

Wärtsilä Corporation
Financial Statements Bulletin 2018
30 January 2019 at 10:00 am EET

Jaakko Eskola: Good morning, everyone, and welcome to Wärtsilä Corporation Results Presentation 2018. And everyone here in Helsinki, welcome also to Wärtsilä's new campus here in Helsinki. This place is actually called Experience Centre. What kind of an experience we will see during the next 60 minutes.

I will have a short presentation about the numbers highlights and then we have the possibility for questions and answers. And this morning, I have here, as usual, the whole board of management. Some of them with me here in front then and the other ones also helping me to get through the presentation here in the audience.

But if I go shortly first through about 2018 and the markets, 2018 was really marked by positive order intake development. And that really happened very strongly in Marine and Services' markets. Here, it's good to remember that we got a lot of products and orders what comes to the environmental regulation going on in the maritime sector. And that, of course, was helped by our solutions. And one of those products we have been delivering to our customers, the exhaust gas cleaning systems, have helped both the Marine and Services' order intake.

Energy, a bit slowdown compared to previous year. And here we have, during the year, quite many times commented that the decision-making among our customers is slower than it used to be. There are reasons for that one and we will come back to that one during the presentations.

Net sales developed well and that's mainly coming from the new building markets. And that's again a fact we want to comment on when we talk about our profitability. When you look at our purpose and our strategies within the Marine and Energy, we are quite confident that these areas are developing well also going forward and in the future. We are in the right markets providing sustainable solutions to the societies.

Two highlights regarding our operations – or three actually here. This hub or this campus here in Helsinki and the Smart Technology Hub in Vaasa, investments which are really promoting collaboration and cooperation within our customers and suppliers and academia. And we also entered this year, 2019, with a new organization, where Marine and Energy are now working together with Services, providing value-added solutions to our customers.

Key financials. Order intake 2018 grew 12%, as I said, mainly coming from the Marine and Services. Order book, all-time high, over €2 billion. And here, it's always good to remember that we book orders in Services order intake only for the first two years. And if you take the whole order book in Services into account, you could easily add over a billion to that number.

Net sales last year, 5% increase, pretty much where we expected it to develop. Book-to-bill, very strong. But then the result was not as we expected. Here in the result number, you should remember that we made a very high provision regarding our nuclear – providing solutions to the nuclear industry where we decided to enter business and that provision €70 million was taken during the fourth quarter.

Earnings per share, €0.65, a bit higher than last year and cash flow developed well during the fourth quarter according to the plans. Dividend proposal for the AGM is €0.48 per share. If you look at order intake development, which I already highlighted a couple of times and really how it's developing in different divisions, highest in marine scrubbers but also cruise and ferry and the LNG carrier segment is developing quite well. And, of course, Wärtsilä's very wide portfolio of solutions is helping our operations in the Marine sector.

Energy, fourth quarter development was good. The whole year didn't develop as previous year. But we finally, during the fourth quarter, also got the famous El Salvador power deal and also seen quite good development what comes to our solutions to the renewable energy story.

Services contracts, very good development during the fourth quarter. Net sales, 5% during the year and 6% in – during the fourth quarter. And both Services and Marine developing quite well. Energy a bit slower. Here, it's – as we quite often have communicated, it's good to remember that – I mean

sometimes the deals might flip from one quarter to another quarter, so no drama if Energy was only 1% in last quarter. Those deals will – with what we have in our order book will be also delivered later on.

Mix is unfortunately also today affecting to our – and probably one of the biggest reason affecting to our profitability. Services share, 47%. And within Services, the share between spare parts and projects and contracts is affecting the profitability.

Book-to-bill, very high. It's good to look positively to the future what comes to development of our sales. And here you can see also how we expect the deliveries going this year.

This slide shows very well why we initiated a program this morning, a decline in profitability during the last four years. So, we need to look at our operations and how we can serve our customers, how we can be competitive also going forward. I will come back to the program later on.

Moving on to the divisions, and this is now the final and last time when we show Services as a separate division. But as said, fourth quarter development in Service sales was positive, only 1% during the whole year, so not really reached the 5% expectations. But that's an area where we need to also focus going forward.

And again, spare parts Services sale a bit lower. The mix here in Services is very important. What is positive is again at the agreement side. That's now 20% of the sales – Services sales. And that's good that that's developing quite well.

