

WÄRTSILÄ CORPORATION

Jaakko Eskola

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OPERATOR: This is Conference # 4674569.

Jaakko Eskola: Good morning, everyone, and welcome to Wärtsilä interim report January-March 2018 presentation. This morning, I have here almost all board of management to help me with the questions and answers, and Natalia Valtasaari, Head of our Investor and Media Relations. I have a short presentation and then we can go after that one to questions and answers.

First of all, a couple of words about the quarter and what's happening in the market. I would characterize the development of the start in 2018 as a favorable operating environment for our equipment businesses.

Energy Solutions today is developing well and at the market dividing into the developing world development and the – developed world development is going well. Wärtsilä is emphasizing a lot to help the story of renewable energies, at the same time, helping the developing world for their infrastructure story.

Marine Solutions, finally the world looks a bit better and, of course, our solutions are well fitted to some of the segments like cruise and ferry and gas carriers, which are developing favorably.

Economic outlook looks good. But at the same time, we see some geopolitical uncertainty making changes in our customers' decision behavior. You can see this – in this quarter also how the services has developed. And compared to Services to our equipment businesses, the sales mix has actually burdened our profitability.

It's good to remember that the world is developing well, what comes to new digital solutions, and Wärtsilä is spending a lot of resources and money in our future. You have seen our latest idea to make a new acquisition. But at the same time, we have developed our own digital platform.

Couple of numbers, order intake grew 7 percent, very good development, net sales 6 percent. Book-to-bill is very high, 1.41, result developed a bit, but as I said – a bit burdened by the mix.

Earnings per share of one – EUR 0.1. Now you need to remember that there are much more shares in the market, so that's good to remember when looking at that number. Cash flow, negative, and I will come back to that one also in my presentation a bit later.

Order book at the healthy level – over EUR 300 million more than previously. So equipment business development in order intake, marine 31 percent, it's a good development; certain segments where we're going to the right direction.

Energy was high last year, now a bit better. And Services last year was a high number, and so if we have a steady development, that's also good. Net sales, as I said, services mix a bit effecting to the numbers. Marine 13 percent up and energy 12 percent up.

If you compare the group numbers, now you can see how the mix has effected. Services is 50 percent of net sales, marine and energy 25 both. Book-to-bill at the good level.

Order book distribution, delivery, current year is up, which is, of course, good when you look at the year-end and also up also when you look at the next year or later deliveries.

Operating result, as I said, a bit better than last year, but it has been effected by the mix of Services being lower than last year compared to the equipment businesses. At the same time, you will see that the parts development in – within the Services is a bit lower.

At the same time, as I mentioned earlier, we have spent EUR 3 million more in digital development and in seasonal reasons, our R&D is up EUR 8 million higher than it was last year.

If I move on to the divisions, stable development in services and here you can see the distribution difference between different product areas, spare

parts 49 percent last year, it was 54 percent. Agreement is high, it's higher than last year and that's, of course, good.

Segments-by-segments, no big difference. Cruise and ferries is growing, and that should be the case when you look at the cruise orders and our success in the cruise market that should be growing also going forward.

Installed base, no big changes. It's a stable development and, of course, that's an area which should grow when you look at the agreements grow the – going forward.

Highlight here in Q1, we acquired, a couple of years ago, a company – or was it last year, American Hydro, which is serving the different kind of hydropower plants. Now we have got a big contract in – this is in U.S. and Massachusetts. And it's an announcement of our capabilities to modernize these plants and really get better into the industry.

Energy Solutions, Activities is at the high level. And if you look at the – our orders in the first quarter, it's a healthy order development. There were much more on utilities, gas a bit higher.

And if you look at the certain geographical areas, Asia is strong, we got a big order in Australia, and then you have a much stronger Africa and Middle East, America is higher. So good division also globally.

One highlight was the deal – is out of Australia, 211-megawatt power plant for an Australian customer, which is exactly supporting the story of Wärtsilä helping the renewable energy going forward. The more you add renewables, the more you need to add flexible power alongside.

Market increase – or market share increase. The market itself has decreased a bit. Wärtsilä's market share today is 19 percent.

Moving on marine, vessel contracting, a bit lower into Q1 compared to last year. In March, there were significant orders in cruise and ferries. I think it was even 24 ships. You had significant orders in LNG vessels and – which is, of course, those two segments are very much helping also Wärtsilä's future.

