

WÄRTSILÄ CORPORATION

Moderator: Jaakko Eskola

20 July 2017

10:00 a.m. EEST

OPERATOR: This is Conference #45544446

Jaakko Eskola: Good morning, everyone, and welcome to Wärtsilä Half Year Financial Report Presentation. This morning, I have here the whole board of management and Natalia Valtasaari, Director of Investor and Media Relations. I will make a short presentation, as before, and then we have a possibility to go through questions and answers.

So highlights now, first, for the second quarter this year. We had a quite good quarter. Order intake grew 14 percent; net sales, 8 percent; and our book-to-bill is 1.05. The comparable operational result was EUR 162 million (sic – EUR 126 million).

Now here, it's good to remember that if you add only the provision for the long-term incentive programs, which is -- which was in the second quarter, EUR 60 million, we had a quite nice profitability development also.

Earnings per share, EUR 0.38, and a low number in cash flow from operating activities. But I will come back to the cash flow later on in my presentation. Order book, almost the same as previously, so over EUR 5 billion today.

And if we move on to the order intake development. It's great to see that all three divisions actually had a very good development. Services, 14 percent; Marine Solutions, 11 percent; and Energy Solutions, 19 percent, in the second quarter.

Net sales was very much supported by the deliveries in the energy sector. Services, 1 percent growth because of the marine market development. Marine Solutions net sales in the second quarter fell 23 percent. But Energy Solutions now with good development actually increased 87 percent.

So today, Services a bit lower than it was in our last report. And now Energy Solutions is once again bigger than the Marine Solutions. Book-to-bill, very good because of the nice order intake development.

And also, you can see from this slide, the order book distribution going forward. Still, this year, over EUR 2 billion from the order book and, of course, then you need to think about what's going on with our Services and the development of the order book during the latter part of the year.

Operating result, 9.2 percent. But as I said, adding back some of the provisions, a good development. Now moving on to Services. Stable development in our net sales. And if you look at it, a couple of highlights here. Agreements, 17 percent of the -- if you look at the product area, from 15 percent.

And then if you look at it by segments, power plants grew a little bit, merchant a little bit and also cruise and ferry. A lot of cruise ships and ferries have been now delivered, and that's developing in a very good way.

And this slide now shows how much installed base is covered by service agreements. And here, very good development in our Marine Solutions.

We have had, of course, beginning of the year, the famous Carnival agreement. Then in the second quarter, we got a similar kind of long-term agreements with one cruise liner, Norwegian Cruise Line, and other developments -- good developments with our customers.

Also, the Energy Solutions service agreements now started to increase. So record-high number in Energy and record-high number in Marine.

Good example of what's going on in the market. We have been talking about the market moving more to hybrid solutions. Hybrid, meaning normal engine-powered power plant on board of the vessel or, in Energy Solutions, on board on land, added to some kind of other solutions.

And here, this Eidesvik Offshore vessel, Viking Princess, is actually going to be installed with batteries. And it's a good way to demonstrate how our owners and operators, customers, are actually thinking about the efficiency, fuel savings and, of course, the future CO2 emissions.

Moving on, Energy. Energy Solutions quotation activity stays at a good level. Good to note here again that the gas and multi-fuel is in an increasing area, as we have been saying for a long time.

And if you look at the distribution, now utilities, in the review period, mostly to -- on the utility side, and gas gaining more share from the order intake.

Globally, here you can see the development. We have Asia increasing tremendously from 368 megawatt to over 1,000 megawatts. And also, Americas increased, you can see from this slide.

One highlight, one example where Wärtsilä is moving also now in the market after our acquisition of Greensmith in the second quarter, which was actually finally closed beginning of July. But this is a good example of a customer in California where they had a loss -- sudden loss on the peaker power plant capacity.

They wanted to start installing storage. And Greensmith being able to provide the solutions, the energy management system for the customer, in a record time, actually, where they can now deliver 80-megawatt hours in peaking periods to a quite large of homes every day.

A slide we chose, the Energy Solutions market share. Here, we have the market share now calculated on 12 months rolling basis. And our market share, a small drop in the market share. That's not any -- there is no drama, but it just shows now the new way to calculate the market share.

