

Wärtsilä Capital Market Day 2023, Transcription

Hanna-Maria Heikkinen:

Hi all, welcome to Wärtsilä Capital Market Day 2023. My name is Hanna-Maria Heikkinen and I'm in charge of Investor Relations. It's great to have all of you here in Salmisaari headquarters, and more than 300 persons are joining this event also online. We will start this event with a short video which is illustrating how we are helping our customers in their decarbonisation journey. After the video, our CEO Håkan Agnevall will jump to the stage.

Video narration:

Imagine a world where we could power our societies with 100% renewable energy, even when the sun isn't shining, and the wind isn't blowing. A world where ships were digitally connected and powered by sustainable fuels, ensuring safe and sustainable commerce around the world. Our time demands that we go beyond imagination. Wärtsilä has been preparing for this moment for decades. The Energy and Marine sectors need to perform while transforming. We're uniquely positioned to shape decarbonisation on land and at sea, leaving no one behind. We are continuously shaping the decarbonisation transformation, with the ultimate goal of reaching a 100% renewable energy future. With deep knowledge and expertise in modelling power systems, we help customers, cities and countries find their optimal future proof energy mix. We balance the grid with our market leading flexible power plants, energy storage and energy management systems while preparing for sustainable fuels that will provide the final push to reach 100% renewable energy. We can already today set shipping on a clear path towards complete decarbonisation. Our knowhow and technology are the foundation on which we enable a digitally connected and highly efficient fleet capable of running on sustainable fuels. Our solutions are upgradeable, and our agreements are outcome based, allowing our customers to navigate with certainty through an era of change. Awareness of the importance of collaboration and a powerful sense of responsibility drives us to join forces with like-minded partners across the globe to push the boundaries of innovation. Our customers' success is our success. With Wärtsilä life cycle services, we maintain and optimise our customers' performance. This support encompasses our technology, software and service expertise as well as our holistic view and understanding of installations. The largest network of maritime and energy

experts in the world provides us with the expertise and passion needed to decarbonise the world's fleet and set our societies on a path towards 100% renewable energy.

Håkan Agnevall:

Hello everybody. Everybody here that is with us physically in Salmisaari, but also all of you online. It's great to have you all here. It's a fantastic crowd and it's a big crowd. So, thanks to you for joining us. And today we are going to talk about the future of Wärtsilä and the strategy we have going forward, what we have achieved so far, but also how are we going forward. And the strategy for Wärtsilä is evolving around shaping the decarbonisation of Marine and Energy. It's all about decarbonisation and we are on a journey of improving profitability and also continue the growth, much of it fuelled by decarbonisation. So, let's first look at the key messages for today. So, key messages. We are improving our profitability journey and our growth. And if we look at improving profitability, we are moving up the service value ladder. We will continue to grow our service business in all dimensions of the service business. And when we look at our project portfolio, we are shifting more to equipment, less of EPC, less of turnkey assignments going into equipment. And we continue to actively manage our business portfolio and we continue also to strengthen our performance culture. So, improving profitability and then continuing the growth. We are clearly the market leader in some of the major technologies that will be needed for a sustainable future, both in Marine and in Energy. Decarbonisation is accelerating and it's clearly fuelling Wärtsilä's growth.

On top of that, you could also see that our core markets and our core segments, they're actually growing organically. And services, a major theme for us, it's already more than 50% of our sales and it will continue to grow. So, if we put this together, improving our profitability, continuing the growth, that makes us very confident in reconfirming our financial targets. We have a clear path forward to achieving those targets. But our targets are not only about the financial targets, we also have our sustainability targets. And also, here we are making clear and solid progress, and we have our 2030 decarbonisation targets. And when it comes to being carbon neutral in our own operations, we are tracking to the plan towards 2030. We are reducing our energy consumption, our emission from our own operation. The second goal to provide a product portfolio that is ready for zero carbon fuels, making really solid progress. Roger will talk more about that. This quarter, we will launch engines for ready for ammonia. The 2025 plan, ready for hydrogen, we are on track. Continuing on to safety, well-being

and employer engagement, we are making solid progress. Safety, key dimension for Wärtsilä. We have a lot of our employees out supporting our customers in the field, both in Marine and Energy, and health and safety is really, really key. And we see, when we track our industries, we are moving in the right direction.

We have a fantastic purpose in Wärtsilä, and we can really see that it excites the Wärtsilä team. It excites our customers also, quite frankly, and we see that our engagement from our own team is increasing. We are going in the right direction. And we have set ourselves in the transition to try to aspire to be a thought leader. And I think we are making some good progress there. We are working in ecosystems in both of our industries. We cannot do this transition alone. Clearly, we need to work with our industrial partners, and we are doing that in an organised way, also bringing academia with us. And I think one recognition that we are really proud of is the award from Time Magazine, where they awarded us, Wärtsilä, as one of the 100 most influential companies in the world 2023. I think we are very humbled by that recognition, so to say. But it's in line with what we wanted to achieve as Wärtsilä. Now, we are a team. It's all a team game and with me today, I have three other members of the executive team. So, let's shortly introduce them. We have Håkan, we have Arjen Berends, our CFO. And then we have Roger Holm, who is president of Marine Power. And then we have Anders Lindberg, who is president of Energy. Anders has quite recently joined us. He comes with a very solid experience from project business, both from the commercial side and from the execution side, leading also complex project business in Energy. So, really good to have you on the team. Anders will give you some more of his own personal reflections coming into Wärtsilä and how he sees the way forward here later today. So, you could also make a reflection here when you see this fantastic picture. It's the men in blue. We are an executive team of eight, and we have actually three females in that team. And we should also highlight that they are a critical part of the team. So, we also have Teija Sarajärvi here, please. Head of H.R. And then we have Saara Tahvanainen, head of Marketing and Communications. And Tamara de Gruyter, who is heading Marine Systems and who will now focus on Portfolio. She is not here. She got caught up in Poland and could actually not join us, but she's a very valuable member of the team. But these are the members of the team that will be presenting today. So, let's look at the agenda. I will start by outlining the strategy and also giving you some more flavour on how we will improve profitability and continue to grow. Then Arjen will come and add more flavour around the numbers, and I think you will hear Arjen presenting pretty

interesting perspectives on where we are right now. But also, of course, the steps we want to take to reach our financials and targets. We then have our first short Q&A and a quick break, and after the break, Roger will come back and talk more about how Marine Power is really leading the decarbonisation of Marine. A lot of exciting things going on there. Followed then by Anders who will outline how Energy will continue to improve the profitability and how the growth then is really fuelled by the decarbonisation going forward. We will have a second Q&A and then I will come back, and we'll wrap up, and we close the day at 4.30 p.m. Finnish time. So, that is the agenda for today.

Let's start from the very beginning, and it starts with the purpose. Our purpose enabling sustainable societies through innovation and technology in services. Wärtsilä is all about innovation in technology and services. And we have two strategic themes: transform and perform. Transform is all about us being able to support our customers in the biggest transition in decades, maybe even ever, in Marine and Energy. And we are right at the centre of this transition. And the performance side. It is about how we are improving and will continue to improve our operational performance on a clear path to reach our financial targets. So, today we're going to talk a lot about the future. But let's spend a short time reflecting on what have we achieved since last CMD.

So, since the last CMD, we have achieved some really significant milestones. And on the transform side, we are now a clear market leader in 4-stroke engines. We are a clear market leader in engine power plants and also a clear market leader in hybrid applications for Marine. If you ask our customers, I'm convinced that they will say that Wärtsilä is a technology leader in the future of green fields. We also pioneer in carbon capture for marine applications, and all of this has translated to some pretty significant growth since last CMD. I mean, 25% growth in services, 17% in thermal balancing, and three x growth in energy storage. On the perform side, we have taken important steps. I mean, continuing to grow services, moving up the service value ladder, service agreements, really good growth, also creating additional customer stickiness and customer satisfaction. We have now worked out. We have been talking about that the order book that was heavily impacted by inflation going out to Q3. We have worked out that, and we do see an improved quality of our new build margins. We turn energy storage around and, as you've seen, going out to Q3, now in profit, we divested several businesses. And you also see in our recent announcement, we will continue to divest

certain businesses. And we have also revitalised the team, the executive team. Three out of eight are new since last CMD and coming from outside of Wärtsilä.

In Energy, we have also made, I would say, a major reorganization, establishing clear global P&Ls. So, we have been moving. Then, we have had some headwinds, clearly. 2022 was a challenging year. There was war, there was accelerating inflation. But I mean, what we see now, going forward, with the changes that we have made and also the direction we are setting, we are confident, and we have a clear path to 12% operating margin. Okay, let's go into the transform and perform themes. Transform. It is about the attractive growth opportunities that the decarbonisation transformation is bringing for Wärtsilä. So, let's first look at Marine, and then we look at Energy. And if we start with the Marine side, there are two drivers, so to say. First of all, the market fundamentals are very strong for Wärtsilä's core segment. And then on top we have the decarbonisation journey. So, if you look at our core segments – cruise, ferries, offshore, merchant – the growth is expected, based on Clarkson, based on our own analysis, to be double digit in the coming years. And then, on the decarbonisation side, I think we all see how the regulatory landscape is evolving. We have IMO, MEPC, making the new commitments for carbon neutral in 2050 in the EU, with the current regulations in place. The fuel costs in Marine will double until 2030. Double. Roger is going to talk more about that, but that is a fundamental shift.

Then, it's not only about regulation. We also see a small but growing market for green transport. To switch that transition, it will take time. It's large capital, heavy capital goods and it's going to be a blending journey. It will not be a digital shift. So that will be dropping fuels. But it will not only about fuels, it will also be about hybrid solutions. It will be about abatement solutions. And everybody is looking for a strategic path for their fleet to avoid stranded assets. Now if this is the market and environment, what is Wärtsilä's position in this market? And the good message is that we are a clear leader in this. So, we are industry leader in medium speed main engines. We are already ready for the biofuels, the methanol. We are getting prepared and, as I said, we will launch this quarter ammonia. So, we are very well placed. We are the industry leader in hybrid solutions. And the new hybrid solutions we are bringing to the market, Roger will talk more about this, will mean the comeback for the 4-stroke drive concept. We will come back where 2-stroke has dominated, especially on the LNG side. We're looking like 10% fuel savings compared with the new concepts. It's really exciting. We are then a pioneer

in carbon capture on the Marine side. And this is a market that we expect to be at €10 billion market over a ten-year period, and we will have our first commercial offering coming in 2025. Services. 60% of sales. And we continue to grow in all steps of our service value ladder. I will talk more about that. So that's the Marine context. Look at the Energy context. It is really about the shift to renewables. And we know it's ongoing and it's going to accelerate. And when we have the renewables, the sun doesn't always shine, the wind doesn't always blow. We need balancing power. And if you look at the growth trajectory, it is significant. I mean, we are double digit plus growth both on the thermal side and on the energy side. And, actually, if you if you look at the number in 2022 for thermal, you're talking about five gigawatts. If you look at the 2020 number, it was two. So, from 2 to 5GW in two years. So, the growth is there, and it will continue. And it's fuelled by growing renewables but also evolving regulatory landscape. And also subsidies and other supporting policies, including the IRA, for flexible power. And we have talked about it before. We see thermal balancing and battery storage as complementary technologies. They cater to different time zone demands.

