

WÄRTSILÄ CORPORATION

**Moderator: Jaakko Eskola
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OPERATOR: This is conference # 5687622

Jaakko Eskola: Good morning, everyone, and welcome to Wärtsilä's Interim Report January-September 2018 Presentation. We have a very familiar concept, so I will give a short presentation and then you have the possibility for questions.

And with me here this morning, I have the whole board of management; and Natalia Valtasaari, Head of Investor Relations. And I would like to welcome also Arjen Berends, first time here, our new CFO, to the meeting.

First of all, we had a good development in net sales in the third quarter, that was thanks to very strong sales development in Marine and Energy Solutions.

If you look at markets today, we have and we are having a very steady development in the service markets. It's supported by the development in services in cruise and ferries, and that supports, of course, going forward. The anticipated growth in merchant and offshore has not been there, so that's a negative development so far.

If you look at Marine and Energy, the fundamentals are there. So Marine is supported by the efficient and clean and safe marine today. And Energy, of course, supported very much by renewable story, and at the same time, developing world needing energy.

So some highlights. Order intake stable in the third quarter. Order book growth 16 percent, very good. Net sales has developed well, 13 percent growth from last year. And we also had a result growth of 8 percent, which represents a little bit less in a percentage-wise than last year. And cash flow a bit lower than last year.

If you look at the divisions today, of course, very good development in Marine, supported by cruise and ferries, LNG carriers, gas carriers overall, and of course, the exhaust gas cleaning systems.

Services also developing well based on service agreements and, again, retrofitting exhaust gas cleaning systems. And then a quite disappointing development in Energy Solutions this quarter. And I'll come back to that one, is it a timing issue or is there something else.

Net sales boosted by the newbuild deliveries as said. And then because of the new-building development, well development in Marine and Energy, Services is now 46 percent of the group. And that has, of course, affected a bit to our profitability. But in the long-term, of course, it's great to have Marine and Energy developing well because that will finally support the trade development in Services.

Book-to-bill, 1.22. And if you look at the order book distribution, we still have a higher bar on the rest of the year and good development going forward. Operating result, as said, for the first 9 months, we are at the same level as last year.

One of the highlights in third quarter was the announcement of our smart technology hub here in Vaasa in Finland. It's going to be a new way of working together with our customers, suppliers, academia and the society. And it will go forward thinking about the testing and the new technologies, new research in the area of energy and marine.

Moving on to Services. As said, steady development in Services' sales, a bit lower than anticipated. And as said, some of the segments in Marine not developing as expected. Of course, if you take the FX impact into account, the first 9 months, we grew 4 percent. So that's good to remember.

Product areas, good to see the development in agreements. There is growth, which we have been anticipating and really focusing. Spare parts, 48 percent of the total, which, again, partly affects that mix to the profitability. And here you can see the installed base, which is covered by service agreements, now finally growth also in Energy.

Moving on to Energy, quotation level a bit lower than previously. And of course, that – this is measured in megawatts, so it might be also because of dealing a lot with renewable energy today and storage and so on. But also, as said, that in some areas of the world, people are still at the wait-and-see mode.

And when you look at the development of order intake, clearly, the story has to be remembered. Developing world needs energy infrastructure. And in certain countries, the currency effects, currency changes have affected the timing, so that's why we didn't book some of the expected orders in Q3. We are definitely looking at them to be booked in Q4 or Q1 or Q2 next year so that they are not disappearing anywhere.

And in developed world, of course, the story is really behind the renewable increase in the energy sector. So Wärtsilä is needed for the flexibility. And that's not disappearing anywhere. People and countries and utilities are looking at the possibilities for the new development of the energy industry.

Order activity in Q3 was highest in Asia. And today, our market share is 17 percent. It's a bit down. And here, in market share, it's always good to remember if one of the big turbine players sell one turbine to the market, that changes the market share position quite a lot.

Marine, the contracting recovery is going on. We have a bit more contracts so far 2018, but as we all know, even Clarkson now finally downgraded the expectations for 2018 and 2019. It's still going to be more than last year. But for us, it's good to see that the development of cruise and ferry and gas carriers and special vessels are – is going well.

So far, it has been supported by exhaust planning – exhaust cleaning systems and the continued activity well in the cruise and ferry segment.

A couple of words about financials. Cash flow was a bit low. We are basically building the inventories for the very large Q4, as we have highlighted many times, and gearing is 0.28 at the moment.

For the prospects, it's good to mention that we have lowered the Services prospect from good to solid, a bit lower than previously, and maintained the good in Energy and good in Marine. Energy order intake, the pipeline looks good, promising. And of course, Marine is doing extremely well when it comes to the order intake.

