

WARTSILA CORPORATION

**Moderator: Bjorn Rosengren
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Operator: This is conference # 79104424.

Bjorn Rosengren: So good morning, and welcome to the Wartsila half-year report. With me here today to be able to answer some questions, I have the management team, Jaakko Eskola and, as I said, the whole team here is with me, so there will be some help with answering these questions.

I think Wartsila is navigating well in the stormy waters that we are. And hopefully, moving forward, we can have some help from the navigation, the world-class navigation equipment, which is part of the product portfolio from the L-3 MSI acquisition, which was completed during the quarter.

If we give some highlights from this period, we can see that orders increased with 2 percent compared to previous year. And if you see year-to-date, actually 8 percent. We see a sales that is developing, it's 10 percent if you're looking at the quarter. And our order book is increasing with 20 percent. In that order book is, of course, included EUR519 million, which is part of the L-3 MSI acquisition, which is in there.

We, as I mentioned, have completed the acquisition of L-3 MSI, and in this quarter, we also have fine-tuned our strategy. And we have changed 2 of our businesses' name: Ship Power is now Marine Solutions and Power Plants is Energy Solutions. So that is what we will call them, and we'll come back to talk a little bit more about that moving forward.

As I mentioned, the orders received was up 2 percent for the quarter and 8 percent year-to-date. We see a very strong development in service orders, 13 percent up there in the quarter. And Marine Solutions, 2 percent. In that includes EUR41 million which is – comes from the June orders of L-3 MSI.

On the Power Plants, we are down 23 percent compared to last year, but we are still up 16 percent if you compare to year-to-date.

I'd like to mention here, on the orders there, that we expected to close 2 reasonable big orders before the end of the quarter, but they have slipped into Q3. And we do see, same as last year, looking at the prospects for the second half, that we see a significant improvement also during this year.

On the sales, up 10 percent. And we can see in the Service business, it is up 17 percent. And if you look, taking the FX, the currency out of that, it's 10 percent organic growth, which we are very happy with.

On the Marine Solution, we are down 15 percent, and year-to-date, 14 percent. But we know the challenges, conditions in the market, both in the offshore as well as the part, I think that we have managed to get a lot of good orders in the segments that are operating well.

On the Energy Solutions, we are up 40 percent, which is a pretty big number. And I think we will – we still will be seeing a lot of orders coming out, a lot of sales coming out there during the rest of the year.

If you look at the distribution between the sales, we can see now that Services is getting closer to half of our business. It's a 47 percent compared to 43 percent last year. We also see now that the headwind in Marine Solution is affecting us somewhat and is now 30 percent, and Energy Solution is up to 23 percent of the sales.

Positive to see the book-to-bill ratio. It's actually – if you're looking year-to-date, it's actually the highest level in the last 5 years, it's 1.1. And then, as you understand, for us it's important to see that orders are coming in to be able to deliver during the coming years.

So the order book, as you can see here, has been increasing quite significantly, 20 percent. So if you're looking at, for instance, the different businesses, we see a 10 percent increase in Energy Solutions, we see 25 percent in Services and we see 25 percent in Marine Solutions. But if you lift out the MSI order book, it's 2 percent up. So all our 3 businesses are increasing the orders on hand. So there'll be a lot of deliveries this year, the rest of the year, but also during the coming years.

On the profitability side, we made 11.1 percent. And if you compare it to what we reported last year, it was 10.8 percent, that was including the 2-stroke business, which is now taken out of the business. So the profitability might be seen a little bit shortage compared to equivalent numbers from last year's, and that is related to some lower margin in the Power Plant business.

Otherwise, I think the last year was a little bit special on that part. Normally, we are lower in the margin during the first 3 quarters and then we have a very strong quarter, the fourth, and I think this is what you will see also this year going forward.

So the challenging conditions in the power generation market. If we're looking at the quotation level, it looks that it is significantly lower than the last quarter. If you're looking, actually, at the number of quotations, they are on the same level as we had in the previous quarter, while the size of the quotations are smaller. So we see that it continues to be a lot of activities in the market.

On the order side, as we said, it was EUR188 million, which was pretty low. We do, as I said, expect that we should see a significant improvement during the second half of the year. Where we've seen orders this year is in – or this quarter, (some good) – we have order – some big orders in U.S., we have in Turkey and we have in Colombia. These 3, I think, is worthwhile mentioning. And there are, of course, smaller ones also.

So if you see the distribution of the orders, they are – it looks a little bit different from what we're used to. The Europe is a little bigger here, but it's related to the big orders we have received in Turkey. Otherwise, I think the

distribution is pretty much in line with the previous year. Maybe Asia has been a little bit weak start, and I think we have more to expect from that during the rest of the year. But if you see the order intake, it's 1.22 gigawatts compared to 0.98 last year. So we are above last year's in orders.

Looking at the market share, it is challenging. As I said, the whole market is challenging. And we can see that during the first quarter, and now the reporting was – previous was every second quarter, now it's every quarter, which is giving the total market share. And we can see that in the area where we are active in plants smaller than 500 megawatts, we have grown to about 15 percent market share. So we are taking market share in a challenging market.

Moving over to the Marine side. And then, as I mentioned from the beginning, it is stormy water, it is challenging out there. There are 2 things that are working against us: It's the oil price. As you know, we have a – traditionally, we have a very strong market share in the offshore industry, but we can also see that the contracting of number of vessels is also decreasing. It's actually 59 percent lower than the previous year. So the level is – and we don't really see any big improvements in the near future. So it will continue.