We had a good development in our order intake. Here, you see cruise now higher than last year, traditional merchant is very much higher. There you have some of the shuttle tanker orders we have got during the first quarter, which is, of course, when you look at the Korean markets developing well, where Wärtsilä plays an important role.

Highlight of the quarter is our acquisition or a plan to acquire Transas, which is a global market leader in marine navigation solutions and the training and simulation services, at the same time, also providing the ship traffic control systems.

The value of transaction was EUR 210 million, and we expect to close it now during the second quarter. Fits well, just brought on to the marine strategy where we are looking at the Smart Marine ecosystems developing globally.

Marine Solutions market share, now we have a new slide here. We use to show you the market share of medium speed, main engines and the auxiliary engines. But as you know, Wärtsilä is today much more than engines and it's much more valuable to tell you where we work in different segments, what can we provide to the systems – or the segments, and whether we are the top player or challenger or one of them – one of the mid-players.

Here you have the segments. Gas carriers and cruise and ferry, we are definitely the top player, different kind of systems, as you see there. Main engine is quite often one of the items, but, for example, gas systems, it could be a vessel which doesn't have any engine, so then you only talk about gas systems and auxiliary engines or the ship is not moving.

Then you have the traditional merchants, which included, of course, bulkers, tankers, and container vessels. You have offshore and then some special vessels like trenchers and pocks and the navy's.

So this is a new way to show where we are, and let's see how we can develop this one going forward even further. But this definitely tells you more about where Wärtsilä works with different solutions.

Financials. Cash flow, low. Purely effected by working capital and mainly in marine solutions, where we are, of course, preparing us for the future deliveries and certain taxes we paid in advance.

And then here you can see the working capital development also in the group. Gearing, 0.21 and to finalize the presentations, the prospects for this year, unchanged. The demand in business areas in services is good, in energy solutions is good and still solid in marine solutions.

So this was the presentation, and now we can open the lines and, of course, are ready here for questions and answers. And I would like to point out that there definitely are a lot of people also on the lines, that if you could limit your questions to one question and then one follow-up question so we could get everybody on the lines to have the possibility to ask question.

But first of all, anybody here? Here we have one question in the audience.

Erkki Vesola: It's Erkki from Inderes. If the outlook still is solid in Marine Solutions, even though your order intake was – grew more than 30 percent, what should we expect in terms of order intake in Marine Solutions going forward, because it was a slight disappointment that you didn't improve the outlook.

Jaakko Eskola: Yes, it's a very good question. And actually, if you look at the market there the – some of the segments are not developing out there, they're developing differently.

The steel merchant is a little bit slow offshore, no developments, and then you see some of the cruise and ferries and the gas carriers developing well. So we still keep the solid in Marine Solutions, because the environment is, in our opinion, challenging. Let's see how the world or the year goes ahead, and whether we need to look at it differently.

Erkki Vesola: May I please, have a follow-up. It's not actually a follow-up, it's about the new slide that you showed that, are you going to define the challenger, mid and top players, in terms of your ranking or market share, et cetera?

Jaakko Eskola: Let's see how it – I mean, top player means that we are one – number one or two, the mid player is number three and something four, five, depending

on how many players you have there. So let's see, I mean if the market needs to understand it even better, we can come back to define it even better. Anybody else here in the audience? Then we can go to the lines.

Operator: Thank you. If you wish to ask a question via the telephone please press star and one on your telephone. And we have quite a few questions on the line.

The first question comes from Max Yates from Credit Suisse. Your line is open.

Max Yates: Thank you. Just my first question would be around the EBITA and the investments that you talked about the EUR 8 million increase in R&D and the EUR 3 million in digital.

Could you give us just any kind of idea of how one of these were in the quarter? Or whether we should expect that perhaps your R&D could be up EUR 20 million this year, your digital investments could be up EUR 10 million. Just to give us a kind of contextualize these on what your expectation is for the full year. Thank you.

Jaakko Eskola: Yes, if I start with R&D, that was more seasonal, this was more for the quarter one and I don't expect our R&D expenses to be towards the year higher than they were last year. So that's a – that's more a seasonality.

Digital development, EUR 3 million more, we are actually going to spend quite a lot of money in digital. The number, I don't have it at the moment because also the market is developing towards all kinds of different solutions. But it's going to be higher. If you need to multiply that EUR 3 million by 4, you can do that the one, but I don't have a number for you at the moment.

