

WÄRTSILÄ CORPORATION

Moderator: Jaakko Eskola

January 27, 2017

10.00 a.m. EET

Operator: This is conference # 46314279.

Jaakko Eskola: Good morning everyone, and welcome to Wärtsilä Results Presentation 2016. As before, I have here this morning with me the whole Board of Management. Straight from Miami, Pierpaolo Barbone, and Roger Holm, also, from Shanghai, and also this time -- first time, if I now remember right, we have our new Chief Digital Officer, Marco Ryan. So I expect you to ask a lot of questions regarding the future of digitalization. And, of course, Natalia Valtasaari, helping us this morning with questions.

Let me start with highlights. First of all, 2016 was a tough year. We had a lot of challenges. If you look at the marine market, quite a drop in vessel contracting. I will come back to that one later on. On the other hand, Energy Solutions now finally picked up, a lot of that one, and it's developing in a very good, positive way.

Services, as usual, solid performance, and one of the highlights a couple of days ago -- you heard about it, it's the Carnival agreement, and we will of course touch that one today more.

But if you look at order intake, stable development. Remembering the story about marine, I think we need to be happy for that number. Net sales, the revised guidance, you remember, was around 5%. It's now rounded here, minus 5%. It was actually minus 4.533% or something like that, so well within the revised guidance.

Book-to-bill over 1, which is of course quite important going forward. And result, full-year, 12.1%, almost the same as last year. Of course, extremely good fourth quarter development.

Earnings per share lower than last year, and that has been affected by a couple of extra items, and of course a little bit lower result, but there is no drama in that number either.

Cash flow, very good, and we were talking about the cash flow during the year, inventory management and looking at our working capital. So I'm happy with the development, and that needs to be also followed going forward.

Order book had such a small drop, heavily affected, of course, by the marine developments in the market.

Dividend proposal for the AGM is EUR1.30. It's higher than last year, and following the common development in the market, the proposal is also to be paid in two equal installments in beginning of the year, and then also later in September.

When you look at the order intake, you clearly see the fourth quarter development in Energy Solutions, and the whole year development. It was even higher if you look at the whole year. So good prospects also going forward. And then Marine Solutions. If you don't get vessels ordered, of course, you start seeing the order intake dropping down. Later on, I will touch a little bit more about the different segments.

Services, a bit drop in fourth quarter, but the whole year was a solid development, and of course now, going forward, the Carnival agreement is a good add-on to the development.

Net sales, I already touched the development, the revised guidance, and here you can see, also, the fourth quarter developments. Services, a bit high, up 3%, and Energy Solutions now with the new orders also net sales development moving to the right direction.

So today, 46% of our net sales is services, and marine still 35%, but I expect the numbers between energy and marine developing the other way. So energy is, of course, this year is picking up, and getting more equal.

Book-to-bill 1.3 -- 1.03, and if you look at the order book distribution, this year at this moment, or beginning of the year, higher for this year than it was last year. So that's also mentioned in -- when you look at the new prospect text for 2017.

So operating result, 12.1%. In a tough market time, I'm satisfied with this development, and actually in line with revised guidance.

Moving on to energy. Quotation level, one would ask that it's lower than last year, but it's still looking at transactions and looking at the pipeline, the deals we are -- or are visible, it's developing well. And after quite many years, now finally the activity ordering stepping up.

A lot of IPPs in -- during last year, and still more oil than gas. I mean, we have been talking about it many years, and that should, going forward -- should develop in favor of gas.

Some numbers regarding the world, where we see deals booked, and still we have some of the specific deals in Europe, but you can also now see the development in Asia, Indonesia and the countries in the Asian area, but also Americas. Quite huge development from a bit over 600 megawatts now, almost to 1000 megawatts.

And one highlight from last year was definitely -- and from the last quarter also, is the combined heat and power plant in Germany. This is the development, how many countries in Europe are looking at, based on the climate action plans and also thinking more about the gas, not only anymore diesel or oil-powered power plants.

Our competitive edge, of course, with diesel-based engines, is the quick power output. So start and stop with the engine technology. And that's, of course, following the -- regarding the demand, and the electricity price.

If you look at the market situation, this is still old data from September, so we have increased our market share, and at the same time, the market has been developing positively.

Moving on, marine. Quite dramatic trend last year, November just -- sorry, December, just over 20 vessels ordered. Though the number of vessels last year was 520, 540 -- 520, 530, 540-something -- 537, and if you compare it to 2015 when it was 1,500. So a big drop.

But at the same time, when you look at Wärtsilä, of course our broad portfolio brings us possibilities, not only engines, but propulsion, electrical and automation, the environmental products and gas systems.