But there are segments which are doing well. And there, we can see that the – year-to-date, that the gas business is – continues to be good for us. But we can also see cruise and ferries taking a big part of the sales.

If you actually look – and this is year-to-date, and if you see the last quarter, gas carriers was 28 percent and cruise and ferry was up to 24 percent of our sales. So these are 2 very strong segments that we also expect will continue.

On the joint venture side, we had only EUR10 million in orders for the quarter. But if you're looking year-to-date, we are significantly higher there than compared to last year. And there are some good projects coming in here during the second half, so we feel confident about that.

The market is challenging, as I said, but at the same time I think Wartsila is doing well. Also when it comes to the market share, we have increased our market share on the main 4-stroke engines from 56 percent to 59 percent.

This is very much driven by the gas-fueled engines, but also in the cruise and ferry market, which is improving.

What is also encouraging to see is the auxiliary engine market, where we have grown, if you go back in time, I think we were down to 3 percent and now we're up to 5 percent. And a lot of this is coming from our Chinese joint venture that have seen some good orders, and we are expecting more good orders during the rest of the year.

As I mentioned, we completed the acquisition of L-3 MSI, who will now be part of the Wartsila and is being integrated into our electrical and automation business. And we can see that moving forward, the purchase price allocation amortization is expected to be EUR7 million during the 2015. And we expect that it will contribute about EUR9 million to our EBIT results, giving us then a full profit of EUR16 million. And we do expect that EUR250 million will be the sales during the last – the second half of the year.

During June month, we have included in our numbers EUR30 million in sales and EUR41 million in orders received. So it's looking good, also on the order side. It's a lot of things happening on the offshore – sorry, on the cruising vessels. And the cruising vessels is a very strong segment for MSI. So we are experiencing to see some good orders during the second half of the year.

To an area which is not so encouraging, and that is that, as I mentioned, the market continued to be tough in the Marine. Even though we have managed to get orders during this period, we do see that the market will continue to be challenging going forward.

And we have decided to readjust our organization, which will be affecting 600 jobs worldwide. 160 of those jobs will be affected in Finland. By this, we are seeking to save about EUR40 million in result. And the cost for this restructuring project is about EUR25 million to EUR30 million. And we believe that most of these will be booked during this year, but maybe EUR5 million will slip over to next year. Today, we are including the MSI organization, we have 7,217 people within the Marine organization today.

Then moving over to Service. And Service is the bright spot in Wartsila. It has, for many years, continued to grow, has continued to improve the profitability, and we are now seeing good orders developing. So as I mentioned before, in the quarter, we saw actually 17 percent growth in orders, and year-to-date, 14 percent.

The spread between the different businesses in Service is pretty much the same as previous years. The very encouraging and the positive side is to see that, as you know, we are focusing a lot on setting up contracts with our customers. And traditionally, we have had very big part of our business in the Power Plant or in the Marine and the Energy Solution part of the business. But during the last years, we have seen a continuous improvement in the service agreements in the Marine sector. And this is very much driven by the – from the cruising industry, somewhat from the offshore, but also from the gas-fueled vessels.

And lately, this quarter, we also received a 3.2 gigawatt service contract with Maersk for their 2-stroke engines, and I think that's a wonderful add to our portfolio there. And you can see that now the Marine side is coming close to the Energy Solution part when we talk about the service agreement. And this is how we like to drive the Service business going forward.

We have also, during this quarter, come out with the press release regarding something we call QuantiParts B.V. I had earlier talked about this as classic. This means that all products that we are servicing for 4-stroke, high-speed and medium-speed engines that we have had in our portfolio are – will be served from its own entity, from a legal entity in Holland. And these products are in the long tail where it has been difficult to get good profitability out. And now, we'll been running these as a profit unit and they will be supporting all these – all their engines and help the customers to give good service, but also be able to make more money.

Moving over to the financials. On the cash flow side, a little bit lower during the first half year, mainly because of higher inventory of product that will be delivered now during the second half, but also some less on prepayments.

And that is in line with the expectation, very much due to the lower orders received in power plants during the quarter.

We are optimistic about the improvements of the cash flow during the second year, and we should be coming to the same level or exceed previous year after the full year.

The gearing year-to-date is 25 percent. We expect, by the end of the year, that we should be somewhere around similar level as last year, around 5 percent. So continuous good cash flow is expected.

So a little bit to the market outlook, which is, of course, important because that is where we will be catching the orders going forward.

On the Energy Solutions, we continue to see the market as challenging. But at the same time, there are many good prospects, and we are optimistic that we should see some good orders during the second half.

On the Marine side, yes, the market, as we have clearly said, will continue to be challenging, both in the offshore as well as in the Marine merchant side. And that is why we're adopting our organization for that.

On the Service side, we are much more positive, and we see good growth opportunities moving forward.

So the prospects for the full year. We promise to revise the guidance when we include the MSI in the numbers. And we have then narrowed the guidance limit on this sales growth to 5 percent to 10 percent. And we are keeping the EBIT level between 12 percent and 12.5 percent, including the L-3 MSI numbers.

I mentioned at the beginning that we have fine-tuned our strategy. There are no big changes. Our operations are continuing in the same way as we've done before, I would say, successfully done before. But we are operating in what we call a non-growing market, and we do have ambitions to grow. That means that we need to be in segments where there still are business.

