

Wärtsilä Corporation

**Moderator: Jaakko Eskola
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OPERATOR: This is Conference #3683345

Jaakko Eskola: Good morning, everyone, and welcome to Wärtsilä Corporation's Half Year Report, January to June 2019. Here in Helsinki Wärtsilä campus, I have, as usual, the Board of Management, and Natalia and Emilia from Investor Relations. I will go and have, first, a short presentation and then we have time for questions and answers.

So the first 6 months, stable development in net sales and then, at the same time, we have had equipment profitability challenging. If you look at some of the highlights, our services sales is growing and we have a very strong order book.

And regarding the market at the moment, the market environment, we have expected the vessel contracting in the marine market to recover, that's not taking place at the moment. June vessel contracting was very low, just over 20, and the indication towards the year-end is not supporting probably anymore the Clarkson earlier estimates.

At the same time, the segments which are very strong for us, cruise, ferry, LNG, are doing fine and the outlook is good. At the same time, the whole discussion about scrubbers is, at the moment, a big question mark.

The current spread between heavy fuel oil and marine diesel is supporting scrubber ordering, but at the same time, the 1st of January is getting closer and

people are a bit uncertain regarding the fuel development -- price development, at the same time, the fuel availability.

In energy, the fundamental drivers for our business, which supports the energy demand, growth in emerging markets and the increased need for flexibility when going further and to renewable market, remain in place, but at the same time, we have seen a short-term demand environment very challenging.

Geopolitical risks, transition, economical uncertainty and the whole transformation and transition to the renewable integration is slowing down decision-making, but we feel and see that being temporary.

Now moving on to the -- more to the slides. Our order intake in Q2 decreased 11%. At the same time, we have an almost record-high order book, which is 10% higher than previously. In the second quarter, our net sales decreased by 2%.

At the same time, if you look at the first 6 months, our net sales increased by 2%. Book-to-bill, in a very healthy -- at a very healthy level now 1.13. Our result, 9.3%, a bit lower than last year, affected by lower energy newbuilding deliveries. At the same time, we had some challenges on some of our projects, project margin and project portfolio in the second quarter.

Earnings per share a bit lower than last year and cash flow now negative. This is purely, I would say, because we are building heavy inventory for the deliveries on the second half of this year.

So order intake, if you look at the numbers and really the decrease, of course, it's mainly coming from the energy market, expected, and the delays in the decision-making has been there for some time. We started seeing it already last year, you remember our third quarter, and this continues at the moment.

Net sales asset, the second quarter a bit down, first 6 months a bit up. Now Marine is bigger than the Energy. But of course, if you start putting the services, then the mix is a bit different. Book-to-bill 1.15, so at a healthy level. And when you look at the order book distribution, I mean, still a lot of deliveries this year.

And now it's very important to realize the fact that our third quarter is not going to be anything special. Most of our deliveries will be on the fourth quarter. And when you look at the deliveries, it's not only, of course, engines, there are a lot of other equipment and solutions and heavy deliveries when it comes to scrubbers.

Result, the 6 months stable. Now the second quarter, as I already explained, a bit down. We had some deliveries on the second quarter where margins were a bit lower and then some of the portfolios on different segments have affected to the profitability. And then cash flow a bit negative.

There are also higher taxes at the moment, but I believe this is more a timing issue and really building this working capital for the deliveries for the next 5 to 6 months. Gearing 0.33, a bit higher than previously.

Moving on a bit to the different businesses. The vessel contracting, as I already highlighted, quite much down from the expected numbers, let's see what happens the next 6 months. Normally, the latter half of the year is more positive, but there is, of course, a lot of discussions about the whole merchant vessel situation.

At the same time, for us, the LNGs, the cruises and the ferries and special vessels are supporting our development. And when you look at our order intake, okay, compared to last year second quarter, we have a lot of cruise and ferries, we have a lot of gas carriers.

And then if you start taking, for example, scrubbers out of the deliveries, we are performing quite well, better than previously. So the over -- underlying business on Wärtsilä's equipment is developing quite well at the moment.

When looking at our long-term agreements, we have been quite strongly looking at how do we get long-term agreement, and where and why, and you have seen the good development during the years. Now there is a small dip.

This is now coming from one customer who had -- and I think it's a 2-stroke engines, actually, with one customer who, some of the vessels in the fleet was

-- the long-term agreement was canceled, then the customer continued with the normal transactional business.