Max Yates: OK, just a second question would be around the outlook comments and what you talked about sort of customer decision-making being effected. Was that in a specific division? Or was that a sort of broad comments across all three divisions? Just trying to sort of target exactly what you were talking about there and what is being impacted.

Jaakko Eskola: Yes. Thanks, Max. Overall, of course, everybody is concerned today about trade wars, and you need to be careful. But it hasn't made any changes in our decision-making in the equipment side, so no effect there.

But on – those elements are effecting, though our – some of our segments in our services behavior that they are more looking at the spending. And it's more like being cautious that how the spending, transactional spending in merchant and offshore is going to develop.

So it's more to say that, let's see what's going to happen. Trade wars can, of course, create all kinds of difficulties. But that's, of course, now – globally the economic outlook is good, but you need to be concerned.

Max Yates: And I presume nothing in the first sort of month or so that we've had of Q2 has really changed given this – I mean, this is going on right now, so I presume we've not seen any real improvement in the first month of Q2?

Jaakko Eskola: I don't want to start guiding, Max, our quarters, but I would rather say that the more you delay one stage you'll anyway need to do the services. So this might be seasonal effect and – so let's see.

Operator: Thank you. The next question comes from the line from Manu Rimpelä from Nordea Markets.

Manu Rimpelä: Good morning. My first question would be on the services sales split. Can you just help us to understand that why the spare parts fall to 49 percent of service sales from 54 percent a year ago?

Jaakko Eskola: Thanks, Manu. May I ask Pierpaolo to open it up a bit.

Pierpaolo Barbone: First of all, I will say that as you have seen, our order intake this quarter has been extremely high. Last year, same quarter, was a record, but this year is even bigger record, but this year we didn't have any catalogue.

So we had the very interesting project from – in the order intake, and it changed our profile. As you know, our order book for 2/3 is related to long-term agreements. In the sales of every month, 2/3 are related to transactional business.

So in the transactional business, we have assisted to – we have seen for – especially for merchant sales a purchasing behavior on essential components and essential activities and orders. And this is the reason for this transactional flat development.

Manu Rimpelä: And on specifically, if I look at the spare parts, so that sales declined year-on-year, whereas the whole service sales was flat, so anything specific behind that?

Pierpaolo Barbone: Not anything specific, but we have also to remember that on the agreements, in – the agreements is not pure fee-service transactional, and in the agreements are also parts.

So let's say, parts is part of your transactional on the agreement, we have a certain portion of parts as well. So that's also one explanation.

Manu Rimpelä: OK, I guess those were my two.

Operator: The next question comes from the line from Alexander Virgo from Bank of America.

Alexander Virgo: Thanks very much. Just a couple of questions, actually picking up on that last one. If the customer behavior is changing as a result of geopolitical uncertainty and effecting the transactional business, does that raise a question with respect to the requirement for revenue that you need in the balance of the year?

I think if you look at backlog for delivery this year, it would imply somewhere north of 10 percent to 15 percent or so growth year-on-year in transactional business. So any comment you can provide on the color around, that would be helpful.

Jaakko Eskola: First of all, we are not changing our prospects for the year-end. So I mean, let's see, this was the first quarter and there is a concern in the market. I'm – no need to start wondering that whether they start or they stopped buying or so, but it's good to remember that this might effect the decision-making.

And of course, when looking at the different quarters within Wärtsilä, they are different. So still we speak to what we have said earlier, towards the year end, this is not affecting the year-end, yet.

Alexander Virgo: OK. And then just (inaudible) would be if the (inaudible). Can you talk a little bit about how that effects your mix given the EBIT in the first quarter was probably a bit disappointing because of the mix effect?

Jaakko Eskola: Sorry Alexander, we lost some of your question. Could you repeat it?

Alexander Virgo: Yes, of course, apologies. It was just that, if your service business was flat and slightly disappointing I suppose in the quarter because of these concerns, can you talk a little bit about how that would effect your profitability through the balance of the year given it really effected the profitability in the first quarter?

Jaakko Eskola: As I said, no effect to whatsoever the year-end looks like. Now there was a certain behavior, let's see how it develops towards the next quarters, and so on. And if the mix is as it has been in earlier Wärtsilä numbers, there is, of course, no change.

Here in quarter one, it's good to remember that FX was also effecting negatively to our Services numbers, which was actually four – minus EUR 41 million. So that dropped a bit also the services' net sales.

