Jaakko Eskola: Good morning, everyone, and welcome to Wärtsilä Corporation Result Presentation 2019. Here, this morning, in Wärtsilä Campus here in Helsinki, I have the whole Board of Management, and then I have Natalia Valtasaari and Emilia Rantala from Investor Relations.

I will have a short presentation with the slides, and then we have the possibility to ask questions.

And I start with the note that 2019, it was a year marked by difficult market conditions and project-related challenges. And when you look at the markets, first, Marine, I have to say that despite some pickup we saw in the vessel contracting towards the end of 2019, market sentiment remains cautious. And that’s due to the continued concerns over global economic and geopolitical developments. At the same time, the fuel price development in the next months as well as yard capacity to install retrofits will determine the level of demand for scrubber retrofits.

And then when you look at Energy, everybody knows that energy landscape is evolving rapidly as the technological development, the political agenda and public opinion, and this is and has been making investment environment complex and is creating uncertainty among our customers. And the macroenvironment is further slowing decision-making, particularly in emerging markets.
Although market conditions are expected to remain challenging in the short term, we do have several good prospects in our pipeline, which, if they finally materialise, will, of course, support the recovery in order intake from the very low levels of 2019.

When you look at the key figures from 2019, order intake fell 16%. We saw some recovery in the fourth quarter compared to the third one, which was very low. Order book is 5% down. Net sales was stable compared to 2018. Book-to-bill a bit over 1, still. And the comparable operating result quite close to what was also earlier announced. I will come back to the number a bit later on in the presentation.

Earnings per share EUR 0.37 and cash flow, finally, over EUR 200 million. The dividend proposal for the AGM is EUR 0.48, the same what we had last year.

As said, the sequential improvement in Q4 didn't help finally, when you look at the whole year. Fourth quarter development, very good in Marine and recovery in Energy. So that's a good sign that, at least, there is some good activity in the market. And the net sales growth in Marine was helping us. And services, of course, has been growing quite well during the year. But unfortunately, because of the lower order intake in Energy, it has affected our net sales.

Marine is now on, if you look at the fourth quarter, 61%, and Energy 39%. And then if you look at the services and equipment, we had good development on services in the fourth quarter. Book-to-bill, as I said, a bit over 1. And when you look at the order book distribution, you can see that the order book at the moment for this year is a bit lower than at the same moment last year. So we still need orders, both in Marine and Energy, for this year for the development of our net sales.

The comparable operating result has been discussed quite thoroughly during the last months. And here, the numbers where we finally ended were a bit lower than originally thought, and there were a couple of impacting factors. First, the volumes were a bit lower. Finally, some of the deliveries in the
Marine were moved for this year, and the Energy order book and order intake didn't develop exactly as expected. But almost half of that difference is also coming from the effect of the strike, which happened in December.

Cash flow less than previous years, and the cash flow was really affected also because of the working capital development. But when you look at now, I mean, building the inventories, they finally have to go out, and of course, we expect this year to be -- the cash flow to be better than during the last year. So because of that one gearing, today, at this moment, is 0.3. As said, earnings a bit lower than previous year, but the dividend proposal is EUR 0.48.

And when you look at the two different businesses now, we all saw some development on vessel contracting, specifically in December. But I have to say that the whole market sentiment is still cautious. I mean, the same sectors are thriving, and there we see positive developments, but the whole merchant fleet is still quite cautious and our customers. At the same time, there hasn't been any major positive developments in offshore.

Order intake in Marine, still, for fourth quarter, on the equipment side, very good. And you can see it also from the pie chart that it's heavily, or has been, geared to cruise and ferry. And of course, special vessels is represented quite well also in our order intake figures.

When we talk about the long-term service agreement, and this was also touched quite well and discussed three months ago, we have seen there a small dip, and this is now when you look at the megawatts. In Marine, you always need to remember that the megawatts are coming from the engines, and the bigger the engine, the bigger the megawatts. And here, you have some customers on the merchant side where big 2-stroke engines are not under the long-term agreement, but we service our customers on a transactional basis. So if you would turn this slide to be in euros, I wouldn't see there so big a difference.

Net sales development also, Marine developed well, both in equipment and services in the fourth quarter. And that has, of course, helped the whole Wärtsilä's net sales development during the year.
One major achievement during the last quarter has really been our relationship and the solution we can offer to one of our customers, which is Anglo-Eastern. We are rolling out a Wärtsilä Fleet Operations Solution for all their 600 vessels. I think this is one of the biggest software transaction ever done in the maritime sector. So the solution is integrating the different individual processes to optimise the voyage planning, weather routing, fuel consumption, speed of vessels, so really the efficiency of the ships. And of course, this is quite important when you look at our latest acquisitions, regarding the navigation and operations competencies, we have done.