Money-wise, I mean, no big change, but of course, megawatts, you can see the change. At the same time, we got a -- on the offshore sector, we got -- okay, this might be special vessels, by the way -- I'm thinking about Sapura as a customer -- but pipe-laying vessel, a maintenance agreement, which is 5-year and really including a lot of the new asset diagnostics and ways to optimize the performance of the vessels going forward.

And net sales in Marine now developing well. And again, I will highlight in both businesses, our net sales in services part is growing now 5% in both in Marine and Energy.

And of course, this is supporting our organizational structure also -- by our organizational structure, where we deal with customers always with the eye of lifetime solutions.

Then, as you know, we have been acquiring a lot of companies during the last years, looking at the new ways to improve our maritime customers' performance and safety during their voyages.

And Wärtsilä is getting more and more new elements onboard of the vessels. This is a story about a solution where, using artificial intelligence, we can shorten the voyage planning and auto create a route that is safe and more efficient. So these new solutions, new ideas, which are supporting our customers.

Moving on, on Energy, and I wanted to highlight once again this Bloomberg New Energy Outlook, the latest outlook how the world could develop when it comes to capacity additions. And here, with these slides, you can clearly see the phasing out of coal and heavy fuel oil and more and more moving to renewables.

At the same time, if you look at the gas as a fuel, there is going to be a lot of additions in the market. And then, specifically, when you look at the other

part of the slide where we talk about flexibility, flexible capacity as additions, the peaker gas is going to play a major role going forward.

But there is a time lag here, I mean, this is not happening yet today. Decision-making is slow when you look at the different technologies, at the same time, the market is not yet getting rid as fast as probably expected of coal and, in some countries, nuclear. When that finally happens, you start seeing the flexible capacity additions moving and increasing more than before.

Our order intake, because of this time lag and also geopolitical situation, didn't develop as last year at this moment. But I'm -- as I said, we strongly believe, going forward, that these elements will be there.

If you look at our services, long-term services contract, there is one major service, long-term service contract in Bangladesh. You remember, we sold huge amount of megawatts in Bangladesh during the last 2 to 3 years, and now these customers are finally signing agreements with us.

Very important customer. And this is probably the biggest ever service agreement in that country we have signed, and you can now see also the effect to the graph.

Orders in the second quarter, I mean, didn't develop as expected. We got one major deal in Cambodia, which is actually -- it's a dual-fuel power plant, basically supporting the infrastructure, but at the same time, supporting the idea of Cambodia also moving more and more to renewables.

Net sales, because of the orders and because of the latter part deliveries, the second quarter was low and smaller than previously. But at the same time, our services, again, in energy is moving the right way.

Market shares. This is -- these are the way how we calculated, shrinking market, our market share stays at the level of 13%, 14%, 15%. And once again, a highlight of the quarter was the Cambodia fast-track deal.

As I said in my presentation regarding the market, the demand of Wärtsilä, really wanted to highlight it once again, the demand for Wärtsilä services and

solutions in the coming 12 months is expected to be below that of the previous 12 months.

And the demand, if you look at by business area, we have now downgraded our prospect, from solid in both businesses to soft. And this is the final slide here in my presentation, and now I'm ready for questions. I don't think there will be any questions here in Helsinki, so we can straight go to the lines, please.

Operator: (Operator Instructions). Your first question comes from the line of Max Yates.

Max Yates: Just my first question is around Energy, and I think, on the slide, you show that your market shares in energy have come down a little bit on a rolling 12-month basis from a high level.

So I just wanted to ask a little bit around the pricing environments as, obviously, there seems to be a lower number of orders out there. So have you had to be a little bit more selective?

Have you seen any competitors pricing more aggressively as the market has maybe come under a little bit of pressure? So any comments around the sort of backdrop for the pricing environment in Energy as, clearly, ordering has become tougher?

Jaakko Eskola: Thank you, Max. And I have Marco Wirén here. He comes just from the market, so he can open that a bit to you.

Marco Wirén: Thank you. Thank you. Very good question as well. And just the market share, actually, is a little bit higher now than previously. It's 15% now, but it used to be 14%.

But it goes up and down, just like Jaakko said, between 13% to 15% continuously, depending a little bit the quarter. And this is actually one quarter lag on the market shares because when we get the data -- market data, so it's not end of June yet.

And I would say that the reason that we -- or the reactions that we get from our customers and, actually, the banks that are financing or governmental entities that are financing the projects, the time they need to make a decision is taking longer.