Alexander Virgo: OK, that's helpful to know. Thank you very much.

Operator: And your next question comes from the line from Sven Weier from UBS. Your line is open.

Sven Weier: I was actually exactly wanting to touch on that point of currency, because I think if I do the adjustment, your service revenues were up seven percent, eight percent, so not so bad.

And shouldn't you also see a positive impact during the rest of the year on service, both from a bigger merchant fleet, bigger hectares merchant fleets that we now have, and more activity on scrubber retrofits? That would be my first question.

Jaakko Eskola: Exactly, Sven, you are right. Of course, the FX was effecting. And as I said earlier, we are not changing anything towards the year-end, and that there will be more merchant vessels. The behavior in merchant and offshore is not always understandable, so that might always effect the different quarters. But that's developing to the right direction.

And as scrubber orders both in marine and Services is going to help us. And the first quarter was very positive, we got a lot of scrubber orders in Marine Solutions itself, but also scrubber orders from – which we will be delivering to our service organization.

Sven Weier: Good. And my follow-up question would be on energy power plant solutions. Maybe, I don't know, if Javier is on the call, but maybe just a brief comment on the pipeline.

Jaakko Eskola: Yes, Javier is here. And I'm sure, he is willing to comment on.

Javier Cavada: I'm here, definitively, and thank you for the question. I mean, we have a strong pipeline, and I have to say that this is getting stronger in both – as Jaakko was mentioning, both the developing world to provide flexible baseload power.

But in the developed countries like U.S., we see constantly strengthening our position. We have seen the Australian, our biggest order ever in that country. We see in Europe, also our position is strengthening. So we remain thin. The full transformation of energy into renewables is making our position strengthen day by day.

Sven Weier: So basically, pipeline getting more active and, therefore, good outlook for the remainder of the year?

Javier Cavada: Yes, absolutely.

Jaakko Eskola: It is important.

Sven Weier: OK. Thank you both.

Javier Cavada: Thank you Sven.

Operator: Thank you. The next question comes from the line from Johan Eliason from Kepler Cheuvreux. Your line is open.

Johan Eliason: This is Johan. Just coming back to the services, you blame lower service share, it's mix of revenues and then lower spare parts in that mix as well as one of the reasons for the weak margin in Q1 or at least versus our expectations.

Now isn't it so that you have been quite successful on these maintenance agreements, shouldn't we expect that the mix towards more agreement type of revenues, and those simplicity lower share of spare part revenues should change going forward towards a potentially weaker margin picture for the Services as such? Or how does the maintenance agreements impact the margins inside the service business?

Jaakko Eskola: Thank you, Johan. As Pierpaolo already said earlier, that the maintenance is that the agreement side, if that increases it increases the spare parts at the same time. So the – most of the agreements have actually spare parts included in their agreements.

So that's why we – when we say that the agreements are growing, is actually helping our business and our profitability, because we, first of all, have a long-term relationship with the customer, we don't need to fight for the transactional spare parts every year and every quarter and every month and every day, but it's actually included in the agreement, and that will help going forward.

If the agreements now are – or have been increasing, it's good still to remember they are long-term agreements and if agreements grows EUR 100 million, it doesn't grow our net sales immediately next month EUR 100 million, but it's divided for 4 years. But it gives the certainty that we can continue. And Pierpaolo wanted to comment a bit more on that.

Pierpaolo Barbone: Yes, I wanted to highlight also the operational profile of installation accounts. For example, you have seen in the graph it is flat in terms of megawatt installed, the graph. But in terms of installation, we have – from the end of last year, we had 10 more installations.

So it means that there is more installation, but we are growing in that field. And then when I said the operational profile, this means that we have an agreement, but then we perform according to certain schedule. If you have an installation that is big, a big plant, of course, the maintenance is scheduled differently compared to a low plant.

Johan Eliason: OK. Maybe just a clarification on the scrubber side, so I remember it correctly. So new builds scrubbers, they all go into the marine division. But retrofits, does it only imply that both the equipment and the services goes into the services? Or is it sort of split between the marine division and services?

Jaakko Eskola: If it's a new one, it goes to marine and if it's a retrofit, it goes to Services. Services buys the marine – or the scrubber from marine, but it's in the scope of the installation commissioning, and so. Yes.

Johan Eliason: OK. Thank you.