Moving on, Marine. Market remains challenging. In June, we got over 80 vessel contracted. And the trend is definitely now, or you can see from the slide, so positive trend. There was a lot of merchant vessels actually in July ordered -- or contracted.

And if you look at our order intake, very good quarter, over EUR 400 million. And it's based on very much on the segments which are developing well for Wärtsilä. We have been talking about LNG or LNG-related vessels, FSRUs or even some LNG ships ordered now.

We have been talking about cruise and ferry and, of course, special vessels. But also, now tankers have been ordered lately, which support some of Wärtsilä solution offering.

One example of the development, again, hybrid for a Italian harbor tug, will be actually the first vessel with Wärtsilä hybrid innovation solution where there will be a combination of engines, energy storage and a lot of power electronics on board of the vessel. Increases again the efficiency and the flexibility of operating that vessel, which is very crucial with our owner.

Market position, a small drop in the medium-speed engine and also in auxiliary engines. Market share here is, at the same time, when you look at Wärtsilä's order intake, growing quite nicely in Marine and the engines going down a little bit.

It's good to remember that Wärtsilä is not an engine company. Wärtsilä is providing technological solutions to our customers. And here, when you look at our order intake, it's a lot of gas systems, electrical and automation, navigation. And that's also good to remind -- or remember when you look at the portfolio.

Financials. Cash flow low in the second quarter. It was mainly because of accounts receivables, and that's mainly in Energy Solutions. We delivered a lot of solutions to our customers at the last part of the quarter. If you look at it for the whole six months, we also have been building our inventories for the deliveries for the second half of the year.

Working capital. You see working capital increased, and so that has been actually one of the main drivers for that development. Gearing, 0.14, down from last year.

And with all this information and the market development, we have also made a slight change in our prospects for this year. Services is still solid when you look at the market development. Energy is good.

And we raised the Marine Solutions' development from soft to solid, and that's when you look at the development of certain marine segments, where Wärtsilä can be strong, are actually developing favorably. Still, the market is, in the marine, quite challenging, which is good to remember. With this, I stop here and we can go for questions.

Jaakko Eskola: Anybody here with the audience, anybody wants to have any questions? There is one. Please?

Erkki Vesola: Regarding marine sales or marine orders, could you elaborate a little bit how much of the sales or orders consists of either gear or systems that are not engines, as such, I mean, additional systems add-ons?

Jaakko Eskola: Thank you for the question. I can start, and then I ask Roger Holm, the head of our Marine Solutions, to continue. But if you think about the segments we have, the products we have in Marine Solutions, engines and propellers and environmental products, gas systems and so on, we have, quite often, we have said that engines forms 1/3 of the business and then the other segments form the rest.

And one of the strong segments, in addition to the engine, has been gas systems. And those are the gas systems on board of LNG vessels, FSRUs, even if a vessel is running on LNG, whatever fuel systems you have there.

And the third segment, which is now growing, and if you look at the order intake, might be the biggest, is electrical automation and navigation. So that's the division. And if you, I mean, divide it in a better way, I don't know if we can because quite often, we sell a combination of the products. But Roger, you want to add anything, Roger Holm?

Roger Holm: Yes, thank you, Jaakko. Maybe to add on to the market share development, I think there are a few things driving the market share development.

On the main engines, we have seen now in the quarter quite many cruise deals decided that has been based on previous design, which has not been the Wärtsilä design because in the cruise deal, usually, the engine decision is based on the first design in the sea areas. And in this quarter, we had more of those which impacts the figure, to some extent.

On the auxiliary engines, it's actually 2 drivers impacting comparing to the comparison period. First one is that it's proportionally less LNG carriers decided on auxiliary engines where we have had a good market share. And the other one is that in the comparison period, also, we have had a good order intake for container vessels, especially in China.

And now, in this quarter, there have been less of those. So those are the drivers impacting it. But as you can see, regardless, we have had a good order intake for the quarter, and this is coming from the fact that we have a good mix. The engines are just one part of the order intake. And electrical, automation and gas solutions are driving good development for us.

Erkki Vesola: And just a quick add-on. Would it be a false conclusion that the auxiliaries or additional systems will grow faster or at the same rate as the engine market?