And 3 things that unite all of our businesses is that we are focusing on providing energy efficiency and life cycle solutions for the customers. And I think we learned that during many years, coming from the Power Plant business where efficiency actually helps the customers saving a lot of money. The gas-based technology has shown to be a success during the last 5 years, and we are focusing more than ever to develop this business within Wartsila.

Then we are also looking at what we call innovative solutions in our business, which is actually leveraging on the product management capacity we have in the group, but also the engineering competence. And this is actually to build future success stories within the group. And all of our businesses are being supported by our global network and our strong service operation.

And as the last slide, I think this is always encouraging for a CEO, and that is to talk about new exciting products. And this quarter, we have launched the W31. And it is actually a brand new engine. And this engine is really setting new standards in the market. It is the most fuel-efficient engine in the world, and coming up to levels that no one has seen before.

And by that, we've been awarded by Guinness World of Record book, I think everybody knows that book, yes, that this is the most fuel-efficient engine there is. And I think this underlines the importance for Wartsila to continue to drive efficiency in the market. This engine can be run on either gas, heavy fuel or combined dual-fuel in. So it's really a new landmark. And this is – we believe that we'll have a lot of good success with this one moving forward.

By that, thank you very much. And we are now then ready for answering some questions.

Operator: Thank you. To ask a question on the phone lines, please press star one.

Bjorn Rosengren: We have no questions in the room? Maybe we have some questions on the line.

Operator: Yes, sir. Your first question comes from Daniela Costa from Goldman Sachs. Please ask your question.

Daniela Costa: Actually, just 3 points. First, I wanted to just understand, get your comments a little bit on what shape you see around the readjustment to a normal level in LNG, which you mentioned within the report.

And then the second thing, can you elaborate a bit between the 5 percent and the 10 percent of the sales guidance on the – and what you need to see on the second half to be in one extreme or the other? How much the second half really matters for that, or is it just a question of deliveries within the order books?

And then the third thing was regarding your Service growth, which has been very strong. Shall we think about that has mostly been you're increasing the penetration within your already existing install base, or there's anything which is even incremental to that in terms of growth in Service? Thank you very much.

Bjorn Rosengren: Yes. On the LNG side, as I said before, the market for LNG vessels has been very, very strong. During the quarter, it actually went down from 34 percent to 28 percent of our total business. But there are a lot of projects in the market, and we do expect that we will see good projects also during the second half. The extreme that we have had during the last year, I think that will probably soften up. But in the long term, we do see that there will be a big need for these LNG carriers.

Maybe you'd like to add something there, Jaakko, regarding the LNG market?

Jaakko Eskola: Thank you, Daniela. And I thought you also probably wanted to know the combination of LNG and LPG, because our comments have been mainly related in relation to the whole gas carrier market.

Daniela Costa: Yes.

Jaakko Eskola: And the LPG has been extremely high also, and that is actually softening up more than the LNG. And LNG is going to continue, so that's the effect. We see as Björn said, good development in LNG.

Bjorn Rosengren: On the guidance side, I mean, we – in the guidance, we of course included the MSI part there. And in Wartsila, the one who's followed us, it's pretty clear, we always start off a little bit soft and then we increase during the year, and then we always end up with a very strong fourth quarter. And we are expected to do this, this year. But I think we have a pretty good control over – about our orders on hand and what we need to do. And we have a pretty good control over both our margins and our costs.

So we feel very confident with the guidance that we have set out for the full year. I think encouraging is that even including the MSI, we are able to keep 12 percent to 12.5 percent profitability. That means that the underlying business is somewhat better than we expected before.

On the Service, it is – it's great to see the growth. And you, the one who follow us carefully, you know that in the beginning of last year, we start focusing on pushing the sales in the market. And you are always nervous when you start pushing sales that you will have some effects on the margins. But the positive thing is that the margin continues to improve. But there's a lot of activity that is coming. And maybe, I will let Pierpaolo give a little bit deeper understanding in where the margins are coming from.

Pierpaolo Barbone: There are 2 factors. The first one is related to the fuel costs that for sure has freed certain resources from our Marine customers. The second is related to more focus. And in particular, we have established during the second quarter, a new organization, establishing 3 product lines, the first is called 4-stroke; the second, propulsion; and the third one, emerging business. Under these emerging businesses, we have clustered 2-stroke, sales and bearings and the QuantiParts.

And establishing these 3 product lines, we have been able to focus on activities that maybe were, in the past, a little bit hidden. In particular, if we consider the growth in percentage of the 2 business lines, propulsion and emerging business, this, as a percent of growth compared to the traditional 4-stroke, is higher year-to-date. And it is obvious, of course, because on the 4-stroke, we have a very high market penetration. But it means also that in the

other 2 business line, we have extremely interesting opportunities for the future.

Bjorn Rosengren: Thank you. Thank you, Pierpaolo.

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

Max Yates: Hi, good morning. Just a couple from me. I think, firstly, there was a comment in the restructuring announcements of the Marine business, that there was some risk of customers delaying contracts. Could you talk about whether that's actually something that you're seeing in your business now and is having an impact and has had an impact in the first half? Or is this something you're flagging as a risk that may impact you in the second half?