And here you can see the installed base covered by service agreements. Overall, it has now stayed at the same level, so not so much change during last year. But as said earlier many times, now when we have the divisional structure, where we look our customers and deal with our customers from the start with a life cycle solution, I'm confident that these long-term agreements part is going to be more focused and also increase going forward.

One highlight during the year. We got a deal in Mexico where we will operate Wärtsilä engines. And Mexico is actually a quite interesting part going forward. Mexico has a plan to develop the energy industry, and Wärtsilä, with our history and with the commitment we can show to our customers we are very well-placed.

Then moving on to Energy quotation activity, same levels. So, there are – as we have said before, there are good pipeline going forward. Decision-making is slower than it used to be but the decisions have not disappeared. We have not lost any deal anywhere. But what we are – have been negotiating but it takes more time.

Gas, the importance of gas is getting more and more important. And here you can see also how – I mean when you compare the year, the fourth quarter was good. Let's hope we can develop the order intake in a way that customers can make the decisions faster. But at the same time, we have highlighted that the world economy is getting more uncertain. Globalization is affecting – the uncertain globalization and the trade wars has to be remembered that there are a lot of uncertainty, the latest coming from yesterday evening, Brexit. I mean who knows what's going to happen there.

In looking at the different areas, Asia has been very strong what comes to our orders. And at the same time, when we finally got the deal in El Salvador, that's a highlight in Americas area. At the end of the year, we got a landmark deal, a very important reference again in Germany. It's a 90-megawatt combined heat and power plant featuring our 31 engine, which is the most efficient engine in the world. We will be operating on natural gas and this is really the transaction we have been highlight – one of the types of transactions we have been highlighting, promoting and supporting the way and the story moving more and more to renewables. So, these are the typical deals you will be seeing also going forward.

Market share dropped a bit here. This is one quarter behind the analysis always. And as you remember, the third quarter order intake in Energy was lower, so probably we can't make any – too many conclusions from these numbers. And here, it's always also good to remember if some of the turbine manufacturers get some kind of bigger deals somewhere, this affects the numbers. But I would rather look at the development going forward where we end up with our market share.

Moving to Marine Solutions. Last year, vessel contracting was a bit higher than 2017. We didn't hit the Clarkson numbers, so Clarkson was a bit more optimistic. Looking this year, the estimates are again a bit

higher and – but here it's – when you look at the different segments again supporting Wärtsilä story, cruise and ferries, LNG carriers and special vessels, people are sometimes asking that how long will this cruise ordering continue. And I think it's good to remember that if you look at people, how many people are traveling and spending holidays and so on, is it 1% or 2% of that population only cruises, so there is still possibilities to enhance that business and there are oceans around the worlds where in different ways the cruise ships can sail. Here you can see also the split. Order in 2018 was very, very high in Marine Solutions. And I'm happy to see that a lot of our brand development supporting the connectivity and the new way of thinking in the marine industry has played very well. Order book. Today, we have a lot of cruise orders in the order book. It's – if you now remember, these orders are quite for many years.

Picture of our campus here in Helsinki and then a couple of last slides. Cash flow, a bit better last year. We have been building also our working capital because of the deliveries. We are delivering also during this year a lot of different solutions to our customers and gearing at a quite healthy level. And finally, you see also the proposal, which is going to go to the AGM.

And one slide now regarding the alignment announcement this morning. We need to focus on our sustainable savings and actions needed to increase our customer value and really look at the competitiveness of Wärtsilä. And this is – these are different kind of actions, increasing the focus on really on sales activities, how we sell developing agreements and as a service business within Wärtsilä. We also definitely need to look at our cost structure. And finally, also optimizing the portfolio, the business portfolio and the organization we have.

Unfortunately, this will lead to reduction of employees. And this is a global project. Wärtsilä has 19,300 employees in more than 80 countries and the effect will be also global and everywhere. The savings for these actions, we are seeking for around €100 million.

And a final slide here, the prospects for this year, 2019. We expect 2019 to be in line with the previous year. And if you look at the two businesses now, the demand in businesses, we regard them as solid. There is all these uncertainties I was already discussing about. At the same time, the opportunities we have, we look at the demand really to be solid.