Moving on to Energy. The market, I mean, you can see very well here, the market is really going down. At the same time, our market share has improved a bit. And here, it's good to know that this is always a 3 months’ lag here on these numbers. And when you look at overall, the order intake, it has been going down, but then we had a quite nice pickup in the fourth quarter. It has also helped when you look at our services, order intake development, we have been very successful on long-term agreements, which you will see later on.

If you look at the world, Asia is, today, the biggest for us and Americas the second one. And here, you see the installed base covered by long-term agreements in Energy side. So very good development, great work from our people and being able to show the value to our customers. There was one significant transaction in Dominican Republic, where we have an existing customer who now basically signed all the power plants they own and operate in DR. It's approximately 400 megawatts where Wärtsilä will specifically predict the spare parts and maintenance costs and help them to run the power plants more efficiently.

Net sales development, good development also in the fourth quarter, and similar kind of setup where equipment today is 61% of the fourth quarter sales development.

We have been able to develop a so-called modular setup in our Energy business. We call it Modular Block, and it can be sold as a fast-track project to our customers. And this example is for a customer in Mali. It's really an off-grid gold mine, good example of those cases where Wärtsilä can provide
savings and facilitate the integration of renewables and all the other ones to the mine's energy system. So these blocks are -- basically, you can then multiply and easily build and provide a decentralized solution to our customers.

And finally, the prospects. First of all, the demand for Wärtsilä's services and solutions in 2020 is expected to be somewhat below 2019. I would highlight here that the whole services development, I mean, looking at Wärtsilä’s this year, I would say services is stable. And when you look at the business areas, the demand are, at the moment, as I highlighted at the beginning, are soft.

With this slide, I will end my presentation, and we can move on to questions and answers. And as previously, I hope you can ask and you stick to the way which is fair to everybody, that you ask one question and then a follow-up, and then you go back to the line.

But I would like to start here in Helsinki. There is at least one question here. I don't know, do we have a microphone? Yes, please.

Erkki Vesola: It's Erkki Vesola from Inderes. Clarkson still remains positive in their 2020 contracting estimates in the segments that are important for you: gas carriers, special vessels, even container vessels. And even when considering the lead lag to your orders, why are you still so cautious regarding the Marine outlook?

Jaakko Eskola: Thank you, Erkki. I mean, I will start and I will ask Roger to join me here, but I start at Clarkson. Clarkson numbers are always a little bit a question mark. And then I hand over to Roger, because Roger follows the market carefully.

Please, Roger Holm, the Head of Marine.

Roger Holm: Thank you. And thank you for the question. There are several aspects to this one. We have seen now over quite many years, we have had the same trend that every year, we start the year with Clarkson saying that next year will be slightly better. And every year, we have been disappointed. So also for last year, so we clearly, during the year, took down the estimates on vessel contracting. This year also starts with the fact that Clarkson says we will increase, but also Clarkson themselves have been a bit cautious to see now
what will happen then when new updates come in March. I, myself, believe that we will see some downgrading on those estimates. How much, is still to be seen. December was good, but I think it's too early to draw too long-term conclusions yet based on one month. And there are a lot of uncertainties in the world and the trade at the moment, which impact our guidance.

The other fact, then looking at our guidance, is that we need to carefully follow what happens on the scrubbers and order intake coming from the scrubbers. All sentiments are there. They are good. The fuel spread shows that this is a good business case. We haven't yet still seen a huge uptake on activities, even if the sentiments are good, but this is also more coming from the fact that installations for retrofit scrubbers take much longer than anticipated. So there is a shortage, especially for large vessels on yard capacity. So we are still into second half of this year to get yard capacity for scrubber installations for the bigger vessels. Having said that, I believe we will see some more activities in scrubbers' order intake this year compared to 2019, but still to be seen.

Jaakko Eskola: Thank you, Roger. You answered almost every following question probably at the same time.

But now we can go -- or anybody else in the audience here? No. Then we go - - or -- you can have your follow-up question.

Erkki Vesola: Even though this is on a different subject. Cost inflation drivers going forward, I mean, steel, hydraulics, electronics, wages, especially, how do you see that developing? And what's your capability to pass them on to your prices?

