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Moderator: Jaakko Eskola
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OPERATOR: This is Conference #6094129

Jaakko Eskola: Good morning everyone and welcome to Wärtsilä Corporation Interim Report January-March 2020.

We have a quite unusual setup this morning. I'm almost alone here with some helping people in Wärtsilä Campus, Helsinki. But I'm also joined by the whole Board of Management on lines and from Investor Relations, Natalia Valtasaari and Emilia Rantala. As usual, I will go through some slides first, and then you have a possibility to ask questions.

If you look at Wärtsilä's first quarter, our net sales was stable, but profitability was burdened by the COVID-19 impacts and the mix.

A couple of words about the COVID-19 first. Really, the escalation of the coronavirus pandemic and concerns regarding its long-term impact on the global economy has resulted in a high degree of uncertainty in our industry and the industries of our customers.

We have seen definitely certain disruptions in our operations during the first quarter. Our factories have been running at a lower than normal capacity, and the utilisation of field service engineers has declined due to travel restrictions. Our focus has been to secure the health and safety of our personnel, for instance, rearranging shifts and production to avoid contamination and strongly encouraging remote working where possible.

We have seen also the impact of COVID-19 on our supply chain due to country lockdowns. The financial impact of the ongoing health crisis will be material, with the first effects seen already in our Q1 figures. We have taken actions to adapt our own cost structure in order to mitigate the negative effects on our business to the extent possible.

In these uncertain times, we must secure also our ability to capture future growth opportunities, so we are proceeding with our Marine business reorganisation into 3 different businesses, which is central to accelerating strategy improvement. We are also still investing in R&D projects that are critical to our long-term success.

If you look at the market environment, the effects of the coronavirus pandemic are increasingly becoming visible in our market environment. We will talk about the different businesses during the call.

If I look at the key figures now in Q1, order intake declined by 12%. A highlight on the order intake is the Marine service order intake growth and also the good development now finally in our Energy order intake.

Order book is still approximately EUR 5 billion, a small decline. Net sales increased, and book-to-bill is over one still today. Our result was affected, as already mentioned, by the COVID-19 and the mix of our sales. Very positively, looking at our cash flow, that's developing to the right direction, and we had a good increase in the first quarter.

Demand as such in the first quarter was reasonable, considering the market conditions, and not so big changes if you look at the different businesses. Here, for the first time, you can also start to see the portfolio business effect on our order intake.

Net sales increased, and probably the biggest effect to that one was Marine services and scrubber business growth during the first quarter.

When you look at order book distribution, we still have quite a good order book for delivery this year. Of course, we need to be careful looking at it and understanding if there would be any cancellations going forward. So far, we haven't seen any major movements there.

The operating result was affected by weaker fixed cost absorption. Our factories were still running, and sales was declining; the service sales mix comprised less spare parts; and still the delivery of some projects, which were affected by cost overruns – the projects which we were talking about last year and where the delivery is still this year.

Cash flow developed very well, and working capital better now than at the end of last year. Gearing 0.42.

Moving on to the different businesses, I start with the Marine business. Here, you can see what's going on in the market. The decline in vessel contracting reflects the market uncertainty. The first quarter vessel orders, which were a bit over 100, were definitely one of the lowest in many, many years. And of course, it will be seen how it develops going forward and how that will actually affect the different segments.

Order intake in Marine developed reasonably, and not so big differences if you look at the different segments. Still, cruise and ferry order intake in the first quarter was bigger than last year, so a small increase in that sense.

When you look at net sales in our Marine business, quite good development so far. We are putting a lot of efforts on developing our agreement business in both industries. Here you can see also the development on the Marine business, where we introduced new kinds of solutions, for example, for the offshore sector.

We also achieved a quite nice transaction with BC Ferries in Canada, where we will provide dual-fuel engines, an LNG plant, electrical propulsion systems, which will definitely support the business in the environmental side in British Columbia.