And finally, also in third quarter, we announced the redesign of the organization, where we definitely want to enhance the customer value. We want to be faster to look at the market and accelerate the growth, what we have in our Energy and Marine strategies.

Our business is serving our customers. So the service plays the most important role when we deal with our customers, and that's why the new building has to be linked to the service element going forward. This new organization will be operational as 1st of January next year.

So thank you all. At this moment, now we have the possibility for questions and answers. And if I would like to remind you, as we had already the standard last time, one question for everybody and a follow-up question. And then please go back to the line, or if you are here in this room, just wait for your turn.

But let's start here in this audience if anybody wants to ask questions here.

Jaakko Eskola: No questions here. But then we go to the lines, please.

Operator: Thank you. For the participants over the phone lines, if you have any questions, you may press star and the number one on your telephone and wait for your name to be announced. To cancel your request, you may press the hash key. The first question, it's from the line of Sven Weier from UBS.

Sven Weier: Jaakko, so 2 questions for my side. The first one would be, when you look at this scrubber order intake, I think it was a little bit lower sequentially. So did you – and the activity, on the other hand, on the scrubber market was extremely high. So was it that you already received a couple of contracts but you have not included those in the Q3 order intake yet? So that would be my first question.

Jaakko Eskola: Thank you, Sven. Exactly. We had 29 scrubber orders in Services and 46 in Marine. But in Services, we have one quite many of scrubber orders, which have not been included in the order intake. You are right. The market is, at the moment, very hot. More than 50, says Pierpaolo Barbone, additional in...

Pierpaolo Barbone: That's a won deal.

Jaakko Eskola: Won deal, not in order intake.

Sven Weier: And is that because you haven't received the advance payments yet? Or what's the technical factor about booking ahead?

Jaakko Eskola: We don't book it before we see money.

Sven Weier: OK, good. And the follow-up question would be just on your service outlook. Is that mostly a backward-looking adjustment on the outlook because the first 9 months didn't really come in as you expected? Or are you also more bearish on the fourth quarter? Are you seeing any green shoots there on Service or is it just also negative for Q4?

Jaakko Eskola: It's more to look at the development of the net sales this year and Q4. I mean, it's – I mean, basically, if we don't see that growth what we expected and we see a little bit lower growth, that's why we downgraded it, it's – for this year.

Sven Weier: So it's still improving somewhat in Q4, but simply not enough to make...

Jaakko Eskola: That's the expectation, yes.

Sven Weier: And is that also improving, in your view, on the transactional side or just because you're starting to install scrubbers?

Jaakko Eskola: We don't start installing scrubbers yet. The most – almost all scrubbers I think, in both Marine and Services will start next year. So it's improving – I mean, we have the order book and we have the transactional business and that's why we base this solid development statement.

Operator: The next question, it's from the line of Antti Suttelin from Danske.

Antti Suttelin: An EBIT question. Very weak EBIT in the quarter, and if I look at your report, you are blaming transactional services. But then when I go and look at your Services sales split, I cannot really see that there is a big difference compared to last year. So can you explain what happened in Services and how important really is this weak transactional services for the group EBIT margin?

Jaakko Eskola: Antti, thank you for the question. First of all, the more sales we have in Marine and Energy, where the margins are, of course, not as high as in Services, will affect the group profitability. Then in Services, the lower the spare parts is, it will affect the Services profitability. So adding those 2 elements, you end up with this number. And – but our absolute profitability grew 8 percent, so we are developing also the whole group in what comes to the profit.

Antti Suttelin: OK. And then a second question on Energy. I can understand the logic that your traditional Energy business is being hit by emerging market currency weakness. But

what is hitting the new business, the backup power for renewables? Why didn't that succeed in Q3?

Jaakko Eskola: It's a timing issue, Antti. But Marco now is the new head of Energy – Marco Wirén, the new head of Energy Solutions. So Marco, would you like to open it up a bit?

Marco Wirén: Yes, of course, thank you for the question, Antti. And I would say that we will see more renewables coming in. But many of the utilities in many countries actually have to redesign their plants now. If you take many of the Western countries, when they see that renewables actually are an alternative to baseload, and they have been thinking of having perhaps coal or turbines, and now they see that wind and solar are good alternatives, that might delay a little bit their decision-making as well. So that – it's a timing issue, I would say, in many, many places.

