

# Wärtsilä Q1 2023 result webcast

Hanna-Maria:

Good morning and welcome to this result briefing. My name is Hanna-Maria Heikkinen and I'm in charge of Investor Relations. Today, our CEO, Håkan Agnevall, will go through the group highlights and segment performance, and after that our CFO, Arjen Berends, will continue with key financials. After the presentation, there is a possibility to ask questions. Håkan, time to start.

Håkan Agnevall:

Thank you, Hanna-Maria, and a warm welcome, everybody, to, I would say, a positive Q1. We are improving our profitability, which is really good, and we have really good continued development in services. So, order intake overall is up with 26%. Net sales increased by 19% and we continue to see the good progress on the services side. So, the order intake on the service side is up with 21% and the net sales for services is up by 17%. And that is of course very positive. The comparable operating result increased by 34%. We are now at 6% and going in the positive direction, supported by good development in services, still burdened by cost inflation. Cash flow in Q1 really improved, and we do see a strong continuation for the rest of the year on the cash flow side. So those are some of the highlights. So, fairly positive highlights this quarter. And the key figures, if you look at our order intake, we are now at €1.7 billion, as I said, up 26%. Order backlog above €6 billion, €6.1 billion, about stable, so to say. And that is still considering that we have ramped up our net sales with 19% to €1.4 billion. And you see the book-to-bill clearly about 1, 1.19. So positive trajectory there. Comparable operating result, €88 million and we are at 6% improvement from 5.3% previous quarter. Of course, still a way to go to our 12% target.

And if we look at the macro environments, you could say that economic headwinds moderate the growth in marine markets. The positive side is that the utilisation rates in Wärtsilä's key segments are actually improving. The number of vessels ordered during the quarter was 255, which is a little bit down from 274 the previous year. And continued demand for LNG vessels, improved fleet utilisation of passenger travel segment and the growing demand for offshore assets. All those supported the market sentiment, and it benefits Wärtsilä in our strong segments. Decarbonisation remains the main underlying trend and methanol fuel, we can really see it's gaining traction. Interest in alternative

fuelled vessels is relatively stable, around 70-73 reported orders, which represents about 29% of all contracted vessels. Cruise new building remain limited. I think the cruise operators, they really continue to focus now to manage their current fleet and the utilization. The positive side is that many of the operators are seeing a very strong demand at 2019 levels or even below 2019 levels. And we see that with high utilisation of our installed fleet.

On the energy side, we see solid long-term opportunities. We do see, however, that fuel price pressure is easing, but it's not over. And there is volatility. I would say the volatility in the fuel price is delaying some decisions in Europe, in Asia and, to some extent, in the US. But the US is moving forward in a very good way. The last quarter has brought some relief in fuel and raw material prices, whereas we see that the increasing interest rates have caused some uncertainty. Natural gas prices decreased from the extreme level of last year and the outlook looks good, but they still remain high compared to historic levels and there is still volatility in the pricing. The global energy transition, the investments, reached a new high in 2022, and the policy supporting battery energy storage, clean hydrogen, has continued to develop during the first quarter of this year. The demand for energy storage solutions continue to grow. Our market share, when it comes to the gas and liquid-fuelled power plants, has decreased to 6%. I mean, you see that the market is growing on the right-side graph. That is, to a significant extent, fuelled by some really big, combined gas power plants in China. That is the major growth avenue. We do have a positive outlook on the mid- to long term-transition and how it will affect Wärtsilä, both the thermal business and the battery storage business.

Order intake increased by 26%. Equipment order intake increased by 31% and service order intake increased by 21%. We have a strong order book and the rolling book-to-bill continues above one. I think it's the eighth consecutive quarter where the rolling 12 months book-to-bill is above one. So that is, of course, positive. If we look at the net sales and comparable operating result, net sales increased by 19%, comparable operating result up with 34%. And if we look at the equipment and services on the net sales side, equipment net sales increased by 22%. Service net sales increased by 17%.

Now, technology and partnerships. As you know, Wärtsilä, we are about innovation in technology and services or technology and partnerships, it's really a driver for us. And it's all about how we can support our customers in enabling the decarbonisation journey.

So, some really interesting and exciting examples. We have a new radical derating retrofit solution for two-stroke engines, Wärtsilä Fit4Power. So basically, by this derating and change of the two-stroke engine, you extend the emission compliant lifetime of merchant vessels by significantly improving the combustion efficiency. So, you can reduce fuel consumption and therefore emissions with up to 15% on two-stroke. And that is, of course, a major support for our customers as they look into the CII index and how their fleets will evolve. Another area is of course LNG and how we continue to minimise the methane slip from LNG-fuelled engines. We are working together with several companies on the “Green Ray project”, and that is to develop solutions that minimise the methane slip from LNG engines. And we will develop technology for low pressure 4-stroke dual fuel engines that will enable methane slip reduction and increase efficiency. And we will also develop an engine technology for two-stroke engines to further reduce the methane slip from tankers, container ships and so forth. A lot of interesting technology development in Wärtsilä these days.

