous quarters, there is a -- there is a positive element going on in the market, more and more players are now looking at the -- going for the scrubber once.

Ballast water management systems, we have also got a lot of orders but those are mainly built for new buildings and the reason being quite obvious that the convention hasn't been signed yet, we are very close there. The countries are there, 44 countries but the percentage of the fleet is not yet there.

We need one country but that, we have been saying quite many quarters already, let's see when it finally happens, there is more than 40,000 vessels which need to be retrofitted. And then we basically, today, are working on getting the first ballast water management treatment system approved by the

US coastguard, the first one having the license and when we get that one, the ruling already is in U.S. and that will boost a little bit of the ballast water management system business.

Björn Rosengren: Are you sure?

Akash Gupta: Thank you and –

Björn Rosengren: Are you sure that the ballast water agreement will be signed?

Jaakko Eskola: Talking with all the players and the -- and the partners, I am sure that it will finally be signed but when might be some kind of a dealing-wheeling within the IMO.

Björn Rosengren: Yes.

Akash Gupta: Thank you.

Operator: OK. Our final question today is from the line of (Pierre Roskvisc) from SEB. Please go ahead

(Tomi): Yes, it's Tomi here, good morning.

Björn Rosengren: Good morning.

Tomi: Couple of questions, can you help a little bit on the mix for the fourth quarter? I mean the revenues are quite lumpy always quarterly but what's the outlook for, sort of, for the fourth quarter exactly on marine and energy?

Björn Rosengren: Oh, but, we make it easy for you, we give you the full-year guidance and I think we would say that we will fulfill that. I don't -- we don't go into quarter, it's true and you see in it it's in the quarter -- it varies when deliveries are coming and when we have the service is the biggest part and so on. But I mean, we help you pretty well with it for the full-year guidance and we feel confident about the prospect for the full-year. So then you have to calculate backwards.

Tomi: OK then, secondly can you explain why have you corrected or changed, calculated the quote levels differently in the third quarter for the power plant compared with the second quarter? So the comparison for the third quarter 2014 has been lowered significantly compared to what you showed in the second quarter presentation?

Björn Rosengren: You know the difference? Yes.

Rakesh Sarin: One change what we have done is that earlier we were quoting only gas and heavy fuel oil, and gas included the dual-fuel. But now we are showing separately the dual-fuel gas and the heavy fuel oil. So that's the change what we have made.

Björn Rosengren: Natalia, is there –

Natalia Valtasaari: I'm looking into it.

Björn Rosengren: OK, we're getting the expert to –

Rakesh Sarin: And that was to bring more –

Björn Rosengren: -- to dig into those numbers, what are the differences.

Rakesh Sarin: That was to bring more clarity in terms of showing the view because dual-fuel plants are which, they start with a heavy fuel oil but then, they ultimately can switch over to gas so they have the flexibility. So we thought it's better to differentiate between the three technologies.

Tomi: But they are still labeled multi-fuel gas and liquid fuels in both presentations, but they are different.

Björn Rosengren: OK, let's do following ð Natalia will look into those numbers and see if there's any difference between -- there shouldn't be, I think, yes.

Natalia Valtasaari: No, there shouldn't be. There is something so –

Björn Rosengren: There is something here, we'll comeback with that part.

Tomi: OK.

Björn Rosengren: Natalia is looking into it.

Tomi: OK, and then on the unannounced level it seems also to be quite weak and down year-on-year for the power plants in the third quarter. Would you say that that is sort of hesitance in performance continues also into the fourth quarter?

Björn Rosengren: Sorry, I missed that question. What did you say, what was down?

Tomi: The unannounced orders for the power plant?

Björn Rosengren: Unannounced. I don't think we -- you mean, I don't think we have something called unannounced. We announce order normally when we get them, what we did during a couple of days ago we also announced a bigger order which actually would be booked during next year that was because and the reason why we announced that one was because that was coming out a lot of local press releases related to that in those countries. So we came out and informed the market but that will be booked.

We announce only when we have an agreement with the customer and there can be delays in these, because some customers maybe -- might, you know, don't want to be too aggressive on this part. So it's always, it's same in the marine. It's a discussion with the customers when and if we can actually announce this part. But we try to announce all power plants that is of any significant value.

But it can be delayed. So, it can happen that we get a big order during a quarter which then is being actually announced during the next quarter if the customer does not agree to do it quicker. But we try to do it as quick as possible to help you to see what's happening. OK.

Tomi: OK, it's still -- we'll can come back to that. My next question would be on the joint venture income or associate line income. You're lagging at quite a bit on those as compared to last year's -- last months.

Björn Rosengren: Yes.

Tomi: Would you -- is there any comment on the outlook for the fourth quarter or is there sort of a -- would you expect that the joint venture income is less or same level as of last year?

Björn Rosengren: You probably can see if you see the income, the big drop was actually in the first quarter, and then in the third. And second and third quarter is pretty much in line with the previous years. So for the full year, yes, it is a drop in the part but we don't think that the differences between the quarter will be -- and this was very, very much related to some competition was actually against another technology which they went down with pricing being to compete with two-stroke actually which is not doing at the moment because the four-stroke technology used in certain application and the two-stroke in other applications.

So I think they have realized that what happened and we should see that the level should be OK going forward but it's a joint venture, we don't control them fully, they have to deliver their products and they have to do their profitability and we are putting a lot of pressure on that but also our partner is putting a lot of pressure on that. But it was mainly related to the first quarter if you see the numbers.

Tomi: Yes, OK, thank you and then finally any comments on the estimate for financial items for the full year and the tax rate?

Björn Rosengren: No, not really. I've given you a little bit of guidance when it comes to the cash flow and to the gearing on that side but on the financial, I don't think -- and regarding -- I know that you saw that we had a big number related to a loan that is actually taken in U.S. dollars from Brazil which has affected when the real is actually dropping in value compared to the dollar but that is unrealized at the moment.

So but that effect happens. Is there anything you would like to comment on that? I think the majority comes from that loan.

Marco Wirén: Yes, that's right, that's -- but tax rate, I can say that we have guided always, the Finnish tax rate is 20 percent and we should be around that depending where we get profits, which countries because there is a big difference in tax rates in different countries.

Björn Rosengren: OK, I think that was actually -- yes, did you have one more question or?

Tomi: Yes, no, thank you.

Björn Rosengren: Thank you. I think time is out. I'd like to thank you all for participating. And I take this opportunity to thank you all for following us during these years. I have enjoyed my years with Wärtsilä, it's been great years, and now I think the Company is in good hands with Jaakko.

So I look forward following the company success in the coming years. So thank you all.

Jaakko Eskola: Thank you, Björn.

Björn Rosengren: And bye-bye.

Jaakko Eskola: Thank you.

Operator: That does conclude our call for today. Thank you all for your participation, you may now disconnect your lines.

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