Antti Suttelin: OK. And can I just ask then, basically back to Jaakko. Just to clarify, basically what you say is that the drop in group EBIT margin year-over-year, 1.5 percentage point, was caused by the group sales mix, Services accounting for a smaller proportion than a year ago because, as I said, in the Services mix, I cannot see any big change year-over-year. But I can agree with you that there is a smaller proportion of Services overall in the group sales, basically. Is this what you mean? This is what caused the 1.5 percentage point weakness in group EBIT margin year-over-year?

Jaakko Eskola: That is if you simply ask it in that way, yes.

Operator: The next question, it's from Jonathan Hanks from Goldman Sachs.

Jonathan Hanks: I just wanted to ask on the order deferrals in power. How many projects did you see that deferred? And if you could give a little more color on the reasons they were deferred that would be great. Was it all just about currency volatility? Or was there also some kind of project-specific factors at play?

Jaakko Eskola: Thank you, Jonathan. And Marco Wirén, again, he will be answering all the questions this morning. Please, Marco.

Marco Wirén: I would say that it is varying a lot. I would say that all the delays that we see are due to currencies. In some countries where the currency has depreciated a lot, of course, these countries we usually see that they will defer their decision-making to see what is the new level. But then in the power business, you also see delays due to a lot of

different reasons. It could be permit issues, it could be just some other issues. We actually had also, due to the nickel prices went down, so that affected one customer. So I would say that you see so many different reasons in power business.

Jonathan Hanks: OK. And I suppose just following on from that, I mean, is there a risk that customers see the new currency level and then change their minds, and therefore, don't proceed with the order? Or do you see that as a limited risk?

Jaakko Eskola: Marco, continue.

Marco Wirén: Yes, I would say that when there's a permit issues or other issues, just they might be not getting all the decisions made by politicians or the Board of Directors in different companies. These are usually – of course, they will proceed in the next quarter or quarter after that. When there's a more macroeconomic issues and if these are severe and longer term, of course, then they have to use the governmental power plant, they have to go back to their approval bodies and get higher funding, and that might take a little bit longer term – a long time.

Operator: The next question, it's from Max Yates from Credit Suisse.

Max Yates: Just my first question is on the profitability this quarter. I think you sort of quite helpfully laid out in the last couple of quarters some of the cost inflation that you had been seeing. So the higher R&D costs in Q1, the digital investments, and then I think, at Q2, you talked about some additional investments in people. So could you give us a little bit of color around any increases in costs that you saw year-over-year in Q3? Or was it all – was all of the sort of margin effects down to this mix issue?

Jaakko Eskola: There are – thanks, Max. There are certain increase in costs in Energy Solutions. We are building the organization for the higher deliveries. The division has been growing quite well, so they have been needing more people. How much that finally affected, I don't have a number. We have a bit higher R&D cost so far, as we said earlier, it should be the similar at the end of the year than last year. But then we have higher digital costs. I mean, it's – at the end of the year, it will be some EUR 6 million, EUR 7 million, probably higher than last year, which is affecting then finally to the profitability. At the same time, we are building the organization and the competencies by acquisitions and – like Transas and Greensmith and so on. But definitely, digital also increases the numbers.

Max Yates: OK. And maybe just to sort of follow-up is on thinking about sort of margins for next year. Obviously, if we look at the sales development this year, you've grown 5 percent, but we've not seen any margin expansion on that. Obviously, the Marine business is going to be growing nicely next year. Potentially, Services may have some negative mix because scrubbers may be lower margin than the traditional business. So I just wanted to maybe understand a little bit better about how you think about the drop-through in the business on any growth that you get next year. And what kind of levels that could get to? Because I think the consensus looks fairly pegged towards your – sort of you moving quite quickly towards your 14 percent margin targets, and I just wanted sort of to hear in your view whether we should think about sort of slower development into 2019 and maybe drop-throughs more around the 10 percent level that we've been more used to this year than maybe sort of 20 percent plus that looks to be in consensus numbers.

Jaakko Eskola: Thanks for the comments. First of all, our 14 percent is still a target, and we definitely look at achieving that one, not probably next year, but let's see when we do it. But then, let us come back to guiding and telling more about 2019 in January. It's also going to be a little bit easier because then we have the final organization set up in place, and we can start commenting more about how Energy is doing and how Marine is doing, and then, of course, what are the service elements there. Both divisions – both businesses really, both businesses are actually quite – doing quite well if you combine the Services also in there, and that would probably tell you more about going forward. So I don't want to start guiding now exactly or trying to help you with every – exact number for next year.

Max Yates: But maybe if you could just help, because looking at the business, you've grown your top line and we're just not really seeing – we're not seeing margin expansion coming through. So if you could maybe, even from a sort of high level, just explain very simply what has gone wrong and what will be different next year to give us confidence that margins won't be stranded at this 12 percent level where we've been for a while. What could be different next year to really change that?