Moving on to the Energy business. The market share dropped, and this is now the market share situation in the last quarter of last year. There was a huge increase on some of the steam turbine base power plants, which increased the whole market, and our share in that global market dropped for a while.

Order intake development in the first quarter was good and definitely highlighted by one of the big deals we got in Latin America. Here you can see in megawatts the meaning of different regions.

We also signed a nice operation and maintenance agreement with one of our Colombian customers. Also here you can see the development of energy service agreements. A small drop in this quarter, and that was one U.S. customer, who wanted to stop the long-term agreement and use us on a transactional basis.

Net sales development a bit low. Of course, COVID-19 has affected this one and also some postponements of transactions to the second quarter.

And a major deal in Latin America. It's about flexible solutions, which of course is based on our strategy to provide efficient integration to the renewable energy system. In addition to the two projects, the two power plants, we also got a very good 10-year service agreement with our customer.

Finally, looking at prospects, and this is something we already highlighted some weeks ago, the coronavirus outbreak and the measures taken to contain the pandemic will materially impact Wärtsilä's net sales and earnings for 2020. The full financial impact cannot be quantified at this stage. And consequently, because of that, Wärtsilä withdrew its market outlook for 2020, pending an improvement in visibility.

So these were the slides. Now I would like to open the lines for questions. As we have done previously, please two questions per person, and then you can go back to the line, so that we can get as many people to be able to ask questions. So we are ready for questions, please.

Operator: Our first question is from the line of Max Yates from Crédit Suisse.

Max Yates: My first question is on the cost under-absorption impact that you've talked about. I’m trying to understand a little bit of how much this is being driven by restrictions in your own factories in places like Trieste, and how much of this is being driven by customers unable to take deliveries or delaying deliveries?

And then also to what extent these are perhaps temporary impacts that can be caught up as you go through the year as production normalises as some of the impacts from COVID-19. So just first to understand, how much of this is due to your own factories versus customers actually slowing deliveries?

Jaakko Eskola: Thank you, Max. Of course, all our facilities have been impacted by the virus. Let me start with China. Of course, at the beginning of the year, we had a one-week Chinese New Year holiday, and then the government extended that by another week. After that one, I think the factories have been ramping up quite well. As far as I know today, our factories in China are at full capacity. So those are now finally, totally back in business. And as you know, some of the shipyards are now working quite well in Asia, of course, trying to deliver all the ships, which were delayed by the government restrictions.

Then we have our two big factories here in Europe. In Trieste, we had a closure for some weeks. Now Trieste is ramping up. It's not at full capacity today, but as much as possible we try to get back to the delivery schedules for our customers. Italy is still partly closed, but so far our factory is regarded as a strategic business, so we can run Trieste quite well. Vaasa is also not at full capacity but is also now running as much as we can. We haven't had any delays at the moment in Vaasa.

But then there are all the other restrictions that you can see in the market, such as travelling. A lot of countries are locked. You cannot go to those places, and customers cannot send their own people to factory acceptance tests. So we today have virtual testing. People cannot go to the ship where the engine has been delivered. Logistics is disturbed because of some of these restrictions. In the energy sector, we have sites which are demobilised, where there is nothing going on at the moment, and which then we need to ramp up when possible.

So the percentages for our own reasons or our own factories and for what's coming from the customer is very difficult to say. And then the question how long this will last, I don't know. That's why we also say that the visibility is not yet there. So this is where we are today. Trying to find out the ways how to handle the business with our customers locally in different countries has, of course, created some good elements to service them.

Max Yates: Okay. And my second question is, I just wanted to understand a little bit better how we should think about the evolution of the cruise ship business in terms of orders. If I look at the backlogs of shipyards, you've got 25 to 30 cruise ships that are expected to be delivered between 2020 and 2022. So when you speak and hear from customers and based on the contract structures in these shipyards, prepayments, et cetera, how far ahead shipyard cruise ships are ordered? At what point would you expect to see an impact on your business? So trying to understand first, the 17 cruise ships which are expected to be delivered in 2023, are prepayments sufficient that most of these guys will take delivery of them? Or at what point do we start seeing either cruise ships start being cancelled from that backlog or an impact on your business? How should we think about that playing out?