Operator: Thank you. The next question comes from Antti Suttelin. Your line is open.

Antti Suttelin: Yes, it's me here. Both questions on service. Why are you getting so good orders from service, but you have problems turning the orders into sales? Last year, your book-to-bill in services was 1.14, so really good book-to-bill, but sluggish revenues now.

Jaakko Eskola: Antti first, the answer is that the order intake in services what – it's based on the long-term agreements, and they might be – Carnival was last year, it's 12 years, and we only recognized 2 years of that 12 years in our order intake.

And at the same time, the development, when the sale starts, I mean, it doesn't immediately come into the picture. So – but going forward, I mean, step-by-step it increases the net sales also.

Antti Suttelin: OK. And then what drove service order intake now in Q1. You had flat, even if last year you had EUR 150 million of Carnival. So what compensated for the, let's say, loss of Carnival compared to this year versus last year?

Jaakko Eskola: Good questions, Antti. Pierpaolo, you could actually...

Pierpaolo Barbone: This is the difference we had last year. Last year, in the first quarter, we had no order intake linked to agreements. This quarter that was – this huge order intake is related to projects, the Warsaw and other projects that we had, including the scrubbers – significant amount of scrubbers, and so on. That is the difference.

Antti Suttelin: How many scrubbers did you book now in Q1?

Jaakko Eskola: Order of magnitude is around 40, 4-0, order of magnitude.

Antti Suttelin: OK. How much is one scrubber in terms of order intake?

Jaakko Eskola: Well, we can – it's different according to the size of the scrubber. And that was...

Antti Suttelin: But on the average?

Jaakko Eskola: Antti, that was the services order intake scrubber, marine had 34 scrubbers, and we have always said that the scrubber order is from – even from EUR 1 million to even to EUR 5 million in big cruise ships.

But then when Pierpaolo talks about orders, that includes installation as well, you should know average size.

Antti Suttelin: OK. But all in all, you had 74 scrubbers, 40 in service and 34 in marine. Well, is that rightly understood?

Jaakko Eskola: Approximately, approximately.

Antti Suttelin: All right. Thank you.

Jaakko Eskola: You're welcome.

Operator: The next question comes from Glen Liddy from JP Morgan. Your line is open.

Glen Liddy: Good morning. Could you give us an idea of what's happening in terms of pricing for each of the 3 areas of the business?

Jaakko Eskola: Thanks, Glen. It's challenging, but we haven't seen any negative changes. Of course, I would always highlight the marine, I mean, that has always been a little bit down and difficult market and, of course, there is a lot of players, there is a lot of overcapacity.

So it's a challenging market to get the orders. But we have – during the years, we have been able to protect our margins when we sell bigger solutions to our customers.

And then, of course, if it includes Services going forward, you can safeguard the margins in a bid. Energy, the story that we used to have a low-margin business and that's getting healthier quarter-by-quarter and year-by-year. So it's – Services, it would probably be the same, no changes.

Glen Liddy: OK. On the service business, you're installed base, so your percentage of your installed base. I think you've been winning orders in the marine industry with people other than Carnival over the last 12 months, yet your percentage of your installed base is covered by contracts is now stable relative to last year. Is that just because you haven't put any major service contract so far this year?

Jaakko Eskola: Glen, Pierpaolo wanted to answer that specific question.

Pierpaolo Barbone: No, no. Because, let's say, in terms of installed base megawatt, right, we are stable. In terms of installation number, with installation we have been growing 10 installation from the end of last year.

So let's say, it is related to the type of installation of how many megawatt are installed in that specific installation. So we have been growing number of installation – we have been growing this 3 months in number of installation, the number – the kilowatt installed are the same. Approximately the same.

Glen Liddy: Is that the same for the power business, because that's stable for a few years as well.

Pierpaolo Barbone: Yes.

Glen Liddy: So what's more important to profitability, the number of installations or the number of megawatts?

Pierpaolo Barbone: The important factor is that the installation are running, and they are not stopped and they are not big plants or they are – if they are low plant they consume more, and they require more activities, and then we sell more.

Operator: Thank you. Your next question comes from the line from Sean McLoughlin from HSBC.

Sean McLoughlin: Thank you. Good morning. Just a question on your cash outflow in Q1. I see working capital continues to trend up as a percentage of sales. I mean, how much is structural, how much is seasonal? Any clarity here would be useful.