With this last slide, I put back to the key financials just for you to remember. But now we are ready for questions. And we have had a habit here which I think is a good one. When you start asking, please ask one question and then one follow-up and then give the line to – or the opportunity to the next one and you can come back later on, so we get a lot of people and lot of different kind of questions. But first of all, here. Anybody here in Helsinki campus in the audience, any questions at this stage? No questions here. There is one question.

Speaker: Katja Boxberg, Talouselämä-lehti. This is in English?

Jaakko Eskola: I think we do it in English.

Speaker: Yeah, well, whatever. You mentioned China and the trade war. Can you open up a little bit, like what kind of effect are you looking at?

Jaakko Eskola: During the whole last year, we have highlighted many times that these concerns regarding the trade wars, whether it's a trade war possibilities or challenges between US and China or US and Europe, China and Europe and so on, and you need to include into the trade wars a different kind of tariff mechanisms and also sanctions which are affecting the businesses.

And nothing bigger hasn't happened to Wärtsilä yet. We need to be agile and we need to look at where the world is moving. And, of course, the uncertainty is really affecting our customers' decision-making. If people – our customers, if they don't know where the world is moving, where the globalization, the traffic what comes to moving goods or whether they should go for holiday or whether they should invest in electricity in developing world is affecting to the slowness of the business.

Speaker: But do you see an impact already in the numbers you just showed?

Jaakko Eskola: We have seen the impact on the slowness of making decisions. So, the world is getting slower. The growth, what we have seen, is getting slower.

Any further questions here? Then we can move on to the lines, please.

Operator: Thank you sir. If you'd like to ask a question, please signal by pressing star one on your telephone keypads. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. We'll now take our first question from Johan Eliason from Kepler Cheuvreux. Please go ahead sir.

Johan Eliason: Yes, hello. I was wondering about the – can you hear me?

Jaakko Eskola: Yes, we can.

Johan Eliason: I was wondering about your outlook statement. If you look at Marine, you say it's solid. But obviously, I would be guessing that the environmental business should still have a pretty visible positive development in terms of orders in 2019. Are you seeing any weakness in the other marine-related business that would sort of make you end up at solid rather than good? Thank you.

Jaakko Eskola: Thank you, Johan. I think the overall uncertainty is affecting to our decision to look at the prospects, as I said. But I have Roger Holm here, the Head of our Marine business, and this is a golden opportunity for Roger to open up a bit how the market is developing.

Roger Holm: Yeah, thank you, and thank you for the question. I think if we start, as Jaakko mentioned already, if we look at vessel contracting, we are still cautiously optimistic. It will grow slightly or be flat, depending a bit on which segments we are looking at. And please remember now when we look at the scrubbers and the environmental part, the order intake last year was really on a good level. So, we are comparing order intake levels also on environmental side that have started very well already last year.

At the moment, we still foresee good demand for scrubber order intake. So, even if most of the major suppliers have quite long order books already and short-term have a full capacity, we don't foresee any major changes in that demand. So, the general comment is that we are still looking at good demand and good levels as we have seen last year.

Jaakko Eskola: So last year order intake was high and if we say solid, I mean, it means that we expect it to be high.

Roger Holm: Correct.

Johan Eliason: Okay. Then just a question on the cost-cutting program then. I can understand why you implement it, obviously having seen your margin development over the last few years. Now will this cost-cutting program be enough to take you to your 14% margin target, or what else do you need to see happening?

Jaakko Eskola: Johan, we have a plan to deliver 14%. I'm not going to say when, as we have discussed earlier, but this is really the way how we will finally get there. So, all these actions should support us to reach our long-term target.

Johan Eliason: Okay. Thank you. That is my two questions.

Jaakko Eskola: Thank you.

Operator: We will now take our next question from Max Yates of Credit Suisse. Please go ahead sir.

Max Yates: Thank you. Just my first question would be on your sort of comments around profitability for 2019, and you talk about the cost savings being central to profitability in 2019. So, do you think when you exclude any action from cost savings that the underlying business, when you look at the backlog, will be able to increase margins year-on-year in 2019, excluding any impact from cost savings?