Now, where is Wärtsilä in this space? And the good news is, we are in a leading position. We are clearly the market leader in engine power plants. I think we will have about 70% market share. And on our Storage, we have experienced this fantastic growth since 2021, storage is now profitable. On the power plant side, we have what we believe is the winning technology. Our technology is flexible, it can ramp up and down fast when the power from renewables varies and we have an edge versus the established gas turbine technology. Hydrogen. We have already been running in commercial operation with 25% hydrogen blend, volumetric blend, and we are still committed to having 100% hydrogen concept by 2025 and with pilot plants in 2026. On Storage, we are one of the top five players in the world, with a clear focus on profitable growth and the attributes that cater to our core customers: delivering on time, with the right commitments, with the right quality. It's about thermal stability, quality of the product, and it's also an industry leading software solution. Also, on the Energy side, services is key. 40% of sales is key. And it's a similar story as on the Marine side, we are moving up the service value ladder and it's great in customer stickiness and profitable growth. Now, we all know we have made a recent announcement around our storage business, and I get questions. "Why are you doing this, and why now?" So, basically, we are saying that the storage business has been a fantastic growth story for us, and we want to look into what is the best way to support our customers, have

exciting jobs and create shareholder value in the continued growth. There are ample market opportunities. But we want to take a step back in a business, we have been growing it to a billion. We have it now at profit to make that analysis. How do we continue the growth in the best way? And that's the driver for this strategic review. The timing is related to that. We feel that we have reached a milestone now, a billion, profitable. During the strategic review, we will continue to run the business as normal. We will continue to invest in it. We will, of course continue to build and support our customers, et cetera, et cetera. In the strategic review, we will consider all ownership alternatives. And one ownership alternative is that we continue as full owner of this business. We continue to operate it in a similar way, like we operate it today. But we will also explore different ownership alternatives, partial divestment to full divestment. When it comes to the timeline of the strategic review, we have not communicated the deadline. We want to take properly time to make a careful analysis to make this decision on how we can best support the growth, profitable growth, of this business. So that's the story around the strategic review for energy storage.

Now. Looking at the transitions in Marine and Energy, we also have renewed our approach to our customers and also how we think around R&D. Now, you could say that our customers in general want to go green. But green is not black or white. There are no single simple solutions. You need to adapt your solution depending on which industry you're operating in, which segment of that industry, and where in the world you will be operating. And that means that customers want to have a proactive dialogue on the strategy for their fleets, whether it's in Marine and Energy. And we want to be a credible speaking partner in that dialogue. And to be that credible speaking partner, we are upskilling ourselves to be able to talk knowledgeably with knowledge and with confidence about all technologies. But to be that credible speaking partner, we need to have a fairly broad product offering. If you only have a hammer in your toolbox, the customer will say. "Here you come with a hammer again because it's the only tool you have". So, you need more tools in your toolbox. And how do we do that in an era where there is a plethora of different technologies evolving, is that we focus on our core technologies, and we partner up for other technologies. So, our core technologies are evolving around the combustion engine, storage and digital solutions. And if you look at some of the technologies that we are partnering up for, it's like hydrogen, it's about some of the energy saving devices on the Marine side, et cetera. And what we bring to our partners is normally two things. One, we have the knowledge to modernise

equipment and two, we have, I would say, the industry leading service network. All new technologies need services. So, this is a new way for us to approach our customers, and it's a very strategic dialogue we have these days. Roger will talk more about that. Now, the other thing related to R&D. So, we focus on our core technologies. But the good thing here is that we have been working with the new fuels, with ammonia, hydrogen and methanol, for decades. So, it's not like we're starting from a blank sheet of paper. It's also so that the piston technology, the piston engine, it's a very versatile technology. So, it's not that we need to develop new engines from scratch. We can actually reuse a big chunk of our engine technology. The synergies between Marine and Energy are very, very strong on the technology side, because it's basically the same technology platforms, but it's not, quite frankly, not only on the technology side, it's also in the manufacturing system and also in services. So, we do see a very strong synergy between our two major legs, so to say, also going forward. And by considering all of this, we can actually go through this transition at a relatively stable R&D spending, about 4%. We are ramping it up from 3% to 4% out of net sales.

Okay. So, summing up: transform, Marine, growth in our core segments, further fuelled by decarbonisation. And we are very well placed as the clear technology leaders in 4-stroke main engines. And we are coming also on the abatement side. In Energy, renewables are growing, the need for balancing power is clearly growing, double digit. And we have a leading position in a winning technology to provide balancing power on the thermal side. And we are one of the top five players in the world on the battery storage. And finally, the new era. It's a new market approach for us, in dialogue with our customers about all solutions, and then having partnerships to be able to provide a broad offering to our customers. And if we look at our core technologies, it is actually a very flexible technology, which means that we can leave with about 4% of net sales in R&D.

So, let's move to perform. Perform is about improving our operational performance and increasing our profitability. And one key element in improving our profitability is clearly to continue the good path that we have had in services. So, growth with 25% since our last CMD in 2021, it's about €3 billion. And I think one very strong proof point of the customer value that we are creating on the agreement side is that we have a 90% renewal rate from our customers. I mean, if the customers would not value, they wouldn't renew. This is very strong, and this is actually both on the Marine side, on the

Energy side. Then, you know that we have the concept of moving up the service value ladder. And what is this service value ladder? Well, there are four steps. The first step is the transactional side with spare parts, service hours. Then we go to maintenance agreements. There are different types of maintenance agreements. We go to retrofits and then we go to the final step which is performance-based agreements. And this is where we have long term agreements, often ten-year agreements. And we share up and down sides with our customers. And there, of course, risk management is very, very important. The key thing about the concept of moving up the service value ladder is the potential for scaling. And we talked about this before. If you look at the spending euro per kilowatt, installed kilowatt, you can have a multiplier effect from one, bringing a custom all the way up to 2 to 5 times growth. And we do see it playing out, not taking all customers from the first step to the fourth step but moving customers successfully along. And this is fuelling our growth.

And good thing is that our installed base continues to increase. So, our installed base since last time has grown with 5%, fuelling the 25% growth in transactional alone. And retrofits. We see a potential to double that business by 2030, and it's about upgrading existing engines and equipment to the new fuels and to make them more energy efficient. And these translate also, as we communicated before, to a €2.5 billion market opportunity for us in the next 5 to 10 years, because this is all Wärtsilä-installed equipment. But performance is not only about services, performance is also about operational improvements and also some structural changes that we have made. So, first of all, we have improved, and we will continue to improve, the new build margins of our order book. Energy now has a higher share of equipment relative to EPC in its order book. So going into 2022, about 40% of the order book in Energy was equipment. Now, when we go into 2024, it's about 80%. So, it's significant growth of equipment, which normally has a better risk-reward balance and a better overall profitability. Energy storage, we talked about it, is now profitable, and Voyage losses have significantly reduced. As you know, we have split Voyage in two parts. One, we're going to divest, the other one we are keeping. But if we bring them together again from a kind of accounting perspective, and we will look at losses - yes, we are still at losses - but they are much less than they used to be. So, we are in clearly in the right path to improving profitability in Voyage.

Then we have made structural changes, as you know. I mean, ramping down, we have now ceased the manufacturing of engines in Trieste, and the forecast still holds. This will generate a €35 million saving annually for Wärtsilä. Of course, this is a very painful process. It's a big decision for Wärtsilä, and we are working with the stakeholders in Italy on the re-industrialisation plant to find new owners for our manufacturing facilities, and also to ensure that our employees in manufacturing have continued jobs, so to say, with a new owner. We will still be in Trieste, but more focused on R&D and services, et cetera.

Then, we have divested businesses out of the of the portfolio business and we will continue to do so. As you've seen recently, we are continuing to actively manage our business portfolio. And if we start with the most recent announcement, and that is that Marine Systems as a business or a division will be discontinued, is planned to be discontinued, from the 1st of January next year. And the whole thing is about further simplifying the group structure. So yes, the solutions that we put in Portfolio Business for divestment, it's a leader in gas processing systems and solutions, but it's a business that doesn't have very strong synergies with the rest of the group. And we need to focus the group, and that is the rationale. And then, the other business units in Marine Systems, Exhaust Treatment and Shaft Line Solutions, they will be moved to Marine Power. And this will be one step in further improving the quality of our revenues. Now, if you take an overall look, what business units have we moved to Portfolio Business so far? And you see them here Water & Waste, RMS, automation, Navigation and Control System and now Gas Solutions, that is about LTM 2023, about €650 million of revenues. But once we divest, it's about one percentage unit uptick in profit margin. So that's the magnitude.

To drive our strategy, we have put in place our Wärtsilä way, an overall strategic framework of the group. And this will be with us in our journey going forward. It's how we talk about strategy in Wärtsilä. It's also how we engage in dialogue with our customers and strategy, starting with our purpose. Also, clearly outlining the target position with the financial targets and sustainability targets, our strategic priorities, of course, an execution plan, how do we make it happen? And then building on solid values, leadership, and also a framework for continuous improvement. So, this is how we talk about strategy. This is how we execute strategy in Wärtsilä.

And if we look at our strategic priorities, they are the same. There is consistency in this, and I think one should be humbled. This takes time to execute and evaluate, and we're going to be consistent and continue to execute in the right direction, because we really feel this will bring us to the targets that we have set. So, number one is about customer focus and excelling in creating customer value, really being close to our customers and understand them, because customer operations are changing now. Also helping the customers when customers have problems. The second focus is about people and attracting the right people. I already mentioned the purpose. We can really see people want to join Wärtsilä, because they see us as a change agent in the decarbonisation transformation. It's for real. And when we talk about creating great teams, focusing on two really important dimensions, how we cooperate, cross functions and cross geographies. And how we support and drive continuous improvement. The third one, decarbonisation. We talked a lot about it. Clearly, it's about innovation, it's about partnership. It's about supporting our customers. Service, we also talked a lot about really putting focus on the service, and it's giving results. And then the fifth, continuous improvement. And this is an area which we are now, step by step, revitalising and driving in a more structured way. And it's the classical: focusing on what creates customer value and eliminating the waste, driving down lead times, improving quality, et cetera.

Now, strategy is good, but culture is even better. And if we talk about how we are transforming our culture, it's about creating a performance culture. And what the hell is a performance culture then? Well, for us it means focus on customer. We are here to make the customer successful. Let's have that as a North star for us. Then we believe in delegating responsibilities, delegating profit and loss, but also further responsibilities to people, to the people of Wärtsilä, so they can make decisions, move with speed and serve our customers. Caring for people is key. It's also part of our purpose. And then, in our execution, be disciplined in our risk management. When you run project business, risk management is one of the most important dimensions in your business. And I think here, also under this leadership, we are taking risk management to the next level, also with a clear focus on equipment before EPC. We will still do EPC, but the focus is on equipment. Continuous improvement. Very important. We need to continuously evolve and use all the brain power that we have in Wärtsilä to find smarter ways to work together. So, if I sum up the performance theme, it's about services, growing services, moving up the service value ladder. But it's also about operational improvements. You

know, we are shifting the composition of our order book. It's about risk management, being more mature and formulated on risk management. It's about the structural changes that we are doing and also continuing to manage our portfolio business. And then, the Wärtsilä way sets the framework of how we communicate, both internally but also externally. So that's the performance.

So, to round up where I started, the strategy going forward is really about improving profitability, continuing our growth. And we feel really excited, and we feel really confident and committed. We will reach our financial targets and our sustainability targets. So that was my first section. And now, I would like to invite Arjen to add some more colours in terms of numbers to this strategy. So, Arjen, please, feel free. Welcome.

Arjen Berends:

Hello, everybody. I'm really excited to be here. Why? Because we see good progress towards our financial targets. And after a very challenging year in 2022 with respect to profitability, we see now the trend improving, and that is really encouraging. First of all, I want to say that we are firmly committed to our financial target. Håkan said the same. I want to say exactly the same. 12% operating margin. More than 5% organic growth annually. Having a gearing below 0.5 and paying more than 50% of our EPS out as dividend. And we are making good steps towards those targets. Håkan mentioned a few already: moving up the service value ladder, changing the focus from EPC more to equipment delivery, turning storage into profitability, et cetera. All targets are important, but the key focus is on profitability because that has been the most challenging one to get traction on as well due to Covid, due to the exit from Russia, due to the extraordinary cost inflation that we have been facing, and not only we have been facing. My key priority is clearly on profitability improvement, making sure that the trend that we have recently seen in upward direction continues also into the future. Decarbonisation is a great opportunity for us. We believe it will make us grow. And make us really, let's say, stronger positioned in the market with our customers. Both Anders and Roger, in their respective slots later on, will talk more about that.