Jaakko Eskola: Let us come back to more details. But I would rather say today that our Services as it is will be growing. I mean, the retrofitting business in the exhaust cleaning systems is growing. Our agreements are growing, so that will definitely help to the overall

profitability. But as I said, I would rather come back in January for details – more detailed analysis.

Operator: The next question is from Manu Rimpelä from Nordea.

Manu Rimpelä: I would have a question on the Energy business. And you maintained the outlook at good despite that you have a big shortfall in the Q3 orders. And then you commented in your remarks that you expect the energy orders that were postponed to be closed in Q4 or potentially in the first half of '19. So since that is in 2018 outlook and you're commenting that they could come over the next 9 months or so, and we know that the currencies – EM currencies are down and commodity prices are down, which is not going to ease probably the situation for your customers. So why did you not downgrade that to a good outlook – sorry, a solid outlook?

Jaakko Eskola: Thanks, Manu. Yes, the pipeline is strong. And I – I mean, Marco, do you want to still, once again, highlight where do you see the next orders coming from?

Marco Wirén: Yes, thank you, Manu. I would say the reason why we didn't downgrade the outlook is that we still believe that in Q4 we have a lot of potential orders we could sign. And the orders are coming mainly from Asia and Americas. There's a lot of customers that are needing more energy and they want to have that quite fast, and we believe that we can sign. And of course, we see also that the El Salvador project is proceeding as planned, and we believe that will come, if everything goes right, in Q4 as well.

Manu Rimpelä: Can you remind us of the euro size of El Salvador, and if that comes in Q4, what would it be?

Jaakko Eskola: 250. OK.

Manu Rimpelä: OK. And then just a follow-up question, on the way you kind of think about the guidance wording, good. So should we interpret that that means that the order intake should be growing in 2018 compared to 2017 or – OK.

Jaakko Eskola: Good means order intake will be growing in the equipment business, and the Services guidance is guiding the sales book.

Manu Rimpelä: OK. And then I'm sorry to get stuck on this point. But you basically – in your remarks, you said that you expect to get the postponed orders in Q4 or Q1 or Q2. So it doesn't sound like you have a lot of confidence in signing those in Q4. So I'm just feeling a bit

perplexed that you kind of still feel so confident in signing them in Q4, but in your remarks, not necessarily indicating that confidence.

Jaakko Eskola: So Marco?

Marco Wirén: Yes, thank you. What happens is when there's delays that they will postpone, but it's very difficult to say exactly when, but what we are now guiding is Q4 or full year order intake, and we believe that the pipeline is so far so solid, so we believe that we actually will sign enough orders in Q4 unless something very big macroeconomic or geopolitical issues will happen.

Operator: The next question, it's from the line of Sean McLoughlin from HSBC.

Sean McLoughlin: I think just to follow-up on the previous discussion. Marco, you've obviously taken a fresh view of the Energy division and it looks like you're coming in at a slightly difficult time. I mean, are there – is there anything that you think strategically you need to change or areas that you need to drive in order to help this turnaround?

Marco Wirén: Yes, of course, I believe that we have a very good solid business and know-how and skills in our Energy Solutions business. But of course, now when we combine from 1st of January with Services, we will definitely secure that we are offering better solutions to our customers from day 1 when they start planning in the power plant until – or during the lifetime of that asset. And securing that we can add value not only when we do service or when we build a power plant, but also during how they run the power plant, and we can definitely, with our knowledge, run that power plant and give advises so they can actually earn more money. So we're definitely going to look into those opportunities in much more detail going forward.

Sean McLoughlin: OK. And just a quick general follow-up. I mean, in restructuring the business into 2 areas, would you be looking at giving earnings by division?

Jaakko Eskola: That's our plan.

Operator: The next one, it's from Peter Reilly from Jeffries.

Peter Reilly: Can I please come back on this issue of the transactional service business? I'm just interested in some more color on what's going on. If I understand it correctly, this is spare parts to the merchant segment, which I would assume would be the sort of thing you predict very easily because it must be just a function of how much the ships

are being used. What do you think is driving the weakness? And is it in any way part of the whole, I don't know, 2020 issue with the – potentially some of the older ships being scrapped prematurely, and therefore, owners being reluctant to spend on the service if they're reaching the end of their lives? So maybe you can help us understand what's going on there and what you think it tells us about the future.

Jaakko Eskola: Thank you for the question. We have Pierpaolo Barbone, Head of Services team.