From the last year's order intake, cruise and ferry definitely is the biggest part today and if you look at one segment which has been positive in Wärtsilä offshore, only 3% last year. That has been definitely the biggest change, onto the negative side.

If you look at order book, at the year-end, cruise and ferry now represent 27%, and you still have 21% of the order book in gas carriers, and then you have different kind of special vessels. Off-shore still 12%, so there is still products and solutions from Wärtsilä to the off-shore segment.

A couple of highlights from Marine Solutions. One was an order by Wightlink, which is the ferry operator between -- in Solent, between the mainland UK and Isle of Wight. It's one of the first hybrid battery technology orders for Wärtsilä, and these hybrids, these are the new solutions our customers on a short sea shipping are asking.

It's engine, battery, combined together. This is definitely, if you have ever been in ferries in Solent, where you see the old technologies and now then all the players moving to the right one, plays a very important element, moving to the more environmental efficiency solutions.

The other one, a Spanish shipyard -- some of you might know it, La Naval is its shorter name -- is building a Ro-Ro vessel for a Spanish operator, and this Ro-Ro vessel actually includes all kinds of solutions from Wärtsilä.

Dual-fuel engines, different sizes, propulsion systems, electrical and automation, navigation, and it's really the first gas-powered Ro-Ro vessel in the Mediterranean Sea. So that development that we have been talking for

many years, the short sea shipping, the ferry operators moving to more environmental solutions.

Good development, and, by the way, the latest one is going to be sailing very soon here in Baltic, Tallink Megastar, which again has dual-fuel engines on board.

We have a strong position, still, in the marine engine market. Medium-speed four-stroke engines, 51% of the market share, and I'm happy to see the auxiliary engine development going also to a positive direction. It's, of course, heavily helped by our joint ventures in China. The auxiliary engines are the engines powering merchant shipping and bigger ships as an auxiliary engine, and now finally the market share is also developing in the right direction.

And then, moving on to services. Net sales say a stable development, and the last quarter a very good development, 3% increase in the net sales. If you look at the division between the products, quite similar. Spare parts almost half, and the two areas, agreements and projects, which we are basically paying more attention. Agreements a bit down, but projects are, again, up. So that's an area which we want to see also developing, and now Carnival, once again, is a good example of that development.

Now we added another picture here, the services sales distribution by segment. You see that Energy Solutions represents 39%, and then you have the division between different vessel categories. So you see quite a lot of merchant vessels, and remembering that we service the two-stroke main engines, which we don't build anymore. We don't have that technology, but we service the main engines of merchant ships, but of course the auxiliary engines also.

If you look at the installed base, you actually see the development that the four-stroke Marine Solution, marine engines, are increasing. This installed base is now megawatts, so this is only covering the engines, but of course we service propulsion, products, electrical and automation and so on, in addition to the engines.

And very important picture, covering the agreements side of our installed base. We saw the creep -- the dip in Energy Solutions, and we discussed it during the year. They were mainly related to some of the Brazilian customers, but at the same time, now the very good development in Marine Solutions, and again, this is an area where the services focus a lot.

And OK, this was signed in January, but it's one of the highlights, and definitely people want to talk about it. It's a major deal, of course, biggest in Wärtsilä's history, biggest, as far as we know, in Carnival's history.

A 12-year agreement where we basically service the engines of almost 80 vessels. It's around 400 vessels, or is it exactly -- 400 engines, and basically idea is that we help the customer perform better. It includes a lot of these new digital solutions we can offer. Of course, our old condition-based maintenance activities and so on.

It's a performance-based revenue model. So there are positives, that if we perform better we also earn better, and of course the customer earns. And here -- and I hope going forward with this kind of agreement, the digitalization and the new digital ideas play an important role.

Some slides about financials. Cash flow was very good, one of the highest in history, and of course if you look at our working capital development, it's going to the right direction. Inventory management is getting better, and we were successful in selling a lot of those stock engines we were talking about earlier.

And with all that, gearing is lower. I think it's 0.07, if you -- here, you can see it. And as already discussed, earnings per share is lower than last year, and at the same time we also pay a dividend -- propose a payment of dividend a bit higher than last year.

We also changed, as we announced earlier, our guidance, the way how we guide, and we basically wanted to start guiding the markets. I think it's important -- I can read this one now here, that when we say what we say about the market, is that the overall demand for Wärtsilä's services and solutions, this year, 2017, is expected to be relatively unchanged from previous year.

And if you look at the different businesses, we look at the services, it's going to be solid, but definitely with growth opportunities, and in energy it's a solid development. At the same time, we all know where the vessel contracting has been, so the development also going forward in the market is going to be soft.