We have a strong balance sheet. And we have clear capital allocation principles. And that allows us and that supports the execution of our strategy as well as the funding of R&D, capital expenditure, M&A and dividend payments. On the next slide, I would like

to take you through, let's say, what happened to our financial targets. What is the progress in our financial targets since the last Capital Markets Day? We see good progress, as I said, despite the headwinds that I also mentioned earlier. If we look at sales on the sales side, we see good growth, despite the fact that we stopped our activities in Russia and also took out €240 million of Russia-related projects out of our order book in the first half of 2022. On this horizon, on group level, we see 5% growth, which is all driven by services, 11% on the service side. If we took a little bit longer horizon or concert the same from 2021 on group level, we see 29% and 25% in services. So really good, good traction. Of course, if we compare to 2021, there is an element of Covid recovery as well.

If we look on the right side of this slide. Looking at our capital structure and gearing as well as on dividend, we have clearly exceeded the financial targets. Gearing is clearly below 0.5 and trailing down 0.17 today. And despite, let's say, a loss-making situation last year, we paid in absolute terms more dividend per share than what we did in 2021. If we look at profitability. Comparable operating margin is improving at both the years 2022 and 2023. What you see here is clearly burdened by this extraordinary cost inflation still. We have worked out the order book that has been affected by it, our convention as well. And now it should get better, but it's clearly, let's say, still burdening in this picture. If we look at the operating margin, 2022 was clearly burdened by items affecting comparability, biggest one being the Russia exit. But also, let's say, the closure of the manufacturing in Trieste was another big item. Together they are about, let's say, close to €300 million impact in 2022. Next, I would like to drill down a little bit more in the 7.7% comparable operating margin that you see on this page. Earlier this week, on Monday, we announced that Marine Systems will cease to exist from 1st of January 2024. Gas solutions will move to Portfolio Business for divestment, and Exhaust Treatment and Shaft Line Solutions will move into Marine Power, later to be renamed Marine. If we simulate on that and look at the performance of that over the last 12 months, there are a few highlight points we can make.

First of all, Marine, now including Shaft Line Solutions and Exhaust Treatment, combined with Energy, engine power plants, so the thermal side of energy, if we combine the two, they are both on comparable operating margin and operating margin double digit. And we are very happy with that. It's also an excellent growth rate on that part of the business. 11% CAGR. It is really, really good. What is also really good is that

we have grown Storage, and that we have turned it from a loss-making situation into a profit-making situation. It is also really good. I'm really, really happy with that. But it is still, as you can see also from this picture, dilutive to Wärtsilä profitability percentage. Finally, we have Portfolio Business. This is still part of Wärtsilä today, but of course, and timing is very difficult to say here, but over time, this will not be part of Wärtsilä. The intention is clearly to divest it, but as you can see, it's also a dilutive number two Wärtsilä's profitability. So, once again, our focus is on profitability improvement. And we are on a good track.

Here, I want to highlight a few things. First of all, the quality of revenues. That, of course, includes moving the focus from more EPC to equipment delivery. But it also includes moving up the service value ladder, because service volume growth puts a lot of stability to both revenues as well as the profitability. And that is clearly a quality item in our view. What I also want to highlight here is that the shift from EPC to EEQ means something also for our revenue recognition. This is a bit of a side note because typically EPC goes with percentage of completion and EEQ with completed contract method. And, as Håkan mentioned already, let's say, there is a clear shift happening, from 40% when we entered into 2020 to in the order book of Energy, to now, going out of this year into next year, more that 80% equipment delivery. What I also want to mention here is portfolio management: very important for us, and also, of course, actions to address our cost structure. Big and small. Of course, a big one is the Trieste closure. There are other big ones as well, like the sale of the production facility in Spain, in Santander, or, let's say, the joint venture closure of propulsion in China. All the time in Wärtsilä, on a global scale, there are all the time happening smaller actions as well to address cost structure. We will continue to do this. We will continue to take actions wherever and whenever needed to adjust our cost structure to what is required in the market.

If we look a little bit at capital allocation. We believe and we are convinced that decarbonisation will bring us a lot of opportunities for growth. But in order to capture these opportunities, we need to invest in R&D. Otherwise, we cannot capture them. We are a technology leader. We are a market leader. Anders and Roger will talk also about that. And we want to stay there. That's also the reason why we have increased basically our R&D spend quite recently. We used to be at 3% of sales. Now, recently, it's more like 4% of sales. And that's for a reason. We want to stay the frontrunner, and the market is also actually asking for it, for these solutions to decarbonise the world,

basically. M&A. We of course always keep our eyes and ears open to M&A. Opportunities might come or might not come. They need to fit our strategy. They also need to fit our financial targets. If and when opportunities come, we will evaluate them against these very clear criteria that we have mentioned here. We do, however, believe that with a current capability in house, we have what it takes to execute our strategy, already today. Finally. Our dividend policy. We are firmly committed to, also in the future, pay more than 50% of EPS out as dividend. That will not change.

What I would like to do next is show you bridges. Let's say, our growth bridge and our profitability improvement bridge. And if we start with a sales bridge, on this slide and the next, the pluses and the minuses indicate what each driver's contribution is to the increased sales or the improved profitability in absolute terms in Wärtsilä, how we see the future from the status starting point today. If we look at sales, as in CMD 2021, today as well, we look at energy storage and optimisation as the main growth engine when it comes to sales. That did not change. What is different though, let's say, from the 2021 CMD material, is that at that time we had thermal balancing power in Energy as the number two and Marine as the number three, basically. Now it's the opposite. We see a lot of traction in the marine industry on decarbonisation. Roger will talk more about that later on today as well. Moving up the service value ladder. Very important, very solid, very steady, clear contributor. And also, very important for our profitability. We need to continue to increase the share of agreements and by doing so also increase, let's say, the share of wallet of our customers. Decarbonisation retrofits, clearly being a tailwind for us as well. Finally, on this page, Portfolio Business. It's quite big today, especially when you now add, let's say, also gas solutions. And that's exactly the reason why this was not on the list in the 2021 CMD and it is on the list today. In the 2021 CMD, it was actually insignificant compared to what it is today.

If we look at the similar bridge for profitability... If it shifts, yes, it shifts. As in CMD 2021, same today. Moving up the service value ladder. Clearly the biggest contributor. We are trailing very well on this one, and I'm extremely happy about it, because it's really, let's say, a solid foundation on all the Wärtsilä financial numbers. But it's also good to see here that, let's say, both the thermal side on the Marine as well as the thermal side on the Energy, are also really good contributors. Also, very important to get that going, and we anticipate it will happen like this, as the market is really asking for these solutions. Energy storage and optimisation. We are at zero profitability today, as you could see on

my earlier slide, but it's not where we want to stay. We, of course, want to continue to improve further on the profitability. And I believe we can do this. So that's also clearly a positive contributor going forward. And then finally, let's say, also on this list, Portfolio Business, on the list here for the same reasons as I mentioned on the sales side, it's now much more significant than what it was earlier. We need to continue with continuous improvement and price realisation of our solutions towards our customers. Getting more value out there, because customers are willing to pay for it, and we can differentiate.

At least we need to offset cost inflation, but, of course, preferably, and that's of course also the aim that we are seeing, that it will be more than offsetting the cost inflation. So, can we execute our strategy? Do we have the strength to execute our strategy? Is our balance sheet strong enough? I would say yes. Definitely yes. We have a strong balance sheet that enables us to execute on our strategy. We have seen recently and already that's ongoing for quite a long time, good development in working capital. We are currently only at 1% of sales, where historically we are more like 8 to 9% of sales. So really good level at the moment. Of course, good working capital combined with improved profitability provides us also very strong cash flow. So, cash flow also, as you can see from this picture, clearly trailing off, currently at 8% of sales. Just for reference, this level of operating cash flow is about 85 to 90% of EBITDA, which is really a good level. Gearing, as mentioned already before, clearly below our financial targets. Now at 0.17, nicely trailing down. And we have a very good solvency ratio as well. So, can we execute? Yes. I believe firmly that we can execute. So, to conclude. Our financial targets do not change. The whole of Wärtsilä is absolutely committed to realising them. And we have a clear path to get there. Thank you very much.

Hanna-Maria Heikkinen:

Thank you, Arjen, and thank you, Håkan, for the presentation. Please, Håkan, come join the stage for Q&A. And now, we will start with the questions from Salmisaari. My colleague Noora will bring the microphone. So, in the case you have a question, please raise your hand.

Erkki Vesola, Inderes:

Thanks. It's Erkki from Inderes. Just regarding the share of equipment versus EPC. How much have you or are you going to lose business due to this refocus?

Håkan Agnevall:

I mean, so far, we are not losing any business. No. I mean, we are often very early in developing projects on the power plant side, and this is part of our business model. And this is also where we, in a dialogue with the customer to-be, so to say, we have a dialogue. And how do you structure a tender and how you share different risks in a project in the most efficient way overall? So, so far, we are not losing.

Arjen Berends:

But of course, the scope is probably what you're after. The scope is lower. That's correct.

Håkan Agnevall:

If you mean, if you look at the order, if you look at 100% order value, I mean, how much is the EPC part? Yeah, 20%, 30%, something like that. So, from that perspective, you know, you could say that a project doesn't give us the same top line, but it certainly gives us a better quality of the profitability.

Erkki Vesola, Inderes:

So, you don't have any customers for whom it would be either EPC or no deal at all?

Håkan Agnevall:

There are certainly those customers, but, so far, we haven't lost anything. But, Anders, you can comment on that as well.

Erkki Vesola, Inderes:

Okay. Thanks.

Håkan Agnevall:

And, as I said, also just to underline, we are not stopping with EPC. It's a shift of balance. And in certain markets with certain customers, we certainly do EPC going forward. So, it's not from 0 to 100, but it's a shift of gravity, and you can see it's a fairly significant shift of gravity.

John Kim, Deutsche Bank:

Hi, John from Deutsche. Thanks for the opportunity. I'd like to spend a little bit of time talking about the service value ladder. You had a slide earlier that shows that your future revenue opportunity 2 to 5 X, a base commoditised or ad hoc service. Can you give us a sense of your ambitions in 2023 from your current levels? When you think about the group as a whole, is it more driven about moving people to service contracts, period, or moving those customers to higher aspects of a service contract, I suppose?

Håkan Agnevall:

I would say, in general, I think the biggest shift in the ladder, actually, the first transactional step, has grown quite significantly. And then, I would say, in terms of moving up the service value ladder, it's really moving customers into different types of agreements, moving customers that haven't had any agreements to their first agreements, and for customers that have had agreements to more advanced agreements. Performance based, which is the fourth step, which is this ten-year commitment, et cetera. These are typically rather big deals that are negotiated over time, and they are complex. So, once you put them in place, they are big. But in terms of where we have seen the most growth, and I think also going forward, is really to have more customers on the different shades of agreements.

Arjen Berends:

From transactional to agreements. Yes.

John Kim, Deutsche Bank:

Thank you.

Vivek Midha, Citi:

Hi everyone. Thanks very much. It's Vivek Midha from Citi. So, my first question is on the Portfolio Business, which is clearly grown quite a bit. And so potentially you're divesting quite a lot of revenues. You've indicated potential bolt on M&A, but if you were to get a meaningful amount of excess cash, could you talk about priorities around how inclined you'd be towards transformational M&A or capital return and so on? Thank you.

Håkan Agnevall:

You want to start?

Arjen Berends:

Yeah, I think the main focus, like I said, also, let's say, we believe that we have the capability to execute on our strategy. So, we don't absolutely need to acquire a certain capability to be able to execute our strategy. So, in that sense, at the moment, it's more about focusing on, let's say, bolt-ons. Are there small knowledge opportunities that you can benefit from in speed of development, or getting solutions to the market, rather than any, let's say, really big ones? We have said many times before that, of course, 2-stroke has been many times discussed. It's not at the market today, but if it comes, we will for sure look at it.