Jaakko Eskola: If you look at the history, we have been quite well doing that one. But we have highlighted that one earlier. I mean, of course, the whole pricing and how the market is changing, that has affected and will affect our numbers, but of course, inflation is another one. But that remains to be seen also how the market now develops.

Then we move on to the lines, please?
Operator: Our first question from the line is coming from Max Yates.

Max Yates: Just my first question is on the power opportunities that you talked about. Could you give a little bit of regional colour around the way you're expecting, the way you see the pipeline?

And when I look at the sort of megawatts ordered, it looks like the Americas has come under pressure. Do you see some opportunities in the U.S. in the coming months?

And maybe just the final part to this question is, do we still see opportunities in the 100 to 200 megawatts sized power plants? Or are what you're quoting on some of the smaller power plants in the sort of 0 to 100 range?

Jaakko Eskola: Thank you, Max. I will let Marco Wirén, the Head of Energy, to answer those questions. Please, Marco.

Marco Wirén: Thank you. Thank you, Max. If you look at the different markets, we definitely see the 100-megawatt size that you mentioned is a pretty normal size. And specifically, if you take Americas, we have -- in the pipeline, there are several projects that we are working with. And let's hope that we can have a good first half year and show that that market is active as well. Then the other market that is very active is still Asia, and we have also there a good pipeline that we are working with.

Max Yates: OK. And just my second question was around Energy's -- well, around the services business. I wanted to check effectively, have we seen any pricing pressure start to spread to the Energy services business? Obviously, you've talked about pricing pressure in the Energy OE business, but how is pricing in services?

And a sort of extension of that question on Marine services is, could you just give a brief comment on whether there is any impact on the engines from using low-sulphur fuel and whether that does sort of -- if that puts any greater wear and tear or pressure on the engines in vessels and potentially provides servicing opportunities?
Marco Wirén: OK. I can start with the Energy side. The pricing pressure that we have mentioned is on the equipment side, the newbuild side. When it comes to services, as you saw, actually, our services order intake was +13% last year. And if you look, we have signed the largest order ever in our history in the Energy side last year as well. And also, if you look at agreements, we have all-time high increase in our agreements order intake, it was actually +50% last year, which makes that all-time high on agreement order intake.

And this was something that we deliberately focused on at the beginning of the year. We said that when we have a new organisation, let's focus on the Energy services, because before, we had one service organization, and we basically didn't divide customers based on if they're Energy or Marine. But with this new organization, we definitely have done very specific actions and focus on Marine or respectively Energy side. And we haven't seen any price pressure. Reliability is extremely important in Energy side, and to secure that output is there when it's needed. So I think this is giving a very good flavour and reflecting our order intake as well.

When it comes to the Marine side, I would ask Roger to take that one.

Roger Holm: Thank you. If I first comment on the price pressure, same as Marco said, the heavy pressure is on the newbuild side. Of course, the overall sentiment impacts the total picture, but the heavy pressure is really on the newbuild side. As such, I don't see a major impact on our service business due to the low-sulphur fuel as such, so that's normal business for us.

Max Yates: I just wanted to understand whether the actual use of low-sulphur fuel in engines caused more wear and tear in customers' engines and actually potentially creates a greater service opportunity because they're using a range of fuels in their engine. Is this the case? Or is that not right?

Roger Holm: No. The short answer to that one is no, no significant impact.

Operator: The next question is from the line of Manu Rimpela.

Manu Rimpela: My first question would be on the services value content in these Energy orders, which are increasingly moving towards this kind of battery and
different types of Modular Block solutions. So can you talk about how you see the kind of service per megawatt euro value? Or how do you want to kind of quantify the service opportunity in battery compared to traditional combustion engines?

Marco Wirén: Yes. Thank you, Manu. Of course, when it comes to engine-based power plants, it is actually how they're utilising the engine or the power plant, which is determining how much services they will need. If it's running flat out, of course, service content is high. If it's only a backup power and, usually, capacity factor could be 25%, then of course, the service revenues will be lower as well.

When it comes to storage, usually, per megawatt sold, the service content is much lower than in the engine side. The reason is that there's less moving parts, and it's more on the software side that we secure that the software is working properly, we have the updates, and we can continuously have an understanding of -- if there's a replacement need of any cells, and then we do that.

Manu Rimpela: Are you in any way able to help us to kind of understand that are we talking about half, 50% less service content in a storage solution, compared to an engine running at full speed, for instance?