Jaakko Eskola: Thank you. I don't really know whether they would start cancelling for other than the reason that the business wouldn't be viable anymore. But Roger Holm, the Head of Marine business, you are on the line and you, of course, talk to the customers daily. Could you elaborate a bit on the cruise industry?

Roger Holm: Yes. Good morning also from my side. A few comments on the cruise part. I think for the existing vessel orders, what we will see is probably a big pressure for delays in certain parts. So there will, for sure, be discussions about when the customers will take deliveries of the vessels, and probably targets to level out the deliveries over a longer time period. How much that will happen, we don't know yet. Cancellation wise, we don't see that at this stage. Our assumption at this stage is that it will be more of a discussion about when the deliveries will happen.

Then talking about new orders, so cruise ships that have not been ordered yet, I think we can expect quite some time now that we will not see new orders coming in, unless it's for some really specific segments. And we need to see cruise come back clearly, before we will start to see new orders coming in on new vessels.

Max Yates: But if I look at deliveries in 2024, those 8 ships that are expected to be delivered versus the current level in 2021 of 26, so how far ahead of delivery do you normally see your equipment ordered for a cruise ship? Is it a couple of years, i.e. will we start seeing the impact today in your business? Or will there be a kind of longer lasting, delayed effect, and it's only really two years ahead of the delivery so maybe in 2022, when we really start to see your business coming under pressure? I'm just trying to understand how quickly this will feed through to your specific orders.

Roger Holm: We have seen during the past years, when the order book has become longer and longer, we have also seen that it has been fluctuating quite a lot depending on the project and the yard when they have ordered our equipment.

In general, orders have been placed earlier than before to make sure that critical components are clear for the vessels. So for that part, as you know, we have a quite a long order book already on the cruise side. And that order book will then be a discussion about when will the vessel then be delivered, and how will that impact our delivery schedules.

Assuming that the vessels will continue but partly with different schedule, we will still see orders coming in for our equipment and for these vessels for cruise. But as said, I don't expect for quite some time to see new cruise vessels being ordered, and thus us getting those orders in.

Operator: The next question is from the line of Manu Rimpelä from Nordea Markets.

Manu Rimpelä: Good morning. My first question would be on the energy business and, more specifically, on the margins you delivered in the first quarter. I'm having a slight trouble reconciling the low margin for the quarter as compared to last year in the third quarter when you reported lower sales but still managed to do above 10% EBIT margin. I understand that spare part sales fell quite significantly some EUR 20 million year-on-year in the quarter, but I still have trouble getting to such a low EBIT margin. So could you help us to understand the bridge on a year-on-year basis on the energy margin?

Jaakko Eskola: Thank you, Manu. And I would let Marco Wirén, the Head of Energy Business, to answer that question. Please, Marco.

Marco Wirén: Hello, good morning from my side as well. If you look, just like you said, we have 25% lower spare part sales this year compared to last year. That gives a big impact on EBIT, as we have much better margins on spares than any other item that we sell. The volume had a negative impact as well about EUR 8 million, and that's affecting as well.

So pretty much those two are the major items. And then, of course, we had the projects that we announced already last year, the problem projects that now have taken a zero margin. And those will continue actually this year, as we will deliver those projects throughout the year.

Manu Rimpelä: Even if I were to put the EUR 20 million lost spare part sales at a 100% margin, I'm still not able to get to the low margin you reported in the first quarter. So was there something beyond those two factors that would help to explain the bridge? Or was there something specific in last year's Q1 strength?