Vivek Midha, Citi:

Interesting. Thank you. If I may, a second question. Just on those financial targets, I appreciate it's unfair given that you've just started the review, but I guess the targets appear to be based on divesting Portfolio Business but constant premise are otherwise. And so, just hypothetically thinking about, I suppose, if storage were divested, how would you have to think about those financial targets? I mean, storage is the biggest contributor to your organic growth. So, would you need to reconsider that organic growth target of 5% plus? Or is the rest of the business still growing enough to meet that? Thank you.

Håkan Agnevall:

I would say, clearly, the rest of the business is growing enough to meet the target.

Arjen Berends:

Absolutely.

Håkan Agnevall:

And also, because I think, which is a very valid question, you know, should you revise your financial target, considering? First, we need to do the strategic review and we really need to land it. Let's do that first. But to your question, the underlying business clearly supports 5%.

Vivek Midha, Citi:

Thank you very much.

Tomi Railo, DMB:

Hi, Tomi Railo, DMB. Starting also with the storage. Have you received any interest since you announced the review?

Håkan Agnevall:

Well, we will not talk about that. Clearly. I mean, I think we all know the process here. First of all, we are doing a strategic review where we are looking at how do we best support the growth of the business. And then, we will look into what are the strategic ownership alternatives. So, it's premature to talk about.

Tomi Railo, DMB:

Then on the EPCs. To what extent is this an active own decision, or the fact that the business hasn't really been there so far this year at least?

Håkan Agnevall:

Now, this is a very active own decision. I mean, I have personally, I know Anders and his leadership team... As I said, we are engaged with dialogues with our customers where we have clearly shifted scope. So, this is a very active strategy.

Tomi Railo, DMB:

And a third one, shortly. Is the plant business loss-making currently, because the sort of delta potential to improve the profits and profitability is higher than the storage.

Arjen Berends:

Sorry, the plant?

Tomi Railo, DMB:

Thermal plant business.

Arjen Berends:

I will not comment on, let's say, profitability of individual parts. Sorry.

Tomi Railo, DMB:

But you see bigger potential to improve..?

Arjen Berends:

Absolutely. Let's say, the pluses are based on the situation today and looking forward. Correct.

Tomi Railo, DMB:

Thank you.

Antti Kansanen, SEB:

Hi, it's Antti Kansanen from SEB. I'll try to ask one question on the storage, and just to understand your starting point for the review process. If you look at, kind of, future growth potential in that business, what do you think are the biggest hurdles for you as a main owner of that business that some kind of a different ownership model could unlock? And also, what have been the key synergies between the storage and the thermal energy business in the past couple of years?

Håkan Agnevall:

So, if we look at, you know, there is of course, a balance on how aggressively you want to grow the business. That's one dimension. On the synergy side, there are synergies with the group. Clearly. I mean, especially on the classical functional support, finance, HR, certain things in sales. So, there are synergies.

Antti Kansanen, SEB:

All right. Then, second question on the services' growth. And I mean, it's been impressive in the past couple of years. I would just like to understand better. What have you been able to achieve with these kinds of self-help actions, with moving up the value ladder? I mean, there's been a lot of noise. There's been a lot of pricing. The cruise has recovered in the past couple of years. So, what has been, kind of, the impact of the agreement coverage? Have you walked away in some type of a service business? Just to understand better. What's the runway left for the next couple of years when we most likely have less, kind of, cyclical tailwinds in services?

Håkan Agnevall:

I mean, one... Roger, I'll ask you to comment as well. I mean, you will see that, you know, we have about 30% installed our installed base on the service agreement right now. We've been growing it by 30%. There is still 70% to grow. Of course, getting to

100 might not be realistic, but I think there is definitely growth opportunities now. And I mean, don't forget this 90% renewal rate. I mean, if we were not adding value real value, the renewal rate will not be 90%. But Roger, please comment.

Roger Holm:

If I add on to what Håkan said, one pathway that is coming, I will talk about that later as well, is that we will see more complexity in the industry due to the transformation to green fuels. This is going to push also for more value in the agreement. So, this is what we will see. The other angle is the retrofit business on the service side. More efficiency, more fuel conversions. And this is a part we have just about started now and will continue during the coming decade.

Antti Kansanen, SEB:

All right. And then, the last one is also on the EPC versus EEQ. And you've been quite straightforward in saying that you see a better demand on the power plant business in the next 12 months. And you have talked about some auctions, perhaps some things that you have on the pipeline. So, are we talking about EPC or EEQ? I'm just wanting to understand, perhaps a bit of a repeat of the same question, but are you still competing on the same deals on EEQ basis that earlier you would perhaps be in on EPC, or how should we understand the market dynamic here?

Håkan Agnevall:

So, it's a bit of a mix, but, Anders, you really know the details, so to say. So, I ask you to comment.

Anders Lindberg:

So, we still have the same opportunity, but it might be structured differently than where we have an EPC partner that we go with instead. If the customer still wants to have it as an EPC, we will partner up with an EPC partner.

Håkan Agnevall:

So, partnering up, I mean, then the partner would take the lead, and we will be sub supplier. There are different ways to have a commercial setup.

Anders Lindberg:

And also, as Håkan mentioned before, we still do have markets where we do EPCs. So, there is still room for EPC as well, but we have less of that than what we have had in the past. And that's important.

Antti Kansanen, SEB:

All right. Thanks so much.

Panu Laitinmäki, Danske Bank:

Thank you. It's Panu Laitinmäki from Danske Bank. I have two questions related to targets. First of all, on the growth. You changed the order of Marine and Energy power plants. So, is this because you are relatively more optimistic on Marine or things are taking longer in Energy to materialise, or is the EPC reduction kind of playing a role here?

Håkan Agnevall:

No, I think the key driver is that we are more optimistic on the Marine side. I mean, we really see the growth of the decarbonisation solution so far. Roger will talk more about that. But so far, for instance, we have a order backlog of 100 methanol engines, et cetera, et cetera. And we do see that the strategy is playing out in a very favourable way. So, it's really Marine Power accelerating.

Panu Laitinmäki, Danske Bank:

Okay. Thanks. And then secondly, on the margin targets, I mean, it's the same 12%, but now you include Portfolio Business divestments, which is more than you planned two years ago. So, has this, kind of, changed your view on the business that's remaining in Wärtsilä?

Håkan Agnevall:

I think the targets that we set in 2021, they of course included all the business areas. When we talk about the 12%, they still include all the businesses. But as I said, the strategic review of storage, and it's premature to talk about it, we will have to think, once we have concluded the strategic review, how we go about the financial targets.

Arjen Berends:

Correct.

Panu Laitinmäki, Danske Bank:

But I mean, the Marine divestments, if you are divesting a few hundred million more of lower and 12% businesses than you said two years ago, shouldn't in a way increase the target?

Håkan Agnevall:

Yeah, but I mean, let's say, it's premature. You can draw your conclusions. What I'm saying now is that first we need to execute and then we will have to think through on the balance of everything. Because you can see there are quite a lot of cogwheels moving in the equation. Should we think about revising the talk?

Arjen Berends:

Exactly. I was about to say the same. Let's say, let's first reach the target, and then we think about revision. We are still quite far away. The progress is very good, definitely recently. Let's first reach it, then we can reconsider.

Panu Laitinmäki, Danske Bank:

Okay. Thank you.

Tom Skogman, Carnegie:

Yes. Good afternoon. This is Tom Skogman from Carnegie. I follow Wärtsilä for many years, and I remember that turnkey power plants used to be kind of one of the most profitable businesses, and now we have had like five difficult years. And now we are walking, not out, but you reduce the risks with EPC projects. So, what is kind of the, what has really changed? Because this used to be a good business. Is it just that it's, you know, troubles with lawyers in every country, the business is moving to countries where there are more lawyers involved or...? Competition has not really changed. But, you know, the performance is not what it used to be.

Håkan Agnevall:

So, Tom, I always like your questions. I will start and then Anders can continue. I think we should really let Anders introduce himself, because when you know his background,

I think his answer also carries quite a lot of gravity. I think that, clearly, and as you have followed Wärtsilä for quite some time, I think if you go back like ten years, we did a lot of EPC in Asia, South America and Africa. We did it in a very profitable way. Then we went through an era where we started to do EPC in Germany. I think both Anders and me, with our experience, would say “Don't do EPC in Germany”. Very few people that do EPC in Germany make profit. So, so clearly there has been a shift of markets and also approach. So that is one thing. I think another element in what has changed is the experience of the senior leadership in project business. Anders has joined, others have joined Anders' team, Anders has also made pretty significant shifts. We have strengthened the leadership competence in running EPC business in maybe a bit more challenging environment, but run it profitably. So, there is, I would say, a shift, and Arjen, you can comment, because you have been with Wärtsilä for long, but there has been a shift to focus more on risk management, quite frankly.

Tom Skogman, Carnegie:

So, should we think that you are happy to sell EPC projects to emerging markets, but that this balancing power business will be more about selling equipment? And as a follow up, if you look ahead, like the next five years, how do you envision this? How large share of power plant sales will be balancing power and how much will be traditional baseload power?

Håkan Agnevall:

So, first of all, I don't think we should mix base load balancing with equipment EPC. That's a matrix. Let's not make it too complex now, but don't mix that up. I mean, we can do equipment or EPC on balancing and on base load, so to say. So, for the risk management focus, it's much more about which customers, which are the, you know, legal boundary conditions. And can you have sound legal boundary conditions to run EPC. It's also about the maturity of the customers, you know, how are they approaching EPC? So, I would say it's much more, you know, a case-by-case evaluation using solid processes and senior leadership with solid experience from project business. But Anders, please comment. And Arjen, you also comment.

Arjen Berends:

Yes.

Anders Lindberg:

I confirm what you're saying, Håkan, that it's not so simple. It's only countries. It also depends on who is the customer. Also, what kind of supplier and contracts do we see in the country? How stable are they? This is what makes us decide if we can do EPC or not. But I do confirm that, of course, what you asked is that we see the balancing market, the first markets that develop, and I will show that later on in the presentation, is of course, the more mature markets. And there, we do not do so much EPC. While, as you alluded to, in the developing markets, we have done a lot of EPC successfully and we will continue to do so, but we see less of balancing in those markets. So that plays, of course, a role.

Tom Skogman, Carnegie:

And do you expect the energy equipment sales, will it be more balancing power or, kind of, emerging market, traditional business? Because it's been, the recovery after the pandemic has been very slow in emerging markets. But how do you kind of envision the next five years? What is this business? Is it about balancing, or is it about building Africa and Asia?

Håkan Agnevall:

It's about both. I mean, one doesn't exclude the other.

Anders Lindberg:

We will show later.

Arjen Berends:

We will wait until our Anders has done his presentation.

Anders Lindberg:

You can see in the presentation how we see the base load market that is bigger, but it will not grow as much as we see the balancing market grow. So, there will be a shift, but it will take up to 2030 for that shift to happen.

Hanna-Maria Heikkinen:

Let's now...

Håkan Agnevall:

Sorry, because I wanted to give you an opportunity, because both Anders and myself we are fairly new to Wärtsilä.

Arjen Berends:

I think many things have been said. But let's say, if you go ten years back in power plants business and looking at it today, the geography is totally different, as you said already. I think, also, the whole risk-reward balance is then also changing. I would say the contractual paragraphs in Africa are somewhat different than the contractual paragraphs when you go to the US or whether you go to European countries, Germany was mentioned as an example. This has clearly contributed to also our own shift in thinking that, okay, we need to be much more strict on evaluating where do we want to go with EPC. The first entry, when we offer the initial intent, is EEQ. We have not ruled out EPC. We will still do EPC, but the risk-reward balance in the contractual terms and everything around it... If you take more risk, you should also get premium payment for it. If it doesn't come, then we don't do it. So far, we have not lost anything.

Hanna-Maria Heikkinen:

Okay. Now we will take a couple of online questions. So just to make sure that everybody understands the discussion. So, could you please open the EPC versus equipment deliveries point of view? What does EPC mean exactly?