Pierpaolo Barbone: Thank you. Thank you for the question. First of all, I would like to remind you that 2/3 of our order book is related to our long-term agreements. And we have also to underline that, today, we have a record in the number of installation ever, and especially the number of installation ever in power plants. So this is the big picture. 2/3 of order book related to long-term agreement, but 2/3 of the net sales every month are related to transactional business.

So orders that are flowing in, invoices that we are, let's say, issuing on assets or on parts, on activities that we do not have in our order book, they are transparent. They are coming and they are going during the month. So we are capturing this business every month. And to, let's say, go into giving more color to the transactional, in particular, we have seen that in merchant especially, let's say, the pace of recovery or merchant in oil and gas is lower than what we have expected. Not for all subsegments, in particular for the container ship, the volumes and freight rates are – have increased.

So let's say, there is an improvement but in dry bulk, and especially in tanker market, this is – they are still depressed, let's say. So then on the long-terms agreement, you know that we have certain long-terms agreement related to spare parts and related to field service activities. And these activities, to be invoiced, they have to be called off. So when you have a change in the operational profile of a power plant from baseload to peak shaving, for example, and you have a long-term agreement for parts, for example, in order to materialize net sales, you have to invoice them. If the peak load is – the baseload approach or profile is changed to peak load, then you don't need that moment the part, so it is postponed. So that is the – I don't know if I have given some more colors or if you would like to know something more.

Peter Reilly: You've given some more color, so that's appreciated. But dry bulk and tanker, is it that they're being used less and therefore you see less transactional spend? Or are

people deferring doing servicing because they're under financial pressure? I just want to understand whether it's just a sort of blip or whether there's...

Pierpaolo Barbone: Yes, both. But also sometimes when there is – there are orders on the market, the customer, they prefer to avoid to stop the ships and then to continue to work until, let's say, they can. And of course, the risk is that then we will face – they will face some breakdowns later on, but they prefer to harvest when it is possible.

Peter Reilly: OK. And if I could ask a follow-up on the scrubber business. You're obviously going to very busy in 2019. What do you think happens in 2020? I know that's some way away, but are you now booking any orders to retrofit in 2020 or is it still all about just 2019?

Pierpaolo Barbone: There are some orders that we'll, let's say, expand into 2020 as well.

Jaakko Eskola: And there will be also newbuilds.

Pierpaolo Barbone: And also newbuilds.

Jaakko Eskola: I think it might go to 2021 even more. So it's going to be quite an interesting – even might be further.

Peter Reilly: I'm presuming the key variable there being the difference in the fuel prices between high sulfur and low sulfur fuel?

Jaakko Eskola: Exactly. And of course, how IMO succeeds to implement the fines or how they will follow the development.

Operator: The next question, it's from Robert Davies from Morgan Stanley.

Robert Davies: Jaakko, main question from me is just around the risks you see to delays in the IMO implementation.

Jaakko Eskola: Robert, somehow we missed your question. Could you repeat it, please? We lost Robert, so -- hello?

Robert Davies: Jaakko, can you hear me?

Jaakko Eskola: Now we can hear you.

Robert Davies: OK, great. My question was around the implementation in the IMO legislation. I mean, I've seen some recent news flow that there could be delays. Is that impacting your customer conversations at all? How is that kind of evolving in terms of the outlook for activities? Is there any risk that once that is kind of cleared you've got to catch-up? Or has there been any kind of obvious impact on your business? And then just the other one, the follow-up I'll put in ahead of time was just around the outlook for LNG. I mean, I've seen quite a few new projects on the LNG side starting to kind of filter through. How are you thinking about the balance in terms of the LNG carrier outlook and the LNG infrastructure market in general as we go through '19 and '20?

Jaakko Eskola: Thank you for good questions. First of all, the scrubber one, that's a very good one to try to analyze and what's going to happen in 2020. First of all, we have been seeing a very, very strange market for the last 5 years. And now, finally this year, at beginning of next year and this year – or the previous year, we studied this order activity. Nobody knows what's going to happen 1st of January. IMO will be, at least today, they say that they will be speaking to that one. Next week is the IMO meeting in London, so we will hear more.

Some countries are already planning for different structures to try and implement, to follow up like they did in SECA legislation 2016. But then there will definitely be cases where the government probably need to allow shipowners to do, I mean, something going forward. But Roger Holm, the Head of Marine, I mean, you see those so you talk daily to the shipowners. And could you comment to scrubbers and also the LNG question? Please, Roger.