And then just on the cruise and ferry segment secondly, I just wanted to understand a bit more about how you see the potential for this market on a 5-year view? So if, for example, this business is doing EUR200 million or about EUR150 million of revenues, or EUR300 million of revenues a year, how big this can be, what kind of market shares you have and what kind of growth rates you're expecting for this market?

Bjorn Rosengren: Yes, that's correct. That as the market is softening up, which it definitely is, there is customers and there are shipyards who want to delay some of the deliveries of engines. We can, of course, control these pretty well. And what we normally say is if an engine is produced and we have put some cost into it, then of course it will be delivered. If not, there might be some numbers on that. And I think if you look at our total number for the year and our expectation, there are some delays in deliveries included in those numbers. So it is actually part of our guidance.

So we've had maybe a little bit higher vision for when we went into the year on the sales there, to be cut out in the year. But that is included in the part.

So on the cruise and ferry side, it is an extremely exciting segment for time being. And this is actually a segment who has been doing well during many years now. And the cruising companies are making good money.

What is making the cruising industry so interesting is that the Asian market is opening up for the cruise vessels. And this means that the owners are buying more ships, and they've been ordering more cruising ships and they will be ordering more cruising ships in the coming years than they have ever been before. And the cruising market believes that the Asian market is as big as the rest of the world. So there's good potential here.

And it is important for us. We have a very strong market share in the cruising business and we are doing everything we can to maintain this position.

Max Yates: Just as a follow-up to sort of try and help us quantify this. I mean, would you be able to give what your market share is? And then, maybe some guidance on your average value of order per ship.

Bjorn Rosengren: Yes. I don't know if we should go there, but I think it's pretty high. But there is competition and they're at a good place in the market, but we have a pretty high market share there.

The order sizes of these can vary. I mean, we have such a broad portfolio today. So engine is one thing, but we supply propulsion equipment, we supply automation equipment. And now, we even have sanitary equipment for the ships. We, now with the MSI, we supply all the navigation equipment and all the (actual) controls of the ships. So it's become very, very big. So it varies a lot between different ships for us, Max. But it is reasonable good size, and our market share is good in this business.

Max Yates: OK, thank you very much.

Operator: Your next question comes from Sven Weier from UBS. Please ask your question.

Sven Weier: Yes, good morning. A couple of questions from my side as well, please. First one, I was wondering if you could give us some color on the environmental business, especially ballast water. Alfa Laval yesterday was quite positive about the segment that ship owners are now moving ahead, independent of the legislation process, so maybe you could give us some color on how the

business is developing for yourself? And maybe also for the scrubber side of things, if you see a negative impact from the fuel price gap narrowing on that business?

Then, when it comes to marine solutions order intake, if you strip out L-3 you had quite a stable order intake, sequentially, because of the ferry segment. So should we use that as a baseline order intake now also, going forward?

And then lastly, given the share price development of Daewoo, if you could just give us some sense of your revenue exposure to the company? Thank you.

Bjorn Rosengren: OK. Starting up with the environmental side there. Of course, the environmental side is all the time, becoming more focused with all the new legislations in the Marine sector. We are exposed in many areas here, and it is also the gas engines which is important part of that. But when it comes to scrubbers and to ballast water, we have had some good success with the ballast water. We have made – I think we came out, we made a license agreement with the Chinese on scrubbers. So we are preparing ourselves for the legislation to come.

This was – this is only a newbuild market today, but as soon as the legislations will come, this is a huge market. And I think we have now a good product. We have – it's well proven now in the market and we have all the certifications that we need to be successful here. So here we need the legislation to take the next step.

On the scrubbers side, I think we have our good market share there. We have a little bit lower, we had 4 scrubbers during this period. But we have a lot of projects that we hope to be closed here during the second part of the year. So there are activities. But it's clear that the – it's the ferry and the cruise who's taking these orders. But there are also coming in, in the merchant segment. And I think many of the ship owners, talking to them, they are talking more about scrubbers today than – especially on the existing one. Sorry, I said 4, it's actually 5 scrubbers that were booked during the second quarter.

But we are optimistic still. But as you know, we have tuned it down a little bit. From the beginning, of course, we thought it would be an explosion within this area. It hasn't been. Many ship owners are using low sulfur fuel today, especially now when the oil price is lower. But long term, we do believe that scrubbers – and even when the rest of the world, we don't know if it's 2020 or 2025, will go in to the sulfur legislations, the whole market will. And I met a lot of customers that are now planning for, preparing, using scrubbers to reach 0.5 percent sulfur in the exhaust fumes. So this is going to be a market, I think we're well established there.

And the last question was, sorry?

Sven Weier: I was just wondering on your sales exposure to Daewoo shipyards in South Korea?

Bjorn Rosengren: Today, our exposure to the shipyards?

Sven Weier: Yes. To Daewoo specifically, yes.

Bjorn Rosengren: Maybe we should talk to our Chinese colleague here. Jaakko Eskola, who has spent most of his time there.

Jaakko Eskola: Thank you. Yes, a Chinese colleague talking about South Korea. Of course, we cannot say exactly what is our order intake portfolio with the company and how much. But Daewoo has been lately ordering or getting orders for the LNG ships. And of course, part of the LNG ships are having our 4-stroke dual-fuel engine or MAN 2-stroke dual-fuel engine. So it's one of our customers, but not revealing any exact numbers.

Bjorn Rosengren: Thank you, Jaakko.