So, with this one, I stop here my presentation, and let you to ask questions, and should we start, first of all here, from the audience, please. Thank you.

Manu Rimpelä: Manu Rimpelä from Nordea Markets. Could you firstly comment on -- how should we think about the fast-track deliveries of the power plant orders that you had in the fourth quarter, and what is kind of a normal running rate?

Because I think that -- I mean, Q4 was exceptionally strong, and probably one of the strongest, if not the strongest, quarter in your history. So just trying to understand what is the kind of a more normal base that we should think about going into 2017, is the first question.

Jaakko Eskola: Yes, that's a good question. What is normal? And if you look at the quarters before the fourth quarter, they probably were not normal. They were probably too low, and then we had a too high fourth quarter.

You are right. We had exceptional deliveries in Energy Solutions, but at the same time, we have always in Wärtsilä's history, almost always, had a very strong fourth quarter. So if your question is, are the fourth quarters also going forward be stronger, let's see. But that has been the development.

So also, Marine Solutions did a quite good quarter, and services, I think -- and services was the best quarter ever also. So it's not only the stock engines we were delivering.

So I don't know. I cannot tell you what is the running rate going forward, but at least when I look at the development with what we have seen in Energy Solutions, it should be even now, a little bit more. We have a good visibility in Energy Solutions. Not so good in Marine Solutions, and as you can see from our order book, it's a bit higher than last year.

Manu Rimpelä: OK. And second question on the utilization rates of the -- if we take the equipment business as a whole, which I think is one way to look at it. So we're seeing very strong energy momentum, and then quite the opposite on the marine side.

I think you also announced new cost-savings measures in the marine business, so how do you see the overall utilization rates in equipment going into 2017, and do you believe that you can improve the profitability of the equipment business with the energy strength offsetting the marine weakness?

Jaakko Eskola: The utilization in our factories for the first quarter is going to be good. Of course, you need to look at the different places and the different business lines, and if you look at engines, if there's a drop in marine, energy can pick it up. I mean, they're the same engines, basically.

But if you look at the other products in Marine Solution, and that's why Marine Solution is looking at a little bit more on -- looking at the savings, because of the market situation. So we need to look at the different business lines where energy cannot pick it up, and let's see how that develops.

I'm happy to see what's going on in energy, and the momentum is really good in there. So, with the big factories with the engines, it looks better than previously.

Manu Rimpelä: OK. And the final question was just on these new prospects that you are providing. So you are saying that the overall demand for Wärtsilä's service and solutions is expected to be relatively unchanged, but at the same time you are saying there is a solid in service, with growth opportunities.

So just for us, because this is the first time you've provided guidance like this, how should we interpret that the other one is unchanged and the other one is solid? So are you losing market share, or is there something else that we should think about?

Jaakko Eskola: No, I think it's a good question. But if you look at what we are saying, relatively the year is unchanged. This year looks like last year. Marine is definitely down, but at the same time energy is up, and we have been many

years now, or many times been talking about aiming a service growth of around 5%, during the cycle.

So if that helps you to analyze the text better.

Any more questions from the audience here? No? Should we move to the line?

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

Your first question comes from the line of Johan Eliason from Kepler Cheuvreux. Please ask your question.

Johan Eliason: Yes, hello. My first question, really, is regarding the energy side. You say in your outlook statement that the pricing environment in solutions -- Energy Solutions has stabilized, but the order book is still impacted by competitive pressure seen in previous years.

At the same time, we have sort of seen the value per megawatt in the order intake increasing over the year. How should we think about the margin development in the energy side? Can it still improve for 2017 over 2016, or are you sort of aiming for it to remain stable at least?

Jaakko Eskola: Thank you for the question. If I first say a bit about the margins. As we have stated, we still have in our order book, from history, some low-margin business, and that's definitely affecting, a bit, this year, at least at the beginning of the year.

But regarding the pricing, and how going forward, if I ask Javier Cavada, the Head of Energy Solutions to tell you a little bit more.

Javier Cavada: Thank you, Jaakko. Exactly as you mentioned, we have in the order book orders coming from one year ago, and from two years ago. We see the price pressure normalizing, and then that we are being able, through our value proposition, be able to defend our margins.

So we see that indeed, our new orders are having a better margin than those years in which we're having an enormous competitive pressure, and an enormous low demand in the market. But that situation is improving, so it means that the order book is getting better day by day.

Johan Eliason: Good. And any update on the El Salvador project?

Javier Cavada: El Salvador project is a very good question. The government of El Salvador has extended the delivery time of the schedule of this project. If we look at this revised schedule, it's expected to start operations of the whole plant, and the whole LNG infrastructure around the plant in 2020, and that means that we should start all the site activities in El Salvador in 2018, at the beginning of the year.