Roger Holm: Yes, thank you, Jaakko. If I start with the scrubbers, so far, we haven't seen any impact on the dialogue we have with our customers on the ongoing discussions. And that, as we have said before, we firmly believe that the critical point now is that when IMO are making decisions, they stick to the decisions. It's a bad thing both for our customers and us and our competitors if we cannot trust the schedule. So I think that's the good starting point. But so far, no impact on the discussions we have seen with our customers on that part.

Then to the LNG carriers, we have had 44 LNG carrier vessel orders so far this year, so the outlook is positive. And if we look how the forecast is going forward for next year as well, it's also looking fairly positive. I think the only downside for us is that the FSRU market is extremely slow at the moment. We don't see much activities on that

part, which last year was a good business for us. So LNG carrier is positive, FSRUs are slow at the moment.

Operator: The next one, it's from Alexander Virgo from Bank of America.

Alexander Virgo: It's just a quick one, asking Peter's question in a slightly different way. I think historically, you've always said that the transactional business is a good barometer of health for your customers. And I was just wondering whether we should read the commentary that you've made so far into a broader comment on the health of those customers, particularly on the merchant side. And whether or not we should think about that – how we should think about that as we progress through Q4 and into next year, particularly given the transactional business requirement, to Pierpaolo's point. Any comment you can give the momentum there given, I think, we've got about, what, 4 percent or so underlying service growth.

Jaakko Eskola: Yes, the merchant business, as Pierpaolo said, of course, it depends on the – I mean, their capability and the money, whether they can do the services. But isn't it so, Pierpaolo, that if you postpone the service for a certain period, then you finally have to do it. So you can't postpone it forever, and we are reaching some of our customers and also because of all the digital ways we can follow the engines that they need to do the service. So we are not so much worried.

Pierpaolo Barbone: But the classification of societies will, in a way, stop you or will suggest to you strongly that you have to do certain maintenance. Second, there is a risk of breakdown or possibility that there are breakdowns. So in that sense, let's say, for us, there are good opportunities in both ways.

Jaakko Eskola: And going forward, we have been selling solutions to cruise and ferries and LNG and so on. Those are engines you don't want to let go and you definitely need – I mean, service agreements, you need the service and...

Pierpaolo Barbone: Absolutely. And the fact that we have that peak, the highest number of installation ever under long-term agreement, these grants, let's say, a very solid development. Of course, the operational profile, as I have said, and especially in terms of ferries or on the other side in terms of power plants, is then making the business, let's say, fly or not. So yes.

Alexander Virgo: OK. And then I guess just I was intrigued by your comment, Pierpaolo, on the change in usage of the power plants and how much that affects your – the core loss under the LTSAs. Is that something that is a quarter or a 6-month change? Or is that something that you would see as a structural shift in – if someone changes the way they're using the power plant, can that change back?

Pierpaolo Barbone: It depends by regions, of course, by geographical regions. In regions where you have a huge base of hydropower, for example, you are subject to the, let's say, integrating the hydropower plants. And so it is episodic, let's say. In other region, it could be a philosophical business model that is changing, let's say, but we don't see a huge, let's say, modification in...

Jaakko Eskola: It's not more – it's not that quarter-by-quarter, it's more like how they use financial...

Pierpaolo Barbone: It's how they use concretely the power and how much more convenient it is to utilize alternative sources with different types of prices of energy.

Alexander Virgo: Right, OK. So we should be thinking about that for the next year, I guess, was where I was going with this.

Pierpaolo Barbone: Well, we believe – we are optimists because our long-term agreements are in place. We have, as I said, the highest amount of installation covered by agreements and so, let's say, we are optimists. And we are growing. We have been growing also in terms of installed base, number of megawatt, not only number of installation. Because the business is developing in smaller installation, less power intensive. So – but we have seen now that we have been growing in number of installation, in megawatt installed and also in percentages of installation covered by agreement in terms of megawatt.

Operator: The next one, it's from Johan Eliason from Kepler.

Johan Eliason: This is Johan. So just a question on the Energy. We saw, obviously, weak orders as you have explained, but revenues were actually pretty good. Have we now seen this legacy power plants below margins that you have talked about historically being delivered now in the quarter? Or is those, to some degree, linked to the El Salvador order and we should still expect some impact on the margins from those going forward?

Jaakko Eskola: Thank you, Johan. Good question, and Marco is happy to answer that one. How does it look going forward?

Marco Wirén: Yes. As you remember, we took some low-margin orders a couple of years back and – but those have been delivered now. So now it's more normalized orders that we have in our order book as well. El Salvador is just another order in our normalized business.

Jaakko Eskola: With good margins, though.

Marco Wirén: With better margins than actually the...

Jaakko Eskola: Not good, but actually better, better than a few years. Thank you, Johan.