And there's, of course, the macroeconomic reasons or uncertainty which is the major reason for this, and this is something we've seen in the past 12 months developing that decision-making takes time.

It's not the pricing itself that is a big change there, but it's just the time that it takes to make a decision about the funding.

And it could be the bank, it could be also the government because, in many cases, when we sell our power plants, actually, the buyer, just like in Cambodia, I had a meeting with the energy minister, so it is the state that is behind many of these deals.

And of course, they have to get the funding in their budgets. And of course, when they don't quite know what's going to happen in the world and how that will impact their own budget going forward, that's why they really analyze that very thoroughly before they make the decision and approve the funding as well.

Max Yates: Okay. And just my second question is on 2020. If I look at your guidance where you've talked about sort of orders over the next 12 months being somewhat below the previous 12 months, which was EUR 6 billion.

So I mean somewhat below, in my mind, is somewhere between down 5% to 10%. If, actually, when I look at it, it means that your 2020 sales probably aren't growing versus 2019. And, I guess, what I'd like to understand a little bit is, obviously, how the tailwind from the cost saving is coming through.

But do you realistically think, even with cost savings, that you will be able to increase margins in an environment where your revenues aren't growing? Or do you think actually in a zero-growth environment, you need the cost savings just to stand still and offset internal inflation and pressure in the business?

Jaakko Eskola: Thank you, Max. And I -- I mean let's get back to 2020 when we are closer to that, and I would probably -- I would like to do it in January.

But overall, if you look at our alignment program, which we started at the beginning of this year, it's now -- we are implementing all the many elements, as you know, and they are finally bringing result. And we said that we will have a lot of costs during the first 6 months and the benefits starts to get in during the latter part of the year and 2020.

I mean if -- whatever then happens 2020 otherwise, I mean, we need to get back to that one. But regarding the cost savings and organizational changes, looking at the way how to develop our services is crucial for all these future results and -- but I cannot start commenting the 2020, yet.

Max Yates: Okay. Just the final one is on MAN. And I was just wondering if you could give us any update, obviously, on your perception of what can potentially be done here? Whether you think it may be possible that MAN go down the route of carving out the 2-stroke business.

Obviously, it's a few months since we've spoken last and there's been limited sort of updates. But any color you can give on how negotiations are going there, whether you're in contact with them and whether you think that, potentially, there is scope to do something with that business here in terms of a combination?

Jaakko Eskola: As you know, Max, the 2-stroke is the only one which we could live with because of the competition. And so far, I mean, what comes to the final conclusion, nothing has happened. Publicly, as you know, Volkswagen has said that they would like to sell it as one package, but that's whatever we can read from the public sources.

Operator: Your next question comes from the line of Sven Weier.

Sven Weier: The first one is a follow-up question on your new guidance and how you define it. You said it's going to be somewhat down. And so can you frame that a little bit more detail? So is somewhat down up to minus 5% or, as Max

just said, minus 5% to 10%? So some more color on this I think would be appreciated. That's the first one.

Jaakko Eskola: Thank you, Sven. We haven't started to open up what solid and soft and so on finally is. I mean you all have been quite close to the numbers anyway.

Soft really means, when you look at the next 12 months going forward compared to the last 12 months, that there are challenges in both markets. But I cannot start opening the exactly -- does it mean this and this euros or whatever.

The market in both end markets at the moment, when you look at the newbuilding markets, the markets are softer than they used to be. At the same time, and we are not doing -- I mean we are not guiding services, we only wanted to say that the services activities in both markets are continuing as they are at the moment.

Sven Weier: Okay. And then a follow-up question would be on the project pipeline on the Energy side. I mean, I do sense from your comments that the existing projects have been pushed out, but have also been projects taken out of the pipeline or is it just a matter of later decision-making, yes?

Jaakko Eskola: Thank you, Sven. Marco is here to open that one. Please, Marco.

Marco Wirén: Yes. Thank you, Sven. Very good question as well, and I would say that the pipeline is still very healthy. There's a lot of need for energy and, depending little bit the way you want to look at the world, but we would definitely see that there's no cancellations, it's more postponements. And if you look the fundamental drivers in Western world, it's still the renewables that are increasing their share.

And when these countries or regions take down coal or nuclear or whatever, then they see that they have a need of balancing power as well. While in the emerging markets, just like Cambodia, they need flexible baseload. And of course, these countries, when they see growth and the new growth in this country is they need electricity to be able to supply the industry and the country at large.