Marco Wirén: Last year, Q1 was very strong due to the very good spares sales. But otherwise, I would say that those are the main items that affected EBIT.

Manu Rimpelä: Okay. And then the second question would be on Marine services. Could you talk a bit about how you saw service evolve during the quarter between the months, because obviously cruise vessels started to get stranded during March. Was there a big difference in terms of service levels you saw in March compared to, for instance, February levels? And also if you could specify between the cruise segment and the other segments?

Jaakko Eskola: Thank you, Manu. And let's get Roger Holm back to the line. Please, Roger.

Roger Holm: Thank you. In Q1 in general for marine service, we had a bit different mix slightly than last year Q1. We had more projects which was impacting profitability. So the mix impact was coming from that one.

Then commenting a bit on the COVID impact, March was a bit up and down. We saw certain things going down specifically in certain parts of field service, clearly in March already. We had a slight peak of spare part orders coming in towards the end of March. It's clear that we will see bigger impacts in Q2 than what we saw in Q1.

In general, we have already seen the impacts from the cruise business coming in partly already in Q1, but we will see more of that in Q2 and very much a focus by our cruise customers on cash, trying to mitigate everything they can on cash spending. And we expect that to continue in Q2.

Operator: The next question is from the line of Andreas Willi from J.P. Morgan.

Andreas Willi: My first question is a follow-up on the earlier discussions around the cruise market. Of the roughly 110 cruise ships that have been ordered with the yards, how many roughly would already have engines chosen, and how many would still potentially result in orders for the engine industry? And maybe some indication for cruise ships that were supposed to be delivered in the next two to three years, what's the coverage there in terms of orders already given to the industry for engines?

Jaakko Eskola: Thank you for the specific question. Roger Holm, do you know where the engines are going at the moment?

Roger Holm: I will not start to specify the orders for vessels in the order book, but as I said before, before the COVID crisis we have seen major orders coming in. I can only refer to the major cruise order we had late last year, where the yards have been looking at bundling up quite many cruise ships in one go. So it's not so that everything has been ordered for all cruise ships in the pipeline – we still have a lot of equipment that have not been booked for all of those. But as I said before, we have seen before the crisis that orders have been taken earlier than before, and that's the situation we have today.

Andreas Willi: But you're not in a position to say whether 1/2 or 1/3 or 2/3 of the cruise ships on order have already ordered engines? I guess a rough estimate.

Roger Holm: I will not comment on that one, because it's not only on engine side. We need to remember that there is a lot of other equipment as well that we sell to cruise vessels. We have cruise vessels where we have contracted engines, for example, but we haven't contracted other equipment for the same vessel. So this comes in phases during the development.

Andreas Willi: My second question on the service business in Marine. You mentioned in the release good activity in offshore and LNG overhaul benefit. Are these more kind of one-off events that helped in Q1? Or do you see some underlying positive trends in those markets for service?

Roger Holm: No, not specifically. I think what we are seeing now is that the most impacted segment going forward will be cruise and ferry, cruise being the bigger impact, then ferry coming the second one. Then, of course, on the offshore side, we might also see clearly lower activity. But this will be very much segment related. And we need to remember that the big part of the fleet still needs to operate to deliver goods, and as long as the vessels are running, that's the generator for our service business.

Operator: The next question is from the line of Sebastian Kuenne from RBC Capital Markets.

Sebastian Kuenne: The main focus is on the capacity adjustments that you are currently executing. You mentioned the EUR 100 million saving that you see, I assume that's for the year. Can you give us an indication of how much you could cut short-term capacity? So let's say, customers don't accept delivery for the rest of the year, and you would have to cut by 30%. Can you do that? And how would you approach that? That would be my first key question.

Jaakko Eskola: It's a bit difficult to quantify how much and so on. As I said, the engine factories today are running quite well, delivering, of course, what we have in our order book, and then it depends totally how the order book develops. Luckily, of course, we got a new deal in Energy, which is helping Italy, because those are coming from Italy.