Johan Eliason: OK, good. Then on your outlook statement, you take down Services from good to solid, referring to this transactional business in the short term, and you say this is related to how you see the sales development. Now if you look into next year, obviously, talk about very solid scrubber orders that will turn into revenues primarily in 2019. If in a normal circumstance, assuming there's not a big drop of the transactional revenues in 2019, that would obviously then imply that you should have upped your guidance or will up your guidance then for Services to good again. Or is there also worry for these transactional service businesses also going into 2019 potentially turning even negative on the top line from that part?

Jaakko Eskola: Thank you, Johan. Yes, we are very much looking forward how that develops. And in January, we will give you the next one. This is only in relation to the – to this year. So let's get back to that one. But you are right, we shouldn't be worried at all.

Johan Eliason: OK. And then just finally on the scrubber thing, it seems like you have taken around 400 scrubbers this year or somewhere above 300. Do you have a feeling for how many ships in total will actually be fitted with the scrubber come January 2020 or at least early parts of 2020? Or are we talking about a total of 2,000 or 3,000 or 4,000? What's your feeling with what you have seen in the order intake out there, not only for you but for the orders that have been around?

Jaakko Eskola: I think the latest DNV report said that this boom was 1,600 vessels, where our market share was the highest; very, very good. But then you need to remember what has been ordered before, so was it – could it be 2,000 at the moment, but then you

have 39,000 vessels, which – or whatever is the number, which needs to be retrofitted, and that's going to be interesting. They will switch fuels. They will still order from us, as we heard, this will go forward. And – but around 2,000 might be today.

Johan Eliason: And I mean, that's, as you mentioned, a very slow number. Do you think the installations will increase come 2020, '21 and '22? Or will 2019 be sort of the peak year?

Jaakko Eskola: I – we still expect this to continue. I mean, there is no way – I mean, looking at the difference on fuel prices, there is no way that the fuel switch is going to be more economical. So I'm – I will be expecting countries to allow some of the shipowners to install later, and that's what we see already from our order intake today.

Johan Eliason: Yes. And how are you doing with your capacity management? I talked to a small competitor to you and he sort of said that he's been promising the board to be on a production level of 100 years – or 100 scrubbers per annum by the end of this year, and then 200 by the end of 2019. What's your sort of number and how you're planning your delivery capacity going forward?

Johan Eliason: We have been talking about a capacity of 500 scrubbers per year. That's the capacity today. We are, of course, looking at ways to increase it. And we are almost sold out in 2019. But of course, for us, it's more the testing, the engineering and the automation side which is a bottleneck. We don't manufacture scrubbers, so we get it from subsuppliers and then we install it onboard of the ship.

Operator: The next one is from Ed Maravanyika.

Ed Maravanyika: Actually my question was around that what your capacity for scrubbers was, so that was answered. But I guess I could also just add as a question, are you starting to receive scrubber orders that would only be delivered beyond 2020 or beyond 2019?

Johan Eliason: Yes, we are. We are having already today scrubber orders which are beyond 2020. Already '21, probably '22, and what I have heard. And then the first question I somehow missed, was it about the competition or...

Ed Maravanyika: No, no. It was about your own capacity. So my question was...

Johan Eliason: Own capacity, it's around 500 today per year.

Ed Maravanyika: And would you take that up by 5 percent, 10 percent in anticipation of demand extending beyond the deadline date? Or more cautious?

Johan Eliason: That's difficult to say. Roger, do you want to add anything to that?

Roger Holm: No, I think we will not comment on an exact figure. Of course, we are constantly working on how we can optimize this. The main bottleneck for us is around engineering and it's very much – because this is not – especially on the retrofit side, this is not a standardized product going out. So it depends very much of what kind of scrubber, how standardized they are. The more standardized they are, the more volumes we can do. So it's not an exact science that we can comment on.

Ed Maravanyika: OK. And just to be clear because you do installation of scrubbers on the retrofit side, so it's possible that a vessel owner could buy a scrubber from a competitor of yours but come to you for the installation?

Johan Eliason: We could buy from competitor and install it. But so far, we haven't started that kind of a business. I mean, it wouldn't probably make any sense.

Operator: The next one, it's from Glen Liddy from JPMorgan.

Glen Liddy: For Q4, are you expecting this to be a record quarter not only in terms of absolute profit but also in margin terms?

Johan Eliason: Glen, thank you for the question, and the answer is yes.

Glen Liddy: To both?

Johan Eliason: Yes.

Glen Liddy: OK. And on your service agreements, I mean, it's nice to see that the Energy part is growing again. Do the customers behave differently if they're using the power systems for renewable energy compared with primary energy in developing countries?