And now, let's jump to the different businesses and have a quick look on how the financials have developed for the different businesses. So, if we start with Marine Power, we had really good development on the services side. Service order intake increased by 15% and service net sales increased by 18%. And you can also see here how the comparable operating result increased from €30 to €49 million. On the positive side, good service performance. Also, the voyage optimisation. We have now moved Voyage Services into Marine Power. And this is the last quarter where we have Voyage as a unit before we launch the reorg that we have earlier communicated. And we can clearly see that Voyage is going in the right direction now under new leadership and a new context, so that is positive. On the challenging side, we have inefficient factory capacity utilization. That is also, of course, a consequence of the transition that we are doing with our manufacturing system involving threats, but also having two plants still in Vaasa, so to say. We are streamlining and we are working, but right now we are still facing some headwinds from that. You can also see that we have restated figures and that is, of course, a consequence of the Voyage integration into Marine Power. We have restated the 2022 figures, so please be careful when you look at the figures, so you can separate what has been restated from what has not been restated.

If we look at the service agreements for Marine Power, it continues on a very positive trend. And we talked about it before, moving up the service value ladder. It's really working for us. And net sales from installations under agreements are strongly

increasing, as you can see here. Another exciting example, where we move ahead, is, of course, on the decarbonisation journey. Here we are working or delivering to Celebrity Cruises, where we basically will supply our two 8-cylinder W46F engines capable of operating with methanol as the fuel, and then we will have two 12-cylinder W46F and one W32 and more conventional fuels. We will convert the W46F engines to run on methanol, marking the first ever such conversion for this particular engine type. So, it's a very interesting conversion project. The conversion project not only promotes low carbon cruising, but it's adding methanol as a fuel option, reducing emissions, sulphur oxide, nitrogen oxide and particulate matter in a significant way.

So, moving over to Marine Systems. Here, on the positive side, the order intake increased. However, the net sales and comparable operating result declined. So, if you look at the drivers here for the EBIT, services clearly supported. However, we did have cost inflation really burdening the equipment business profitability in Q1. So, there you see the negative development. If we switch to energy, basically all key figures improved. Service order intake increased by 38%, service net sales increased by 17%. And if we look at the comparable operating result going from €24 to €33 million. On the positive side, high service volumes and improved profitability on the energy storage business, you've seen it. We are taking it from -4 to -3%, rolling 12 months. So, the trajectory is the right one. Still, energy is working with cost inflation in the power plant business in the existing order backlog. And, as we talked about before, we still have for this year about €1.2 billion overall of order backlog for Wärtsilä, orders that we took before the real inflation accelerated end of Q1 last year, so to say. So, we are still working through this €1.2 billion.

Continued growth on the energy storage side, profitability improving, rolling 12 months, comparable operating result now at -3%, as I said. And you can see the quarterly figures, but you can also see the rolling 12-month development, and you see a clear trajectory both for the top line and for the profitability. So, good, a very interesting energy storage example. This is a 400-megawatt hour storage system that we will deliver to Zenobe. Zenobe is an electrical fleet and battery storage specialist. And the first project in the world to deliver stability services using transmission-connected battery supporting UK's transition to zero-carbon energy network, basically converters and inverters that can really form the frequency of the net. So, the project comes with innovative inverter technology combined with our GEMS energy management system.

It's located in north-eastern Scotland, and the project is ideally suited to integrate the nearby offshore wind energy projects in the North Sea. And the storage system will be one of the largest in the UK and is expected to be operational somewhere in 2024.

If we look at the energy service agreements, you can also see the very positive trend, moving up the service value ladder. And this is one of the many good examples. We signed an agreement with the Brazilian utility, Rio Amazonas Energia (RAESA), and this Operations & Maintenance agreement provides support for the Cristiano Rocha power plant in Manaus, Brazil. And this power plant operates five 50SG engines, gas engines with a 92-megawatt output. The agreement really strengthens the relationship between Wärtsilä and RAESA. We already started that journey when we went into the Guaranteed Asset Performance agreement in 2019 to assist the plants to run on 100% natural gas. And now we continue this cooperation with this very important customer.

Now, if we sum up the development of the different businesses and how they contribute to the group, you can see that the biggest improvement is coming from Marine Power. But Energy is also moving in the right direction. So, from 5.3% to 6% for the whole group. Comparable operating result increased by 34%.

Some other key financials.