Operator: Your next question comes from Manu Rimpela from Nordea. Please ask your question.

Manu Rimpela: First question on the margins. You have a guidance of 12 percent to 12.5 percent margin for the full year 2015. And I just want to understand how you think about that. If I look at the first half of the year, I think you're running

some 20 basis points behind last year and you're kind of saying that we will have the same or slightly better margin than last year. And now, obviously, problems in the Ship Power division is being addressed with the cost saving. So just trying to understand that – do you see that things are going to improve in the second half of the year compared to last year in terms of the margin? And if that is the case, then where exactly do you expect that improvement to come from?

Bjorn Rosengren: A little bit different from previous years. But if you followed us before, you know that the first half and the quarter are much weaker than we are seeing in the end. And lastly, we had much more even during the last 3 quarters of sales. But traditionally, we have 3 weak quarters, and then we have 1 very, very strong. And this is what we see this year also. And that is related to the project that we are going to be delivering, how we will be running our factories, and what will be delivered out during this period.

So we have a pretty good control over these margins and the numbers, what we will be done. So we feel very comfortable with this guidance. So but it is normal. We have these and it's always coming towards the end of the year. And when you are new – I've been now in the company for 4 years, and the first year, I was a little bit scared when I saw that everything was going to be down in the fourth quarter. But I have learned during the years, that this is how we do it and this is how the company works and how the market works, and it has – it's gone well. So I'm very confident about this also.

Manu Rimpela: But just to follow up on that. So do you see that things will be different in the second half of 2015 compared to what was done in the second half of 2014 in some way? Because, I guess, the seasonality will always be there, that fourth quarter is strong, but it was also strong in 2014.

Bjorn Rosengren: Yes. I think in last year, the fourth quarter was not as strong as what we normally have, that's correct. But we had a little bit stronger in Q2 and Q3 instead.

Manu Rimpela: OK. And then just second question, on the Power Plants side, I think you mentioned that you expect to win some more orders in the third quarter or in

the kind of the second half. And I think you also said that you were already hoping to book those at the end of 2014, if I heard correctly. So what makes you confident that the customers are now willing to sign those in the second half of the year if they've been already waiting for 6 months to – them to be closed?

Bjorn Rosengren: Then I think you must've misunderstood it.

Manu Rimpela: OK, I must have ...

Bjorn Rosengren: We have – these orders we're talking about, they were expected to be booked during the second quarter, not the previous year. So it's actually not – we thought we would be able in June, but things take a little bit time. We are still confident that they will be signed, and we think they will be signed now in the beginning of this quarter. But we don't – we can, of course, not guide when comes to orders. But this is just an explanation, how we see it. And the same as last year, we saw that we have a good prospects coming during the half year. And it looks about the same as last year. So we are optimistic that we will be able to close many good orders during the second half.

Manu Rimpela: OK, that was all my questions. Thank you.

Bjorn Rosengren: Thank you.

Operator: Your next question comes from Stephen Stakhiv from Deutsche Bank. Please ask your question.

Stephen Stakhiv: Some of mine have been answered already. I guess in the interim report you'd mentioned, on the MSI acquisition, that you bring the group profit – you bring the EBIT margin or the profitability in line with the group in a matter of 5 years, which essentially would be doubling margins. Could you kind of explain as to how you would see that? Is that mostly dealing with the Marine Solutions restructuring that you mentioned today? Or is that – if you could just provide some color that would be great. Thanks.

Bjorn Rosengren: I mean, we have an integration plan and we have a lot of activities. And we have today also Stephan Kuhn, who's running the electrical and automation

business, which we have a very strong confidence in and his team. And looking at what are the prospects in the market and what's coming and what action that need to be taken in the company, we do see a good potential to improve the profitability.

We have said that we will – our ambition is to get it up within 5 years, that is what we have said. So it should continue to improve. But all our businesses should be continuing to improve. And you know our ambition is to reach 14 percent EBIT, and we haven't put that aside. That is where we are heading and we are taking measures all the time to make our businesses more efficient and more profitable. So it will be – many actions are being taken there, and we have a good plan and – which will be implemented.

Stephen Stakhiv: And just one more. On the back of the previous question with regards to Energy Solutions in H2 or the second half, could you provide any guidance as to whether or not you see most of these orders coming from the developed markets or the emerging markets? Just we've seen some revisions down on a GDP basis in the developed markets and EM isn't exactly doing that great as well. So if you could provide any color on that that'd would be great.

Bjorn Rosengren: Yes, we – I mean, we don't talk too much about different markets where we want to. We don't want to get the competitors to get excited about certain markets. But to be honest, we see opportunities in the emerging markets, numerous projects there. But we also see good prospects in the U.S. And U.S. is exciting, and I mentioned that last time. We got one project during this quarter, but there is more to come. And the U.S. economy is good, the U.S. dollar is strong. And there is the transformation from coal to gas taking place, and we would like to participate in that. And we put extra effort into that.

But I don't want to go into exact, the projects and the markets at this moment. But we are global, we are in every corner of the market. And the most of you see, they vary between quarters, they can be from Indonesia to U.S. or to South America. So it's very spread out.

Stephen Stakhiv: Thank you.

Operator: Your next question comes from William Ashman from JPMorgan. Please ask your question.

Glen Liddy: It's Glen Liddy. On L-3, could you give us an idea of how much of their business is Service? And within that, is a significant part of it software upgrades?