Håkan Agnevall:

Ah, okay. That's a very good question. So, EPC is Engineer Procure Construct. So basically, in the most extensive EPC, because within this fairly big header, there are many shades, but the most complex scope in traditional EPC contract is that we get awarded a contract for a complete power plant. I'm just looking behind me, like the installation behind me. And we do everything. When we come, there is jungle or there is a cornfield, and when we leave, the plant is there. So, we do the civil, we do all the surveys of the ground condition, we do all related to civil installation, and we deliver the equipment. We also have auxiliary equipment coming from another supplier. That's a complete EPC package, the most complex one. Then, if you talk about equipment, under that header, there is also different shades of complexity. IN the most basic one, we would only deliver our own engines and control system. But then there are shades of

grey when we add the auxiliary equipment, etc., and we deliver the equipment. I hope that clarifies.

Hanna-Maria Heikkinen:

Thank you. Then, continuing with the questions regarding our financial targets: Why do you not tighten gearing target from 50%?

Arjen Berends:

That's a good question. Let's say, we have had this gearing target for basically as long as I remember. And I think it's important that we, let's say, perform accordingly. We have always been performing accordingly. And I think that's also a good level. Let's say, if you all the time adjust your gearing level up and down every time it's different, some time ago it was even negative. So, I think it's good to keep a stable base. We need to be below that to have a healthy balance sheet. And that has been the main focus.

Hanna-Maria Heikkinen:

Thank you. Then, continuing with the margin target questions, we discussed this a little bit with different assumptions. But: Do you still aim to achieve 12% margin, even if you were keeping storage and gas solutions, given these were still core when you launched the target in 2021, and by when will you achieve the margin target?

Håkan Agnevall:

Okay, so the first answer is yes. As I said, the targets have been formulated, including all businesses that are currently with us. And when? Over a few years. And that is what we said in 2021 as well. We talked about how 2022 has been a very challenging year. We talked about that. So that, of course, has added a year or so to the overall few years.

Arjen Berends:

Yes. It's a few years plus one.

Hanna-Maria Heikkinen:

Thank you. Then: Please expand on your comment. When do you expect the 4-stroke engines to start cannibalising the 2-stroke market? What will be the catalyst? What time frame will this require? Will it only be for new builds? How will you educate a highly

cost-sensitive customer base in a different market segment to your core niches to make the shift?

Håkan Agnevall:

So, very good questions, but I would actually propose that we save them for Roger, because he will touch upon this in his presentation. So, let's make sure we come back to that, because we will have a Q&A after Anders and Roger's section. Let's bring it up again then, so to say.

Hanna-Maria Heikkinen:

That's a good idea. What is the long-term operating margin target for the energy storage and optimisation business unit?

Håkan Agnevall:

We do not communicate target per business units. We haven't done it in the past and we do not intend to do it going forward.

Hanna-Maria Heikkinen:

Do you see buried demand due to delayed investments due to interest rate increases? When is that floating in the order stock?

Håkan Agnevall:

I'm not sure I understand the question, but I mean, interest rate, if we talk about that, we do see impact of that, primarily on the Energy side, in the decision-making speed. I mean, the investors into energy installations, they have a long-term perspective. I mean, 30, 40 years. So, it's not so much the short term, it's more the long-term interest rate. But of course, we do see that people step back and they think through their calculation. So, we are not seeing, so far, projects being cancelled or taken off. But there are certain projects that are a bit postponed, clearly. Anders, do you want to comment?

Anders Lindberg:

Just to confirm what you said. We see that the auctions and the projects are happening, but there might be timing delay due to that the customers wait to see what happens with interests.

Arjen Berends:

Often business cases need to be recalculated and to get some new approvals from respective boards, typically.

Håkan Agnevall:

And short term, there is no hesitation about that. You know, we have communicated that we do expect the order intake in the second half of this year for our power plant business to be better than the first half year.

Arjen Berends:

And we still believe in that.

Håkan Agnevall:

And we truly still believe in that, yes.

Hanna-Maria Heikkinen:

You said you take time for the storage decision, but isn't the uncertainty hurting morale in storage and creating uncertainty among clients?

Håkan Agnevall:

Yeah, the decision-making is, of course, an uncertainty when you cannot be 100% clear. It creates uncertainty. But I think, also, we need to have a very... we really wanted to come to the market, because when we start this strategic review, when we look at, as we talked about, different ownership alternatives, there is, of course, a risk that rumours will spread, et cetera. And I think that would be even more detrimental to morale and engagement. And I think a key learning from our work with our portfolio business, because of course, our announcement on storage is still rather fresh. So, it's too early to comment. But I think some key learnings from our portfolio business, I think that our colleagues, the teams that have been working with in those businesses, have been very much committed. I mean, people have stayed in the business, and I think we have been able to manage the business. We have been able to attract buyers, right buyers to the business.

Arjen Berends:

And even grow the business.

Håkan Agnevall:

And even grow the business. So, from that experience, I think we have a rather good track record.

Hanna-Maria Heikkinen:

With the continuous improvement of the value chain in mind, what single area do you see the most important to improve within the service value ladder, and how will you get there?

Håkan Agnevall:

So, I mean, the very fact that we talk about continuous improvement, it's many small improvements all over the place. And there are so many fantastic examples. So, I don't see just one. I think the key is to mobilise every brain in the game. How can we work smarter in serving the customer and do it in a flow-efficient way? And you know, there are, just to give very concrete examples, you know, how we schedule our service resources and how we make sure that we use that time in the very best way, because now, sometimes we don't plan it efficiently, making sure we have the right competence at the right place. There are many of those examples. Anders and Roger, do you want to comment?

Roger Holm:

I think, first of all, it's a cultural issue. As Håkan said, everyone thinks about it, because the waste removal in the flow is the key that we are going for to improve the customer service. And I would say the best value you get when you have the mass processes, which typically is in services. So, field service is a good area. I'll come back to one example in my presentation as well. It's when you have enough volume, and you can remove waste in small bits and pieces. That's where you get the big values.

Hanna-Marika Heikkinen:

Okay. Now, let's continue with questions from Salmisaari.

Antti Kansanen, SEB:

Yeah. Thanks for the follow up. Håkan, this is a question for you. I wanted to understand a bit better what you are now kind of seeing as we've seen a lot of businesses going into the portfolio side, you're taking a step back on the storage

business. So, it seems to me that you're really kind of tightening around, being an equipment technology provider and doing the aftermarket. So could you talk a little bit about... I just want to understand, for example, future M&A and capital allocation. Why isn't this a wide offering, for example, to the Marine side? Why hasn't that worked? Is it just a reflection of the actual businesses that you are now divesting? Is there more in play? How do you see your role in, let's say, next 5 to 10 years from offering point of view?

Håkan Agnevall:

So, I think, as I said, Wärtsilä is all about innovation, technology and services. So, a little bit to your point. Focus going forward; technology and services. And I think the fantastic opportunity that we have now, which is different to if we go back 5 or 10 years, is the whole decarbonisation transformation. Because we see it's fuelling growth, profitable growth. It's right in the core of what Wärtsilä is about. So, it's a fantastic opportunity for us to participate in and benefit and support our customers. And when, when you come to those assets that we have in the portfolio, you can say that many of those were kind of augmentation to the core business, and that was a way to drive and fuel growth traditionally. But I think what it shows is that it has been very hard to bring those businesses all the way to the profitability expectations that we have of businesses in Wärtsilä going forward. So, it is a focus. But it's also a growth strategy because we are in this significant decarbonisation transformation, and we are benefiting both from the equipment side and from the services side. And I would say that another thing, and that was created way before I came in, where we have the end-to-end ownership of both the new build and the service. Many of you know that before we used to have a separate service division, but we kind of broke it up, and both Anders and Roger, they have end-to-end responsibility of both the new build and services. We actually see that drives growth, and profitable growth, in a very strong way. It's this ownership, and also, of course, in Anders and Roger's organisations, Tamara's organisations, we have broken down the PNL responsibility, the ownership. And that is really, really fuelling the profitable growth in a good way.

Antti Kansanen, SEB:

Makes sense. The second one is a bit more detailed question to Arjen, and it's regarding cash flow and the working capital, which has been great in the past couple of years. So, could you remind us, what has driven that? I know that you don't have any

targets for cash conversion or working capital to sales, but what's kind of a realistic for you guys for the next strategy period?

Arjen Berends:

I think there are many, many factors. We run a working capital improvement programme already for several years, concentrating on many different things. Collection. I think we have done great effort in collecting also very old debt. When we started this programme a couple of years ago, we had a lot of old debts actually, and you can clearly see if you, okay, I will not open it up, but let's say, if I look with my statistics and my dashboard, the age of the receivable is clearly moving leftwards. So, less overdues. If they are overdue, they are more fresh. And it's even the management team, Roger himself, Anders himself. It escalates. If it doesn't pick up, it escalates much faster to a high level. And then we make a decision. Do we deliver to this customer the next service order or not? Even on that level, I think. So that's one action. Inventories, as I mentioned also earlier in other meetings, let's say we have been seeing an increase in inventories over the past years for reasons we very well understand and also accept in a way, one was increasing the inventories to facilitate the fast service spare part growth. And I'm fine with that, as long as the ITOR rate is going in the right direction, and it does. Secondly, the inventory increase was due to all the transfers that we have been doing now, from the old factory in Vaasa to the new factory, from Trieste to Vaasa at the same time. And in order to make sure that we are not falling on our knees and customer deliveries can continue, we needed to increase our inventory. Having done that now, there is a clear plan now to bring it down again and it's working. Payables to suppliers. Clearly another factor. Our time, average payment time to suppliers is clearly going up. So, there are many factors. It's not just one. We are working on multiple areas at the same time. Another one, which I forgot to mention, is advances received. So, the payment terms we get from our suppliers, sorry, from our customers also clearly, clearly improving. Much more, let's say, front loaded in the down payments.

Håkan Agnevall:

And I would say that we clearly have cash flow on the executive agenda.

Arjen Berends:

Absolutely. Yes. Every week.

Antti Kansanen, SEB:

Good to hear. The last one is a technical question regarding the Trieste factory closure, and the saving number that you are pointing out. Which year should we compare that to? I mean, I assume that the workers have been furloughed for a while. So, which year compared to which year is the saving for 25 to be achieved?

Arjen Berends:

I would say 2021 probably, right, Roger?

Håkan Agnevall:

So, before we started the whole exercise.

Antti Kansanen, SEB:

Okay. Thank you.

Tom Skogman, Carnegie:

Yes, it's Tom from Carnegie. I kind of noticed that many companies are now pumping up the margin, but they're also trying to decentralise the business. You know, splitting up the PNL and balance sheet in many pieces. And Wärtsilä did this, you know, perhaps ten years ago, but I don't really know what the direction at the moment is. Do you need to take a firmer grip from the head office when you're pumping up the margin, or do you want to kind of increase, uh, moving up responsibility in the organisation?

Håkan Agnevall:

I like your term, "pumping up the margin". We're improving profitability. Okay. But to your point, I mean, in big corporations, this is my experience. I think many of us share that experience. There is always a pendulum swinging back and forth on centralisation and decentralisation, and we are clearly moving in the decentralisation space when it comes to profit and loss and giving responsibilities for the business unit to drive the business. So, to answer very short, clearly to make the business critical, it's not only with Anders and Roger and Tamara, but also with our business unit leaders and their owners of respective business. And this is how we want to drive it. Then there are certain things, this is at least our view, that you benefit from keeping together. Let's take the whole AI and IT development. There is so much happening, and I think we see very strong synergies. For instance, on the service dimension, having the digital solutions

that are actually required to drive this performance-based service business. There are very strong synergies between Energy and Marine. So, it's to identify, and there are a couple of those. We talked about the industrial system now in producing engines. I mean, it's one system producing for Marine and Energy. So, there are clearly critical dimensions where we have very strong synergies. But in general, we want to drive decision making out, decentralised, to speed up the decision-making process and staying closer to our customers.