Arjen Berends:

Yes, thank you, Håkan. All right. Operating cash flow was very strong in Q1, very happy with that. Actually, it was the strongest operating cash flow Q1 since 2010. So, really happy with that. Cash flow was supported by both working capital and profit improvement. Just for reference, working capital at the end of last year was under 79. So clearly, let's say, down from that. Net interest-bearing debt more or less flattish in the quarter. We had 481 at the end of last year and now 477. Of course, worse than, let's say, what we saw last year in Q1, and that is mainly due to the poor cash flow that we have seen last year for reasons that we also explained in earlier calls. Gearing clearly below our target of being below 0.50, at 0.24 right now. Solvency slightly down in the quarter from 35.3 at the end of last year to now 33.4. And that is mainly driven by the accounting of the dividend into the equity. Basic earnings per share, positive after a very negative Q1 last year. And of course, good to remind here that Q1 last year included a provision of €200 million for the exit of Russia. Cash flow on the left side. I mentioned

that already, 145. Very happy with that. Definitely a good quarter for Wärtsilä. On the right side, let's say, the working capital, where are we with working capital and how are we developing it? If you look long term historical, let's say, working capital to sales ratio, it's about nine. Currently, we are at two. So, I would say we are at a good level. Having said that, there is always, let's say, more that we can do on working capital and we are having a very clear action programme to further improve on that one. So, happy with both cash flow and working capital performance in the quarter. Back to you, Håkan, on the prospects.

Håkan Agnevall:

Thank you. So, if we look at the prospects, Marine and Energy. So, for Marine, we expect the demand environment for the next 12 months to be similar to that of the comparison period. And Energy is basically the same. I mean, we expect the demand environment for the next 12 months to be similar to the comparison period. And I know you've seen that we kind of moderated our outlook for Energy a bit. I mean, we moved our view a quarter ahead. And I would say that, you know, depending on some big orders, this might change a bit. I would say the major message, the underlying sentiment and our midterm outlook for Energy is still very positive. So, having said that, let's move over to the Q&A.

Hanna-Maria:

Thank you Håkan and Arjen. Now it's time for Q&A. So, in the case you have a question, please use the raise your hand functionality, and to make sure that everybody has a possibility to ask a question, we take one question per analyst first, and then after that we can continue with follow up questions.

Moderator:

First question on the line, and also, please remember to keep your microphone muted while not speaking. Thank you. First question is from Max Yates from Morgan Stanley, please.

Max Yates:

Thank you. Good morning. Good morning, everyone. I just said, I guess I'll keep it to one. I wanted to ask about the energy margin, because obviously, we can see you're delivering more on energy storage, which we know is dilutive. So, I would have guessed

that would have been a drag on margins. I guess my key question is really just to understand what has driven that margin higher and whether you could give us kind of any update on how you think about the sort of trajectory of that storage business from -4%? And is there actually the scope when we look at that margin performance for storage to be break even this year perhaps already? So, I'll start there.

Håkan Agnevall:

For being one question, it was a very broad question, but it's very good. Max, thanks for your question. So, I would say, what is underlying the profitability improvement in Energy? And I can zoom in on storage. I mean, Services is continuing to grow. It's very profitable. It's helping us in our profitability journey. Headwinds, as we talked about, we are still, especially on the thermal side, working with an order backlog which has been severely impacted by inflation. So that is a headwind. But I would say, major driver is services. Then, if you look at storage, you know, our message is still the same. You know, in a few years we intend to turn this business around and develop it further. And I think the team, we are executing according to plan, and we are on a positive trajectory. Do you want to compliment, Arjen?

Arjen Berends:

No, I think you said it, basically, as I would have said it as well, actually.

Moderator:

Now, the next question is from Daniela Costa from Goldman Sachs, please.

Daniela Costa:

Perfect. Thank you. Good morning. And thanks for taking my question. I'll stick to one as well. And it's a follow up on storage. I think you've said last year you were at -4%. This year you're at -3%. I don't know if there's any strong seasonality towards last year, but if we were to assume that not that it was all more or less -4%, then it sounds like your storage business might already be profitable. First of all, is that a wrong assumption? Is there any strong seasonality that we should think as we try to model storage? Why doesn't this performance lately get you more upbeat about when you can call for the break-even in storage given the strong demand there?

Håkan Agnevall:

I wouldn't say that this is a super seasonal business. It can be a bit bumpy because it's a product-oriented business. So, you can have a shift between a quarter or two, but I don't see it being a strong seasonal business. So that's one. And I would say, I mean, we are in a positive development of storage, and we said it in the past. Now, let's focus on the rolling 12 months. And we are developing in the right side also with the rolling 12 months. But I won't go into the quarterly numbers for this quarter. I know you're keen to get that number from us and I respect that. But let's end it like that. We are developing in a positive way.