Jaakko Eskola: Max, quite clever way to try to ask what would be the margins in 2019. I'd rather answer that we have a target to reach the 14% and we do a lot of different actions. We have a new organization which is dealing in a different way though with our customers and we need to do these alignment programs. So, if we reach the 14%, we need to gradually get there. But I'm not going to start opening the profitability levels this year – or margin levels this year. We have a target where we are confident we will reach.

Max Yates: Okay, if – okay, the follow-up question would be if we look at your revenues, your incremental revenues for 2019, a lot of that is going to be coming from scrubbers. It was clearly a very big part of your order

intake and a lot of those deliveries will come next year. So, when we look at deliveries of scrubbers, including the installation work that you do, will that be accretive or dilutive to your current level of margin? And maybe if you could talk about how the phasing of the profitability on scrubbers is different in the first half versus the second half of 2019?

Jaakko Eskola: First of all, when you look at the scrubbers, I – of the increase in revenues 2019, yes, there will be quite a lot of scrubber deliveries during the year. At the same time, we have a lot of other solutions we are delivering during the year, which is, of course, very important. And I don't start opening up which product or solution gives better margins. We have said that, today, we have a very strong marketplace in the scrubbers, as everybody knows that. From the public sources, what you get the market shares of the bigger players have been going down, but at the same time the volumes have been increasing.

So, we have a good place in the market. We are, today, selling scrubbers with quite good margins. But how the deliveries during '19 will finally hit and will be realized, I cannot start opening that one. But I can ask Roger, of course, to say about the scrubber market itself, if you talk about –

Max Yates: Well, maybe what would be really helpful is how you're thinking about the scrubber demand environment because, I guess, if you're adding capacity from your current level of 500, then you would inherently be quite bullish about the outlook for '19, or are you planning to keep your capacity flat at the sort of current 500 scrubbers level just to give us a sense of how you're thinking about orders for '19.

Jaakko Eskola: Roger will open it up.

Roger Holm: If I start from the demand side and what we see from our customers at the moment, we don't see signs at the moment that there would be a change. And our delivery times today is what we have said before, that if you order today, we will start looking at slots about 12 months ahead. So, there might be a few slots still left for delivery this year, but we can say that that's full. We have a good order book for 2020 already, so that's the part we are filling up.

So, from a demand point of view, we still see good demand continuing, so continuing on same high level. What we need to follow closely is that how will the market develop from bigger fleet deals to more looking at specific vessels as we get closer to the 2020 deadline, that will we see any change in customer behavior there. So far, we haven't, but that's something that we are closely following as well.

What is good to mention as well is in the orders coming in, we also see parts that relates to fairly old vessels, which shows again that there is a good business case for scrubbers with these fuel prices. So, there are also customers that are installing scrubbers on fairly old vessels due to the fast payback. I would say, at the moment, the development continues as we have seen so far.

Max Yates: Okay. Thank you very much.

Operator: The next question will come from Sven Weier of UBS. Please go ahead sir.

Sven Weier: Yeah, good morning from my side. First question is on the cost-saving program you've announced. I was just wondering it's obviously not the first program you do. What kind of cost-saving retention we should be expecting from the €100 million and how you would see the phasing of the cost-saving between '19 and '20? That would be the first question, please. Thank you.

Jaakko Eskola: Okay. First of all, the whole program, as already probably discussed here, is going to be this year and next year, finalizing – I mean, I think we are at the end of the program – the end of next year, gradually starting at the latter part of this year. It will definitely take time before we know all the numbers and effects to different parts in the world. And so, that means that also the savings will be starting later on this year and more and more 2020.

Also, the expenses what we have been highlighting here, €75 million, follows that development and I think that's the ballpark where we are.

Sven Weier: So, it's fair to say that you have less than half of the savings this year, given that starts only in the second half?

Jaakko Eskola: Probably not half of the savings this year. If you think about halves of years, you'll have four, six months going forward through the next two years and it actually starts during the latter part of the year. So, one

could say one-third, but I'm now guessing only. But it starts later. I mean, before we know the real effect to the whole company, it still takes time. We initiated the program this morning and this is something what we need to come back during the next months.

Sven Weier: And on the retention, I guess you mentioned that there's also some pricing pressure. So, I guess you're not assuming you'll keep 100% of the €100 million. So, what's been the past evidence, is it to keep half of it or – well, what's the realistic figure here?