Operator: Your next question comes from the line of Antti Suttelin.

Antti Suttelin: Two Marine related questions. First of all, could you explain the logic when you say that uncertainty on fuel prices and availability, how does that exactly have to do with scrubber investment decisions? That's my first question.

Jaakko Eskola: Thank you, Antti. Very good question. And Roger Holm, Head of Marine is dealing with scrubbers daily. So please, Roger.

Roger Holm: Thank you, Antti. And a few angles to this question. I think we are in a place today where, as we have told before, we have sold out already earlier the deliveries for this year, so any scrubber delivery or scrubber order coming in would be for delivery next year.

And we have a situation where many customers are in a bit wait-and-see mode because they have lost the 1st of January opportunity anyhow and they expect the biggest spread on the fuel than what we have at the moment.

So they will wait and see that how much is the spread developing. Even if the business case is there today, that's one part of it that would speed up and shorten even further the business case for the customers. Then there is another discussion ongoing as well that there is a concern on the HFO availability in all ports.

For sure we will see 0.5 sulphur fuel available, but will then be full availability also on HFO in all places, and that's a concern from the customer side. What we have seen so far is we believe there will be availability, but since they have lost the slot for 1st of January already, now it's a bit wait-and-see mode to see what will happen, both on the spread and the fuel availability.

Antti Suttelin: Okay. And when you say fuel ability, you refer to HFO fuel, not the low sulphur?

Roger Holm: Correct, that if you have a scrubber, then -- investment in place, that will you get then HFO next year and the year after in the ports that you need.

Antti Suttelin: Okay, that makes sense. Then, secondly, you downgraded the Marine guidance. Does this mean that you have become more negative on the really important segments for you, i.e. cruise, gas and so on?

Roger Holm: Short answer to that is, no. The cruise and gas segments continue in a positive way. The main reasons when looking at the next 12 months is twofold. The major part is really related to scrubbers. And as you know, we had a really good order intake last year on scrubbers.

At the moment, we are clearly lower on that part. And then the other one is, of course, we are not totally immune against lower vessel contracting either, and we see a decrease year-to-date compared to last year when we were expecting a slight growth.

The good thing for us is that the key segments for us is still developing well, but it's the combination of these 2 that makes it. And then maybe another point as well to make regarding order intake in services in Marine, you see a slight decline on that one year-to-date.

But actually, if we take out the IFRS 15 impact on our contracts where we do it based on cost-based sales recognition, which is then impacting also the order intake, actually, the order intake is growing in services as well. So just as a clarification to that part.

Antti Suttelin: Okay. And finally, finally. Last year, I think you had 355 scrubber orders. Where are we running now on an annualized basis in Q2?

Roger Holm: I will not comment on amount of scrubbers. We have -- order intake-wise in Q2, we are clearly below Q1 levels. And that's also the reasoning why we are saying that we see a lot in the market that is in wait-and-see mode. Still, there is a lot of activity in the pipeline. It's more the decision-making that is our concern on the near term.

So the business case for scrubbers are still there, we don't believe in a change in that. But at the moment and coming quarters, depending a bit on the fuel spread development, it will be a bit wait-and-see development.

We can say also from a sales point of view that, of course, the sales is ramping up and it will be heavily second part of the year focus. So assuming all the retrofit goes as planned, which are not always in our hands, we will have a delivery of around EUR 300 million sales in the second half of the year related to scrubbers.

Operator: Your next question comes from the line of Jack O'Brien.

Jack O'Brien: My question is just related to the comment regarding deliveries in the second half and it's seemed quite 4Q-weighted. Can you just help me -- I'm just trying to digest the fact that the order book is up 10, obviously, your outlook by end markets has become a bit more challenging.

But what's your current working assumption on how much of the order book is converted in the second half into revenue? I'm just trying to, obviously, bridge to a full year sales number and I'm struggling a little bit at the moment.

Jaakko Eskola: Yes, that's a good question. If you look at, I mean, what's still left from the order book, and of course, there is going to be a huge amount of transactional business deal, which is always a question mark.

Of course, our services is developing quite well. At the same time, we still need orders to book -- to be booked for deliveries in Energy during this year.

So I cannot give you any numbers or details on that one, but there is still -- to get all the numbers done, we need some orders. But as we heard from the Energy, I mean, the pipeline is good and we expect those orders to be signed.