Tom Skogman, Carnegie:

And how do you monitor it from the head office? I mean, do you have scorecards, or how often do you get reports on how things are going and how many levels you have? And so on.

Arjen Berends:

To add on to what Håkan said to your question, Tom. Only five years ago, Wärtsilä was one reporting segment. We had a completely different divisional structure. We had virtual industrial operations, we had servers, we had Marine, we had Energy. Since then, we have moved several steps. First of all, it was Marine and Energy. Then, let's say, we had Marine Systems, Voyage, Portfolio Business. Now, we are actually going back. It doesn't mean that, let's say, underneath. If you call Marine and Energy a business, we have business units underneath. The PNL structure, for example, underneath, is the same. It's just that you move certain units under a different division, if you want to call it like that, under a different segment report. Dashboards are coming. Now, it depends a bit on what the parameter is. Spare parts, I can give you a clear example. I look at it every day. Other things come every month. But typically, let's say, nothing really comes more longer as a frequency than a month.

Tom Skogman, Carnegie:

And then, finally, I realised that Roger probably will talk about this, but I mean, there's been a lot of talk of moving out of the engine room in the marine business. And now you divest a lot of these other products. But what are the main products that you will keep that are not in the engine room?

Arjen Berends:

It's the auxiliary equipment, but I think Roger will probably come back to that later on. Probably better to wait for his presentation.

Hanna-Maria Heikkinen:

Let's now take one online question. Regarding the service value ladder, is there an age range in the power plants of the energy segment within which the owners of power plants no longer see it beneficial to take a maintenance contract?

Håkan Agnevall:

Yeah, I think there is. I mean, clearly on the Marine side, we see a sweet spot on the assets. I would say it's between 5 and 15 years, something like that. And on the Energy side, Anders, what would you say? It's a little bit similar, I would say.

Anders Lindberg:

I would also say similar.

Hanna-Maria Heikkinen:

Then, are there further questions from Salmisaari? Erkki, I think you raised your hand earlier?

Erkki Vesola, Inderes:

Just a couple of more housekeeping questions. Gas solutions. Do you already have a shortlist of potential buyers, and how easy is it to detach the business from current Wärtsilä? What's the timeline here?

Arjen Berends:

I think it's too early to have already a long list of potential buyers. We just made the decision. And yes, it's not so difficult to carve it out.

Erkki Vesola, Inderes:

And then, coming back to Trieste. Are there still any loose ends in Trieste, and has the engine portfolio that was manufactured there already been fully transferred to Vaasa? Is it all up and running?

Håkan Agnevall:

I don't know what you mean with "loose ends", but okay. So, Trieste, we have stopped the manufacturing of engines in Trieste. So, those engine types that we were manufacturing in Trieste, they are now manufactured in Vaasa. So that's one thing. And then, we will still be in Trieste for the long run, doing R&D and service, but the manufacturing has stopped. And now, what we are doing with the manufacturing plant and also the employees, about 450 employees originally working in manufacturing, we are in the so-called industrialisation process, working with the stakeholder environment in Italy to find a new owner that would be interested to take over the facilities and also the employees.

Erkki Vesola, Inderes:

What happened to all those engines that you had in Trieste?

Arjen Berends:

They are now produced in Vaasa.

Erkki Vesola, Inderes:

I mean, the all the equipment that you had in Vaasa.

Arjen Berends:

There are no engines anymore in Trieste.

Håkan Agnevall:

Roger, do you want to comment?

Roger Holm:

If you mean the production equipment, some have been moved and some is still there. And then, of course, when we find a re-industrialisation solution, we will see what happens with the rest. Either something might be reused or then we will move it out or sell it.

Arjen Berends:

Now you refer to the equipment.

Roger Holm:

The equipment, yes.

Erkki Vesola, Inderes:

But it's not a big item on your PNL?

Arjen Berends:

No.

Erkki Vesola, Inderes:

Or a balance sheet? Okay. Thanks.

Arjen Berends:

That is a consideration already in the write off that we communicated earlier.

Hanna-Maria Heikkinen:

So, then the last question. Which are your plans for Latin America?

Håkan Agnevall:

Oh, we have fantastic plans for Latin America. I mean, there are auctions coming in Latin America, probably next year. We are very well established. I mean, Latin America in general is one of the regions, not countries, where we often have done EPC and where we will probably mostly continue to do EPC. And there are a lot of things happening in Brazil, in Colombia, et cetera. But Anders, please, feel free also to comment.

Anders Lindberg:

Just to add to what you're saying. We are well established in many countries: Argentina, Brazil, Ecuador, Colombia and the Dominican Republic. We also see auctions coming up there, so it's great interest to our business. And also, Chile, we shouldn't forget. Especially Chile is one of the countries that have a lot of renewables, so also very interesting for both storage and thermal when it comes to balancing.

Hanna-Maria Heikkinen:

Thank you for a very active Q&A session. Now, for all of you who are following us via webcast, we will take a short break. So, please be back at 3 p.m. Finnish time.

Roger Holm:

So, welcome back from the break. Let's talk about decarbonisation in Marine.

Decarbonisation in Marine is going full steam ahead. If we look at where we are now with the decision from International Maritime Organisation IMO to go for net zero 2050, this is a speed that will be extremely fast in maritime. We talk about the next 25 years, which is about the same as one vessel lifetime when maritime industry will decarbonise. But this is already happening today. If you look at the picture of the vessel that we see here, Aurora Botnia, a ferry going between Finland and Sweden. They already have carbon neutral Fridays. This means that they run on biogas thanks to Wärtsilä equipment and can be carbon neutral already today. It's a perfect example on something that is happening already today.

If we look at the status at the moment and how we lead the decarbonisation journey of Marine, if we start from the fuel transition, this has already started. If you look at container vessels' orders this year, more than 50% of the capacity being ordered today has been container vessels powered by methanol as the fuel. And this is already today strengthening our market position. I will come back to that. As technology leaders in decarbonisation, we are evolving from being an equipment supplier to a strategic partner of our customers. Every single customer I meet today, we have the same discussion. How do you combine the financial viability with the decarbonisation journey? You cannot be too slow. Then you are out of business. You cannot be too fast. Then you are out of business. You need to find the optimal way to do this decarbonisation journey. And this means that we are at the sweet spot of this discussion. I've been 26 years in Wartsila. We have never been this well positioned in front of our customers as we are today. This is the perfect position to have on this journey. Our service business is driving growth, stability and profitability. Decarbonisation is adding more structure and more possibilities to this. For example, today, we have around 700 vessels under some kind of an agreement, and this is a business, as we discussed before, that we want to continue to grow.

So, before going into the next steps of the journey, let's look at what we talked about in the CMD of 2021 and recap on the progress so far. We said we want to play a central role in decarbonisation in Marine. Since then, we have contracted more than 100 methanol vessels in the maritime environment. We will this quarter launch the first ammonia engine into the market. And we are number one in hybrids in maritime sector. We said we want to maintain the leading position in the 4-stroke main engines and grow the auxiliary engines. We are the undisputable number one on 4-stroke main engines in the market. We have been growing the market share on the auxiliary engines and we are even stronger when we talk about sustainable fuels in the market. I will come back to that later on as well. We have seen a clear growth on retrofits, 46% growth in retrofit net sales. Transactional services has been growing, with 27%, and 55% growth of sales to installations under an agreement. And talking about climbing the value ladder, we have 42% more installations under a guaranteed asset performance agreement. So really, really good progress since 2021.

Let's then move into where we are today and what we see in the market today. If we start with the transform part, we are a key enabler for the customers' decarbonisation. A key event was in July this year when IMO decided to accelerate the target for the decarbonisation of Marine. So, going from a -50% target in 2050, we are now targeting net 0 in 2050, and all of this happening in one vessel lifetime. This is an enormous transformation that will happen in the marine industry, and it's spot on with our strategy and the portfolio that we have. We can already today enable the customer's transformation, both with the intermediate targets as well as the 2050 target, with our portfolio. And we have even more in the pipeline.

On top of this, we have the EU regulations coming in. So, if you look at the vessel operating in EU waters, by 2030, you will see the fuel cost double. If you continue like you do today, due to the emission fees based on operations in EU waters, the fuel costs will double. And if you look at this curve, it will increase even further after 2030. And this is a major shift from a money perspective. And usually money talks. This means that there will be clear focus on how to create the maximum flexibility of a vessel, how to create the upgradeability of a vessel. And here, already today, by being perceived as a frontrunner in the industry, it's improving our positioning in the market, because when you order a vessel today, you have to think about how do you create the maximum

flexibility for your vessel during the lifetime to maintain the asset value? Also, when you want to either keep it or sell it after 15 years, as an example.

What does this mean then, from a fuel development point of view? We will see a progressive switch to green fuels. LNG is still today the number one alternative fuel in the market. Methanol is gaining traction. As I mentioned already, more than half of the container vessel capacity so far ordered this year has gone for methanol as a fuel. And we see also ammonia going to pick up. The key challenge here will be availability of green fuels. The key challenge is not our technology. The key challenge will be getting the green fuels to power this transformation. But it's not just about fuels. The fuel price, you either pay it through emission costs or to the green fuels. The fuel costs for our customers will go up. So, this means you will have more focus on efficiency. Which is, again, spot on with our strategy. You will see focus on different hybrid solutions. You will see focus on different energy saving technologies because any saved fuel, regardless of the fuel you are using, is also saved emission. So, you will have a double benefit of this one. So, we will see a gradual transformation going into carbon neutral and zero carbon fuels in the industry. And then a ramp down of the fossil fuels over the time. But you need the green fuels to be able to do the net zero targets by 2050. This is very clear.

The next picture. You have seen a previous version of in the last CMD. We have upgraded this one a bit now. If you look at the reference point, last time we used heavy fuel oil as a reference point. Now we use the low-sulphur fuel oil as a starting point because that's the most common fuel used in the maritime industry. And if you look at the last row of this picture where we talk about the gross tank size factor, this is also driving a lot of which green fuels will be used in the maritime industry. And if I go to the far-right side and look at the hydrogen first, this is also the reason why we believe hydrogen will not play a major role as a fuel in the maritime industry. It just takes too much space. 7.3 times if you are on liquid hydrogen, which is as such a very complex fuel, and up to 20 times if you are in compressed hydrogen. You rather have space for either cargo or passengers as well on a vessel, not just have a vessel full of fuel to reach the endurance. So, we see that hydrogen will not play a major role. The key will be here moving to methanol and ammonia, and then the green versions of methanol and ammonia, because that's a good compromise on the fuel and the space need.

But. Then we come to the really interesting part here of this page. If you look at the middle row here. And we have said before that green fuels will be 2 to 4 times more expensive than the existing fuels. If you now then look at the vessel operating in EU waters in 2035, and with the emission costs coming on top, we will be already at a level playing field between green fuels and fossil fuels for these vessels in EU waters in 2035. This is an extremely short time period in the shipping industry, and this also means that for you, as an owner operator in EU waters after 2035, it will become more expensive to operate on your existing fuels than to move to the green fuels.

Now we come to the fact that money talks. And this will be a key transformation of the maritime industry. IMO has the same curve on a global level. The difference between the EU rules and the IMO rules is that the EU rules are much more clear on what it means on the financial measurements. Here, you can calculate the euro cents and dollars. What does it mean for you to operate on a certain fuel in the EU waters? IMO still has a bit work to do on this one, but I'm certain that when the rules are upgraded in around 2025, we will see much more clearer financial targets as well, coming from the IMO regulations. Today, what you need to do is you need to stay on the curve. So, in the big picture, the curve is still the same. But what it means is that if you are too low on what we call the CII index, you need to make improvement plans and show how you get back on the decarbonisation curve. This is still not equally clear as what we see on the EU regulations. But it's coming, so we will see the financial incentives to play a significant role in this transformation.