Jaakko Eskola: I need to get back to that one, to clarify the figures later on when we know more.

Sven Weier: Okay.

Jaakko Eskola: But as you are right, there are lot of items what we need to focus, how we price, how we deal with our customers, what comes to agreements, how we operate in different parts of the world.

Sven Weier: And then maybe the second question to Roger again. I'm sorry for keeping asking about the scrubbers. But I was just wondering, I mean you rightly said that 2018 was really extraordinary in terms of ordering of scrubbers. And so, I was just wondering, when you say good, is it – does it relate to '18 good being flat or – because, obviously, we now also have a little bit of uncertainty with regarding to the open-loop scrubber bannings. We have quite a bit of a decline in the fuel spreads seen. So, wouldn't that mean that '19 could be, at the end of the day, a bit below the '18 level, to say the least?

Roger Holm: Yeah, if I start by commenting first on the open-loop scrubbers, we haven't seen any impact in – among our customers so far due to bans in some port areas coming in. And this is really due to the fact that if you look at the total operational profile, it's just a small part that would operate in these areas. So, the impact on the business case for our customers is minimal.

And if you want to find an upside on that one, we also have hybrid scrubbers that we can offer and there are many competitors that only have open-loop scrubbers. So, still, for us, the majority that we sell is open-loop scrubbers but we have technology then to expand on the hybrids if that's needed. But so far, we haven't seen any indication on that one.

All indications we have on the business case and the fuel spread is that that will continue. And as I said, I'd rather take it from a positive angle that we have customers also investing for fairly old vessels because the payback is going to come so quickly for them. So, good development last year from an order intake point of view and we see good development continuing this year as well.

Sven Weier: But you see less fleet agreements then this year, right, as you said?

Roger Holm: That's more a comment that we are following closely. I cannot comment on that yet because this is more a question-mark still from our side that how will it impact, then how the customers are reacting when we get to 2020. But at the same time, please keep in mind that there is – there are long delivery times today, so it might be that larger fleet deals might change then to a bigger amount of smaller deals but this is what we are closely now.

Sven Weier: And do you already see a more significant contribution from ballast water equipment already this year, or is it still not so significant for you?

Roger Holm: If you look at that and start comparing to the scrubber impact, ballast water is much, much smaller impact and also the competition in ballast water is – you see more players and it's a heavy price game. So, for us, ballast water is clearly a smaller impact and has not generated yet, in the big picture, significant volumes.

Sven Weier: Okay. Thank you both.

Operator: We'll now move to our next question from Jonathan Hanks of Goldman Sachs. Please go ahead sir.

Jonathan Hanks: Hi, just – I suppose just thinking maybe a little bit longer term. If I think about the savings you've talked about over the last few years, I think in my model I've got over €100 million of savings over the last three or four years and, obviously, margins have still been under a bit of pressure. When you look historically, what has been the key driver of that? Has that been mix or has it been pricing? And I suppose if it has been pricing or mix, do you see any of those things getting better over the next two years? Thank you.

Jaakko Eskola: I missed the – really the first lines of the question. So, you are now asking the mix in relation to – could you repeat your question, please?

Jonathan Hanks: Yes, sorry. Sorry, I might have broken up. I'm just saying when I think about the savings that you've had over the past few years, it seems like you have had quite a lot of savings. So, for example, in our model I think we've got over €100 million over the past three or four years. But obviously, margins have still been under pressure. Has that been really – been driven by pricing or mix? And I suppose when you think about those two things going forward, is the pricing or mix in your backlog now better than it has been over the past few years?

Jaakko Eskola: Yeah, thank you. It's – when you look at our alignment programs we have had during the last, let's say, eight – since Lehman, so, they have, first of all, been very much focused on the marine sector. And I have been running the business and then Roger later on, and we have done several actions to realign the organization and the way how we work. And one reason is that a huge competition going on in the marine sector, that overall huge overcapacity you have seen in the market. It hasn't disappeared anywhere. So, it's still there and you need to take actions. But it's also how you actually communicate and deal with customers.

Marine industry is a complicated industry when you sell to the CPR then and then you serve the ship owner later on. And that's why trying to figure it out what would be the best way. But really, one reason for all these alignments have been the competition, the overcapacity. So, pricing, very, very heavy pricing pressure.