Jack O'Brien: And perhaps just a couple of small follow-ups. One on -- I noticed your long-term service agreement percentage or your percentage of marine installed base that you cover with service agreements went down slightly. I might have missed that, but can you just explain why that was?

And then, secondly, just briefly on what you expect the run rate of restructuring benefits to be as at the end of 2019? I appreciate most will fall into 2020, but just any colour there would be also helpful.

Jaakko Eskola: Regarding the long-term agreements in Marine, that was really -- I mean now you need to be careful, that's now -- it has been measured by megawatts, first of all, so it doesn't really give you the whole indication of the money we are talking about.

There was a one customer who wanted to cancel part of the fleet long-term agreements but wanted to continue with normal transactional business. This is a merchant ship and it's a 2-stroke engine, so the megawatt numbers are quite high.

We are not worried about that at all. I mean, money-wise, it's very small. The renewal rate on normal agreements is on -- at a good level, so the development is going fine, but this one customer changes -- changed the numbers in the graph.

Then regarding the, I mean, the realignment program, we have said where the savings have been -- the estimated saving have been EUR 100 million and then the cost of EUR 75 million. Most of the savings, finally, will be in the 2020.

And -- but -- most of the cost -- I mean, some of the cost are, of course, coming during this year. The run rate, I don't think we are -- we -- I'm not going to start revealing the run rate at the moment, but they are progressing as expected. But once again, the benefits starts to get in during the second half of this year and mostly then 2020.

Operator: Your next question comes from the line of Edward Maravanyika.

Edward Maravanyika: Actually, my question is related to the questions you answered just now, so I'm good.

Operator: Your next question comes from the line of Robert Davies.

Robert Davies: My question is really around the Energy business. And, I guess, what in your view is likely to change from an end market perspective over the back half of '19 and the first half of '20?

You mentioned the elevated reserve margins, the uncertainty in decision-making. I guess why is that going to change over the next 3, 6, 9 months in your view? What are customers telling you?

Is it -- you mentioned sort of short-term blips from some of the financing concerns, is there anything else aside from that, that's going on from a structural perspective that customers are concerned about that are causing delays?

Jaakko Eskola: Yes. Marco, please, I mean, you can say the same. Please, go on.

Marco Wirén: Thank you. Very good point. I would say that what we see and the reason why we actually lowered our guidance as well as the soft is the fact that we see that market will continue with this delaying decision-making and, of course, the macroeconomic uncertainty is one major reason here.

And this is how we think it's going to continue for a while at least. How long, it's very difficult to say. Of course, we will update you continuously when we have quarterly results and give you more information what we see on the power plant markets.

But I would say that it's good to understand the pipeline is there. And just like Jaakko mentioned recently that we still have a couple orders that we expect to get this year, but we will deliver -- start delivering the engines already this year, which means that we will get the net sales.

So it doesn't mean that they will not sign the contract. It's just that timing, it takes longer time. And not only customers, as I mentioned earlier, it is also the funds -- the ones that are actually financing the power plants.

Jaakko Eskola: We haven't lost any deal. We -- I mean, nothing has been canceled from the pipeline.

Marco Wirén: No, that's right. Yes.

Robert Davies: I see. And maybe just as a follow-up. Can you just flesh out within your sort of emerging market versus developed market regions, how that's sort of different because, obviously, you're serving almost 2 different customer types.

What you -- I mean, you mentioned 70% or so was going into the emerging markets as sort of backup power versus your developed market where you're trying to integrate, obviously, more with renewables. How is the dynamic different between those 2 customer sets?

Jaakko Eskola: Lately, it has been 25% for the flexibility and 75% for emerging markets. But at the same time, we might regard the Cambodia deal as a emerging market base power. But ultimately, it will support also their story to go more and more to renewables.

So it starts to be a little bit question mark when you start dividing it by 25%. But the markets are different, you are totally right. We shouldn't forget that we are still selling well with a slow pace to emerging markets where countries are still building their infrastructure and they need base power.

Operator: Your next question comes from the line of Tom Skogman.

Tomas Skogman: This is Tom from Carnegie. I suppose that you announced that renewables make up more or less 3% of order intake for energy so far this year. And I just wonder, is this you selling solar panels and you have made quite a lot of news about being able to sell batteries and selling solar panels through partners, et cetera.

But it's been very quiet about this for quite some time. I just wonder how -- have you made any changes to the structure when this business is -- the hybrid power plant business is a bit delayed compared to the expectations 1 to 2 years ago?