Jaakko Eskola: Thanks, Sean. Marco Wirén, our CFO, wanted to answer this question.

Marco Wirén: Yes, thank you. I would say that in Q1 or usually, actually, in the first part of the year, we always build up inventory. But also in this Q1, you can see that the percentage completion is increasing a lot, which means that we are doing a lot of work, but we haven't invoiced our customers yet.

And because especially in the equipment side, this is quite visible. We have a lot of deliveries throughout the year, especially in Energy Solutions, and that's why we are building inventory now to be able to deliver those equipments in the latter part of the year.

Sean McLoughlin: So the build is mainly for energy solutions, and that's the increase. Therefore, as you deliver through the year, we'd expect that number to come down?

Marco Wirén: Actually, it's both on marine and energy. But in energy you can see that inventory is increasing more than in marine because the power plant is only engine, so it's a big inventory, a chunk.

While in marine, we've seen that there's a lot of percentage completion that we've been doing in Q1, because they were smaller installations, and that's why we've seen that. But in both, actually, the inventory is increasing quite a bit, more in energy.

Sean McLoughlin: Yes. Thank you.

Marco Wirén: Thank you.

Operator: Thank you. Your next question comes from the line from Julius Rapeli from SEB.

Tomi Railo: Good morning, it's Tomi Railo from SEB. Coming back to the currency issue, could be – could you be just a bit more specific on the impact of the currency changes in the orders, sales and profits?

Jaakko Eskola: The currency negative effect to services sales was minus EUR 41 million, no other effect to the other divisions or major. Order intake, minus EUR 41 million in services – EUR 45 million, and no effect to our profit, I mean, no major in profit as well.

Tomi Railo: And do you expect negative currency impact for the full year? It's USD.

Jaakko Eskola: Yes, USD could be concerned, but, I mean, it's difficult to start expecting or forecasting currencies, no? USD is a question mark.

Tomi Railo: Then on the marine order intake, I can see it actually that the growth was coming from almost tripling in the merchant segment and the cruise was double compared to last year, but gas carrier was actually very weak in the quarter.

Do you see gas carrier orders picking up? And maybe from timing perspective, to be more in the pipeline, so to say?

Jaakko Eskola: Thank you for the question. Roger Holm, the Head of Marine Solutions, you could open a little bit what's happening in the market.

Roger Holm: Yes, thank you for the question. If I start with the big share of merchant. There were actually two big orders that increased the share of merchants.

One was the Teekay deal, where we booked part of it already in Q4 and the other part came in Q1. We had in total four shuttle tankers for Teekay built at Samsung.

And the other one was two tankers also for American eagle tankers that were booked in quarter one. So these two orders itself had the large impact for our merchant order.

Then back to your comment about gas carriers, I would say gas carriers is normal fluctuations depending on when the orders are booked. We don't see any major changes on gas carriers.

If you look at vessel contracting, actually in Q1 we had the equal amount of LNG carrier, so that as we had for the whole last year. So the LNG carrier segment is very active at the moment. We had no FSRU orders in Q1, while we had, I think, six in total last year. So gas carriers are more seasonality from an ordering point of view.

Tomi Railo: So if – I mean, I understand that it fluctuates, but if it was roughly 20 million gas carrier orders in the first quarter and around 100 million in the first quarter 2017, obviously triggered by the – some larger activity, but is activity closer to the 100 million or the 20 million?

Roger Holm: I think what you need to take into consideration here is that, last year, we had quite good orders on FSRU, is where you can see one deal is between EUR 20 million and EUR 30 million for just three gas modules.

So that has the big impact that if there are no FSRU activities you see it immediately on that part. LNG carriers also, last year, was fairly low and the activities that we have seen now in new gas carriers, so orders in Q1 for LNG carriers are not yet reflected in our order intake. But the development and the sentiment in the gas carrier markets in general is improving.

Tomi Railo: And then on the storage system side for energy, you, I believe, announced two orders. Can you tell us anything about the megawatt size? Or perhaps euro value size?

Jaakko Eskola: Yes, Javier can answer that one. And by the way, we agreed to have 1 question and 1 follow-up, but Javier will still answer to that one.

Javier Cavada: Better growth period, indeed. And I will answer slightly short. I mean, we have a lot of activity in the energy and storage field. There is a lot of interest from the market.