Marco Wirén: Yes. It's less than 50 percent, definitely.

Manu Rimpela: OK. Then my second question would be on the services growth in the fourth quarter. So I mean, I think that was on, at least, on a reported basis, it turned out to be quite low, and the same was the case in the third quarter. So are you seeing that -- is that just a reflection of the overall market uncertainty? Or are there any kind of increased competition or insourcing of services given the weak side of the market?

Marco Wirén: Actually, services in Energy -- are you talking about Energy now or?

Manu Rimpela: No. Group as a whole.
Marco Wirén: Because in Energy side, actually, and I think it’s the same on the Marine side, services has been developing extremely well during 2019 on both Marine and Energy side. And as I mentioned earlier, especially on the Energy side, the reliability is getting more and more important, because when the energy is needed, and that happens usually when you have some kind of renewables content in your system, you have much higher variability and volatility and that's why it's important that when you need the electricity, that you can count on that it's working.

But also, many of our customers have seen that when they have a reliable, very good service provider, actually, the returns are higher. And this is something that we've been able to illustrate during 2019, and we've been able to increase our agreement sales, or order intake by 50%.

When it comes to Marine, you want to comment that?

Roger Holm: Same comment. I think the Marine service has developed well. And here, a recommendation, please look at the sales, which grew 5% in the quarter versus quarter. Order intake is a bit different here on the service side, because this is impacted by the IFRS rules as well and how you take in order intake especially on performance-based agreements. So if you have lower cost, you see that impacting also the order intake figure. So please look at the sales figure.

Manu Rimpela: If I may just quickly follow up on that. If I look at the group service growth, so it was one percent in Q4, and it was probably one percent in Q3 as well. So what am I missing because that's not really a good growth rate?

Marco Wirén: Yes. On the sales side, in the fourth quarter, specifically in the Energy side, we actually didn't have growth on the sales side. And the reason is that last year fourth quarter, we had one big sales on the service side. So that's why its comparison is a tough comparison. But it goes up and down. But if you just look at the order intake and agreement sales that we've done, that gives extremely good understanding how the services is developing.

Operator: Next question is from the line of Sven Weier.
Sven Weier: Two questions, please. The first one is on the Energy backlog, because if I do an Energy backlog order bridge for the fourth quarter, I would have normally ended up EUR 250 million higher. So can you confirm that you've taken out orders off the backlog and maybe can give us a reason why and how likely they are to come back into the backlog?

Jaakko Eskola: First of all, we have taken out of our order book some of the orders, older orders. And we have a more strict rule than we used to have when we look at orders and old orders, how they have been coming into the books. And that's why the backlog is, specifically in the Energy side, is lower. I mean, there has been also a couple of kind of smaller cancellations. I don't expect them to come back. We need to get more deals with our existing rules.

Sven Weier: And so the EUR 250 million around about makes sense, yes?

Jaakko Eskola: Yes.

Sven Weier: And is it fair that those orders didn't probably carry a high margin anyhow?

Jaakko Eskola: I don't start commenting on the margins. But I mean, they are now out of the books and probably good that they are. You never know about those customers.

Sven Weier: OK. And the second question is just when we think about 2020, you, obviously, you didn't give an EBIT guidance for this year. But when I think about the different building blocks here, right, so is it fair to assume that you're not seeing any further cost overruns? So that seems to be under control? Maybe that's the first part of that question.

Jaakko Eskola: It's important to remember now a couple of facts. First of all, we shouldn't have any overruns and those issues. We have thoroughly gone through the order book and how we now take also new transactions in. I mean, they are carefully analysed as much as possible. The risk management is better. But you need to remember that some of those projects, which were on the list of this EUR 150 million, which is now EUR 152 million, they will be still delivered out this year. And when they go out, they go with zero margin.
Sven Weier: Yes. That would be the second part of the question, because I think I have quantified that impact, that EUR 20 million to EUR 30 million on EBIT, if I remember correctly. I was just wondering, what do you see as a total headwind to EBIT if you combine the zero margin and the price pressure? Are we talking about 50? Are we talking hundreds? Is there any kind of guidance you can give us?

Jaakko Eskola: I can give you an approximate number, and that's EUR 100 million sales around where probably half of that will be already in Q1.

Sven Weier: So that's under 0 margin contracts, right?

Jaakko Eskola: Yes.

Sven Weier: But how should we look at the pricing pressure impact on EBIT? I mean, is that like one percent of your backlog?

