Services, the growth engine

Tage Blomberg
Group Vice President, Services
Topics of this presentation

Wärtsilä Services grows steadily and brings stability to cyclical businesses. How does it work?

- Is there a cyclicality in service business? How does Wärtsilä Services sustain growth over time?
- During an upturn is it common to service more, or less?
- How much service does older equipment need?
- Market potential and market share for Wärtsilä services?
- What is Wärtsilä’s competitive advantage?
Is there a cyclicality in service business? How does Wärtsilä Services sustain growth over time?
Market demand for our services in different segments

• Peaks and lows are often regional or within a segment. They can be caused by a global market economy incident, but always only for a limited period of time or a defined segment.
  – e.g. 9/11 slowed down the cruise industry business for some months only
  – fuel price rise also has low influence as it impacts MGO, MDO and HFO.

• Concerning Operation & Management services, lower electricity purchase price can reduce work load on engine for Independent Power Producers (IPP), hence reduce variable revenues of O&M contract, but it is often limited to 1 country out of the 70 where we are.

There is only limited cyclicality in service business.

It can be seen from our net sales history.
Innovation is a core factor for growth.
Acquisitions & Joint Ventures

2001
- Ciserv AB
  Sweden

2002
- JMC Marine A/S
  Denmark
- CGL Industries Ltd
  Canada
- Metalock Singapore Ltd
  Singapore

2003
- Caltax Marine Diesel BV
  Netherlands

2004
- Decam B.V.
  Netherlands
- Elco Systems B.V
  Netherlands

2005
- Gerhardt Holding Co.
  USA
- DEUTZ AG.
  Germany
- Wärtsilä BLRT Baltica (JV)
  Estonia

2006
- Stockholms fartygreparationer AB
  Sweden
- INTEC Injectortechnic GmbH
  Germany
- Wärtsilä BLRT Services
  Klaipeda UAB (JV)
  Lithuania
- Total Automation Ltd
  Singapore

2007
- Marine Propeller Ltd
  South Africa
- Senitec AB
  Sweden
- McCall Propeller Ltd
  United Kingdom
- Electrical Power Engineering Ltd
  United Kingdom
Service growth steadily between 10% and 15%

Wärtsilä Services maintain its leading position and further growth by:

- Developing the service scope and the customer base through strategic acquisitions and continuous innovation
- Expanding within the installed base and moving into new markets outside the traditional marine and power segments
During an upturn is it common to service more or less?
During upturn is it common to service more or less?

During high season, service measures are cut down, however, high seasons only last a few months. Equipment is serviced before or after that.

To have high availability during uptime, customers invest in OEM maintenance.

When maintenance slots are tight, we work in shifts. Rates are higher, but deadlines are matched.
During upturn is it more common to service more or less?

To maintain high availability, Wärtsilä Services has developed a large portfolio of support services:

- Condition Based Maintenance (CBM),
- Support with visits on board,
- Training and competence development programs,
- Service agreements…

In case of emergency, our field service can be mobilized in record time and Wärtsilä spare part centres have increased availability of parts to face such demands.
Condition Based Operations & Maintenance

- Measuring the important equipment parameters
- Data transfer & Communications
- Monitoring, Analysis and feedback

80% of critical cases identified
90% of required maintenance predicted

7 to 30 days in advance
1 to 4 months

600 engines connected equivalent to 5000 MW
## The Best Services in the Industry

**Operations & Management**

<table>
<thead>
<tr>
<th>Agreement Type</th>
<th>Services offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Service Agreement</td>
<td>Wärtsilä personnel for operation &amp; installation, Management, Performance guarantee, Monthly business report</td>
</tr>
<tr>
<td>Global Customer Agreement</td>
<td>On-board Wärtsilä crew, Safety stock onboard, Minimum downtime with exchange part policy, Monthly reporting</td>
</tr>
<tr>
<td>Technical Support Agreement</td>
<td>Covers several vessels along their trade routes, Fixed agreed fee and performance targets</td>
</tr>
<tr>
<td>Inventory management</td>
<td>Condition-based maintenance, Remote monitoring, Regular technical visits, Exclusive training plan, Wärtsilä personnel for major OH</td>
</tr>
</tbody>
</table>

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How much service does older equipment need?
Typical customer needs versus Product Lifecycle

- **A** Limited
  - High technical support
  - Customer Assistance
  - New product training
  - Monitoring
  - Commissioning

- **B** Launch
  - World class logistic
  - Service agreement
  - CBM
  - Performance optimizer packages

- **C** Maturity
  - Specific assortment
  - Upgrading packages
  - Environmental solutions
  - Safety solutions
  - Fuel conversions

- **D** End

25-30 Years

Impacts of Innovation
How much service does older equipment need?