Jaakko Eskola: Tom, very good question. Marco, please.

Marco Wirén: Thank you, Tom. Yes, a very good point. And just to clarify, the major renewable or non-gas oil-based product that we have in energy is the storage solutions. And while solar is not on a primer product that we sell, if a

customer would like to have a combination or hybrid, then we usually have a cooperation with some other company who is delivering the solar part, but we are not doing that ourselves.

On the storage side, we are delivering both batteries and energy management system and the integration of that. But there as well, we buy batteries or we have a cooperation or consortium with a battery company and do that together with them and we take the whole integration part of that.

And that market is definitely growing. And just like on Slide 19, you can see the storage part as well, that it will emerge more and more 2021 and forward.

And so far, the volumes are quite small, but we see huge interest going into storage going forward, so it will definitely come. And here, I would say that the key success factor is that you have a very good engine management system, which we believe that we have one of the leading, if not the best energy management systems on the market.

Operator: Your next question comes from the line of Sean McLoughlin.

Sean McLoughlin: One -- just one question for me. The -- I suppose looking at this Slide 19, looking at the flexible capacity addition, this huge jump from 2022.

I mean, could you maybe relate back to us how that feeds into conversations with customers? I mean, is there a huge recognition on behalf of your customers that they will need to invest in peaker gas in 2, 3 years' time and where regionally is that coming from?

Jaakko Eskola: Thank you, Sean.

Marco Wirén: Yes. Thank you, a very good point. And just remember that this is only a forecast, it doesn't mean that it's going to be exactly like this every year. But if you look at the trend, trend is definitely there.

And when we discuss with our customers, they are recognizing that there will be the need going forward as well when they increase their share of renewables and they take down the coal and nuclear and other sources.

And this is quite different depending country-by-country. If you take Germany, everybody knows that they will take down their nuclear by the end of 2021 and they have a plan to take down the coal as well.

Although the year they are planning is '38, 2038, but when we discuss with our customers, they are saying that they will not wait until 2038 because it depends what is the lifetime of those assets that they have and most of those assets are quite old, which means that by 2030, most of these coals assets will be taken down, and that will change the dynamics and the need of backup power as well in Germany.

Of course, we see a lot of demand coming from the countries where you see most deployment of renewables today. United States is a very good example. Actually, the past 3, 4 years, U.S. energy mix has changed a lot, so they have increased a lot of renewables.

And when they have taken down coal and will continue with that, not because of environmental reasons, perhaps, always, but because of the economics. So it is more profitable for utilities and IPPs to actually invest in renewables and then invest in backup power than just investing in coal or actually keeping the ones they have today, and that's where we're going to see these increases in balancing power.

We usually talk about when we can come to 20% share of renewables, that's where the tipping point is starting, that you have to have some kind of balancing power, a backup power.

And of course, it depends with what kind of mix. If you have a lot of hydro, that might be different. But if you have thermal energy of those 80%, then you definitely need, which is inflexible.

Sean McLoughlin: That's very clear. Just a little follow up on the next slide, on services in Energy. I mean, the 12-month trend has been falling from the Q4 peak. Just to understand -- in services, just to understand what's driving that and how you can reverse that trend.

Marco Wirén: Yes. I will say services, in general, is very good demand and our customers are seeing that when they get a good service and they have agreements, they actually are performing better in their power plants.

And this is something that we've been discussing with a lot of customers. But also, we have to illustrate that in a better way, how we can create value for our customers.

And this is something that we are changing our way of working as well towards our customers. And we believe that, with the new technology that we are deploying, we can actually analyze our customers' assets in a better way and illustrate what value we can create.

Sean McLoughlin: Okay. So this is not related to more customers, effectively, doing in-house servicing. It's more about you using new technology to improve your service offering to existing customers?

Jaakko Eskola: Yes. I would say, definitely, we see there's a huge opportunity on that side.

Operator: Your next question comes from the line of Peter Reilly.

Peter Reilly: One question and one follow-up, please. You've been talking a lot about the delays with the decision-making in the Energy business, and you've mentioned fund, in particular. Is it just a funding issue or are the customers also being slow to make decisions about technology, whether it's an engine, a gas turbine or storage systems?

So I just wanted to understand that it's purely a funding issue or whether you're still having a lot of fundamental debate with the customers about what sort of technology they want to actually implement to cope with the rising share of renewables.

Jaakko Eskola: No, it's not only technology. Marco?