Jaakko Eskola: I mean, it's -- let's not go too deeply in trying to analyse the EBIT effect. We have the pricing pressure and so on, but that's as far as we can go.

Operator: Next question is from the line of Andreas Willi.

Andreas Willi: My question is on the Energy business, on the service activity. If you take away the benefit of the service contracts where you're increasingly successful in getting in and you just look at the normal day-to-day transactional service business and your installed base, what's your view in terms of the utilisation of your engines? And is that changing as we move from more base to more peak use? And how do you monitor that? What's kind of the rate of decline that is happening or we could see from the change in utilisation rates on your installed base in the Energy business?

Jaakko Eskola: Thank you, Andreas. It's Marco.

Marco Wirén: Yes. Thank you. Definitely, when we see that more and more of our customers are buying balancing power for the renewables, that, of course, will impact our services sales. It doesn't mean that they start utilising that as balancing power immediately. We have customers that buy flexible power
from us because they believe that in the future, they will need the flexibility. So it's not immediate impact, but we will definitely, going forward, next coming five to ten years, we will see a decline on running hours.

Andreas Willi: And a follow-up question maybe on what Sven asked earlier about the Energy backlog, the EUR 250 million roughly that left the backlog, did you book that in Q4 against the order number? Or was that just removed in the backlog? So basically, would the orders have been EUR 250 million higher in the quarter if you've not removed EUR 250 million?

Marco Wirén: No. These orders are actually -- they were not taken recently. There's been delays on the down payments, and that's why we decided that let's take them out. And if customer will get back, then we take those in again. And there were no plan to have deliver in those orders in quarter four.

Andreas Willi: But the order intake that we see, the euro amount for Q4, that's a fair representation of the market level that's not artificially reduced by your reassessment of the backlog.

Jaakko Eskola: No. It's a fair understanding.

Marco Wirén: Yes. You can see order intake is the order intake that we had in Q4. So it's not impacted.

Operator: Next question is from the line of Antti Kansanen.

Antti Kansanen: Coming back to the comment on pricing pressure and the gross margin on the backlog that you are delivering for 2020, still, could you give even some guidance on how we should expect the margin developing year-over-year, if you look at what you have in your backlog for 2020? So how has the pricing pressure evolved throughout, let's say, last 12 months, is kind of the worst still ahead in terms of what you are delivering out of there? Or how much worse?

Jaakko Eskola: As you remember, last year, we started talking about the pricing pressure. And specifically, you saw it when the energy market also has been going down. At the same time, if you have less vessel contracting, all the players are eager to get any means some of the transactions. So I cannot kind of quantify the
number, but it has been there at least the last two, three quarters. Is it going to go further down? We cannot predict the market so well.

Antti Kansanen: But if you think about the pricing right now that you are taking orders to be delivered in 2021, should we be worried about kind of impacts on '21 compared to '20 when you are delivering these orders?

Jaakko Eskola: As said, I don't start guiding now the margins, at least not 2021.

Antti Kansanen: OK. And the second question will be on scrubbers. Could you comment a little bit, how much did you deliver on Q4 and how much you have left for this year? And how did the scrubber deliveries impact your margins or mix during the Q4?

Jaakko Eskola: Thanks, Antti. Roger will have quite exact numbers.

Roger Holm: Yes, if we look at the sales figures, we had around EUR 370-plus million of sales for scrubbers last year and EUR 129 million in Q4. We, from a sales point of view, we expect we might be slightly higher this year. That depends, of course, on still orders to come and also how the deliveries and the yard times and the installation times are impacted, but this is where we are.

Antti Kansanen: Did you mean that you expect to be slightly higher, if you see a comeback in order intake? Or is it based on the backlog that you have right now?

Roger Holm: We still need orders to come, especially for the second half of the year, to get to the figures that I just mentioned. For the first half of the year, it's based on the backlog and then for the second half, we still need orders.

Antti Kansanen: Right. And how about the mix impact or the profitability impact compared to other Marine OE business in Q4?

Roger Holm: I will not comment on product profitability, but I can comment that we have been satisfied with the profitability of the scrubbers.

Jaakko Eskola: But it's good to remember that in scrubbers, there is not too much services.
Roger Holm: Exactly. So you need to look at this from a mix point of view as well, newbuild versus lifecycle. And on the scrubber side, this needs to come through the newbuild phase.

Operator: Next question is from the line of Antti Suttelin.