Arjen Berends:

And, of course, if I can add to that, we have a few, let's say, key levers you could say, that we work with to get storage to a better result. Okay. Cost leverage is one let's say the volume growth definitely supports it. It's also to explore synergies between, let's say, the energy thermal business and the storage business, and also, let's say, working on the product cost. And, of course, in the trajectory of profit improvement. It's also a matter of timing. Which action kicks in at what point of time. And yes, we saw on the rolling 12-month basis now a very good result in Q1, also due to the actions that we have taken.

Håkan Agnevall:

And if I may extend on that, I mean, where do we want to build Wärtsilä storage? Where do we want to be strong? How do we want to position ourselves relative to competition? I think that critical elements, I mean, we need to be cost competitive. I think Arjen very much alluded to that. And, of course, clearly there is a volume component to be cost competitive, but we also have our GEMS platform and the power system optimisation. And this is an area where I think we have a lot of respect from our customers. That's at least what they are telling us. We are a power system company. We continue to invest in and evolve GEMS. I would also say that the customer feedback that we get, you know, our track record of executing on time and delivering in a stable way, it is something that's, you know, some of our critical customers are looking for. And you also saw the latest announcement. It's not part of the Q1, but the order from Meridian Australia, it's a gigawatt hour project. It says a little bit about the credibility that we are building with our customer base. Another element where we, I would say, that we are a little bit profiling ourselves is on the safety, the thermal safety side with the designs. We passed some of the critical tests in the US very, very early. So, there are these kind of

critical elements in our mix, in our propositions to the customer segments that we want to target.

Moderator:

Next up is Antti Kansanen from SEB, please.

Antti Kansanen:

Yeah. Good morning. My question would be on the power plant side. And I mean, you have flagged quite similar, let's say, mid- to long-term growth outlook for the balancing power as you have with storage. But, obviously, kind of the near-term growth is very different across the two businesses. So, could you talk a little bit about the power plant balancing side? What is, kind of, curtailing the growth at the moment, and perhaps, what is needed for the strong double-digit growth to come through on that marketplace?

Håkan Agnevall:

So, if we if we look at the thermal side, and I would talk about Europe and Asia where, really, the prices of gas are coming down, but it's still volatile and that has postponed the decision-making process in Europe and in Asia. In the US, as we've seen, it's very much moving forward. Renewables is growing. The balancing power is needed, both the thermal and the storage. Here, we see, and this is, you know, some specific projects that are sliding a bit in time like can sometimes happen in project business. But the underlying sentiment for balancing is still there, still very strong. And we see a very interesting development going forward.

Antti Kansanen:

I mean, you mentioned Asia and Europe specifically, but not the US in kind of a postponing decision making. Am I reading this, that you are perhaps expecting something larger from that market going into the back half of this year?

Håkan Agnevall:

Well, it's your expectation, but clearly, we see, the US is the hottest market. If you took thermal and energy storage, there is a lot of activities there. This is a very important market. But you have to overlay this. This is a product business. Things might slide from one quarter to the other.

Moderator:

Next up is Vivek Midha from Citi, please.

Vivek Midha:

Thanks very much, everyone. Good morning. Can I follow up on the group outlook, focusing on services? So, you saw a very strong development in services in Q1 in orders. Do you think you can sustain this level of demand in the coming quarters in service? And do you have any updated view on what percentage of the fleet you might be able to cover with agreements, say, by around 2025? Thank you.

Håkan Agnevall:

So, basically, I mean, we see, and we have now seen for quite some time, a very strong and positive trajectory of our service business. I would say in Q1 there was a little bit of extra, because as you know, in services, there are also different disciplines and some of them are a little bit more project-oriented than other disciplines. And in Q1, we did have some of the project disciplines within services that captured some big orders. But having said that, still, we do see a positive trajectory, also going forward, with high utilisation. And I talked about us moving up the service value ladder. It's really playing out for us. You know, you could see the agreement curves. We are really, you know, supporting, our customers are moving up the service ladder more into agreements. And we talked about that before. The renewal rate in our agreements business, both on Marine Power and Energy, is above 90%. So, it shows that customers think that we are creating value for them. So, this positive sentiment continues. I mean, I won't give any 2025 statements. I just want to take you back to the CMD material. And you know, we're going to have a new CMD on 9th of November this year. But if we go back to the previous CMD, we said that we had €2.5 billion opportunity in, you know, only our conversion of the fossil technology from heavy fuel to gas and then from gas to green fuels. And that is part of it, it gives a little bit of a sense of the magnitude of the business. We also communicated that that was over a five-year time. It gives a bit of flavour, but I won't make any percentage forecasts on 2025 or something. I mean, you can also see if you look at the percentage coverage, I mean, if you go back a year or two or three, we were at 22% on the energy side, I think we are now around 27%. And we do see a positive trajectory.

Arjen Berends:

And no signs of decline.

Håkan Agnevall:

No.

Moderator:

Next up is Sven Weier from UBS, please.