Jaakko Eskola: Depends totally on what -- which segment is growing. Auxiliary, and if you now mean auxiliary engines or other auxiliary areas, if you think about all the systems we have, if LNG shipping, for example, comes more into the picture, owners start using more LNG then, of course, gas systems will grow at the same way. All right. Then we can move to the lines.

Operator: Thank you. Ladies and gentleman, if you wish to ask a question please press "star" and "one," and "hash" key to cancel your request. And your first question comes from the line of Max Yates of Credit Suisse.

Max Yates: Just my first question is around incentive payments and if you -- I mean, you've kept your guidance of sort of unchanged development year-over-year, but obviously, incentive payments, you probably weren't assuming we're going to be running at EUR 27 million in H1. So what was the figure for incentive payments last year?

If you could give us that to help us understand how much of a headwind this has been year-over-year. And is it fair to assume that if we exclude the incentive payments, your businesses and your profitability is running ahead of where you would expect?

Jaakko Eskola: Last year, the incentive payments in our numbers was 0 for the first half year 2016. So if you compare it now, it's EUR 27 million.

Max Yates: OK. And if we add back that EUR 27 million, I mean, did you -- you obviously weren't thinking about this implicitly in your guidance. Could you also remind us exactly how these work? And if at the current share price, what kind of headwind this should be in the second half?

Jaakko Eskola: I will ask Marco, Marco Wirén, our CFO, to comment on that one, how actually the numbers changed then later on.

Marco Wirén: Yes. This is three big different programs [for] three different years. And it's calculated in average of the quarter compared to the average of the previous quarter of the share price. And that's how we base the booking for the long-term incentive programs. And last year, just like Jaakko said, we had only...

Jaakko Eskola: There's a problem with the mic.

Marco Wirén: Oh, sorry. Should I start again or -- OK. Once more. The structure is so that the provision is made based on the average share price during the quarter compared to average share price in the previous quarter.

And just like you've seen in quarter one, we had EUR 11 million, and that's because of the share price was increased between average quarter four to quarter one, and now it's increased again in average between quarter two to quarter one.

And the first half year, in total, is EUR 27 million. And last year, we had 0 in the first half year. The second half year, it totally depends how the share price is developing. Last year, we had approximately EUR 5 million booking in the second half.

Max Yates: OK. And can you help us understand when this came in? Just -- I mean, it's just something that, in the entire time I've looked at Wärtsilä, we've never talked about before. And now we're talking about it a lot this year. And I know if go back, there are quarters where we've seen similar moves. So is this something that was sort of brought in one or two years ago?

Marco Wirén: No, this has been in place quite many years. But we've never seen such a rapid increase in share price in just one quarter, and that's the reason why we thought it might be good to inform you about this as well. Because if it's only a couple million in a quarter, it's not a big deal. But now when it's EUR 11 million or EUR 16 million, we thought it might be good for you to know it as well.

Max Yates: Yes, OK. And just the second question would be around the Service business, and adding to the one of the areas of Services that has been a bit more challenging this year is on the merchant side.

Could you talk a little bit about how merchant services developed in the quarter and whether that business is now sort of growing sequentially even if it's still tough year-over-year because of comps?

Have you actually seen, with kind of a more healthy ordering environment, a better rate environment, have you started to see that business improving as well as the new orders?

Jaakko Eskola: Thank you. And I'll let Pierpaolo, so he's quite familiar with the situation, Pierpaolo Barbone, the head of our Services, to elaborate a little bit about the merchant.

Pierpaolo Barbone: Thank you for the question. As you know, the activities related to Services are starting gradually after the commissioning.

So an increase of activities in newbuilds related to merchant start to be capitalized on the Services activities after commissioning gradually, and then after warranty, and then with the long-term agreements in a range of 15, 20 years.

We have seen an increase -- a small increase of activities related to the merchant fleet. And we believe that this trend will continue despite the challenging market situation gradually along the next years.

What we would like to highlight is that we had an extremely interesting quarter, also the second quarter compared to the first one, for long-term agreement both on the Marine and Energy Solutions side. And this is related to a couple of areas, in particular Asia and Americas.