There are about 60’000 vessel in shipping industry, all of them with engines, auxiliary equipment, control and automation, propellers.

Environmental and Safety Regulations have greatly increased pressure on ship owners. Most of them are not only applicable to new buildings, but also to existing installations.

Today’s knowledge and way of designing equipment is much more advanced compared to 5-10 years ago. Efficiency, Safety and Performance have improved by providing newest technology to mid-life equipment.

That is why lifecycle support is an important driver for growth.
Wärtsilä Services offer a large range of solutions

Basic Services
- Parts
- Field Services
- Technical Support
- Workshop Services
- Tools
- ...

Management Support
- Service Agreements
- Operation & Maintenance
- CBM
- Custom Projects
- ...

Performance Optimizers
- Upgrades
- Conversions
- Safety Solutions
- Monitoring Solutions
- ...

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Wärtsilä Services offer a large range of solutions

- Emission Control System for SOx, NOx, Smoke
- Emission measurement
- Certification Support IEAPP documentation
- Oily water separation
- ...

- Interactive Electronic Technical Manuals
  ELDOC, Bulletin Online, MAMA, FAKS
- e-Services
  Spares Online, Report Online
  Human Capital Development & Management System
- e-Learning
  Live e-Learning, Self-paced e-Learning
Market potential and market share for Wärtsilä Services?
Service business for a customer depends on:

**Customer dependent**
- Engine load
- Fuel quality
- Maintenance team
- Operation procedure
- Installation workload
- Operators’ skills

**Wärtsilä dependent**
- Expertise
- Availability
- Reactivity
- Adequate solution
- Price & ROI
- Guarantee
- Customer care
- Customer satisfaction

**Market dependent**
- Fuel Price
- Market dynamics
- Customer’s competitors
- Macro economy & risks
Market shares for Services?

• 30’000 equipment in marine market
• 4’000 engines in land markets
• Equipment in different stages in their lifecycle
• Markets in >70 countries
• Markets in >12 industries
• Customer & market dependent parameters
• Other local service company activities

We follow net sales development and organic growth as an indicator of customer satisfaction and incremental business

too many variables makes estimation of market share irrelevant
Services Jan-Sept 2007 in short

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<tbody>
<tr>
<td>Services</td>
<td>1.119</td>
<td>916</td>
<td>22.2%</td>
</tr>
<tr>
<td>Wärtsilä group</td>
<td>2.491</td>
<td>2.204</td>
<td>13.0%</td>
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<tr>
<td>Services</td>
<td>9.288</td>
<td>8.387</td>
<td>10.7%</td>
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<tr>
<td>Wärtsilä group</td>
<td>15.811</td>
<td>13.986</td>
<td>13.0%</td>
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What is Wärtsilä’s competitive advantage?
Multiple expertise to serve customer’s needs

Wärtsilä Services becomes the most valued business partner by understanding customer needs and through its experience in assembling the appropriate expertise, products and services to address these needs.
Continuously expanding the own network

- 70 countries
- > 160 locations
- > 9'300 people
- ~ 6'000 field service forces

Product Company
Network
Workshop
Newest locations
Innovation, a state of mind in Wärtsilä

Primary Technologies
- Common Rail
- Direct Water Injection
- Propeller design
- Thruster design
- ...

Secondary Technologies
- SCR
- Scrubbers
- Oily Water Separation
- Low Loss Concept
- ...

Efficiency & Innovations
- Fuel Cell
- Oil lubricating stern tube bearings
- Pulse lubrication System
- Combo module
- Training concepts
- Reconditioning & Repair techniques
- ...

Efficiency & Gas
- Dual Fuel engine
- Bio fuel engine
- Gas Engines
- Conversions
- ...

Ship Design
- Hull optimization
- Podded Contra Rotating Propeller
- Double Acting Pusher Puller Barge
- Conceptual Design