Sven Weier:

Yeah. Good morning from my side. My question is around the €1.2 billion legacy backlog revenues that you have for this year. I mean, is it too easy to deduct the €700 million equipment revenues for Q1 to have what is left over? Or would you be willing to share what's left over of the €1.2 billion for the remainder of the year?

Håkan Agnevall:

Yeah, I think that would be a little bit too easy. I would put it like, I think we said that, by the end of Q3, we should really have worked this out, but we won't go into the periodisation between those three quarters.

Sven Weier:

But there was a significant part in Q1. Probably fair to say.

Arjen Berends:

Yes, absolutely. Q1 was significant, correct.

Moderator:

Next up is Panu Laitinmäki from Danske Bank. Please.

Panu Laitinmäki:

Yes. Thank you. I just wanted to ask about the Marine Power margin improvement. Can you split the €90 million year-on-year improvement into like, what was the legacy Voyage and then the Marine Power, what it was earlier?

Håkan Agnevall:

Well, I would say the major driver for the profitability improvement is services. And I would say the Voyage that we moved in is clearly still loss-making. But the team is making improvement, but it's still loss-making. So, the major contributor on the Marine Power side is clearly the service business.

Panu Laitinmäki:

Yeah, it's just a quick follow up. When you when you mentioned that services drove the improvement, do you mean like just the volume of the services, or did you actually improve the margin within services?

Håkan Agnevall:

I would say it's a mix.

Arjen Berends:

Yeah, it's a mix, and it's always difficult to give an exact answer to this. Volume is of course, clearly, let's say, helping us. But in the mix, it of course depends on what grows strongly. If you have a rating in margin levels within spare, let's say, spare parts is clearly the highest. And then you have the other streams below that. So, in the mix, things can change even if the volume in total goes up, it can, in margin percentage, still go down if the mix of the volumes in the revenue streams change.

Moderator:

And next up is Tomi Railo from DNB, please.

Tomi Railo:

Fantastic. Thank you. Um, one of my questions was asked, but I would ask on price increases. Have you continued to do price increases in the beginning of the year and will you continue to do them in the later quarters?

Håkan Agnevall:

I would say, as we see inflation, you know, moderating, I think our price increases are moderating as well.

Arjen Berends:

But we are still doing them.

Håkan Agnevall:

Yeah, but I mean, we have done our price increases to cope with cost inflation and it's starting to moderate. So, I think we are moderating as well. But there is still, as you know, about the cost inflation. Yes, some raw material prices have been coming down. Energy prices are still comparatively high, although it's coming down, but it's still comparatively high. And one component still that is on the inflation side is, of course, the whole salary inflation that we have with different magnitude in different parts of the world, so to say.

Moderator:

Next up is Erkki Vesola from Inderes. Please.

Erkki Vesola:

Good morning. You previously talked about the uncertainty in your power plant engine delivery capability and the second half of this year, depending on order, timing, et cetera. Can you give us any update on that front? Have the risks been raised or are they still the same?

Håkan Agnevall:

So, just to clarify, I mean, it's not about our capabilities. I just want to clarify that it's more market demand driven. I mean, it is about discrete orders and the timing of those, in which quarter and how that evolves. That's one thing. I mean, if you look at what has been happening, I would say, the last year, if we look into this year, it is, as I said before, the gas price volatility has prolonged decision-making and created uncertainty. And we do see that as an impact. Having said that, I mean, if we take a more mid-term outlook, we still have a positive view of how the thermal power plant market will evolve.

Arjen Berends:

And this comment relates also more to the production volumes. Let's say, the sales and delivery volumes are something you could say different because there can be a large time difference between producing an engine and delivering it out and recognising the sales, also in projects with percentage of completion. So, let's say, the sales that we

generate versus the issue on the production volumes in the second half of the year are, in a way, two different things.

Håkan Agnevall:

Yeah, sorry, I misunderstood. If we're talking production volumes, Arjen is fully right, clearly.

Moderator:

Next up is Antti Kansanen from SEB. Please.

Antti Kansanen:

Yeah. Thanks for the follow up. Maybe coming back to the services growth and, as you mentioned, I mean, this quarter, it was mainly driven by agreements and then on projects, especially on the Marine side. So, talk a little bit about the projects. What are you actually, kind of, what is the demand both on Energy and Marine that you are getting right now? Is this sustained? Is there a cyclical element? Is this somehow to do with long lead times on the equipment side? So maybe expand on all of that, please.

Håkan Agnevall:

So, product business on services, there are different disciplines also in that. There are the retrofit projects where you upgrade from heavy fuel to gas. That upgrade is now fairly slow because of the gas price, but it will come back. It could also be an upgrade to a new control system. You know, equipment gets old, and you need to renew them. So, there is a whole broad spectrum. If you look on the energy side, I think that, as I said, there has been a couple of service projects that really accelerated the growth in Q1, and that is more of a, you could say, one time effect. But I would still say that the overall sentiments for service business, both in Energy and Marine, is still very strong.