So it's a daily exercise how you look at the capacity and where to do. And then you have all kinds of restrictions in different countries on what you can do, whether you can have temporary layoffs, or whether you need to do something else. So we cannot open it up at this moment.

Sebastian Kuenne: Does Italy offer paying for temporary layoffs or for short-time work? What's the situation there, specifically?

Jaakko Eskola: If the country is offering some COVID-19 related benefits, and if you use the benefits and can have those, then it might restrict you from doing something else. So it's country by country and location by location. But overall, this we cannot open up at this moment.

Sebastian Kuenne: So you cannot answer the question at the moment.

Jaakko Eskola: No.

Sebastian Kuenne: Okay. Then my second question is on cash availability and liquidity. You mentioned EUR 420 million of cash and the EUR 640 million credit facility. Is this then the liquidity you would currently be able to draw on as of today, the EUR 1.06 billion, I think it is, or is there other liquidity?

Jaakko Eskola: Thank you, that's a good question. Normally, we don't get so many questions to our CFO. So Arjen Berends, our CFO, would you open up a little bit the liquidity situation? That's a quite good moment to do it.

Arjen Berends: Good morning, everybody, also on my behalf. To answer the question, yes, our liquidity preparedness is good. We have no covenants in jeopardy, so we can draw basically quite a significant amount. We have some maturing loans still this year, but they are not extensive, so small numbers.

Sebastian Kuenne: So I can use the EUR 1.06 billion, so cash and cash equivalents EUR 420 million and unused committed credit facilities EUR 640 million, that's basically the currently available liquidity.

Arjen Berends: Yes.

Jaakko Eskola: Yes.

Sebastian Kuenne: And would increase the working capital reductions, I assume, for the rest of the year? Would you expect that?

Arjen Berends: Yes, we definitely expect working capital reductions. We were heavily focused on that already last year and also now in particular, in the current circumstances. Of course, it's a very challenging environment. When you cannot get the deliveries out, it's also difficult to get your inventories down. But we have made very good progress in the past quarter on the receivable side in particular, and we believe we have more opportunities there. So yes, the working capital focus is definitely something we put a lot of emphasis on, and so far also with good results.

Operator: The next question is from the line of Daniela Costa from Goldman Sachs.

Daniela Costa: I want to ask two things. One, just a clarification back on the Marine margin comment you've given before. Could you precisely help us quantify the cost overrun? And also, I think you said you should expect that throughout 2020, but is 2020 the end of it, or is still some left in 2021? Some help on that would be very useful.

My second question relates to service on the power business. Now that we're seeing power demand falling in a couple of regions, how shall we think about what percentage of your contracts and agreements on service depends on power consumption or the business of your own customers? How should we think about service on power going forward?

Jaakko Eskola: Thank you, Daniela. Let's start with Marine. Roger, the question was regarding the cost overruns.

Roger Holm: If I comment on the Marine margins in Q1, we had a few main items impacting that. One was what I referred to earlier, the less favourable service mix, meaning that we had more projects with lower margins than the rest of the service business, normal margins for projects. So no difference compared to history there.

Then we had the projects affected by the cost overruns, which we communicated last year. We have continued to deliver those out of the order book. Gas solution is developing in the right direction, and the number of bad projects is reducing, but there are still projects with zero low margin that will be delivered in 2020.

And then, of course, we had the COVID-19 impact on different parts of the business: production under-absorption, field service, capacity utilisation, delivery challenges, and so on. So those are the ones impacting the Marine margin in Q1.

Jaakko Eskola: Marco Wirén, could you comment on the Energy service question?

Marco Wirén: If we look at the impact of COVID, we definitely see it already in Q1. That's one main reason as well why we saw lower net sales. Customers are getting a little bit more concerned about how the business will be affected and, just like you said, that we've seen heavy drops on energy consumption. When they see a heavy drop in their end markets, then, of course, they will be much more careful to buy spares and maintaining their assets. Each country and each company have a different way of coping with that as well. Some of them are closing down some assets and running the other ones, and of course that depends totally on what they need going forward.