And as early as 2035, we will be at the level playing field, which is very, very soon. And for us, having the most comprehensive offering for decarbonisation, this is the perfect position to be in. If we start from the engines, we are the market leader in 4-stroke medium speed main engines. We have the industry's fastest and broadest future fuel roadmap, and we have already six methanol engines launched to the market, either as new build or as retrofits. And we will launch the first ammonia engine still in this quarter. And we will have the technology concept ready for hydrogen in 2025.

On top of this, when we talk about electrification, we are the market leader in hybrids with more than 26% market share. We have launched, as Håkan talked about earlier, the new hybrid electric concept last quarter, which I will come back to. And the world's biggest hybrid vessel is powered by Wärtsilä. On top of this, we have the carbon

capture, where we will pioneer with the first full scale carbon capture in 2024 and with a commercial release in 2025. And we see this to be around a €10 billion opportunity market within the next ten years. So, we are extremely well positioned for this transformation.

Then hybrid electric. We got a question already earlier. What does this mean? Hybrid electric will change the concept for LNG carriers. If you look at an LNG carrier today, it's a conventional 2-stroke solution where you have 2-stroke main engines, you have 4-stroke auxiliary engines, and it's designed for 19.5 knots. This is what the design speed on almost all LNG carriers is. The problem is that most of the LNG carriers today have an average speed of 14.5 knots. And this means that you are far off the optimal usage of the main engines. And this means that you are not at all optimal in how you operate the vessel. What we are now, then, introducing together with our partners, with Shell and Hudong-Zhonghua, is a 4-stroke concept where we use smaller engines but more of them. This means that depending on the speed you need on the vessel, you just use the number of engines you need to have at optimal speed. And on top of that, you have a battery as spinning reserve, so you don't even need to have any power reserve. You just kick in the battery if you suddenly need more power. And with that, you get a smaller engine room, so you have 6% more cargo capacity in the same hull. More cargo, you will have more than 10% less fuel consumption and emission, 20% lower maintenance costs and much more flexibility, also in the future, if you want to do upgrade of these vessels. So, this is our new concept for LNG carriers that we have now brought into the market. And we see good opportunities for this concept going forward, changing the LNG carriers into a different engine technology, thanks to the decarbonisation change in the market.

If we then continue with our main engines. We are the leading provider on 4-stroke main engines in the market, with the market share of 45%. On the auxiliary engine side, we have a market share of 15%. This is a more diverse market with more smaller players as well. But the interesting part here is, both when you look at the main engines and auxiliary engines, when you talk about sustainable fuels, our market position is even stronger. Here, you see what it means to be the market leader on sustainability. Customers today have to think about who to partner with when they select technology for a vessel that will be used during the whole decarbonisation era. This is a key technology choice, and you see it in our positioning in the market.

Our sweet spot, the 4-stroke main engines. If we deep dive a bit more into that one and look at the key segments using 4-stroke medium speed main engines. It's a market estimated by Clarkson to grow annually by 11% during this decade. And in the key segments that we are talking about here, ferries, we today have 65% market share cruise, 85% market share, and offshore, 55%. This is our sweet spot in the market where it's estimated to clearly grow during the decade.

So, to summarise where we are today in the market position, we are very, very well positioned to support our customers during this journey of decarbonisation. If we then move to the perform part, how we grow in services and drive the decarbonisation. We can look at the Marine Power sales today, and we have three distinct revenue streams. And these three distinct revenue streams in services is already today more than 60% of total Marine Power sales. Let's start with transactional. This is about parts and field service supporting our customers in transactional services. Here, the growth driver is very much the install base growth that we see happening. And the focus areas for us is to have the best customer service in the industry, but also about service offering and taking care of the long tail of customers, meaning installations that are getting older. If we then move to the agreement and retrofit side, here, we will see clearly the same growth drivers. Increasing cost of fuels. Increasing cost of emissions and to some extent also the increased complexity. And all of this will drive the interest in agreements because we can support the customer in optimising the fuel cost. We can support the customer with looking at the downtimes or any other outcome-based needs they might have. So here, on the agreement side, it's really about the service level differentiation.

Also using digital tools. No one else in the marine industry have the same level of agreements that we have in the maritime industry. This is really a competitive edge that we have. On the retrofit side, if you look at the cost of emissions that you're seeing, you have to look at anything related to efficiency upgrades. And also, at some point in time, how do you start using green fuels? Again, fitting very well to our retrofit offering. Today, talking to our customers, we actually do quite a lot, either looking at a vessel or a fleet together with the customer to look at. Again, how do we optimise for that customer to be on the right balancing path between the financial viability and the decarbonisation journey? And we have the toolbox to support our customers with that. This is also a unique positioning, that we have enough of the offering to help the customer to find this

sweet spot. So, for us, this type of consultative services towards the customer is something that we already see increasing.

Going back to the agreement and how we move up the service value ladder. Håkan mentioned this already earlier, that we target to move customers to the early phases of the agreements, but with a clear target to move it up to the guaranteed asset performance agreement. Here, we can talk about response time, uptime, fuel consumption, and I believe in the future, we will also talk about emissions on these types of agreements. What this means is that we can use the benefit of scale here, with AI, technology, data, and our knowhow about the equipment and the industry to support the customers on this journey. I can pick one recent example of guaranteed asset performance agreement. We signed this year an agreement with Corsica Line for the newest ferry going between Marseille and Corsica, where they opted for a guaranteed asset performance agreement, for response time and partly also for uptime of the newest asset. It's a good example of a value proposition that we have to our customers.

If we then look a bit more on the agreement side, we have seen a 17% growth on vessels under agreement and a bit of the key metrics of the agreement business, 90% renewal rate. This is again showing the value we provide to our customers. We have seen a 26% growth in sales to agreement to vessels versus pre-COVID level. We had, yes, a dip during Covid, especially for cruise, partly through ferries as well. But we are back on that track and even above the levels we had before Covid hit us. Today, we have 29% of our engine install base under agreement.

Then, looking at the customer benefits. When you are under a Wärtsilä agreement, 90% of the issues we can solve remotely, and we have 29% average of reduction of unscheduled maintenance. These are clear values to the customer. And then, if I take an example of a fuel savings of a cruise fleet over a six-year contract period, it's clear money for the customer and partly for us as well. More than €60 million saving of this fleet during this time period. The key issue here on the agreement side is really to combine AI and data analytics with the product knowhow, the industry knowledge and the benefits of scale. In the maritime market, you see many digital solutions that indicate that take this in use and you will save x percent. But it's more than just the digital connection. It's to have the AI and the data analytics. But you also need to have the knowhow of the product, the people that understand it and understand how it's used in

the field. This is the sweet spot for the customer, and we see it already in the way that the agreement business is growing. This is where we can help our customers to improve and help our customers to decarbonise.

If we then move to the retrofit side of the business. Again, driven by the tightening regulation and, actually, the additional costs that you will see for the emissions. Today, 48% of the fleet are not CII compliant if you don't do anything. And this will increase to 72% in 2027 if you don't do anything. Then, the easiest thing to solve this for many or most ship owners has been to take down the speed. You reduce the speed of the vessel, you improve the CII. And that has been easy to start with. But that will not be enough either. We will need to see more upgrades of different types, energy saving technologies, hybrid solutions and, step by step, going into fuel conversions as well.

A few success stories from this year, we have sold the first 4-stroke methanol conversion. We have delivered the first 2-stroke radical derating in the market. First time ever done, where you take a large size 2-stroke engine and actually change all the cylinders, everything related to a smaller cylinder. And what you do is, actually, you optimise the existing engine to be less powerful for the slower speeds that they are using today. The outcome is that you have a vessel with more than 10% fuel savings for our radical derating solution. We have done multiple hybrid retrofits. And, as I mentioned earlier, we see increasing demand for decarbonisation services, everything we can do to support our customers to find the optimal solution to do the decarbonisation journey.

So, to look at this then from a performance point of view. We have many drivers here, but if I start from the growth drivers, we have a really favourable mix of the vessel contract coming up, a good growth. Uptake of future fuels has to happen. This is the only way that you can decarbonise the maritime industry, and you will see higher focus on fuel flexibility, efficiency, upgradability, all spot on to what we are doing and what we can offer the customers. On the service side, we have a growing install base. We see an increase in agreement coverage where we climb the service value ladder with more complex agreements, and we will see more retrofits due to the decarbonisation needs.

Then, moving to the other side, to the profitability. We have done and are doing structural changes, and we focus a lot on continuous improvement. Recent examples.

We already talked about ramp down of manufacturing in Trieste on the engine side. On propulsion, we have exited Santander and Zhenjiang factory in China. Voyage service turnaround is on its way. We have taken good steps on the new operating model, on the cost base. We are not yet where we want to be, but the direction is good. And on the flow efficiency and continuous improvement, this is a good example. On the field service side, where we have a lot of volumes, we have seen 20% better ratio of non-billable versus billable resources, on the field service side. This is a perfect example of continuous improvement. How do we step by step improve the way we operate? On the price management side, it's about the value that we provide to the customer, how to maximise the value pricing and to look at the indices on the agreement side to make sure that we are on top of the price development and cost developments in the market.

So, to round up and look at where we are today, we are in a really, really good position in the market. Fuel transformation has started. Good example, container vessels more than 50% already ordered this year for methanol. Being the technology leader in decarbonisation, we are at the centrepiece of our customer strategy. The customers have to look at a score of their strategy, how to do the decarbonisation. If you are too slow, you will be out of business. If you are too fast, you will be out of business. Wärtsilä has the positioning in the market to be the best one to support the customers on that journey, because of the offering we have and the portfolio we can provide. And this we see also on the service business. We see it as growing needs for agreement. We see it as growing needs for retrofits, and it's all driven by the decarbonisation. So, ladies and gentlemen, maritime industry is a very exciting business to be in these days. It's a long-term journey. It's about 25 years. But in the maritime time frame, this is like everything has to happen now, because you talk about one vessel lifetime. And that's extremely fast. Thank you.

Now, next, I'll invite my colleague Anders Lindberg to talk about Energy. Please, welcome, Anders.

Anders Lindberg:

Good afternoon. You just heard Roger talk about the decarbonisation and the role it plays in Marine. In Energy, decarbonisation also plays an important role for our customers and for our business. And let me share how we will improve our profitability in our business, and also how we will execute on the growth opportunities coming from

the decarbonisation. We see three ways that we can create significant value in Energy. And the first one is, of course, about profitability. It's to perform. We are on track to deliver on our targets. And as you heard, Håkan also mentioned before, these are in different areas. First, with the new build, where we clearly can see that we have an improved risk reward. We have the profitability continuing and also the growth in service by moving up the service value ladder. And we also drive the profitability in energy storage by increasing the value add in our products. And I will come back to that. Then, we also have a good growth opportunity in engine power plants. The market is developing very positively with 90% per annum, up from 2022 to 2030. We are the global market leader in engine power plants and, as Roger also has explained, we have the engines and the capability to convert to the future fuels, that we will see. The third part is, of course, the energy storage, where we also have good growth opportunities of 17% per annum between 2022 and 2030. We are a top five global leader, and we have a differentiated approach compared to many of our competitors regarding project execution excellence, safety, reliability and also fully integrated design. And, as has been said here before, it is on the strategic review that we have started.

But let's now look back to what has happened since the Capital Market Day 2021. If you look on the perform side, we have improved the profitability in ES&O, and it is now profitable on a 12-month rolling basis. We have achieved a good growth in service plus 31% in total order intake. We are plus 41% in agreement order intake, and we are plus 29% in performance-based agreements. We also have improved the new build margin in our order book. If we look on the transform part, there, we have captured growth in thermal balancing. We are up 17%. And we also have captured growth in energy storage, where we are up 35% in the order intake.

As you know, I started in Wärtsilä five months ago. I have worked my whole career in project businesses, and I have led an EPC arm of a leading renewable wind developer. Since I started, I have met many of our customers, suppliers and a lot of our employees. And let me share then three conclusions out of these meetings that I have had the first five months. The energy transition will create very interesting opportunities for the Energy business. Also, when I met with customers, they confirm that we have the right products and services that our customers need.

And I can also say that the actions that we have taken are in the right direction to improve the risk reward and thereby the profitability in our business.