Arjen Berends:

Something to add, perhaps, on these retrofit projects. Let's say, we had, as you all remember, also from our comments, shortages in electronic components, earlier years. And that situation has somehow got a little bit better. I would say, it's still, away from a good situation, but it's an improving situation. And that also gave us the possibility to execute more retrofit solutions on control systems, for example, that Håkan mentioned

and that we clearly see happening. So that's clearly contributing to the right direction and also to the increased activity in field service projects.

Antti Kansanen:

And, sorry, just a clarification. Was this a comment on your sales, or you can deliver more, or comment on orders that you are getting some of the pent-up demand now?

Arjen Berends:

It's both, actually.

Antti Kansanen:

Okay.

Arjen Berends:

Because we stopped accepting, let's say, certain retrofit orders for control systems a while ago or, I would say, more than a year ago, for the reason that we simply didn't have the components to do this and to execute it. And then it would not be wise to accept a contract that you cannot deliver upon because then you only end up in trouble. So now we are reactivating that in a controlled way. So, both order intake and then, of course, consequently, it comes through sales a few months later.

Antti Kansanen:

All right. Very clear. If I can ask a second question. It's kind of coming back to the storage profitability. And you won't probably give a numerical answer to this. But if we just think about your pricing on new orders, it's really started to improve last year from the second quarter onwards. So, is it a fair assumption that your gross margin and earnings leverage would also start to improve now going into Q2 this year and onwards? Just assuming lead times are up to one year or so on that business. Is that a good assumption for the margin development?

Håkan Agnevall:

I would say, as I said, we are on a positive trajectory for storage when it comes to its profitability, its volume. I mean, there are different driving factors behind. Volume is one, you see the continued growth, and it's also that the team is getting, you know, more and more seasoned in working with the project business. As we have been talking about,

we've been investing to build that capability. There is still a way to go, but we are getting better and better, which really builds our execution skills. And I would also say that, at least when we talk to some of our core customers, I think there is also a learning curve among our customers, how they regard different suppliers and, you know, the suppliers' capability to deliver on their core promises being on time, you know, and delivering with the right delivery position, so to say. So, there are a number of factors that kind of support energy storage, moving in the right positive direction when it comes to profitability.

Arjen Berends:

And going to your reference, Antti, on, let's say, Q2 last year, I think it's good to remember that there was a price reset in the market in storage at that point of time.

Antti Kansanen:

Yeah, for sure. But, I mean, we've been dealing, or you've been dealing with these kind of legacy projects since then. I'm assuming storage is probably not the worst of those, but I guess it's included in that as well.

Håkan Agnevall:

Yes, that's correct.

Moderator:

Next up is Max Yates from Morgan Stanley, please.

Max Yates:

Thank you. Just, my first question is just about free cash flow for the year. And obviously, it's been, kind of, quite volatile in the past few years. Some very good, some less good. Um, would you help us with kind of how you're thinking about free cash flow for this year? You've done €115 million so far in the first quarter. I mean, could this be a year where we're back up towards those kind of 400, 500 million numbers that we've seen? How should we think about that this year evolving?

Arjen Berends:

We are not guiding on operating cash flow, but I would say we should clearly do a positive cash flow in this year, that I'm pretty confident about. I will not comment on, let's

say, what kind of levels, of course, the situation this year compared to, let's say, previous year, also with all the restructurings and the Russia exits and etcetera, is a quite different one also from a cash flow point of view. So, I'm positive about the remaining part of this year.

Max Yates:

Okay. And just maybe a very quick follow up. I mean, I remember you talked about carbon capture and the pilot project that you were doing. I forget whether it was 1 or 2 quarters ago. Now that you've seen that go in, now that you've seen the kind of value of the order, would you be able to help us with understanding the addressable market opportunity there and how you think about this? Because I guess, on the one hand, we've seen things like scrubbers, we've seen things like ballast water, those are really big opportunities. Are we talking about something in a similar magnitude to those? How should we think about it?

Håkan Agnevall:

I think that's a very good question that we really would like to come back at our capital markets day. So, I don't have a, you know, I want to have a much more specific number, But I mean, there is clearly a significant market potential here. Then, we need to recognise that this is an ecosystem that needs to evolve. So, as you know, we are developing the technology and we will start to launch our technology end of this year, beginning of next year. But that's only one piece of the puzzle. You need to aggregate and store on the vessel. You need to bring it onshore. You need to do further aggregation and then you need to decide what to do. Do I pump it back in the well? Do I use it for, you know, manufacturing or synthetic fuels? And that whole ecosystem will take time to evolve. But if you look on this principle, this has potential to be significant, so to say. But let's come back to that in a more in-depth manner during the capital markets day.