That means that according to that, the schedule is moving positively, but the schedule, as you can see, has been delayed due to the complexity of the project itself, and the size of the project itself.

Johan Eliason: Excellent. And then, a question if I may on this Carnival order. How would - - you say it's performance-based, but how would a typical -- you could say this is sort of an outsourcing agreement -- the margin development look like?

Will it be sort of weak-ish initially, and then you will reap the benefits and the good margins toward the end of the contract lifetime, or how do you see that playing out?

Jaakko Eskola: Thank you. I'll let Pierpaolo Barbone to talk about it. He just came back from Miami, so fresh from negotiations. Actually, signings, sorry.

Pierpaolo Barbone: Thank you for asking. This, first of all, is a performance-based logistic agreement. It is related to the optimization of the performances of our equipment onboard. Or in particular in the engine room, the engines related to the installations, the 79 ships. That is around 80% of the Carnival fleet, by the way, so very important.

Performance means that we have certain targets. And if the targets that are accomplished or improved, let's say, the agreement is rewarding both. It is

rewarding us and it is rewarding Carnival. In particular, rewarding Carnival through a lower consumption rate. And that is -- backfires to us with a positive rewarding in terms of additional margin.

So, to answer to your question, it is very difficult to predict the trend and also the flow of the margin along the 12 years. But according to what we believe, it should be a stable agreement, let's say.

So, also because in this agreement is embedded in 654 installations. These installation are embedded in the 654 installations that we have globally covered by agreement record also this year, so that this gives a great stability to our sales and our margins.

I think it's good to ...

Johan Eliason: Is this type of agreement sort of in line with your normal agreement margins or services margins or ...

Pierpaolo Barbone: Let's say it will improve our margin if the performances and the targets that are reached and are overcome. So, when we perform better, for sure, we believe that the target should be higher. And we would have a higher margin.

Johan Eliason: OK. Thank you very much.

Pierpaolo Barbone: Thank you.

Jaakko Eskola: And it's good to remember now in this deal that it's EUR905 million for 12 years. So, divide it by 12, you get the annual number. And remember that Carnival already is our customer. So, it's not adding all that yearly number to our net sales. So -- but it's important that now there is a possibility to get even higher margins.

But it's also that now we -- now Carnival and we have agreed it's a partnership. So, earlier on we needed to fight it every day. And now it's a steady ...

(Crosstalk)

Pierpaolo Barbone: It gives -- it is a great stability for 12 years. It made -- it is giving also an optimization of the logistics, optimization of volumes for the logistics of the parts, of the optimization of our resources globally, our footprint. So, that's add -- an add-on.

Jaakko Eskola: Yes. OK. Next question.

Operator: Your next question comes from Ben Maslen from Morgan Stanley. Please ask your question.

Ben Maslen: Yes. Thank you. Morning. Three questions please.

Firstly, on cash flow, which was strong in Q4, as you say, can you just talk about what's the outlook for cash flow in 2017? And the balance sheet is obviously in very good shape. What are your plans for this year? What's in the M&A pipeline? You haven't done much for a while. Thank you.

Jaakko Eskola: That's, Ben, very good question. And good morning. And Marco is really excited to talk about -- more about the cash flow. Please, Marco.

Marco Wirén: Thank you.

Jaakko Eskola: Marco Wirén, our CFO.

Marco Wirén: Of course, we also record the cash flow is very good. And if you remember 2015 we also said that we should get more normalized cash flow in 2016. And we actually got very good development on that.

And, of course, our ambition is to continue to do different measures to secure that we will continue to have very good relationship between EBITDA and our cash flow.

When it comes to our net-cash position, of course, now we have a net debt of EUR150 million and net gearing of 7%. Our ambition is definitely to find good investment opportunities to our owners.

But, as I've said before, our ambition is not to sit on a huge pile of cash. If we have that in a longer period of time, if we can find good objects to invest in

and give good returns to our shareholders, of course, we find other ways of adjusting that as well. I hope ...

Ben Maslen: Got it. Thanks, Marco. The next question's on Energy Solutions and your order intake. There was quite a big pick-up in megawatts in the Americas. It went from 600 megawatts last year to just over 900 megawatts.

Can maybe Javier just talk about what's driving that? Is this back-up for wind power? And just how does the US market look, going forward? I think there were a lot of wind installations going in, but obviously there's an administration change. How does the environment look, going forward, in the US? Thank you.

Javier Cavada: Thank you very much for the question. I like to highlight that globally we have gone from 2.4 gigawatts to 3.5 gigawatts. So, it's 1 gigawatt of growth in order intake, so it's an -- it's a growth that we are seeing happening globally.