Marco Wirén: Yes. That's a very good point, actually. And that's good that you asked that because that's something I want to highlight as well that in certain countries or

states, if you take United States, politicians are quite vocal about that now we want to go to 100% renewables.

And of course, utilities who have the investment plans, they have to redo the investment plans, but also illustrate what is the optimal mix and why they need a balancing power and backup power as well.

And these -- we sometimes call that educational selling, which means that we have to illustrate and discuss with these decision-makers what is the most optimal mix and how this will develop going forward.

You cannot go to 100% renewable overnight and -- because then you need technologies that perhaps are not in place yet. What we usually say that when you have engines as -- or flexible power as a backup, then you can easily go to 80% renewables, perhaps even more.

And the final step will come when we can utilize synthetic gasses, which are made of excess solar or excess wind energy converted into gasses that you can burn in the engines, and then you are in the 100% renewable world.

And we see that this development is going forward quite fast right now. And certain countries, depending the circumstances, this will be feasible economically, faster than in other countries.

And we do these country and regional plans in, actually, in most of the countries in the world where we illustrate for the decision-makers what is the most optimal path for you. And we've been doing that in many countries where, actually, decision-makers have changed their energy plans and actually recognized the work that we've done.

And it's just -- this is the way it is going, but of course, always, when you have these elections, that usually creates concerns as well.

And the message will be that no more something else than renewables and then, of course, we see that time will be postponing or they will postpone their decision-making again, but the fundamentals are different there. I hope that I answered your question now.

Peter Reilly: Yes. Well, I understand. It's a complicated topic, that was helpful. And then if I can have a follow-up. Correct me if I'm wrong, but it looks like the Marine spare parts sales is continuing to be a bit disappointing.

You talked about it during last year as well. So am I right that you're still, I think, below where you'd like to be in terms of Marine spare parts sales? And if so, why is that? And is that one of the reasons why the margin development has been a bit disappointing?

Jaakko Eskola: Thank you. Roger, I don't think we are -- we're looking at the spare parts -- .

Roger Holm: I think it's actually vice versa. We are happy with the development. And if you look at our net sales in services, Marine, we are growing with 5% with comparable figures. So we are having growth in services, we see good activities. We see some signs even in the offshore market for the service part that we are growing.

If you look at the chart where we look at the total sales, remember, on this part, we have a huge growth on the newbuild deliveries, so going from 43% to 49%, but that's also taking it from EUR 685 million to EUR 801 million.

So looking at service, standalone, we are growing and we have a positive development. And as I said earlier, also on service, order intake in Marine, you will see a small minus figure in the report. This is only because we have contracts and IFRS 15 recognition of those, depending on when the costs are coming in, in the contract. But without that one, we are also growing on order intake in services, Marine. So on the contrary, I would say, positive development.

Peter Reilly: Just for spare parts, I was looking at rather than the services, overall. Because your spare part percentage has gone down and I know you're a bit disappointed with spare parts sales last year. So does your positive comment also apply to spare parts or it only applies for the whole services business?

Roger Holm: Yes. It applies also to spare part. Of course, you need to look at the total that what goes through agreements and what goes through spare parts. But we are happy with the development and we are growing.

Jaakko Eskola: Some of the spare parts are in agreements also.

Roger Holm: Correct.

Jaakko Eskola: Which you can't see. But as earlier mentioned that both spare parts sales in Marine and Energy is developing better than last year and it's actually developing as we have not been expecting. It has a good trend.

Roger Holm: I think the key figure to look at is the net sales development on services. And as said, that's growing 5%, and that's positive development.

Operator: Your next question comes from the line of Andreas Willi.

Andreas Willi: My question is on the Q4, which obviously is going to be very big in terms of deliveries this year. How will that impact your kind of drop-through ability to generate profits when you have kind of an extraordinary level of deliveries in terms of stress on the system or temporary costs that result from that?

What should we expect in terms of, basically, margin leverage in a Q4 that is basically that high? Is it going to be a particularly good leverage or are you going to have some extra costs, temporary workers and so on to manage that peak in Q4?

Jaakko Eskola: First of all, yes. The fourth quarter is going to be exceptionally high this year and then there is going to be a lot of engine deliveries. We are ready for that one. I don't think there is going to be no extra cost regarding that one. At the same time, good to remember, we will have a huge amount of scrubber deliveries also going out on the fourth quarter.