Moderator:

And next up is Panu Laitinmäki from Danske Bank. Please.

Panu Laitinmäki:

Thank you. Just onto storage. I know you don't have growth targets for that, but can you comment on it from, kind of, a capacity point of view? How much can you deliver in terms of your own organisation? Any comments on that?

Håkan Agnevall:

So, I think, when it comes to growing battery storage or energy storage, we have had, I would say, a careful approach. We could probably have grown even faster, but we wanted to make sure that we build a team, we build our capability and that we deliver on our commitments, and we're going to continue that strategy. I think it's serving us well. Scaling up is really important, and we are scaling up. But you need to take it step by step.

Arjen Berends:

In a controlled way.

Håkan Agnevall:

In a controlled manner, so to say. And we really want to have the business developing with this positive profitability trajectory, so to say. So, we are growing. It's really exciting. You're seeing the growth that we are having, but we want to be careful, that we do it in a controlled way and that we build a team that can execute and have happy customers, because at the end of the day, that's the best sales tool we can have.

Moderator:

Next up is John Kim from Deutsche Bank, please.

John Kim:

Hi. Thanks for the opportunity. Two questions, if I may. One, congrats on the service revenue growth. Can you give us a sense on how material pricing or repricing of that is in light of the wage inflation we're seeing? I'm wondering if you're getting price increases on service agreements in line or ahead of the underlying wage inflation. And then, an update on Trieste restructure, if you might? Thank you.

Håkan Agnevall:

Yeah. If you look at the field service hours, I mean, we have different types of agreements, but the more mid- to long-term they have, you know, price indexation.

Because currently, with the development of salaries, you need to have... salaries will go up. So, we index the more long-term service agreements.

Arjen Berends:  
Correct. Correct.

Håkan Agnevall:  
Trieste update? So, as you know, we made €130 million provision last year. And this is a major decision for Wärtsilä. There is a long and proud history with Grande Motori. And we had a very dynamic process with the different Italian stakeholders, government regions, unions. I think we reached a very important agreement on the way forward, the process way forward towards the end of last year. And you can basically say we are moving along those lines. So, we are ramping down the manufacturing. In parallel, we are working with the so-called re-industrialisation plan and that is part of the Italian framework. This is where we are looking for other interested parties to come in and take over our staff, the manufacturing staff, taking over our facilities. And this process is ongoing. We have a number of different interested parties, and we hope to be able to reach an agreement with these parties as we go forward, so to say. So that is the status. And you can also see on the financials, I think we took about €90 million in IAC impact last year. And I think now...

Arjen Berends:  
€6 million this quarter. Yes, Q1.

Håkan Agnevall:  
... related to these activities in Trieste. And also, I should also underline that we're going to be in Trieste. We're going to be in Italy for the long run. We will still have R&D, services, training in Trieste. So, we are still going to be on the site, but the manufacturing will be ramped down as we centralise our European manufacturing footprint to Vaasa, Finland.

Moderator:  
Next up is Tom Skogman from Carnegie, please.

Tom Skogman:

Yeah, thanks. So, I would like to understand this bigger picture in power plants. You know, when the energy price historically has been high, you have typically had good orders. Oil and gas exporting countries have, you know, improved their infrastructure by building, you know, power plants. At the same time, we know that some Western financing agencies want to impact emerging markets to invest rather into green energy renewables than, kind of, something emitting carbon dioxide. So, what's really, you know, happening on this, you know, financing side? And why do we not see, you know, an order take-up in these countries that are now, kind of, flooding in strong cash flow at the moment?

Håkan Agnevall:

Well, if you're talking about the oil producing countries, because I guess those are the ones that you refer to being flooded by cash flow. I mean, if I look at the Middle East, I think that there is a lot of very interesting discussion going on different colours of ammonia and how solar primarily can be utilised to produce different types of green fuels. But this is, of course, at an early stage still. And, as you know, we are getting ready with the ammonia engine. I mean, we have the technical concept this year, as we already communicated earlier, and we will start to deliver our first ammonia engines. So, I think that definitely could be an avenue going forward, but it's not right here, right now. I mean, for green ammonia or blue ammonia production to evolve in the Middle East, it will take years to get there, so to say. But there is a strong interest to do so. Then, coming back. Of course, there is a very strong sentiment for renewables, and there should be. We are far too late in decarbonising the energy system and as I said earlier, US is really moving ahead now. I mean, we see significant growth in renewables, both solar and wind in the US. And then we see the balancing, the need for balancing power is being recognized, and it starts to come. I would say that the development in Europe is, when it comes to renewables, is still a bit muted, and I think the key challenge is permitting. To get a permit to build an offshore, onshore wind power plant in Europe is not easy. It's a political process. But as I think, everybody wants green, but not in my backyard. As we move forward in this political discussion, there will be more renewables. We need to get there, and then the need for balancing power will come.