And this helped to reach, as Jaakko said before, the record megawatt installed base covered by agreement on both sides, Marine and Energy markets. In terms -- so not only in terms of gigawatt covered, but also in terms of installations, so we have the highest number ever in our history in terms of installation covered by agreements.

Max Yates: OK. And just the final one would be around the marine orders. And obviously, you've raised your guidance to solid. If I take your H1 orders, which were EUR 750 million, it's kind of comprised of a normal Q1 and a very strong Q2.

Is there any reason, given Clarksons ship orders have inflected positively, you've upgraded your guidance, is there any reason to think that you can't do another EUR 750 million of orders in the second half?

Jaakko Eskola: I would say that it looks like promising.

Operator: And next question comes from the line of Peter Murdoch of Morgan Stanley.

Peter Murdoch: Just a couple of questions. If I start on Marine. When you talk about the demand, if we take gas carriers, for example, and you're saying it's more the systems propulsion, not the engine, can you comment a little bit?

Is it fair to say that you would get the engine orders for those gas carriers anyway, so you may get the propulsion system orders now, but in a couple of months' time, you may get the engine orders?

And then also, could you just comment on, is there a difference in profitability between the propellers, the gas systems versus an engine? That's my first question.

Jaakko Eskola: Yes, it's easy to answer the latter part of the question. Let's not talk about the profitability. It totally depends what you actually include. Is it one product in one shipyard or all solution in different or on another shipyard?

So it's not possible to say if one is better than the other one. But what comes to the engines or systems or propulsion and so on, now it's good to remember what kind of ships have been ordered.

If you order an FSRU and it might be a retrofitted FSRU, which has already engines or the ship is not moving anywhere, so they only buy gas systems, and we don't even talk about engines or propellers.

If they order an FSRU, which is moving somewhere, then they might think about two stroke engines or they might even think about gas turbines or they might even think about two stroke engines. So engines is not 100 percent sure.

LNG ships, the ones which carry LNG, are nowadays quite many have been lately ordered with two stroke main engine, two stroke gas engine, dual-fuel engine and a lot of 4-stroke dual-fuel auxiliary engines. So two stroke business, we don't have anymore. But if there is a Wärtsilä oath, or the company nowadays call WinGD order, we will definitely get later on the services for that one.

So that's a positive sign. But then we talk about the auxiliary engines for those LNG carriers if they opt for LNG gas systems and propellers and so on. If the ship opts still for -- goes back to the original diesel, the four stroke diesel solution, then, of course, we have a quite good market share in history and we fight for those ones.

And it totally depends on what kind of ships you now talk about. If they order LPG ship or any other kind of a gas ship, they might have a two stroke engine, which runs on diesel or depending on the fuel or methane or so on.

And then we talk about again auxiliary engines and gas systems, which might be the biggest part of the whole ship.

Peter Murdoch: OK, clear. Just two more. And then on traditional, I think traditional merchant actually ticked up just a bit year-on-year and thus, the first quarter. How do you guys think about that segment in Marine for the next two quarters?

Jaakko Eskola: Roger, you want to a little bit look at how is it developing?

Roger Holm: Yes. As we have said before, if we look into smaller niche segments, we still see opportunities as we have seen before. If you look at the forecasting going forward, in general, it's going towards the 800 mark that Clarkson has been estimating for the full year, which is a good development from previous year.

And actually, on all segments, we are developing in that order, except for container vessels, which are clearly behind what has been estimated for the full year. Then on the merchant side, meaning the same thing. We see it's still a good development on RoRo, RoPaxes and so on, which are good opportunities for us in the market.

Peter Murdoch: OK. And then lastly, just on cash flow. I just wanted to understand it better because like your orders were very good in the quarter, your revenues were as well.

I would have expected cash flow, because you've delivered here, I would have expected cash flow to be better than it was in the quarter. Is there something I'm missing? Or -- and is it occasionally that this is just timing and it should come back in the second half?

Jaakko Eskola: It's definitely a timing issue, and it starts now developing better way towards the end of the year. I don't -- I'm not going to guide, is quarter three better or finally as normally the quarter four, but it's a timing issue totally.

Peter Murdoch: OK. There's no change in payment terms or anything like that?

Jaakko Eskola: No.

Operator: And next question comes from the line of Sven Weier of UBS.