Johan Eliason: No, no. If the power plant – I can try to answer that one, and you can correct me if I'm not right. But Glen, of course, if we sell to a – as a backup or as a flexibility power plant for a renewable story for developed world, I mean, they use it here and there,

and then the service agreements is probably then supporting that – I mean that deal itself. But Pierpaolo...

Pierpaolo Barbone: Glen, thank you. It is not odd in general for the contract that we have already in place. So what is important, let's say, we have a relationship with the customers and the customers – because what they have, for example, a gas power plant or whatever. And then they want to add on maybe a module that is renewables or batteries, storage or whatever. And then we integrate with the logic, Greensmith as a typical integrator, that is covering, let's say, the entire power plant, giving flexibility to the installation. This is the model that we have experienced until now.

Johan Eliason: And in normal power plants, it's running baseload and it's a normal agreement. We can even run it.

Pierpaolo Barbone: Yes, absolutely, an operated line.

Glen Liddy: Going forward, though, I'd assume that you're expecting to at a greater proportion of your OE sales coming from customers that are using these as renewable backups. Is that correct?

Johan Eliason: That's a growing area today. Everybody ask – you are right.

Glen Liddy: Yes. So if we think about that, do the customers that are taking the equipment for renewable-related applications, are they more or less likely to enter into long-term service agreements than your traditional customers in the past?

Johan Eliason: It depends on the customer. Again, if it's a utility, a well-known big utility, they would probably do it by themselves. But if it's a smaller player who was on it, our energy management system, then it would be probably ours, our gas plant.

Glen Liddy: OK. So you can still continue to grow the penetration of your installed base in the longer term, yes?

Johan Eliason: Yes.

Glen Liddy: And final question. You're clear about margins and absolute profit for Q4. Will you also see a big release in working capital? So your cash from operations will be at least matching last year?

Johan Eliason: Glen, I'm not guiding the number, you are...

Glen Liddy: No, no, not the number. But relative to last year, can you...

Johan Eliason: But we are releasing it, we are releasing a quite substantial amount of working capital.

Operator: The next one, it's from the line of Manu Rimpelä.

Manu Rimpelä: I would have a follow-up question. If I may question you a bit on the Services mixed impact that you talked about. So if I look at the numbers that you provide, it seems to me at least that the share of merchant and offshore is actually up compared to last year, which doesn't necessarily support what you're saying is that if you see these segments being under pressure and that is putting pressure on the margins in Services. And also, I think, year-to-date the share of spare part is 48 percent compared to 49 percent last year, and that is roughly like EUR 20 million impact on sales. So is there something that I'm missing? Or is that the pricing in this segment has come down significantly, which is then the big impact on margins?

Johan Eliason: Pierpaolo, do you want to start?

Pierpaolo Barbone: On the first part, we have said that we have been disappointed by the lack of growth in merchant and oil and gas, that was my statement. So I wanted to grow 5 percent, bloody hell, this year, and it was not possible because we couldn't catch the, let's say – there is no growth, let's say, the growth that we were forecasting and – on the evidence that we had on merchant and oil and gas. Especially on oil and gas, I must underline the offshore and also the supply vessels that have been growing, as you said, but let's say, very limitedly. I believe that – we believe that it could have been better.

Johan Eliason: And the other part was what – Manu, what was it on?

Manu Rimpelä: So it was a question about the impact on margins from the spare part sales as they were 48 percent of sales in the first 9 months of '18 compared to 49 percent in the 2017 comparable period. And I mean, that translates to roughly EUR 20 million. In absolute sales terms, it doesn't feel that that would be a big enough impact to kind of actually explain the falling EBIT we've seen year-to-date. So I'm kind of just wondering whether there is also something related to prices.

Johan Eliason: Oh no, it is not related to prices. But you have also to, let's say, analyze the fact that we got from – you know that from the Marine Solution division, we had, let's say, aftersales services. And that part had and has part with a lower margin. That is what has happened. So a spare part for – just to – in the mix of spare part, a spare part, a piston, let's say you have a higher margin than selling, let's say, a spare part for a water plant, water purification plant.

Manu Rimpelä: OK. So is this something we should think about just kind of cyclical? Or is this a structural fact because you kind of increased the share of long-term contract?

Pierpaolo Barbone: It's just cyclical.

Johan Eliason: It's cyclical, it's not structural.

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

Johan Eliason: Thank you. Thank you all, and let's see you back here in January. Thank you.

Operator: Thank you. That concludes our call for today. You may all disconnect. Thank you all for participating.

END