Tom Skogman:

But I think it's still fair, for us just to understand, you know. If you are sitting in an emerging market and you used to get financing from the World Bank and you need

financing from, Western banks. Is it so that we should not expect, you know, emerging markets to, in a greater amount, book power plant orders running on gas and, you know, perhaps even oil anymore? Just because financing has, and, you know, these agencies demand now that investments will focus on renewables. Is that right? We need to wait for this ammonia engine for some years before you get a ramp up in emerging market orders again?

Håkan Agnevall:

I don't really see that. I think many of them, like, take Indonesia, if I take that as an example, were heavily affected by COVID. They are coming out of COVID now and now we see that, you know, there are thermal tenders coming out for engines as we speak. So, I would say, many of the countries, Asia is a huge region, but many of these countries, they have been heavily affected by COVID. But some of them are starting to come out, and we do see tender activities there. And they managed to mobilise the financing, to your question.

Arjen Berends:

But, of course, in many cases, the demand is that there is a possibility to convert the engines later on, right?

Håkan Agnevall:

Yes. So, and I think this will be a key enabler, and we talked about that on the energy side. It could be ammonia readiness, it could be hydrogen readiness. But I would say that for the hydrogen readiness, as you know, we have communicated, we will have a concept ready for 2025 and then we need to develop products. I think that going forward, that will be key, because if you want to build a power plant, you want to make it hydrogen enabled. Now, how soon is it going to run on that hydrogen? That is a big question mark, so to say. And it will probably take a lot of time, because as we all know, if we are going to run on hydrogen, it needs to be green hydrogen. We need even more wind and solar to produce that green hydrogen. So, this will take time.

Tom Skogman:

You said during the capital market day some years back, that, you know, gas turbines will not be competitive because flexibility will be, you know, much more important. But could you give an update here on, you know, how are the gas turbines compared to

engines developing? If we talk about fuel flexibility and also these ramp-up times and fuel efficiency, etcetera. So, I mean, how is the competitiveness of your product, you know, developing compared to the substitutes?

Håkan Agnevall:

In a good way. I would say that some of the fundamentals of the reciprocating engine is there and, you know, the physical properties of reciprocating and gas turbine, they are what they are also, so to say. Then of course, gas turbines, they are also getting hydrogen ready, clearly. But when it comes to the flexibility, I think we still definitely have a strong proposition. We see that in the US where we compete with GE and the likes, and we see that based on some of the customer feedback that we get, so to say.

Tom Skogman:

And against fuel cells with hydrogen? Can you comment on that? On the efficiency?

Håkan Agnevall:

Well, you know, fuel cells is definitely going to be there for certain applications. Now, if they are the way forward for the really big application, that really remains to be seen. To scale the technology, theoretically, the energy efficiency should be higher, but practically, is it really higher? And at the end of the day, this notion about "you're going to run it with hydrogen", it will take a lot of time for that hydrogen to be available and affordable. If we could accelerate it, it would be good for Wärtsilä. I mean, we communicated, we just finalised our test in the US with a 25% volumetric hydrogen blend, and that was with our standard engines. And, as we talked about, we are coming with our revised engines that allow you to take hydrogen all the way up to 100%. So, I think we are there. If you ask me, fuel cells, it will be there. Will it be that for the big application? There is still a big question mark around that.

Tom Skogman:

Okay. Then my final question is about Greensmith. You say that, you know, it's a great product, but just open up for, you know, analysts and economists like me, what new kind of features are you developing? What will we see in the coming years in terms of Greensmith applications for customers?

Håkan Agnevall:

So, it's very much about this power system optimisation that we talked about. It's how you integrate the control of different generating assets. Because you can have storage, you can have thermal, you can have both, you know, our machines, but you can have gas turbines, you can have wind, solar. How do you put that mix together and make sure you get the lowest overall operating cost and the highest uptime reliability? This is an area where we are evolving. We are also, you know, evolving on our trading capabilities. But there are many people that have trading capabilities, but you can have different shades of trading capabilities. So, these are some of the functionalities that we are evolving, and we are also tying it to our decarbonisation services that we talked about before. You know, can we work with mines or cement factories by, you know, really reducing their energy cost? And sharing some of the upsides, also taking risks in the game like we do in the Marine side, for instance, with Carnival. So to share both the ups and downs.

Hanna-Maria Heikkinen:

Thank you for all of the good questions and thank you for the presentation, Håkan and Arjen. Like we discussed today, we have seen good progress in services, and on 5 June we are organising a specific theme call to discuss our further opportunities there. I hope that all of you can join that. Then, on 21 July, we are publishing our Q2 report. I hope that we all can enjoy some sunny summer days before that. Thank you.

Arjen Berends:

Thank you.

Håkan Agnevall:

Thank you.