There were also a lot of cancellations after the Lehman crisis, if you remember. So – that we were hit by those cancellations, but we actually succeeded quite well after all. And then later on, we have seen some alignment programs also in our Energy when the market was hitting us and we were also booking quite low margin deals. And the way how we have reshaped the Energy today – I mean, what you have heard also, we are getting better deals. But really, looking at the world today when it's changing and you get digitalization, you get all new ways of dealing with customers, together with the life cycle solutions, so you need these alignment programs. This is not only a – this is not – you shouldn't call this one only as a cost-cutting exercise. This is more to look at how we sell, how we price and bring value to our customers. And that's really an important part of the program.

Jonathan Hanks: Thank you very much. Very helpful. And then maybe just one follow-up just on R&D. I think going through the year, you talked about it being flat year-over-year, but I think it was up year-over-year, I think maybe €12 million or so, something like that. Should we think about R&D flat into 2019, or do you think you need to step it up again to deal with kind of digitalization or those longer-term themes?

Jaakko Eskola: You are spot on. We spend more on R&D. I mean, if the absolute numbers you see from the report, €165 million, of course, that's going through the P&L is a bit different. But it's an area where we need to spend money to be competitive. And it was higher last year. Partly it was also higher some of these developments and new innovation because of the digital development. We have a very good organization looking at the transformation and looking the ways how we can serve our customers. A bit difficult to comment what's going to be this year, but we will spend money also in R&D. We will spend money in Vaasa building, that the new technology hub. And that's part of the new development going forward.

Jonathan Hanks: Great. Thank you very much. It's very helpful.

Jaakko Eskola: Thank you.

Operator: As a reminder, please limit your question to one main question and one follow-up to allow everyone an opportunity to ask questions. Our next question will come from Manu Rimpelä of Nordea. Please go ahead.

Manu Rimpelä: Thank you. I would like to ask about the Energy orders and the outlook, especially for 2019. If we look at the quotations activity that you passed on the [inaudible] you're seeing some decline in that activity, although it was sequentially slightly up in the fourth quarter. So, any – and then you talked about the German order. So, can you talk about how confident do you feel about the outlook you have for 2019 given that the 2018 ended up being weaker than you expected and we know that global demand is slowing down on a GDP basis, and at the same time, emerging market currencies and there is

uncertainty around those markets as well? So, how comfortable do you feel with the outlook now for the Energy business orders?

Jaakko Eskola: Thank you, Manu. And I mean, Marco Wirén, the Head of Energy, has been waiting for that question and he is definitely ready to answer.

Marco Wirén: Thank you, Manu. Very good question as well. I would say that tendering activity goes up and down a little bit, depending if we have big auctions in certain regions or countries. But I would say that if we look at the underlying demand, it's definitely there. The fundamentals when it comes to renewables increasing and needing backup power and balancing power, that's definitely there. Of course, we see also that some utilities in some regions, they're actually re-planning and redoing their plans and this is causing a little bit delay in their decision-making as well because instead of buying the traditional thermal power plants, they are actually now considering that they have to invest more in renewables. And of course, planning takes some time.

But if you look to different regions, we see definitely that both in North America and Latin America, there's lot of opportunities. We also see Middle East and Asia, that region is very active, both when it comes to renewables deployment but also just flexible base-load energy need.

Africa, we've been talking about that we see more activity there and I also believe that we see some potential deals to be signed this year. So, I would say that pipeline is pretty positive. But of course, this is a business that you have to always look in a longer term, not just one quarter.

Manu Rimpelä: Okay, thank you. And a follow-up would be, can you comment on how much of the order intake in 2018 was related to renewables? And if you just look at the geographical split, it seems very much emerging market-weighted. So, have you really seen bigger structural shift towards the developed markets and renewable energy, or is it just one of the case that it is still very much dependent on this kind of older backup – or not backup power, but kind of just power generation in emerging market with the backlog and outlook and pipeline at least for –

Marco Wirén: I would say that we see a lot of customers not only in the Western countries buying balancing power for renewables but more and more also in the emerging markets. The interest of renewables is there and they are deploying more and more renewables and they need backup there as well. So, we definitely believe that that will come as well.

Jaakko Eskola: But the renewable story, is it one-third today?