And is this -- this is following our value proposition of being able to integrate renewables to our faster start-up and very flexible and stable power generation. So, that's helping us in Asia, helping us in Americas. Both Asia and Americas went up very strongly in 2016.

And if you are asking about US, indeed, we see great opportunities, great. Like in other regions in the globe we see great opportunities also in US. And these opportunities come from the need for this even unbalanced, unintegrated renewables into the whole electrical system of the different estate.

So, we have plenty of opportunities. The pipeline is growing constantly and US is not an exception. And we are really, I mean, very -- quite optimistic on the developments in the near future in this country.

Ben Maslen: Thank you. And then just maybe finally, if I can. Obviously the new SOx emission regulations come into force in 2020. Can you just say what level of scrubber sales you had in 2016? And do you have a view on how large the market will be when that legislation all kicks in or in anticipation of that? Thank you.

Jaakko Eskola: Thank you Ben. And, if you allow, I let Roger to talk a little bit more about the environmental situation.

Roger Holm: Yes. Thank you for the question. Scrubber sales last year was quite slow. But now due to the new regulations coming up we have seen clearly much more activities on the enquiry side on scrubbers. But equally much, as well, increased interest going up also on the LNG side.

I don't think we will see a very quick ramp-up on the scrubber side. It will come slowly during the coming years. And still to be seen how the split will be for fuel selection and scrubbers or LNG as a selection. So, this is something we are following closely.

Ben Maslen: Thanks. But you don't have a forecast for where you think the market will go?

Roger Holm: No. Not at the moment. And the split; it's too early to say how the split will go between the different technologies at this stage.

Ben Maslen: Got it. Many thanks.

Roger Holm: Thank you.

Jaakko Eskola: Thank you.

Operator: Your next question comes from Michael Kaloghiros from Bank of America. Please ask your question.

Michael Kaloghiros: Yes. Good morning everybody.

My first question just on the cost savings. I think you announced an additional EUR45 million to come in 2017, 2018. Just want to make sure this is incremental on the EUR30 million that you will have in 2017 already from the previous programs.

Jaakko Eskola: Yes.

Michael Kaloghiros: And if you can give us a little bit of details on when we should expect the restructuring cost to be taken and the profile of these cost savings in terms of time.

Jaakko Eskola: Thank you, Michael. And, yes, it's incremental. It's -- we need to look at that as I explained earlier. We need to look at what's going on in the marine sector. We say that it's EUR45 million. And the cost will be -- non-recurring cost will be around EUR35 million. During this year would probably be the right sentence, Roger, for non ...

Roger Holm: The savings will come this year and next year.

Jaakko Eskola: Savings this year, next year, and non-recurring this year.

Michael Kaloghiros: Good. Second question just on the performance in Q4 and looking forward.

I think that when we have discussions after the Q3 and around how you would be able to do that in a strong Q4, you were highlighting the strong deliveries, the better mix. And you also suggesting that there would be a bit of contingency released just on the back of what you've seen on projects at the end of Q3.

I just wonder if you could maybe quantify these in Q4, and whether in 2016, as a whole, contingency release has been abnormally high or normal or maybe below the usual. If you can give us any details on that.

Jaakko Eskola: No, I -- no. Regarding those contingencies and percentages or whatever, no difference. But we had a lot of deliveries. We had a lot of deliveries for many projects.

Michael Kaloghiros: (Achieved), yes.

Jaakko Eskola: So, if you add that one, I mean, there was nothing extra element on those.

Michael Kaloghiros: Good. OK. So, nothing abnormal except the (inaudible) in deliveries?

Jaakko Eskola: No.

Michael Kaloghiros: Just relating to the Q4 and the good cash flow, last year you had obviously those engine that you bid for the -- those fast-track deliveries that didn't happen in time. And you were left with a lot of equipment in inventories and receivables. How much of these have now been delivered? And any of that -- of those inventories are yet to be delivered in 2017? Or everything has been delivered in 2016?

Jaakko Eskola: I don't have any percentages. So, I mean, most of the inventories have been delivered. We still have some engines in our stock from history. And -- but in Energy Solutions they have been extremely good in finding customers for those engines. But it's getting smaller and smaller. It's not a big headache any more for us. It used to be earlier last year, but, now it's getting in a normal level.

And I think it's important to mention here that we don't build anymore any engines in stock. I mean, we need to have a customer to -- down payments, the financing in place. And otherwise we don't start building anything.

Michael Kaloghiros: And maybe last one on energy. I think you highlighted that you're confident on the US. Just regarding the other emerging market, obviously there's been a bit of currency volatility in the past. I think you were affected by that.