Since the acquisition of Greensmith in – one year ago, we are in the top global leaders in energy storage. Said that, the deals and the projects are all very small, small in size, mainly focused on complete turnkey solutions, which includes a software platform, that is the Greensmith platform managing the assets into the grid.

So in terms of megawatts, they are not comparable to traditional power generation because we talk about megawatt hour of the storage, not about generating power. So you cannot compare them.

It's a market that is in the incumbencies, will be getting borne now, and we are taking the leadership and taking the first steps into it and making sure we get as many deals globally as we are doing.

Tomi Railo: Thank you.

Javier Cavada: Thank you.

Operator: Thank you. Your next question comes from the line from Edward Maravanyika from Citi Research.

Edward Maravanyika: Hello group. Good morning. Thank you for taking my questions. Just had a question to clarify the scrubber numbers. So if we look at the 77 scrubber systems sold last year, how does that number compare to the numbers you've given for scrubbers this morning? Is that number just for marine or is that number comparable to the Services, plus marine?

Jaakko Eskola: Yes, this quarter the over 70 is both marine and services. Last year, probably, we didn't have any services, but only marine, and that's a newbuild. I mean, that's – you need to remember that we have newbuild marine, and then Services makes the rest of it.

Edward Maravanyika: OK. And if we were to add the services number to the marine number for last year, what would we get?

Jaakko Eskola: We didn't get any service retrofits last year. It's actually started this quarter.

Edward Maravanyika: This quarter. Ah, OK, OK. Well, it sounds good. And have you got any – just as a follow-up, do you have any sort of insights with regards to scrapping rates if the vessel orders and if you think you're – we – if you are seeing scrapping rates going up?

Because I would imagine, if scrubber retrofits are going up, it means vessel orders are starting to take the January 2020 deadline quite seriously.

Jaakko Eskola: It's a good question, Edward. I don't think we have seen scrapping rates going up, and not at all because of the 2020. Because now you need to remember, 2020 people might go for LNG, they might go for scrubbers, they might switch the fuel or they don't comply. So many of the players are waiting just to see the fines, and so on. So they don't make decision to scrub or increase the rate of scrubbing, yet.

Edward Maravanyika: OK. OK. Thanks very much.

Jaakko Eskola: You're welcome.

Operator: We have a few follow-up questions. And the first one comes from Manu Rimpelä from Nordea Markets.

Manu Rimpelä: OK, thank you. My follow-up would be on the quotation activity that you show for energy solutions, so we have a slight dip in Q1, it being compared to the last couple of quarters.

And I think Javier mentioned that the pipeline activity is improving and looking stronger. So could you just explain why we saw a dip in quotations? And is that something we should be worried about?

Jaakko Eskola: Thank you, Manu. Javier?

Javier Cavada: Thank you, Manu. No need to be worried at all. So some peace of mind, please. The number of quotations is based on number of projects, so not size complexity.

So we are – as you know, we are enlarging our solutions, widen our portfolio. We're doing in really turnkey lifecycle support, energy storage to gas solution, so it's not comparable one period to another.

So in that sense, we see the pipeline getting bigger in value and bigger in activities too. So – but we would continue following up the number of quotations, because it gives benchmark to the past, but small fluctuations like this one, there's no need for any worry.

Manu Rimpelä: OK. And then maybe a follow-up on that, can you comment just a bit more in detail in terms of how do you see – do you see a lot more of the quotation activity being linked towards renewable energy today, because traditionally you've been still very much exposed and – in the kind of emerging markets and more like traditional power generation. So can you give us some figures to understand how the kind of renewable share has developed?

Javier Cavada: I mean, definitively, we – I want to highlight that we keep our very strong feet and foundation in the developing world as flexible solution for new electricity in places where they did and have access to electricity before, as you can see in our order intake.

But at the same time, our growth in the developed world supporting wind and solar to happen with the Smart Power Generation with energy storage solutions, and that part is getting bigger and stronger every month that we can see. And you can see also from our orders booked in the last, you would say, one year already.

Operator: The next follow-up question comes from the line from Johan Eliason from Kepler Cheuvreux.

Johan Eliason: Yes. Going back to the scrubbers, is it still mainly cruise ships that are taking these scrubbers? Or are you seeing some activity in other segments as well? And is there a difference between the newbuilds and the retrofits

that you're starting to see here in terms of which segment of the industry is buying those?

Jaakko Eskola: There is definitely a change now that it used to be more cruise ships and ferries and only new building, now you see new building also for container vessels or merchant vessels.