Sven Weier: A couple of questions from my side as well. The first one goes back to merchant. Obviously, if you look at the breakdown of the merchant recovery, we've seen a very strong development on the tanker side and, I guess, through Hamworthy, you have quite a relatively high content per ship. So is it fair to assume that the yard orders have not been passed on to you yet? That would be the first question.

Jaakko Eskola: Depends on the order. Some might have, or we are at least talking about almost, of course, every order. But in tanker, it's good to remember that the main product in tanker would -- of course, engines are one part of it, but they are two stroke engines and then some auxiliary engines, but it's an inner gas system. And whether they have finally ordered DNS gas system, I doubt. They might come later on.

Sven Weier: And then the second question is on cruise. Obviously, quite a notable uptick sequentially. Can you give us some color how the cruise ship ordering and generally has developed over the last couple of months?

Obviously, we're all aware of the long lead times. So is the good order intake in Q2 a reflection of the orders that have been placed over the last 12 months already? Or do you also see still a very, very healthy cruise ordering activity for the yards in the near term?

Jaakko Eskola: Very, very healthy. But I don't probably want to use that. Those -- but Roger, what other words you want to use?

Roger Holm: We have, if we look at cruise contracting, we have 19 cruise vessels contracted this year, year-to-date, and full year estimate was 34. And so it's going towards that direction, meaning same as same levels as we had before.

And as we have said, the change we have seen, that we see longer decision times from the yard side due to the long delivery time for the yard until the vessel is ready. So I would say we continue to see a healthy pipeline in cruise as before.

Sven Weier: Scrubber orders. What is your activity on the scrubber side at the moment?

Jaakko Eskola: Roger, please continue the details about scrubbers.

Roger Holm: I would say, in Q2, the interesting or offering request activities have continued to be good and, of course, related to the 2020 regulations coming in place. More on newer build than on retrofit. And we believe that this interest level will continue to be good going forward.

Sven Weier: And the last question is on the power backlog. You mentioned, obviously, the orders you've been taking in last year had some tougher margins. I guess, the pricing has now improved.

Could you give us a guidance to what extent these lower-priced orders had been worked off already and if that's gradually further improving, I guess, throughout the rest of this year?

Jaakko Eskola: The orders with low margins, they have been taken in history, not only last year but also before. And as we have been, I think, quite well trying to guide during this year that this year's would be the last year when we finally have the low -- very low margins. And today, the ordering is with healthy margins. So this year, it should be the final year. And Javier is agreeing with that one.

Operator: And next question comes from the line of Antti Suttelin of Danske Bank.

Antti Suttelin: This is Antti. I'm looking at the Wärtsilä EBIT margin improvement versus last year, and I just wonder if it is simply driven by the mix improvement, i.e., the Energy business taking share within Wärtsilä. Is that the main reason?

Jaakko Eskola: It's one of the reasons. And of course, if you look at our deliveries, the net sales of Energy after the six months is almost double compared to last year. Of course, that affects to the final profitability.

Antti Suttelin: And still just referring to what you said to the previous person, the margin should probably improve next year as this year is still impacted by lower-priced orders previously. Is that correct?

Jaakko Eskola: Antti, let us give you more flesh on that one later when this year also goes forward, when we see our deliveries and the ordering is changing.

Operator: And next question comes from the line of Sean McLoughlin of HSBC.

Sean McLoughlin: If I can start with the Energy Solutions, just looking at how strongly gas and multi-fuel has risen as a percentage of the mix.

Can you talk about the relative profitability versus your more traditional oil-based? You've also mentioned strong competition in these markets. Again, if you could just give a little bit of flavor around how the competitive outlook is shaping up in these markets.

Jaakko Eskola: Thank you. And if I start with the profitability, the fuel doesn't make a change. It's the customer and what value we actually can bring to the customer. But if I ask Javier Cavada, the head of our Energy Solutions, to talk about the competition because that was a good question.

Javier Cavada Camino: Thank you. Thank you, Jaakko, and thank you for the question. Indeed, competition is tough. It's fierce. But I have to state quite firm that we are really confident with our strategy to enlarge our solutions and services, so we are bringing more value continuously to the customer.