I think -- do you think that the current environment in your discussions with your customers make them a bit more cautious in placing orders? Or they're still very happy with that?

And also I think in April you highlighted that you were moving into solar EPC with like a 40-megawatt order that was supposed to come in Q4. I'm not sure this has been confirmed. Can you confirm us whether this solar EPC contract has been confirmed in Q4? And what's the outlook for solar EPC basically?

Jaakko Eskola: Yes. Thank you. Javier, would you comment on pricing and the solar?

Javier Cavada: Yes. Very good, indeed, and thank you for the question. Regarding US, it's very much linked to what we -- we were answering before. I mean, we see

opportunities continue. There is big investment appetite in the market looking at the change from traditional base-load technologies to renewables in US.

And our value proposition is by far the best in United States today with big difference to any other else to bring these renewables into the grid, which has flexibility, quick start and quick ramp-down on the stability of the grid. So, for that reason, we are very confident that we are going to continue strong and increase that strength in the US.

Related to solar, thank you for the question. Indeed, we announced the first deal. That was in Middle East in Jordan that is -- that was a 40 megawatts. Now the deal has been developing looking at the hybridization of the plant. We expect this plant to be booked in -- along this year, 2017, and the start all the execution onsite also this year.

The plant has grown to 52 -- just to give you a hint -- megawatts. So, it's growing, since we are developing this solution with our customer. But our pipeline of projects in solar is very strong and is growing stronger and stronger every month. Since we entered in this market the response from the customers, from new customers and existing customers, has been very proactive, very enthusiastic.

And we see in our traditional markets where the radiation of the sun is very strong, South America, Africa especially, Middle East and Southeast Asia we have plenty of opportunities and the pipeline is getting stronger. It's a matter of timing and when we expect to be able along this year to give you news, not only on that deal, but several others.

Michael Kaloghiros: Very good. But just to comment, Javier, on this discussion with clients in emerging markets given like maybe more volatile environment post-US elections, any change in your discussion?

Javier Cavada: Nothing. I mean there is, of course -- everybody is expecting what could happen. But, indeed, all the planned for investment, all the structures in the country, are very robust. And all this technology change is unstoppable. I mean, renewables are going to increase.

The traditional base-load based on coal and other sources that are not acceptable any more. And our technology is there; I want to highlight it again. It's by far the best technology to integrate the renewables and US is going to be a forerunner.

Michael Kaloghiros: And no concern not having manufacturing of engines in the US?

Javier Cavada: No concern.

Michael Kaloghiros: Good. Thank you very much.

Javier Cavada: Thank you.

Operator: Your next question comes from the line of Sean McLoughlin from HSBC. Please ask your question.

Sean McLoughlin: Good morning. I have three questions, if I may. Firstly, energy solution orders, you've talked very enthusiastically about the US yet you've booked a couple of, I think, quite significant deals in Europe. Obviously, there is higher presence of renewables already there. So, I mean, how real and how promising is the opportunity in Europe?

Secondly, the rapidly divergent volume trends in your different equipment divisions, how easy is it going to be for you to balance these internally? I'm wondering how do you retain high efficiency in both segments? How is it -- how easy is it for you to overlap, let's say production stuff, from one end market type to the other and are there more adjustments needed to optimize your manufacturing set-up in 2017?

Lastly, on Carnival, is this your strategy, going forward? In other words, long-term partnerships, performance-based, long-term deals? How quickly do you think the Carnival deal can result in other wider agreements with other cruise customers? And how are you seeing appetite in other marine segments for this kind of arrangement?

Jaakko Eskola: Thank you. If I start your second question, the efficiency, and I start first of all telling you about our achievements on operational excellency. And then I ask Marco to say a little bit more.

Because we have been talking about the operational excellency and it's not a project. It's actually -- it's our new culture also in Wärtsilä. We look at our facilities, and not only our facilities, but our operations throughout the life of a product or a work from suppliers through the installation places.

And then marketing, sales and so on. Even the facilities here like in head office, taking out waste and being more agile when the market goes up and down, as you have been seeing it.

And, Marco, tell us a little bit more. I mean, what are the achievements, so far?

Marco Wirén: Yes. I can give you a couple of examples. If you go to one of our largest factories, where we have the big engine line, we can be decreasing the throughput time in this line by 50%. And, of course, it varies a lot between different sites. But I would say that every time we start doing these operational excellence, efficiency programs, we find a lot of waste that we can eliminate and, by that, we can improve our performance as well.

And, of course, one thing that we are quite certain is that volatility will be there a long time ahead. And that's why our main concern has been to increase the flexibility. And one of the targets in operational excellence is to get flexibility much more in our operations in whatever we do.

And I think that we are in a good way, but, we are not there yet. But I would say that every month we get improvements in different areas.