I mentioned already earlier, and we said in the report as well, that in Q1, in March, we had five sites that were demobilised and five other sites that were actually in quarantine. They were locked down, so they couldn't do anything, and people couldn't go out and in. And the same goes for many countries today where we have a service assignment. Because of the quarantine, we cannot send people there. If we do, and in some cases we actually have done, what happens is that the service technicians have to wait for 14 days to get to the site. And then when they get back, it's 14 days again. So quite long-lead times. So this is quite a cumbersome exercise both for us and our customers.

Operator: The next question is from the line of Sean McLoughlin from HSBC.

Sean McLoughlin: Firstly, a broad question on the impact of the fall in oil price on Marine sector demand in general. What does this change, and which segments do you expect to benefit or be impacted the most? And also, how does this impact demand for higher-margin dual-fuel engines going forward?

Jaakko Eskola: Sean, that's a good question. Roger, could you please comment? It has all kinds of effects on different segments.

Roger Holm: Yes. Thank you for the question. First of all, I think the fuel pricing as it is today and the low fuel spread have a short-term impact on scrubber demand. So we will see challenges in the scrubber market, until we see how the fuel spread is developing, and of course the low fuel spread we have at the moment is a challenge for the scrubber market. Still, we have seen some activity continuing on the newbuild site, even if it has been very low at this stage. So that's one angle of it.

I think then going back to other parts is that, of course, the fuel cost is a big element for our customers. So lower fuel cost is always a positive thing. And we have the side effect now of the oil price that the day rates for tankers have spiked quite a lot. So this has been, at least for now, a good business for tanker owners.

Then on your question on dual-fuel, I think that is much more driven by the environmental development, sustainability, and the pressure on the marine market to go into a more sustainable future. So I don't see an impact due to this on dual fuel engines, and marine moving much more to LNG as a fuel. I think this will continue to develop, and we will see also much more pressure on different kinds of more environmentally friendly fuels, but this is driven then by the target to reduce emissions in the whole shipping industry.

Sean McLoughlin: The second question on Marine service. Customers have been pushing back on what you call essential maintenance now for some quarters, and I imagine the situation in Q2 and 2020 will get worse. Is there a risk that some of what you consider essential maintenance no longer gets considered essential? So effectively, we're looking at a structural dilution of service revenues going forward.

Jaakko Eskola: Roger, please.

Roger Holm: I would say this is more related to the fact that the vessels are running. As long as the vessels are running, we will see the service business continuing. Of course, what we see over time is that we want to have more and more flexible service setups and service, when the customers have possibilities to do so in the usage of the vessel, and that's what we are trying to do with the customers as much as we can. But I don't see a big change on the service approach in general, as long as the vessels keep running, and this will then continue as we go forward.

But then, of course, it depends on how the vessels are run and with what speeds and so on. That might have an impact in certain segments. But in general, for us, what we are looking for is more the running hours specifically on the engine. That's the key criteria.

Operator: The next question is from the line of Robert Davies from Morgan Stanley.

Robert Davies: My first one was around some of the regional differences you're seeing in the Energy business. Maybe if you could give us a little bit more colour there. And then my second one, you mentioned site access to your service personnel. Is it possible to leave more of these now at certain bigger sites? Do you do that? Or do they typically all move around from customer to customer on an ongoing basis? I just wondered, as you go through the rest of the year, what, from a structural standpoint, are you thinking of changing in the way you operate your aftermarket business?

Jaakko Eskola: Thank you. Marco Wirén, you could actually answer the Energy question and touch also the service side, please.