Antti Suttelin: This is a big picture question on the Energy side. Clearly, the world has been going your way in the sense that wind and solar are becoming a bigger and bigger part of production. Despite this, the backup story hasn't really played out, at least not in 2019. What could change this? What should we see in order for your orders to really take off?

Jaakko Eskola: Thank you, Antti. Marco?

Marco Wirén: Thank you. Very good question. This is pretty much according to Bloomberg and the International Energy Agency's predictions as well, that it will take some time before systems come to a point that they actually need balancing power and that flexibility that we are offering.

And Australia is a very good example. They started deploying a lot of renewables and then when they have done that, they said that, OK, let's take down the coal power plant. What happened was that they didn't calculate properly that what could happen, if wind is not blowing continuously and sun is not shining, so they got blackouts. And immediately, when that happened, they realised that they need backup power and flexibility. So they ordered both engine-based and storage-based solutions, and this is pretty much what we see in other countries as well that it will take some time. And especially when they start taking down the thermal, inflexible solutions they have, then they come to a point that they need to order the flexible backup power and balancing power.

Antti Kansanen: OK. And do you expect this takeout of coal to happen in ten years or two years? What is the time frame that you are thinking of?

Marco Wirén: Different countries have different schedule for that. But if you see, actually, the country that has taken down most coal in the past two, three years is United States. And that's why we've seen also in the past years that United
States has been ordering balancing power from us. Australia is the second one, now we see that it's happening. But each country will do their plans individually, and it's usually a political decision, because it's both government and private companies that have to come to a conclusion.

Jaakko Eskola: Germany.

Marco Wirén: Germany is a very good example.

Jaakko Eskola: We got the deal.

Marco Wirén: Yes. We just announced a deal in Germany in quarter four as well, and it's because of preparing themselves to the fact that they will take down the coal. And I know their schedule is now by 2038. But remember, if you look at the assets that they have in Germany, quite a lot of those coal assets that they have, the lifetime is not until 2038. And when I talk to utility heads, which are owning these coal assets, they are saying that we will take down those actually much earlier than '38.

So it depends where you are and what assets you have and when you take it down, because it's not profitable to invest in an asset when you know that you're going to have to take it down anyway. And usually the lifetime of coal power plants is, you know, we talk about 50 years.

Antti Kansanen: Yes. And then finally, is the battery a competitive solution these days compared to your engine? How do you assess now, today, the competitive balance between battery storage and an engine?

Marco Wirén: That's a very good point as well. I would say that these two different technologies are complementing each other extremely well. Storage is perfect for frequency balancing but also daily shifting. So when the sun is shining, especially in countries or regions where you have PVs, on the wind side it’s a little bit more difficult to utilise storage on the battery side, but when you have PVs, you know that the sun is shining in the daytime and then most of the electricity needs are in the evening times, so that's a very simple way to shift that energy to the evenings. But then, of course, just like you've seen in Australia, you have days when the sun is not shining every day in that capital
factor that is needed, so you need something else as well. So that's why these two technologies are complementing.

Operator: For those participants on the phone who would like to ask questions, that is "star" "1."

Our next question is from the line of Alexander Virgo.

Alexander Virgo: So I guess just a couple of quick framing questions really. The first one would be, if I think about how you've described demand for 2020 and then the support for 2020 from the current backlog being a little bit lower year-on-year, I'm just trying to understand where you think the in for out is going to come from, and can we see sufficient demand? So obviously, equipment is weak if services is stable. Can we see sufficient growth in that in for out to see revenue flat in 2020?

And then second question, which, I suppose, is a follow-up because, ultimately, that will drive your operating profit bridge. Just trying to think about the margin progression in 2020. I appreciate you don't want to give guidance specifically, but you've talked before about feeling that the progress year-on-year is going to be quite difficult because of the dilutive effect of all that equipment being delivered. I'm just trying to think a little bit more about the moving parts. You've obviously got some cost savings coming through as well. So I guess, how confident can we be that margins should expand in 2020?

Jaakko Eskola: Thank you. Quite a question. First of all, when you look at the sales and now when -- first of all, the demand, we say that demand is expected to be somewhat below. That's now, of course, based partly on what is our order book at the moment, and that, of course, then still needs to develop this year. So we need orders, both in Marine and Energy. The markets are, as we say, soft, which means that there is uncertainty in the market, and let's see how that develops.

At the same time, it's good to remember that, I mean, you can still develop quite a lot. For example, our service activities and then margin is pretty much also determined how we sell spare parts compared to anything else. But we
also have a portfolio, today, we call it Portfolio Businesses. So we have highlighted that we have businesses, which we are basically selling out of Wärtsilä. And depending on now when those actually happen, will finally affect also the final sales number. So that's why, today, it's very difficult to say, I mean, around what would be the final numbers.