Bjorn Rosengren: Yes. It's a good question. Service is quite a small part of that business, it's around 20 percent today. And we see a significant improvement possibility there, both with upgrades and other type of service abilities. So this is definitely one of the area, where we will be focusing a lot during the coming years.

Glen Liddy: Thank you. And the last, your last cost-saving program was implemented very quickly. You announced it, I think, in the March and you achieved your target saving by the end of the year. If we look at the new cost-saving program, is the saving more back end-loaded, because you've got a lot of deliveries so you can't actually cut costs significantly today?

Bjorn Rosengren: I think, if you're looking at the other program, actually we announced it in January, that we had the ambition to most of it during the first year, but half of it actually slipped over to 2015, so this year.

I think we know what we need to do, but we have to follow the legal process. So we will start the negotiations with the union actually after the vacation. So we have our plan, how we're going to do it, and we have no ambition to pull things back. We'll try to do everything as quick as possible. And as I mentioned, we expect to take the majority of the cost this year, maybe some will slip over to next year. But no, this will be done as quick as possible.

Glen Liddy: Will there be any benefits this year?

Bjorn Rosengren: Limited. There can be some, but we expect most of it coming during 2016.

Glen Liddy: Finally, I mean, there are challenges now in the shipbuilding industry, generally. Are you taking any specific measures for credit risk?

Bjorn Rosengren: You know we – I think it's a pretty disciplined market. We have this prepayment, which we think is unique for many industries. And it's up to 10 percent, which are being paid. And I think this actually keeps the market in a good way. And we're getting paid normally when we deliver our engines.

In Services, of course, it's a little bit different, because there we are servicing our customers. And of course, there can be markets and there can be customers that are challenging. But we haven't seen any, let's say, significant – any changes actually to the normal situation.

So the market is still – we have to understand that even that not so many vessels are being contracted, the market is pretty healthy at the moment. There is a lot of activity out in the market, and the shipping companies with the low oil prices are making good money. So the whole market is not really bad, it's more on the newbuilds which is challenging at the moment. But the shipping industry is moving pretty well.

Glen Liddy: OK, thank you very much.

Operator: Your next question comes from Pia Rosqvist from SEB. Please ask your question.

Tomi Railo: It's Tomi Railo here from SEB. A couple of questions. Firstly on the currency, if you could comment a little bit on the currency impact in the second quarter numbers, to get the feel on the sort of organic development in terms of orders, revenues. What was the impact in profits? And maybe also, what is the impact in the guidance on the growth, revenue growth?

Bjorn Rosengren: Sorry, didn't – what impact did you say?

Tomi Railo: Currency impact.

Bjorn Rosengren: Oh, currency impact, OK. Yes, yes. Yes, on the currencies this year, we – I think we have totally EUR55 million on the revenue side. And I think EUR35 million of those is from Service, so it's the most of it. On the bottom line, it's neglectable. And you know if your business is the same, wherever the currency goes. The only thing what helps us on the currency is that, of course,

producing in euro and selling in dollars makes you a little bit more competitive, at least if you're competing with someone who's producing within that area.

But we are – days like these, it would be nice to have some more positive effects from the currencies. But at the same time, we are invoicing most of our products and equipment in projects in euros, so very limited.

Tomi Railo: And then on the Power Plant orders towards the third quarter, can you give any comment on the possible sizes? Are we talking about sort of mega orders, record orders or sort of relatively usual, sizable orders?

Bjorn Rosengren: We don't like to guide on the orders, you know that part. It is challenging out there. But I said last year, and I put my head out a little bit and I said that I think it will be significantly better during the second half, it was also. What we look at – what can only look at the projects. And so, but closing is closing, you need to do it. And there is a lot of work, and I think there is also a lot of competition out there, I must say. Because when the Marine market has gone down, many of the engine manufacturers probably have empty factories. So they are pushing a lot of these projects. So there is a lot of pressure there, and we are facing a lot of competition also out in the market. We have very high market shares, but it's not easy to get these orders, that is pretty clear.

But when I said something that – I'm saying about the same as I've said last year. Then you have to read that however you want to.

Tomi Railo: How should we read into the fact that the quote levels were down sequentially? I mean, it happens sometimes. It has happened in the past and then again, last year, actually the quotes went up sequentially in the second quarter. Is that ...

Bjorn Rosengren: I don't think – as I mentioned, the quote level is actually the same as last quarter. But I mentioned during last, that the size of the quotation was bigger. And actually when we talked of this after Q1, I said that the reason why it's so much higher there is because each of the quotation size is bigger. But the number of quotations actually is the same during Q1 as Q2. So I don't think we should take any big measures on that.

Tomi Railo: Then any thoughts on the service outlook for the third quarter, maybe fourth quarter? The good development really has been great, but it started already in a way sort of couple of quarters ago, what's the outlook for the third and fourth quarter?

Bjorn Rosengren: No, I mean, in our market outlook, we are positive to the development, so there is a lot of activity. And we are fighting hard there and, so far, we've been successful. But we'll continue to do that. But it is an active market. I think we have the right activities there. And I have said that if you can grow 5 percent per year, excluding FX, I think we're doing a good job.