Marco Wirén: I can start with the service side. In the Energy side, we have people in quite many countries. But as we cover 180 countries, we cannot have people in all countries. When it comes to different capabilities, we usually try to have some hubs where we have specific technological skills, and those people we are sending around. Some skills we have locally, but usually, we always need some people from other parts, other countries as well. That's why the mobility that is restricted now is affecting us and also our customers.

When it comes to areas where COVID-19 has impacted the most, it started in Asia, and Asian countries implemented lockdowns quite fast and restrictions on mobility as well. Also, our customers started to close down and demobilise the sites. Then Europe is the second and U.S., I would say, these three areas are the most affected. And then there might be some occasional countries where there's a big impact as well. But I would say, in general, Asia, Europe and the United States are the ones that are the most affected.

Jaakko Eskola: And when you look at services, of course, we have remote monitoring, we have virtual engineering, and all that can be nowadays in these kinds of situations utilised more and more. So of course, you create new ways to service your customers.

Marco Wirén: Yes, that's a good one. What we actually have done with our customers, the ones that are not remotely connected to our surveillance centres and customer centres, we actually are offering that to our customers now so that we can do much more work remotely.

Robert Davies: Sorry, one follow-up. What percentage of your customer base is remotely connected? Is that going to be a big change in the second quarter? Or is that something that the majority are already there, and it's more marginal from here?

Marco Wirén: I would say that if you're an agreement customer, then the share is quite high. But if you're a non-agreement customer, then it's basically zero. So to non-agreement customers that we are now approaching and asking, we can have a connection and then we can help them remotely so that they can do at least some type of surveillance and maintenance work without having people on site.

Operator: The next question is from the line of Antti Suttelin from Danske Bank. Antti, your line is open and you can go ahead and ask your question.

Jaakko Eskola: We cannot hear you, Antti.

Operator: Since Antti is not responding. We'll go to our next question. It's from the line of Alexander Virgo from Bank of America.

Alexander Virgo: I wondered if you could talk a couple of big picture questions. On your comment there around customers converting or seeking to convert from contract to time and material ad hoc, can you talk a little bit about the dynamics around that? Is that something that you think will happen in the near term, and then they convert back? Is that something that companies do just on an ad hoc company-specific basis, or is it a trend that you need to watch?

And then the second question on the EPC contracts that you've signed in LatAm. I wondered if you could talk just two parts of it. One, can you talk a little bit about the phasing of when we should build that into numbers? Secondly, are you confident on the framework of that agreement and that you're not going to see a repeat of the issues you've had in terms of cost overruns, deliverability, et cetera, et cetera.

Jaakko Eskola: Thank you, Alexander. I’ll let Marco later on answer the EPC contract. But I missed somehow, Alexander, the first question. Could you repeat that one, please?

Alexander Virgo: Sure. I just want to understand some of the dynamics around customer relationships and customer conversations you're having with respect to contracted maintenance, contracted spares in the businesses, and whether people are changing those or seeking to change those relationships in the current environment, and whether that's something that we need to think about from a medium to longer-term basis. If you think back to the last couple of times, we've been through situations, obviously not comparable to this, but the last couple of times we've been through significant dislocations in the marine industry or in the energy industry in terms of customers' ability to pay. I'm just trying to understand the dynamics of the relationship between you and the customer. I appreciate the equipment needs to be maintained, unless it's switched off. But I'm just trying to understand the dynamics around these long-term service agreements, and whether any do change and convert permanently? Or is it a temporary thing to ad hoc? Just trying to understand the trends there.

Jaakko Eskola: Really, the situation is quite new. It's also totally different than we have ever experienced. We are at early stages in the pandemic, and you start seeing the effects now going forward.

It's always good to remember that Wärtsilä, in the marine sector, we are mission-critical for our customers. So of course, the discussions are extremely important, if they want to use the vessels also now going forward. And there, the long-term agreements and the long-term relationship is extremely important.