And also what comes to your question about how easy it is to switch between different segments I would say that in -- if you like, take energy solution and Marine Solution, just like Jaakko mentioned earlier, it is the same facilities.

Energy Solution is basically engineering and project-management company with no production facilities at all. All the production facilities are in Marine

Solutions. So, it's the same people actually doing the products while the engineering is different.

Anything else? Thank you.

Jaakko Eskola: Thank you, Marco. And this is a lot of eliminating waste and Marco is very good in eliminating waste. So -- but, Javier, Energy Solutions and the renewables in Europe versus US?

Javier Cavada: I mean, I like the question very much, because, indeed, (really) we were sounding very enthusiastic in US that we are. But, of course, it was related to the two questions we got about US.

And Europe we are still really enthusiastic also. I mean, we see big developments in similar direction, especially in Germany. You saw the combined power plant that Jaakko was mentioning also in UK, and in the whole continental Europe we see plenty of opportunities for integration of renewables. And we expect to have growth also in this region looking at our history.

If you look at Ireland, we still have our core-value proposition for decentralized Energy Solutions. And that is a -- it's a sector that the competition is really fierce. But, again, our technology is by far the best for this purpose. So, we see Europe with big focus, and also positive optimism.

Jaakko Eskola: Thank you Javier. And Carnival, yes, we are definitely looking at these kind of a new agreement, performance-based agreements. And when do you see the next one?

Javier Cavada: Tomorrow morning.

Pierpaolo Barbone: First of all, I have to say that this type of agreement that are extremely important for both companies, are tailor-made. So, are negotiated in the scope of supply in a very dedicated, specific way.

And not only because you have to, in a way, accept the concept of sharing the advantages and the risks. So, it's a performance-based agreement, and you

have to be open for that for both sides. And we -- from our side, we are. But not necessary all customer would or could be.

The second; this specific agreement requires an operative cooperation between the companies. And this operative cooperation implies skill and competencies for -- from both side in order to perform the activities and plan the activities and be operatively tuned.

Not necessarily all companies have the same profile. And we, in general, are negotiating with them all these specific clauses according to their wishes.

Anyway, commenting, well, we are offering this type of agreements. Our pipeline is strong. And I said it also one quarter ago in the same form that our pipeline is strong. We had in services a record year for many aspects, but not in the order intake. And when I was commenting the same three months ago, I was telling that but our pipeline is strong because we -- I knew at that time that we were negotiating this agreement and other agreement. And, well, unfortunately, it came not within the 30 -- the 2016. If not, we would have a record also on the order intake.

But this is -- I can comment that our -- again, that our pipeline is strong. Of course, this magnitude of agreement are not normal. This is not the normality. But we have a number of very interesting agreement for the near future.

Jaakko Eskola: And many customers are now interested. I mean, they read it and, of course, they call you now.

Pierpaolo Barbone: Absolutely. Night and day.

Jaakko Eskola: Thank you, Pierpaolo. I hope he answered the three questions.

Sean McLoughlin: That's very helpful. Thank you.

Jaakko Eskola: You're welcome. Thank you.

Operator: Your next question comes from the line of Max Yates from Credit Suisse. Please ask your question.

Max Yates: Thank you. Just my first question would be on marine orders. If we look at the kind of run rate that we've been doing in the last couple of quarters, it's around EUR270 million a quarter. When you look at Clarkson orders, is that a fair sort of run rate, as we move into 2017 and how we should we think about the quarters being for next year?

Jaakko Eskola: Roger, why don't you tell a little bit more. I mean, of course, the same kind of the segments are there, but something which you don't see in Clarkson statistics are the FSRUs. But could you please open it up?

Roger Holm: Yes. If I start in general, as we have said before, due to this low contracting we see fluctuations and that we don't expect to change this year either. And the figure alone is not the only thing to look at because, as Jaakko mentioned, one good example is we see a lot of activities on the receiving end of the gas side, so, FSRUs.

And for us we don't need many orders on that side to have a clear impact on our order intake. And some of these are also retrofit, so, it's not related to new-vessel contracting at all.

At the same time, we see the same segments still being active, meaning cruise, ferries, Ro-Ro rollbacks, continue to be active. So, it's difficult to answer exactly your question. We will -- we see opportunities in a challenging market. And we don't need many of these interesting gas deals either, to make a good impact for the quarters, going ahead.

Jaakko Eskola: And the FSRUs are important. I mean, you can -- if you don't remember, but you can go back to the Capital Markets Day and we opened up also, I mean, what it means in volume-wise in different segments. So, FSRUs are good ones.