Now we had during the quarter, 10 percent, and year-to-date, we are on 7 percent. Hopefully, we can keep on good – on this good level. But I said that as long as we're over 5 percent, then I feel that we are growing according to our plan. If we do 10 percent, I think we do excellent, that's the part. But I think it's a great team out there doing a good job, and they've been doing that for many years. And they are very efficient and very strong in the market, so we have big hopes for them.

Tomi Railo: And then lastly, from my side, you commented that profitability was impacted in the second quarter on certain Power Plant projects. Is there something continuing? Or should we read that, I don't know if you can call them problems, but those are done because of the guidance and indications for improvement in terms of profitability for the latter half?

Bjorn Rosengren: I mean, it's clear, and that was taken in consideration when we made the guidance, so it is. But it is on the Power Plant. It is pressure on the margins, that is correct. But that is taken in consideration, that is included in our guidance.

Tomi Railo: OK, thank you.

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

Michael Kaloghiros: A few questions, I'll take them one by one, if I may. The first one, to come back on the comments on Power Generation. Question asked – ask it a different way. Have you seen, since Q1, a difference in geographic mix on your quotation activity? I'm just asking that because, I mean, we've heard in the U.S., the Supreme Court ruling on EPA which could push further to the right some coal generation downsizing. We've heard like oil-exporting countries starting to cut on infrastructure. So I just wanted to see if within your prospects, you have like things moving around with more oil-importing countries and less oil-exporting countries? That's question number one.

Bjorn Rosengren: Yes. We can start with that. The way we – I mean, we quote globally. And many of the projects that we are selling, we have also been developing. So many of these projects can take up to 5 years to develop. We help the – our customers to develop the project, to find the finance, to close the deal and then also to run the business. And we have a huge amount of projects all over the world that we are running. Some of them becoming more hot at a certain stage, and then we try to close them. So that varies a lot.

What is maybe a little bit different from before is that we're putting a little bit more effort into the U.S. for the project we call Project (Fox). And that's where we are now targeting, because there are potential there. So things are happening there maybe.

We don't know yet how successful we will be, but we have big ambitions to get some business in the U.S. And that's maybe a little bit different from earlier. Otherwise, I think it looks pretty much the same as previous.

Maybe, Rakesh, you would like to add something on that side?

Rakesh Sarin: Since you're coming from the quotation level, in that year, we quote, let's say, about 50 gigawatts of projects. If you add the 4 quarters on, that's the kind of number. And the order intake, what we get is about 2.5 gigawatts. So it's hardly 5 percent of that, meaning, there is a huge amount of churning which takes place in this pipeline. And from the quote to getting an order intake, it could be 1 year, it could be 5 years.

And so – but what we see that all these quotations that we are making, while initially people take it. But they are just not a quotation, we are working on the customer value, that what does this power plant brings to the customer, how is it beneficial compared to other technologies, for example.

And that's what in U.S. when we are working. And there, when the energy markets – free markets are coming up, we find that the flexibility, what we offer through our technology, is very valuable for the utilities, for the developers, for the market, for various kinds of services like ancillary services and peaking and the load falling.

So we are – there's a mindset shift on which we are working with the prospective customers, and it takes time. And that's what we are working around the world. Some places we have got good success and some places we are still working with the end customers to showcase that what value we can into the system. So this is what I could say at this juncture. Yes.

Bjorn Rosengren: And this is nothing new. This is the way we have been working a long time. And I think it is a success story historically, and we have good ambitions also when we move forward in this.

Michael Kaloghiros: Yes, sure, no doubt about that. Just like the volatility in the quarter ...

(Crosstalk)

Michael Kaloghiros: ... expectations actually sometimes, yes.

Bjorn Rosengren: But it's always been. It has always been this volatile. And that is because when you get one order and maybe it's EUR100 million or it's EUR200 million, sometimes if really big, of course, it looks different if you don't get that order in the quarter.

Michael Kaloghiros: OK. Thanks for that. My second question on – I mean, to come back to Max's question earlier on, on cruise and ferry. I think – I mean, last year, you had around EUR150 million of sales in that market, I think. If I try to go back in the past, you probably peaked around EUR180 million, EUR200 million, if my calculations are right. I mean, do you think that now because of the strong

outlook that you mentioned, you'd be able to exceed these previous peak offsetting that segment? I mean, taking into account – I mean, excluding the MSI contribution, of course? Or do you maybe think that the shipyards haven't got their kind of, like, spare capacity to increase production more, it's just giving you a lot of visibility going forward?

Bjorn Rosengren: As I said before on the shipbuilding or cruising ships, it's exciting at the moment. And there have been placed some good orders, but there are also a lot of ships that will be contracted during the next year and the years actually to come. And it's a hype at the moment.

We are fighting for every order. We have to do our best to prove for the customer that we have the right technology. Or maybe the most exciting thing in the cruising, what I think, now is that they are switching to gas. So there will be a huge amount of cruising vessels that will be operating on gas. And then we do believe that we are – we have a technology for gas or dual-fuel that are being used in ferries and ports. But there is tough competition, and we don't know if we will get the orders or not. So we're doing our best on this side.

What is good that the gas is coming into the cruising business is that every harbor wants the cruising ship to come, because cruising is big business. A lot of people, thousands of tourists coming in and spending money in the port. That means that, if you will have the cruising ships driving around on gas, that means you have to build up the infrastructure. And the infrastructure is the biggest thing holding back the development of gas as a fuel in the Marine industry. So these – there are large decisions hereby. I think, Carnival are ordering 8 new vessels with gas engines. I think that's exciting, I think, for the market.