And then on margin side, it's also pretty much then dependent on all the other facts we have discussed today, but also how the services is developing. So what is going to be the mix between the new equipment and the service sales? And then again, how, within services, we are able to develop spare parts or agreements and projects where spare parts are also included.

So last year, we saw very good development the first part of the year. And then, I mean, Marine also continued during the whole year extremely well. Energy got orders, agreements in. So I mean, let's see how this year develops. But the visibility is not there. So we need to work with our customer, get them to understand what is the value, and then we can finally, when we move on, we can see how the year develops.

I think it's also always good to remember and I want to highlight, again, Wärtsilä is a company where most of the sales and profits are coming in the fourth quarter. So this year is not going to be different than earlier years. So when you are analysing us, remember, the first quarter has always been -- we have a slow start and then we make the year. And that's as much as we can talk about this year.

Operator: Our next question is from the line of Jack O'Brien.

Jack O'Brien: Just wanted to come back to this cost overruns point and just to check I understand correctly. So you had EUR 152 million of above-the-line charges in 2019. In 2020, you're expecting maybe some EUR 100 million of sales to be delivered at a zero margin, so maybe some tens of millions impact. But specifically on the cost overruns, if we think about the 2020 EBIT bridge, could we assume that the year-on-year headwinds will -- you can add some of that back in 2020, and that is clearly before we then consider things like pricing pressure and in for out. But am I looking at that the right way?
Jaakko Eskola: I mean, first of all, you should always look at where the sales end and what is the sales number, how much of the sales is services, when you start looking at the EBIT. And then, of course, you have the deliveries of the equipment. And as said, some of the equipment are carrying a zero margin. So that will affect that one. And then we will, as I said many times, we need orders this year, and then it depends also on what will be the margin of those orders. So unfortunately, this is the only way how we can try to open the bridge for the EBIT development.

Jack O'Brien: And I suppose, thinking about it a different way, do you feel comfortable that we won't see further cost overruns? Because I suppose this came as a bit of a surprise to us with the 3Q, 4Q profit warning. Do you now feel that you've sort of taken appropriate provisions?

Jaakko Eskola: Profit warning is always a surprise, but we have done a huge amount of work, of course, to understand what happened and that we know. We have done a huge amount of work and changes within the organisation and how we analyse the projects, how we look at the risks, and how we elevate all those discussions within the organisation. So of course, you might have mistakes here and there, but at least, we have learned our lesson now. And these kind of mistakes shouldn't happen anymore.

Jack O'Brien: And just one final question on the Marine business. It sounds like scrubbers could potentially be up year-on-year for order intake, but I just want to ask about cruise and LNG, which is roughly 50% of your Marine order intake typically. Do you expect cruise and LNG to be up in 2020 year-on-year?

Jaakko Eskola: That's a good question. Roger, please.

Roger Holm: If we look at activity in the segment and starting from vessel contracting, we don't see any trend changes as such on both cruise and LNG or gas carriers. So we expect that those two segments will continue to play a strong role, both in general as well as for us.

Operator: Next question is from the line of Tomi Railo.
Tomi Railo: This is Tomi from DNB. Just to clarify, how much were the scrubber orders in 2019?

Roger Holm: The full year order intake for scrubbers EUR 184 million for full year.

Tomi Railo: And then in terms of the Energy order backlog cancellations, or how do you want to call them, can you just give an understanding or split or comment that how much were really cancelled, or how much was your own decisions due to delays in down payments and so on?

Jaakko Eskola: Mainly our own decisions, a couple of cancellations. That's a minor number. So it's more our own decisions.

Tomi Railo: And then still on the overall outlook, if you say that the demand is expected to somewhat below, you are also commenting that Energy orders should see some recovery. Are you saying that the Marine equipment orders could be down in 2020 compared to last year?

Jaakko Eskola: Let's not make too much conclusions. I mean, soft can be also -- I mean, the demand is a little bit below, but the demand in the business areas is soft, and then -- I cannot make a conclusion which one is a bit bigger or smaller.

Tomi Railo: OK. Then finally, how do you see the capacity situation at the moment? Are you happy with the order intake level in Energy, what you got in fourth quarter and then the pipeline outlook for 2020? Or do you see a need for further capacity adjustments in 2020?