So through organic growth acquisitions, we are bringing in to the customers what they need and what they can get. They can benefit their own businesses with. So in that sense, we see that we are making the steps to hybrids, we are making the steps to wider technologies, to smarter technologies.

And with the competition moving in that direction too, and we are quite optimistic in the sense that we are taking that step earlier than the competition. So it's hard competition, tough competition, but very confident with our strategy moving forward.

Sean D. McLoughlin: And just if I could latch onto an earlier question around the cash flow. So can I assume that in the second half, I would expect a stronger-than-average seasonal cash generation?

Jaakko Eskola: We don't guide the cash flow, but you can expect it to be better.

Operator: And next question comes from the line of Michael Kaloghiros of Bank of America Merrill Lynch.

Michael Kaloghiros: First question from me. Just to come back quickly on the Energy comment, the pricing for this year. I remember that you were previously talking of a tougher pricing, I mean, delivery of like lower-priced margin contracts in the first half of the year and improvement in the second half of the year. Is it, I mean, is it something that we should expect, a better margin project developing in the second half versus the first half? That's my first question.

Jaakko Eskola: I think originally starting the year, you might have thoughts that we can deliver all the lousy margins in the first half month -- first half year. But actually, it's going to cover the whole year. So this year, it's still affecting.

Michael Kaloghiros: OK. Second question is still on Energy. I think, I mean, you've had a very good order momentum in some of your -- in your key markets, Indonesia, I mean, U.S. has done very well. Just trying to look forward what are the markets that excites you at the moment?

And if we look at the order momentum in energy divisions, you've been remunerating around EUR 1.5 billion of orders over the past, like, 12, 18 months. Is it something we should expect to see acceleration from now? Or do you think that this is already a good level that's affecting the market activity?

Jaakko Eskola: Thank you. Javier, of course, Asia is very strong one and now America has been very strong. Could you elaborate it a little bit more?

Javier Camino: Absolutely. No, indeed, since you were mentioning Indonesia, indeed, if we look at Indonesia, what has been happening since summer of last year is we're moving towards one gigawatt of new orders in that exclusive country.

But if you look at the last six months, we have made breakthrough in countries where we have not been active in the last decade, like China, Iran,

some places in Africa, Burkina Faso, that we have not been -- we see projects and activities continuing, getting stronger.

So these activities are very high level, but this is getting stronger in Americas, continue very good momentum in Asia. And if we look at Europe, Europe has developed area, we see leads and activities that we have not seen before.

So when we look at hybrids, we saw the mix of renewables and flexibility. So overall, better activities in all the continents. So that's why we are pretty confident about the future.

Michael Kaloghiros: Can I ask you, Javier, on the -- maybe the addition, like Greensmith, is bringing to your offering and whether this is something that you're seeing happening at the moment? Or is it more something that you want to have for in the future? And maybe, what's the kind of, like, internal target systems you're developing, which (inaudible)?

Javier Camino: Thank you. Thank you for that question. I mean, I -- as Jaakko knows, I could speak hours about this one. Greensmith is not something about the future.

It's something about today already. So it's on a strategic -- very strategic move that Wärtsilä is taking, entered into global system integration. I mean, just to remind that Greensmith was the biggest integrator of utility scale storage in the U.S. during the last 2 years.

So not only that, that the energy management system that they have been developing is more recognized in the U.S., and that is approved in writing by all the big utilities in the most sophisticated energy market, which is the United States.

So we bring these competencies in energy management, in computing software and in storage, in batteries and other technologies. We're bringing that to all the footprint we have globally. So in that sense, we are making a step change. And when we talk about the future, it's hybrid, we talk tomorrow, not the day after.

Michael Kaloghiros: My last question is maybe taking that back to Pierpaolo and Services. I just want to understand the service opportunity on those new kind of like more power solution projects and maybe the same with Marine, we see that we booked some orders on hybrid ships.

So should we think the Services opportunity is stronger on those, like, integration of batteries and more complex projects? Or maybe because of batteries haven't got pickup, like where sales features and engines, like the service is a bit lower. How should we think about the opportunity in Services?

Pierpaolo Barbone: Thank you for this interesting question that allows me to, let's say, elaborate a little bit more on our strategy. We want to provide value to our customers.