And the retrofits are all basically almost merchant, different kind of merchant vessels. The type of scrubber is also changing. I mean, you used to have closed loop, and now you have more open loop or mixers, and so on.

So now finally, because of the 2020, other segments are also looking at the different ways to comply.

Johan Eliason: Excellent. And then have you had the opportunity to look closer at the marine business Rolls-Royce wants to divest?

Jaakko Eskola: Johan, thank you for the question. I was waiting for that one. And yes, we have said many times that we will look every acquisition possibility if it supports our strategies, the Smart Marine and Smart Energy strategy, and so let's see.

Johan Eliason: But have they started opening the books for you, yet? Or how does it look?

Jaakko Eskola: You should ask their opinion whether they want to sell, with whom they talk and what they talk, so.

Johan Eliason: OK. Thank you very much.

Jaakko Eskola: Thank you Johan.

Operator: Thank you. And the next question comes from the line from Alexander Virgo from the Bank of America.

Alexander Virgo: And apologies for the background noise, if there is any. I just wondered, Jaakko, if you could talk us a little bit through the operating profit bridge year-on-year, because I'm just struggling a little bit, I guess, with the operational leverage given.

I guess, if you adjust for the FX your organic growth must have been 10 percent or so at the group level in terms of sales. Shouldn't you be getting better operational leverage on that in the quarter? I appreciate it's only a quarter and if you could give us any color on that, would be great.

Jaakko Eskola: Alexander, thank you for the question. And as I said, I mean, we have been speaking about the years to come and how we are developing, how operational leverage is effecting, how much we are doing actually for the profitability.

And – but at the same time, it's good to remember that our quarters are – I mean, they go a lot up and down and then there are seasonal reasons. And now, I mean, the unfavorable mix of the sales that should actually change going forward in different directions and – but I'm not ready to start guiding the numerics of – or the figures of the year-end.

You see that the markets are developing well in all the divisions and that's supporting also then the net sales growth, supported by, of course, that we need the Services also to perform every quarter and at the year-end and next year, and so on.

But that's also supported when you get more equipment, more solutions into the market. They will adapt our Services going forward, and that will support the profitability.

Alexander Virgo: OK. Thank you.

Operator: Thank you. And the last question in this line comes from Sven Weier from UBS. Your line is open.

Sven Weier: Just on the chart you gave on the front page, really how you're market positioning. I think, it's quite a timely chart given what you've just said on the Rolls-Royce.

And I was just wondering, if we were including this business into the picture. I mean, which business would you not be a top player then anymore? I guess, especially strength through the offshore, right? And then sort of maybe merchant, but hardly any business left where you would not be a top player anymore, right?

Jaakko Eskola: So then Rolls-Royce is very much in offshore segment or has historically been. And their propulsion systems are very much complementary to our propulsion, it's – and they work in inshore, then it's the same segment.

The grades, the deck missionary, and so on that has also been in – more in offshore. Then you have automation, and you have their new digital development, so it might be supporting some other segments.

So overall, I don't know how to answer your final question point and what would be there and what wouldn't be there. But you know Rolls-Royce and you know Wärtsilä, and – but it makes sense is then you need to start studying it even more.

Sven Weier: And then speaking about offshore. I mean, Alfa Laval, yesterday, they announced numbers and obviously they had quite a bit of offshore orders in the quarter. Is it really that you're saying absolutely zero activity still? Or is there any cautious signs of some come back here?

Jaakko Eskola: I would still say that the numbers are small. I mean, what would be the right word. And in our case, we have not seen – the only area where we see offshore activity is in services.

And I mean, that's like a normal. They – if there is an activity, they start taking existing ships or lay-up ships in operations, and then we would start seeing it even more in services. But starting to order something in marine solutions.

And we were, two weeks ago – some weeks ago, we saw a home in Korea, and they said that, "OK, zero still zero." So I don't know if – there might be then some Norwegian offshore moving on, but very, very small.

Sven Weier: OK. Thank you again.

Jaakko Eskola: Thank you Sven.

Operator: Thank you. We have no further questions at this time.

Jaakko Eskola: Thank you, and any further ones here in the audience? No? All right. Thank you, everyone. Good set of questions, and let's see you then in July. Bye-bye.

Operator: That does conclude the conference for today. Thank you all for participating. You may now disconnect.

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