But it's – we believe that it will be good for couple of years, for a number of years. Cruising I think, well, there – people are saying that there will be – the shipyards will be full until 2023, 2025. So that means a lot of ships will come out during the coming years.

Michael Kaloghiros: Yes, of course. So basically, even if you don't see a big increase in the number of ships that come out of the yard every year, you think that maybe your content per ship, because they're switching to gas, et cetera, could improve and basically outperform that market, that ...

(Crosstalk)

Bjorn Rosengren: We do – we are doing our best there. So but the way we are organized, and I think that's very important, we are organized in the product lines. And each of these product business lines is responsible for its own business. That means when the environmental solutions guys are competing for getting a scrubber on one of these cruising ships, they are fighting with Alfa Laval, other – and other players in the market. And they need to be best. They have to be competitive in that part.

Same thing is with engine, same thing is with propulsion, the same thing is with electrical and automation. So each of them need to be best. You do not get orders just because you get a package. Each of your product has to beat the competition, because there is no really big solution that you are getting with these ports, with these shipyards.

Michael Kaloghiros: My last one is maybe just a clarification on your comments on cash generation. I just wanted to double check if you are talking on absolute level, cash – free cash flow being flat on an absolute level? Or you're talking on a relative basis, cash generation being flat year-on-year?

Bjorn Rosengren: On the cash side?

Michael Kaloghiros: Yes.

Bjorn Rosengren: Yes. I mean, our cash flow, as you follow, we haven't – as you know, normally, we have good cash flow in the company. We had that for many, many years because we don't spend so much CapEx in the part. So the majority of our profit goes into cash, and that we have no change in. We do not have any big CapEx investments. Normally, it's below, actually, the depreciation, what we are doing on our assets. So normally, the biggest part

of our profit should go into cash, and that should be continuing. And that's why we are keeping a low gearing.

And that now we paid out during this period for the EUR290 million for the L-3 MSI. Even though we do this, we believe that by the end of the year, we should be on the same level as last year with our gearing of 5 percent, that's our target.

Michael Kaloghiros: OK. So it's cash generation, not cash on an absolute level. So – because I, mean, the concern was not really, on my side, it was not really on the CapEx, you are asset-light. But was more on, if I look at customer advances that came down quite a bit in the first half, and that makes sense when you get, like, book to bill to below 1 in Marine or in Power Generation. So I just wanted to confirm. So you expect like orders to build up and basically to offset this first half drop in customer advance?

Bjorn Rosengren: But there are no change in how we do business. And we also control that all the time. Meaning, that we look at our orders received and then we look at the amount of prepayments that are coming. So we are seeing that we are all the time controlling, that we are not booking a lot of orders without prepayment. So that is being – so we have no change in the way we book orders today than we did last year and the year before.

Michael Kaloghiros: Understood. Thanks very much, yes.

Bjorn Rosengren: Thank you.

Operator: Your next question comes from is Elina Riutta from Evli Bank. Please ask your question.

Elina Riutta: Yes, hello. A follow-up question on what you said about Power Plants affecting Q2 profitability. Is this an issue of competitive pressure more widely in Power Plants or is this something specific to some projects delivered in Q2?

Bjorn Rosengren: I think this was in some projects that were delivered in the part. But I also – what I said is that, going forward, we see more pressure. And especially now

when the Marine has gone down, when many of our competitors are delivering fewer engines to the Marine, and you know the engines are made in the same factories. So we see in projects going forward, that there are more pressure in margins.

Elina Riutta: OK, good. Thank you.

Bjorn Rosengren: Thank you.

Operator: You have a question from Max Yates from Credit Suisse. Please ask your question.

Max Yates: Just a point on the cost savings relative to these increased pressures that you're talking about. I mean, in terms of sort of taking out EUR40 million of costs, most of it coming next year. And obviously against that, you'll be delivering contracts that were taken this year in Marine, potentially in these tougher pricing environments. So could you give us an indication of how that EUR40 million fares versus the tougher pricing that you're perhaps seeing on contracts currently? Should we be thinking about a 50 percent retention rate on those cost savings and maybe half of it eroded by pricing? How do you see that balance?

Bjorn Rosengren: You should see the action we are taking in Ship Power related to Ship Power. I think that's the important thing. These measures are taken because the market is expected to continue to be tough. That's why we are preparing ourselves.

We are still on a reasonable level, but we expect that it will be challenging going forward, and we have to make sure that our cost level is on the same – on a good level.

Then I would like to – when you look at our Ship Power business and our Power Plant business, we talk all the time about equipment, that is equipment part. But service is actually Power Plant business and I should say, Marine Solution, if you should follow our part. It's actually that part.

So when you add the service improvements on each of these business, you can see that both our Marine business as well as our Energy business is improving because our Marine business is a combination of service and equipment. So I think that is important to say. It is true that we have some pressures on the Power Plant prices going forward, it is. But at the same time, we're seeing, all the time, improvements on the service side. So it levels itself off. Or if we are lucky, maybe it will be a little bit better.

Max Yates: OK that's great. Thank you.

Bjorn Rosengren: Thank you.

Operator: Thank you. There are no more questions. Please continue, sir.

Bjorn Rosengren: Thank you. OK, I think we have overrun the time actually. So I would say thank you very much, and I wish you all a great summer. Thank you.

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

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