Roger Holm: And, just to remind, depending on -- a bit on the scope on gas and engine side it can be a potential for up to EUR30 million, EUR45 million, for us for one deal.

Max Yates: OK. And just my second question would be on obviously merchants within the services businesses is now the largest proportion within marine. Could

you just talk a little bit about how the outlook is there? How you're seeing ship operators behaving? Whether you're seeing any uptick ahead of regulations coming in on the environmental side, people trying to speed up dry-docking? Or, alternatively, whether actually rates are still low.

A lot of these guys aren't making money. Is that segment coming under any pressure? Just a little bit of detail about how that's trending.

Jaakko Eskola: Good question, because merchant is a difficult area today. And, OK, Pierpaolo can answer. Roger could have now been, but you do it. Please, go on.

Pierpaolo Barbone: Well, from the dry dock especially, it is extremely related to the single company, how they do it. How their business is going and so on. So, companies that have solidity, that their activities are running properly, then they have also the time and the money to invest and to implement this type of action.

Other companies, the companies that are savers, let's say, they try to postpone, of course. And according also to their business profile. So, it is -- we cannot generalize. But we are extremely positive because we believe that in short -- in a short time we -- this will be clarified and the -- our customer will go into the implementation phase.

So, the perspective are positive.

Max Yates: OK. And just my final question, Jaakko. It's just on the overall Group profit margin. Obviously, we've had the 14% long-term margin target in the background for a while. And if I look at the last three years' profitability it's been flattish, give or take, around the 12% mark.

Next year we're talking about marine being soft, services being OK, energy a bit better but with pricing -- I mean, when I look at it overall, it feels like it's another year of some things going right, some things very tough. Is there any reason that margins should be going up next year on the basis of that ongoing mixed environment, which is very similar to the mixed environments which we've seen over the last three years?

Jaakko Eskola: Very good question. Yes. I -- you know if we succeed to increase services even more than we have been talking about, that's the one element. If marine comes back a little bit more on -- for example, with higher oil prices, that would definitely help. And, of course, we talk about it, operational excellency, which is all covering our operations and the new adjustment programs, and so on. We can improve our efficiency.

So, let's see how we succeed with all these plans, then we are getting closer to the aim which is still there, 14%, one year at least. And looking at that one.

Max Yates: OK. But, in terms of next year, does it feel like we'll be improving on where we are this year given everything, demand, sales, given where the backlog is seems to be broadly flat? Is there anything specifically on the margin side that should be getting materially better?

Jaakko Eskola: Let's see. But I'm looking at Pierpaolo and our services. I mean, let's see how that starts developing also now with Carnival. I mean, that would definitely help the whole situation.

Max Yates: OK. Thank you very much.

Jaakko Eskola: Thank you.

Operator: Your next question comes from the line of Christer Magnergård from DNB Markets. Please ask your question.

Christer Magnergård: Good morning. Just a few questions left for me.

Firstly, on the outlook when you talk about demand for 2017, when some companies are talking about demand, they're referring to order intake and some companies are referring to sales. I just want to clarify what is it that you really refer to here?

Jaakko Eskola: In order intake in Marine Solutions. So, is (good)?

(Off-Mic)

Marco Wirén: And his order intake.

Jaakko Eskola: Roger, you want to say something about ...

Roger Holm: What was the question? In general, to overall ...

(Crosstalk)

Jaakko Eskola: Could you ask it again? We're a little bit lost.

Christer Magnergård: So, the -- yes, I'll repeat the question. The -- when you have the prospect for 2017 you, for instance, say that you have a solid demand outlook for services. Do you refer to sales or do you refer to order intake?

Jaakko Eskola: This is the market demand. It's actually how the market is changing.

Marco Wiren: Order intake.

Jaakko Eskola: In order intake, how market looks like this year.

Christer Magnergård: Excellent. Thank you.

And then, given that there is still some price pressure in the order book for the energy-solution business can you not quantify, but can you say anything about the profitability for Energy Solutions compared to Marine Solution? That is, when you have growth for Energy Solutions in 2017 for sales, is that positive for the margin or is it negative for the margin (sort of mix)?

Jaakko Eskola: No. I mean, let's not talk about margins between different divisions. But, of course, every division in Wärtsilä is looking at the profitability. I mean, they have their targets. They improve the profitability year by year. And let's see how Energy Solutions succeed now. As we commented, the new deals are with better margins than they used to be. So, that's definitely helping.

Christer Magnergård: OK. Thank you.

Jaakko Eskola: Thank you. And, with this one, I think we need to stop. And thank you for all being here and also on the lines. So, thank you for great questions. And see you in April. Thank you.

Operator: And ladies and gentlemen, that concludes this conference. Thank you for your participation. You may disconnect.

END