Marco Wirén: Yeah, about – we say that about one-third is backup power for renewables today. Thank you.

Manu Rimpelä: Thank you.

Operator: The next question will come from Antti Suttelin of Danske Bank. Please go ahead.

Antti Suttelin: Thank you. This is Antti. I would also like to ask about the Energy business because when I calculate backwards, as you know, I'm able to do from your numbers, it seems like the gas market as a whole has fallen this year in the nine-month period year-over-year and also Wärtsilä market share is down. At the same time, if I look into what's going on with the wind turbine makers, for example, I don't see a slowdown. So, why is there such a discrepancy between the gas market as a whole and the wind turbine makers and why is Wärtsilä's market share down this year?

Marco Wirén: Thank you. It's a very good question as well. And I would say that if you look when different countries are deploying renewables, when they come to certain share of renewables in that market or that market mix in this they were acting, they start needing the balancing power. I would say that that tipping point we usually say is somewhere when they are reaching above – 10% above, perhaps approaching 20% renewables and then they need balancing power.

So, they might invest in lot of wind power or PVs, but still they have a lot of old, traditional generation left in the system with a lot of old capacity. Germany is a very good example of that. They have lot of renewables but they haven't been needing balancing power because of the fact that they have lot of still coal and nuclear, and that's why they have overcapacity.

So, that's why we have to look into each of the markets, where they are and what are their plans to take down the traditional thermal power as well. United States is a very good example. That's where we have been winning a lot of orders in the United States because they actually closed down coal power plants. Two reasons basically. One, they came to end of their life cycle, but also economical reasons because today it is more economically feasible to deploy renewables and balancing power than invest – or keep actually the old coal plants running.

Antti Suttelin: Okay. And then I would also like to ask about the oil-related business or oil-powered business. Despite the big decline this year, you are not anticipating a comeback in 2019. I read from the guidance you had given.

Marco Wirén: You're talking about oilfield –

Antti Suttelin: No, no, oil-fired power plants.

Marco Wirén: Oil-fired?

Antti Suttelin: Yeah.

Marco Wirén: I would say that depends a lot which country is ordering. We see a lot of countries that don't have access to gas today. And if they didn't have any plans to secure the import of gas, then they will continue to buy oil. So, we see more and more countries, just like Bangladesh has been a very big oil country or buying oil-fueled or fired power plant, but they actually have plans to implement or invest in terminal now and we see that the interest is switching over to gas-fired power plants in the future. It is very dependent on each country.

Antti Suttelin: Yeah, I guess what I'm trying to ask is that you are positive on the gas side long-term. And in 2008[?], your oil-fired power plants halved in order intake. And this must be because of the emerging currency weakness. Still despite that big down going trend in 2018, I'm surprised that you are not guiding more positively for 2019.

Marco Wirén: Regarding the – I would say that the emerging market currency is not the fact that we have less or more oil-fired orders – oil-fired power plant orders. It is depending which country is ordering and depending if they have gas or not. Just like I said, when Bangladesh ordered a lot of orders, then the oiled part or share increased in our order book.

Antti Suttelin: Okay, thank you.

Marco Wirén: Thank you.

Operator: We will now take the next question from Mr Robert Davies of Morgan Stanley. Please go ahead.

Robert Davies: Hello, can you hear me?

Jaakko Eskola: Now we can.

Robert Davies: Yes. Thanks Jaakko. Yeah, my question was just really around the Energy business. Obviously, you had very sort of strong order growth on the quarter and sales are sort of somewhat behind consensus expectations. I guess I just wanted to get a sense from you, what's really changed between 3Q and 4Q in terms of your customers. I know you had sort of highlighted EM currency volatility around 3Q. So, that was sort of causing it to be particularly weak. But are you actually seeing any sort of underlying change in behavior, and how much of that sort of, I guess, order acceleration do you expect to kind of catch up into 2019? So, just how you're thinking about the sales development, particularly in the Energy business next year? Thanks.

Jaakko Eskola: Thank you, Robert.

Marco Wirén: Thank you. Very good point as well. And definitely we saw a slowdown in Q3. That's why I always say that don't look this business on a quarterly basis because decision-making is very lumpy and that's why we have to look that on rolling 12 basis. Now one quarter could be quiet, but the next quarter we get much more orders. And this is – I would say, every country, every customer, they have their own reasons and quite often there is political decisions behind as well. And if there's any delays or political

discussions, that immediately delays the decision-making. But I would say, overall, we see that, on a 12-month basis, the activity is good.