And when we are moving, transforming the Service business from a transactional business to adding value, optimizing -- optimization and reliability of the installation is our target. So the optimization means efficiency. It means reduced cost of maintenance. It means reliability and security of the installation.

In this part, let's say, the ingredients coming from storage and solar are increasing our value proposition because we are serving the customer better, because through the injection of those technologies, they will be more efficient. The plant will have a lower environmental impact, and we will serve them adding value.

So optimizing the entire integrated solution is our target. Optimizing the maintenance of the entire integrated solution is our target. So when you -- you said it correctly, this will increase our possibilities, our sales, our value proposition and will grant our customer more efficient and more reliable solution for the life cycle of their installation.

Operator: And next question comes from the line of Glen Liddy of JPMorgan.

Glen Liddy: On the gas systems that you're supplying, what proportion of them are going to vessels where you've got other equipment, especially engines? And what

proportion are going to vessels where you don't have any other equipment on them?

Jaakko Eskola: That's an interesting question. Roger, can we...

Roger Holm: Yes, I think we've -- or Jaakko briefly touched this already before because if we take an FSRU as an example, which is done as a retrofit, then we only talk about the 3 gas module as a retrofit opportunity.

And as we have said before, then we talk about values that are around EUR 20 million to EUR 30 million for an FSRU retrofit. If we talk about newbuild, that can then be including, of course, engines and other equipment as well.

And talking about then normal LNG carriers, there, we also have the opportunities for all kind of different equipment, so not only the gas equipment. On FSRUs, the monetary opportunity for gas solutions are the biggest.

Glen Liddy: And are there many of those opportunities in the marketplace over the next couple of years?

Roger Holm: The FSRUs, generally, we talk about a handful of orders of FSRUs year-to-date. There is good interest of FSRUs due to the flexibility to import gas LNG to different countries. So in proportion to normal LNG carriers, the amount of FSRUs are clearly smaller.

Jaakko Eskola: But then you have, of course, all the LNG ships, LNG carriers, you have the LNG-fueled ships, which is a growing area also now in merchant. And then we have the LNG terminal business in our Energy Solutions, which actually uses the same gas system from our Marine Solutions when they built the terminal.

Glen Liddy: OK. And on the Service business, you've done very well getting cruise companies to sign up to long-term service agreements. Are customers in other categories following in that pattern?

Jaakko Eskola: Yes, that's a good question. And Pierpaolo, tell us more about how eager, actually, everybody today is.

Pierpaolo Barbone: Well, the answer is yes, it's a multi-segment growth, let's say. It is related not only to the -- to marine applications but in both, let's say, cruise, ferries, merchant. But also, on the power plant side, the Burkina Faso is one example that we have highlighted as an integrator.

We have to remind that the Burkina Faso is a 55-megawatt power plant. And beside that, we will have -- and we will control and operating synchronization the solar plants, so it's a strong power plant case. Then we had recently a number of very significant renewals in Asia. We cannot, let's say, open it up because we'll...

Jaakko Eskola: Yet.

Pierpaolo Barbone: Yet. Then also, in South America, the other cases, other contracts signed and not yet disclosed, so -- that are making our won deals extremely strong. So it's a differentiated segment and in both Energy Solution and Marine Solution markets.

Glen Liddy: So Latin America, you said not yet disclosed. Do you mean not yet in the backlog or not yet announced because the customer hasn't given permission for their name to be used?

Pierpaolo Barbone: The second one.

Glen Liddy: OK. That's fine. Also, on working capital, are you having any -- do you have any problems with getting customers to pay? And then are your late payments rising, particularly in the Middle East?

Jaakko Eskola: No, no, no. I mean, of course, when the markets are -- and specifically it has been in certain Marine segments, some of our customers in offshore merchant have had difficulties, but it's not changing. It has been difficult for some time. So no changes at the moment.

Glen Liddy: And final question, on the Energy business, what proportion of your sales now are packaged together with solar systems?

Jaakko Eskola: No, no, it's very small at the moment. But well, what we are offering today is, of course, when a customer wants to have a new power plant with solar and so on, and that's an offer and it depends where they are. At the same time, it's good to remember that we have a lot of customers on so-called sunny belt.