And that's not, of course, affecting at all the engine part, but probably affecting a bit the Marine scrubber business line part, but it's -- I mean that has also been anticipated. And then, of course, we see growth in services. We expect that growth to continue, and there will be -- or should be a good

development regarding that one. And of course, at the same time, our spare parts deliveries.

Andreas Willi: And a follow-up question on service in Marine on the transactional side of it because you've had growth also driven by your longer-term contracts.

But if you look at the transactional service business, what is normally the expectation when you have a marine industry downturn like now? How and when will that affect service? And is maybe something different today than in past downturns when service was also impacted by a generally weaker industry backdrop.

Jaakko Eskola: Yes. Andreas, that's a good question. Roger, please.

Roger Holm: Yes. I think, to some extent, we need to decouple the newbuild development and the lifecycle part of it. If I take one example, we don't see, short term, any huge development on offshore newbuild parts. We are still in the same extremely low level as before.

At the same time, we see good signs of development on the service side, and this is coming from the fact that we will have more and more vessels coming in from lay up that get into operations. Still, there are plenty of vessels in lay up so there are no short term good forecast for newbuild needs, but that doesn't mean then that we can't grow on the lifecycle side.

So as long as the vessels are running and there is a need for existing tonnage, we have a good opportunity for services. And of course, you might say that, looking at the last year's slow development of newbuilds sales, that means that the existing tonnage needs to be there running, so that's a positive base for service business.

Andreas Willi: So when you -- in your outlook statement, when you downgraded it overall for Marine, none of that relates to your expectation of service being weaker in the next 12 months than in the last 12 months?

Roger Holm: Correct. As said in the comments, it's very much related to newbuild. And there -- one key really element there is that we foresee lower order intake of

scrubbers compared to the very high level last year. That's a major part of it, and then, of course, partly related to the lower levels of newbuild ordering.

Operator: Your next question comes from the line of Tomi Railo.

Tomi Railo: It's Tomi from DNB. A question on the Energy profits, EUR 37 million clean EBIT for the quarter. First question, is there any contribution from the equipment revenues on the profit line, i.e., is it making profits?

Secondly, if and as you are highlighting deliveries more tilted to the fourth quarter, is there a risk that equipment Energy -- Energy equipment is turning to losses in the third quarter? And the third question, can you reach, for the Energy business, a full year profit as seen in last year?

Jaakko Eskola: Tomi, thank you. Marco? Three questions.

Marco Wirén: Thank you, Tomi. Yes. I try to remember all of those. First of all, if we look at the equipment side, newbuild side and Energy, we always make our money and sales, basically, in the fourth quarter.

And this is the case this year as well, even more than in the previous years, just like Jaakko mentioned earlier. And it means that during the year, the profits are not that good or negative and then we get the big impact in the fourth quarter.

And also, the third quarter, just like Jaakko mentioned earlier in his presentation, that this will be very low, based on the order intake that we had a year ago and the delivery schedule that we have in the third quarter. Newbuild delivery side third quarter will be very low as well. And this is normal business we always have in Energy. And what comes to services, that's more...

Jaakko Eskola: Stable. Actually, growing at the moment, as we've seen, yes, and stable.

Roger Holm: Yes. It's growing and -- yes, but I mean -- profit wise it's more standard business. Of course, we usually have more sales towards the end of the year as well on the service side, and that's more budgetary reasons among our

customers when they see that they actually have some budgets left and they need spares then they usually buy those.

Operator: Unfortunately, Tomi's line has dropped. Your next question comes from the line of Edward Maravanyika.

Edward Maravanyika: Just on this unusually strong deliveries expected in Q4. Marco has very helpfully talked through Energy. Does this also apply for Marine? Are you also expecting unusually strong deliveries in the fourth quarter for Marine? And could you give the sort of split between the equipment side and the services side?

Jaakko Eskola: Yes. Edward, thank you. I mean, Roger, please.

Roger Holm: It will be. It will be. That's clear. And we have mentioned scrubbers already before, and we have still around EUR 300 million only on scrubbers to deliver during the second half of the year. But in general, we have a heavy delivery pipeline for newbuild on the second half.

Operator: There are no further questions at this time. Please continue.

Jaakko Eskola: Okay. All right. Thank you. Thank you, everybody, and see you then in 3 months' time in October. And for the ones who are going for summer holidays, have a happy summer holiday. Thank you, everybody.

Operator: This does conclude our conference for today. Thank you for participating. You may all disconnect.

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