Robert Davies: Okay, that's clear. And then my follow-up was just around the Service business. You mentioned growth over the year was maybe not where you wanted it to be. What are you sort of changing from a sort of operational standpoint, particularly now you're obviously embedding the Service business with the other two divisions? I just kind of wondered sort of structurally and operationally, what's actually changed in '19 – or what will change in '19 versus '18?

Jaakko Eskola: Definitely the way how we operate with our customers. That's the whole reason to have a new organization is to deal with the customer from the start, bringing value for life cycle solutions. We – in Marine, it's easy to say that we sell something to CPR, then we wait for the service deal. Now customers are asking something more. And from customer's point of view, they have been asking for this change. They would like to deal with Wärtsilä so that they know what would be the lifecycle costs and the possibilities.

And really, really this goes down to the market and the area where the customer contact point is, and we allow more accountability also for these people to deal with the customer in a totally different way.

Robert Davies: Okay, that's great. Thanks Jaakko.

Operator: The next question will come from Erkki Vesola of Inderes Ltd. Please go ahead.

Erkki Vesola: Thank you. Still coming back to your savings program. How sales mix agnostic are these expected €100 million savings, I mean, if Energy sales volumes dropped meaningfully while Marine grows? Would the impact still be the same?

Jaakko Eskola: It was a bit difficult to hear the question, at least I didn't. But I don't know if – could you – sorry, could you repeat it?

Erkki Vesola: I can repeat it. Can you hear me now?

Jaakko Eskola: Yes. Let's hope we can understand the question. Sorry.

Erkki Vesola: Yes, about the savings program. How sales mix agnostic are these expected €100 million savings? I mean, if Energy sales volumes drop meaningfully while Marine grows, would the impact still be the same?

Jaakko Eskola: Okay, yeah. But that's – today, it's totally impossible to answer. I mean, we kicked off the program – the whole process this morning and we need to come back to that one closer when we know more about how it's going to affect our markets in different places. You know we have the more than 19,000 people in more than 80 countries. So, I mean, no, we cannot – yes, our CFO, Arjen Berends, is agreeing with me that we cannot open – we don't even know it, I mean, to be honest, at the moment.

Erkki Vesola: Fair enough. Thank you.

Operator: The next question will come from Glen Liddy of JP Morgan. Please go ahead.

Glen Liddy: Good morning. You seem more confident about being able to achieve your long-term margin target at 14%. In the past, when you talked about your margin target, you've also said it's going to be very dependent on mix. Is that still the case or does this get you to your margin target with less need to greater Service business because at the moment you've got strong order backlog for equipment deliveries. So, can you get to your margin target without a big lift in the proportion of Service revenue?

Jaakko Eskola: Thank you, Glen. Very good question. And it's now good to remember, we are selling huge amount of solutions equipment to our customers last year and now going on this year, which will, as much as we have seen the market developing, will and also for service contracts going forward. So, I'm not expecting the Services to start dropping and we will follow it very carefully that we need the Services to be there and play a role together with the different elements in Services, spare parts, how to look at our spare parts moving on and the agreements.

But we are very confident when we look at our order book and the new structure we have and dealings with our customers, together with the alignment program, that we are on the right track reaching the target level.

Glen Liddy: Okay. And secondly, on the Energy business. I mean, you've said that about a third of the revenue or orders are now coming from renewables. Are batteries playing a significant part in the development of the business and I think people want batteries as well as engines, or is that still something that's too early to decide?

Jaakko Eskola: Thanks, Glen. Marco will open it up a bit.

Marco Wirén: Yes, thank you. I would say that, so far, it's quite small amount of batteries that's being sold, but definitely they will come and it's a very good complement to the whole system. So, I would say that we will see more and more batteries coming as well when we see renewables and other long-term balancing power to be deployed, especially when it comes to frequency power stabilization, batteries are definitely the best.

Glen Liddy: Okay. Thank you.

Jaakko Eskola: And it's 11.00 here in Helsinki and now we need to stop here and thank you for all participating. See you in April. Thank you. Bye-bye.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.