I mean, the developing countries, Burkina Faso is a good example and Jordania was another one, where we can offer now -- we can now offer the solar to actually give flexibility to the system. So -- but as a one, it's very small.

Pierpaolo Barbone: It's 15 megawatt.

Jaakko Eskola: 15 megawatts in Burkina Faso.

Pierpaolo Barbone: And beside that, we have our -- a gap of 55 megawatt.

Glen Liddy: OK. Are customers like Jordan, would they be tempted to ask you back to add solar to the projects you've already installed?

Jaakko Eskola: Yes, that's the idea because if you add solar to an existing plant, you can actually improve the flexibility and efficiency immediately when you use the solar at the moment when you service an engine.

And if you go back, you actually need it to shut part of that engine down and that decrease, of course, the efficiency. So solar is -- has good arguments to bring value to the customer.

Operator: And next question comes from the line of Manu Rimpela of Nordea.

Manu Rimpela: Can you talk about the service growth a bit more. What was the organic growth in the second quarter? I think you talked in the Q1 results that you were expecting to see kind of a stable second quarter and then pick up in the second half of the year. So do you still expect to see a pickup in the second half of the year?

Jaakko Eskola: Do you want to, Pierpaolo, cover a little bit more?

Pierpaolo Barbone: As we said three months ago, we said challenging conditions during the second quarter, but we count to make it and say at least as one year ago, so we made it. And this challenging condition on the market are not changing, let's say. We will continue to have, especially on certain segment, oil and gas is one of them, we are confident that we can grow in other segments.

So our guidelines, that 5 percent over the cycle continue to be our target. I would like, if I may, elaborate on this hybrid system that you have highlighted, Jaakko, because this is maybe is worthy to mention.

When we said that we will install certain storage in order to substitute one of the auxiliary engines, this is very important because this means that, let's say, the consumption of that vessel will decrease substantially and fuel saving potential around 30 percent and the emission impact 15 percent, 18 percent per year.

So it is an extremely good development in line with the development in nonrenewables that we have together with our colleagues, Marine Solution and Energy Solution, and in line with also the developments we have in Services in the hydropower service business through the acquisition of American Hydro.

Manu Rimpela: OK. And would you have still the organic growth or the currency impact in the second quarter on Services?

Jaakko Eskola: Yes. Yes, we will. Or you wanted to know the number or I ask -- Pierpaolo says it's 5 percent.

Pierpaolo Barbone: Over the cycle. We continue to have this debt over the cycle. We cannot comment, let's say, I would not like to comment in the next 6 months because it's short term. Well, we have an extremely interesting order book and also long-term agreement growth.

But as you know, and I would like to highlight this, 2/3 of our order book are related to long-term agreements. But 2/3 of the monthly sales are related to transactional business. So we have to earn our...

Jaakko Eskola: Every day.

Pierpaolo Barbone: Every day, every day. And of course, market condition, local security aspects, political turmoils can affect the monthly business.

Manu Rimpela: OK. And the second question would be on the -- can you help us to understand a bit better how we should think about the split between the first half and the second half on growth margins because, obviously, last year was very much tilted to the second half of the year? And do you see that this year is going to be a lot more balanced than -- just help us understand better how we should think about it.

Jaakko Eskola: Balance in quarters?

Manu Rimpela: No, the first half margins compared to the second half margins.

Jaakko Eskola: No, I don't think there is going to be change. The fourth quarter is going to be strong again. I mean, just to highlight it once again. I mean, just don't remember that one, that the fourth quarter is -- is this year also going to be strong when it comes to sales and profitability.

Manu Rimpela: Well, what I'm trying to ask is if you look at the second half in 2015 and the second half in 2014, the margins were pretty equal in Q3 and Q4. But I mean, in 2016, we had a massive jump in Q4 from Q3. So do you see it more split between Q3 and Q4?

Jaakko Eskola: No, we still -- it's going to have a very strong Q4.

Operator: Thank you. And no further questions at this time. Please continue.

Jaakko Eskola: All right. So we are fine. We have finalized. And thank you, everyone, here today and also in the lines. And let's get back to this item in October, and have a very good continuation of the summer, if you can call it summer here

in Helsinki, it's not yet there. And have a good rest of the week and weekend.
Thank you.

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