Jaakko Eskola: I'm happy that we got an increase in the Energy orders. I'm not happy what happened the whole year. Of course, market is pretty much challenging. Capacity situation at the moment is OK. But as I said earlier, we need orders this year to be happy also going forward.

Operator: Next question is from the line of Tom Skogman.

Tom Skogman: You mentioned you have order prospects for power plants in Central America and Asia, but I wonder how many kind of projects on backup power to the
Western world are you working on at the moment? What's the sales funnel there? That's very important for the sentiment for you.

Jaakko Eskola: Thank you, Tom. Marco will answer that one.

Marco Wirén: Actually, if you look at the pipeline, we definitely see both a mix of backup power plants but also flexible baseload plants. So it's a mixed basket of both end customers. And then, of course, we have the intermediate customers as well, which will run perhaps 4,000 hours per year. So it is the whole pallet.

Tom Skogman: But do you have order prospects in these kind of big Western countries like Germany and the U.S. now for this year? Or is it totally empty, the backlog for these markets in backup power?

Marco Wirén: No. We are continuously working on both, in these countries that you mentioned, but also in many other countries. So it's never like totally empty. There's always -- just like we now signed one big order in Germany. So the pipeline is there, and we are working with several different projects. But the timing is very difficult to say because it could be so that permit could take a longer time than the customer has anticipated, or it could be something else that could cause that they have to delay the decision-making.

And especially in the United States, usually when it's a city that is ordering, the rules are that city council, they usually have 1.5 years’ time to actually ask the people if there are any opponents on the decision they're making. So even if they might award the power plant to us or somebody else, but before it's effective, it takes perhaps a year. So that's why it's very difficult to predict exactly when that power plant is coming. And that, of course, makes the communication towards you as well a bit tricky from our part.

Tom Skogman: So to make it simple, are you more optimistic for this year compared to one year ago, 2019, on these backup orders? I mean, is the market showing any signs of picking up and taking off?

Marco Wirén: I would say that, as you saw, market went down 44% and just like our order intake as well in the equipment side. So it was an extremely heavy drop in orders in 2019. And I would say that we shouldn't see that kind of a drop
during 2020. So if you just look at the pipeline, there's lot of activity. So there's potential in the market. But as I said, it's very difficult to predict right now how the year will end and how much orders we will get during 2020.

Tom Skogman: OK. Then over to another subject. At least in my EBIT bridge I have cost savings of EUR 50 million for 2020. Please confirm that that is still the accurate number.

And then you said at the Capital Markets Day that pricing pressure will hit your returns by some tens of million euros. But my understanding is, you know, tens of millions, equal to EUR 50 million. So it's kind of on balance. Is that still the situation?

Jaakko Eskola: I will ask Arjen Berends, our CFO, to open up that one. So he can also answer your question. Please, Arjen.

Arjen Berends: Yes. We have run our restructuring program during 2019. And basically, that restructuring program is going pretty well according to plan. Savings are coming through. But as said also earlier in communication, not all the savings are straight bottom line. Many of the savings and cost reductions are also related to volume adjustments. Big impact, for example, is the joint venture in Korea that has really taken quite significant costs, but it's not really showing up on the bottom line. It's more avoiding absorption losses in the future.

Then to your question about, let's say, margin, will it offset? For sure, savings will partly offset. We are not guiding on the margin, so I will not give exact numbers. But yes, there is a part of offsetting there.

Tom Skogman: OK. And then finally, as you're on the line, can you confirm that these power plants order where you had not got a down payment that it was booked in Q4? It's hard when you have so large inventories now at the end of the year. Is this order still expected to come? Or was it booked in Q4?

Arjen Berends: Which one are you referring to? Can you clarify once more?

Tom Skogman: The one you had mentioned in group analyst meetings, you said that you have already made the engines for a power plant where you have not got the down
payments. That's what you informed us at the group analyst meeting. So I'm wondering, was it booked in the fourth quarter or not?

Arjen Berends: Yes, partly. OK. Now I get your question. Yes, we said earlier, also, I think, in Q3 and also in CMD, that we would still need orders in the Energy side to support, let's say, the sales and the margin in 2019. Partly, that came through, partly, it did not come through. So the timing was a bit off, but let's say, in general, we got some other orders as well instead.

Jaakko Eskola: All right. Thank you. And now we are two minutes over 11, so we need to stop here. Thank you for your questions. Thank you for being here in Helsinki Wärtsilä Campus, and see you in April. Thank you. Bye-bye.

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