And as Roger earlier said, Wärtsilä is not only delivering one product here or there, but we have several kinds of options to offer to our customers. More and more, it comes to the navigation side and voyage optimisation, which increases the relationship with our customers, and the long-term service capabilities and costs are paying more and more an important role.

So today, if you hear something from a customer, it might still be very short-term effects, and the customer is thinking about the future together with us, how the business will evolve.

In Energy, we are in niche markets providing flexible solutions. So again, we have a good relationship with customers. We help them to run their power plants or produce electricity in different places and mostly also in remote locations. So again, Wärtsilä's ability to be there in these difficult times is, of course, creating new opportunities. As Marco also said, the more you have agreements, the more you can also do remotely and help the customers in these kinds of situations.

But then if you look at the second question, the EPC in Latin America, Marco Wirén, could you open up a bit about the deal, as much as, of course, you can?

Marco Wirén: I would say that these deals are very much bread-and-butter deals for us – the standard delivery that we’ve been doing for many, many years in most of the countries in the world.

The issues that we have had a couple of years ago when we were a little bit too eager to take volumes and went outside of our expertise area, that's where those cost overruns happened as well. But these are definitely our bread-and-butter, and also in an environment where we have been before and know that environment and customer well.

Jaakko Eskola: So it was a quite typical EPC contract.

Marco Wirén: Yes.

Operator: The next question is from the line of Laura Kukkonen from Sanoma.

Laura Kukkonen: Can you tell more concretely about the delivery challenges: how the pandemic has impacted the delivery and supply chain worldwide, and where have you seen effects?

Jaakko Eskola: Yes, of course. As I started, there are, of course, delivery challenges when it comes to even looking at the factory acceptance tests. Nowadays, we are doing them remotely. Normally, a customer in the marine sector comes to the factory and looks at it. And then, of course, you have travel restrictions, and you have new challenges when it comes to logistics.

We, of course, are looking at the supply chain. We have a huge amount of suppliers and sub-suppliers, and we have been quite well with our purchasing teams monitoring the material flow on a daily basis – what the factories need, how we can leverage our stock and different kinds of multiple sources, and of course, a very long-lasting relationship with our suppliers. So all kinds of challenges, almost everywhere. But so far, we have been managing and been able to manage it quite well.

Laura Kukkonen: So have there been already delays on deliveries on parts or materials?

Jaakko Eskola: Of course, there have been some delays here and there. It's difficult to quantify what and where but of course, you have seen. But we are doing a lot of work on that one. Of course, you need to remember that if this lasts longer and longer and longer, then you start probably seeing a bigger effect on supply chain.

We still have time for one question, please.

Operator: The last question is coming from the line of Sven Weier from UBS.

Sven Weier: Just a quick one on the study that you've published lately with regard to power production in Europe that the renewable share was going up quite massively, which for now might be just a short-term effect. But anyhow, I was just wondering how you see that shaping your client discussions on the energy side, or is it shaping it already? Or just your evaluation on that end, please.

Jaakko Eskola: Thank you, Sven, that was a good question and gives some opportunity for Marco Wirén to open up a bit that study. Please, Marco.

Marco Wirén: Yes, definitely. I'm happy hear, Sven, that you have been investigating that as well. This is actually something that shows extremely well what we have been saying, that in 2030 countries will encounter those challenges that they are encountering now.

If we take Germany last week, they actually had over 10 gigawatts of excess energy production, because they still were running the coal power plants and inflexible combined cycles. So they were actually selling 10 gigawatts to neighbouring countries for free. And this is because the system is not flexible enough.

And this is something that is extremely interesting to see, because this is like a laboratory right now. So we can see what will come in the future, and they can see exactly the impact of FX already today. So I definitely believe that this will give new thoughts among a lot of energy heads and decision makers, and they might speed up their transition process as well.

Jaakko Eskola: Thank you, Marco, and thank you, Sven, for the question. And thank you all for good questions today. Let's meet next time in July. Be safe and stay well. Thank you very much.

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