Then, I will go through the perform side. And there is no... There is a reason why I start with the perform, while my colleagues have started with the transform, and that is that that is our number one priority in Energy: to improve the profitability of the business. And I will cover this in three areas. The first one is with the new build. And in the new build, we have a new organisation that we have implemented since the start of 2023, with global business units being responsible for the profit and loss, also making sure that we have common processes, that we capture learnings in one area and bring it to the next area, and also that we keep the discipline. We have also had changes to the leadership team. Four out of ten persons are new in the leadership team, coming from the reorganisation, also including myself. And we have new governance. And we have also updated our processes when we have introduced this new organisation. If we look at the offering and the risk management, as we have heard before from Håkan, our EEQ is the preferred offering, and we only do EPC in selected markets. But I want to point out we still do EPC. And if we look in our order book, in 2022, we had 80%... no, today we have 80% going into 2024 in EEQ. We had 40% in EEQ in 2022. So, it is already a big shift in terms of what we offer. This will lead to less volatility, and there will be less risks in our portfolio. Then, another important thing is the discipline that we have regarding risk management. Because risk management is key in project management in these types of projects. And also there, we can see that this is already paying off by having a stronger order book going into 2024 and the coming years.

Then, let's look at the second area which is service. Here, you can see from 2021 until today we basically had 14% growth per annum. This is a very good growth. To the right here, you can see the drivers, which is of course the installed base, but also how we continue to move up the service value ladder. And just to point out a few points here. First of all, it's about securing the new agreements, securing that we have a good agreement coverage. We have 90% renewable our agreements, and we also sell. When we sell new power plants, we try to sell this with agreements from the beginning. Also, if you look at the share of agreement customers, we have increased that and we have now 8 in GW, which is 3.4GW more than what we had in 2021. And we continue to move up the service value ladder. So, performance agreements today is 7 GW, and we have added 2 GW in 2021.

If we then look at the energy storage that has grown three times since 2021 and is now profitable. Also there, we have a commercial approach, where we are focusing on some major markets because we want to have a certain critical mass when we are in the market. So, we have selected markets like the US, UK, Australia, to mention the most important ones. The other thing is that we are very selective on types of customers and also the projects. So, we do not only want to compete in cost, we want to also compete in differentiation and where customers acknowledge that there is a difference between the different suppliers in the energy storage. So, this is the second box for energy storage that's important. And I can say that having talked to major customers, they recognise this difference between the A and the B suppliers. So, excellence in project execution. It's key for customers that we are reliable and a leading global player with a reputation. We have an industry leading design, especially regarding safety and also the certification that we have in fire safety. This is key. And here we also can differentiate ourselves. And also, if you look at our track record, we have had no fires in our equipment. Also, of course, we are a fully integrated energy storage solution with a scalable design, and we have our GEMS, which is very leading energy management system, which also differentiate our solutions towards our competitors. Then, of course, we also need to work on the cost competitiveness, where we work on developing hardware and software to have a competitive product. And we are also looking at the supply chain where we work actively with the supply chain. And we also announced one and a half months ago that we signed another supplier on the battery side. And we, of course, also need to do this to meet the regional requirements for localisation.

Looking into transformation. Clearly, decarbonisation is driving this business of balancing power, and we have two balancing solutions. We, of course, have the energy storage and we also have the thermal balancers. But it's all driven by the increase of renewables. So that is the first thing that happens. And here you can see that from 2022 up to 2030 it increases from 30% up to almost 60%. And then it continues up. This is what's driving the balancing business. If you look at the thermal balancing market, we expect that to grow close to 20% per annum. If you look at the base load, which is also an important part of our business and will remain so, it grows with 4% per annum. So, these two is what makes up the thermal power plant business.

And then, on the engine power plant side, we are in a strong position for this balancing market. And let me explain why. First of all, for the balancing market, engines are superior to gas turbines, and the reason for that is the faster start up and shut down. We can cycle many, many times without no cost impact to the maintenance and we have high efficiency. This makes it possible for us to catch the price spikes that is on the market and make better revenue, and I will come back and show an example of that. We also have very good modelling capabilities. We have modelled 190 markets in the world, and with this capability, we are a good partner to the customers for designing their energy systems. Also, when the customer sees that the engine is the best solution for the balancing, we can also say that we are the clear market leader. It varies between quarters and even between years, but we normally have between 50% and 70% market share. We are also a leader when it comes to developing solutions with new fuels, as Roger has showed earlier today on the engine side. And we also proactively develop these markets when the renewable is increasing. And looking at some of the interesting markets for thermal balancing, we can see US, Australia, Europe and India. And to the right here, you can see how big these markets are in 2027 and their growth rates.

However, we should also not forget that we have additional potential markets where we also see a big interest in balancing, like Brazil, Argentina in South America, China, Japan and Vietnam in Asia. Let me now take you into an example. And we have taken Texas as a proof point for the thermal balancing market. And the reason why we do that is that is its size. Yeah, like France, for example. It's a like a country in Europe in terms of its size. It has a very high number of renewables. So, already 40% renewables in Texas. It has also very granular price signals on the market. And it also has a good policy support for balancing. And I saw that, the day before yesterday, they also passed a new proposition seven that makes good interest loans if you build balancing power in Texas. So that's actually very good news. Also, Wärtsilä has a good installed base in Texas, 1GW of thermal balancing and 1.2GW hours of energy storage. If you then compare two engine power plants that we have in Texas with two gas turbine plants and look at the prices that have been on the market and the starts and stops, you can say that the engine power plants can earn 1.6 times what the gas turbines can earn on this real time market. So that is how good the engines are compared to the gas turbines, if you have the right market conditions.

The gas turbines... No, sorry. The balancing market. We also see very similar conditions in other markets. So, if you take the US, it's not only Texas but you have the whole Midwest. And for those of you that are familiar with the different areas of power in the US, it's also the SPP and the MISO areas. That's the whole Midwest, where you also have a lot of renewables and very similar conditions. We can see the same thing forming in Australia, and also in many countries in Europe. Not all countries in Europe, but many countries in Europe. So, we think that this is a very good case of also predicting what we will see in other markets that I just mentioned.

Going forward, we have a good and credible roadmap for our engines, and also the possibility to convert into these new fuels and avoid stranded assets for our customers because of the same as Roger said, the lifetime of the vessels. Of course, if customers are going to invest in new power plants, they need to know that these are also good assets for the future. And this we can show by having the different types of fuels, and especially hydrogen, we think it's the most interesting fuel. We already have been running on 25% hydrogen blend in 2022 with a customer in US, which is first of the kind for engine power plants. And we also are working to make the whole power plant ready in 2025, and to start a pilot in 2026, when it comes to hydrogen. Also on the ammonia side, we are developing a concept for ammonia because there will be customers that prefer ammonia. Especially if you have to transport these fuels, ammonia is in a better position than hydrogen. However, hydrogen will be interesting in these hydrogen hubs that have been starting to build. So, we need to have several opportunities in our portfolio because I don't believe that there will only be one solution for the future.

Then, the third area is energy storage, where there is a very strong outlook for growth. And some of you might then say, okay, it's only 17%. Last time at CMD we said 30% growth. But what you then need to know is that in 2021, the addressable market in 2030 was only 55GW. Now it's 83GW. So, we have actually increased it. But also, the base has increased to 24. And that's why the percentage has gone down. So, in actual terms it is higher than what we said in 2021. And we will continue to focus on profitable growth, not only growth but profitable growth. And we want to maintain our top five global position. But I can also say that on some of the core markets, like the US and UK, we are top three, and we intend to remain in that position.

Then looking at the total picture: profitability, growth. We can see that the new build margins are on the way up. We have introduced new organisation, new governance, strong risk management. Also, the operational leverage from growing the new builds will improve the profitability. We have the continuous improvement, which is many projects that we will run all over the business. We have the new build sales where we see very strong opportunities for thermal balancing, but also for energy storage, and that we have a future proof portfolio. And then, of course, we will continue to drive the growth in service with the installed base, but also to increase and move up the service value ladder.

So, I have shown that we are on track when it comes to improve the profitability in Energy. We also have growth opportunity in the thermal balancing, and we have an excellent opportunity to continue the profitable growth in energy storage. Thank you very much. And now over to Hannah for the Q&A.

Hanna-Maria Heikkinen:

Thank you, Anders. Now, I also ask Håkan, Arjen and Roger to join the stage. Let's start with a couple of Marine-related questions we have received online. First, coming back to this question, which was raised already during the previous session and which we did not answer. So, please expand on your comment that you expect 4-stroke engines to start cannibalising the 2-stroke market. What will be the catalyst? What time frame will this require? Will it only be for new builds? How will you educate a highly cost-sensitive customer base in a different market segment to your core niches to market the switch? Quite a long one.

Roger Holm:

The driver here is decarbonisation. As I mentioned earlier in my presentation, it's a lot about how you can show that you have lower fuel consumption over the power curve of the LNG carrier? Because we talk about LNG carriers in this concept, and it's not about what the design speed is, it's about what you actually are running the vessels at. And we have shown that our hybrid electric concept is much better and the average speed they are running. So yes, we talk about new builds, and it's about the decarbonisation as a driver.

Håkan Agnevall:

And, sorry, if I may add, money talks. I mean, 10% fuel saving. That is immense savings in dollars.

Hanna-Maria Heikkinen:

Thank you. Do you see hybridisation as a key for E-fuels to make the solution affordable? High price of E-fuel versus current fuel requires opex increase.

Roger Holm:

I think these are two separate drivers. Yes, we see hybridisation happening, but that's irrelevant of the fuel you're using, because hybridisation will drive more efficiency of the vessel operation. That can be done with all different fuels. So, I see these as two different drivers.

Hanna-Maria Heikkinen:

Thank you.

Arjen Berends:

Yes. Energetic, right?

Roger Holm:

Yes.

Hanna-Maria Heikkinen:

Then, a question regarding IMO. Regarding the IMO greenhouse gas targets, it is one thing to aim for a 70% emission reduction of the fleet by 2040, but another thing to actually enforce it. So, how does IMO plan to implement these targets? How enforceable are these targets? And can you give concrete examples that show how ship owners are forced to invest in new, efficient engine solutions?

Roger Holm:

It's a very good question. And, as I mentioned earlier, I think IMO still have a bit of work to do on the regulations on this part, but it's clear that this will happen, because what happens today on the CII curve is that if you are in the two lowest categories, meaning the DnD categories, then you have to create a plan that you submit to show that you are

actually going to improve on your energy efficiency. But what's happening on top of that, which we also see both on the chartering side and on the financing side, is that you need to be on certain categories, to A) to get financing for your vessels and B) to get charter agreements. So, it's also driven by other parties than IMO as well. And then, as I said, I expect this to be tightened and more clarified when we get to 2025 as well.

Håkan Agnevall:

And, if I may comment, I mean, it's clearly so, please note, with the current EU regulations in place, fuel costs in Europe will double to 2030. And, I think it's reasonable to assume that that will also have an impact on how IMO sees the future framework for regulation related to carbon tax and the goals that we set.

Hanna-Maria Heikkinen:

Then, a good question regarding services. What proportion of new equipment sales customers ends up taking out a maintenance contract? If possible, explain both Marine and Energy businesses. Has this channel, new equipment orders moving to service contracts, changed significantly in the past 3-4 years?

Anders Lindberg:

I think that from Energy side, we're definitely trying to increase the amount of service orders that we can sign at the same time as the new build order. I must say, I don't know exactly the percentage that we have today.

Roger Holm:

And if you look at the Marine side, we see a clear increase on the demand of agreements driven by the decarbonisation. But it's a bit different than in the Energy side, because first, we sell the new equipment package to the yard, even if we already at that stage always talk to the owner. So, we have dual discussions ongoing at the same time, and we talk about an agreement early. But what in practice usually happens is that we then sign the agreement later, when it's closer to when the vessel comes into use.

Håkan Agnevall:

I want to go back to the previous question. About the fuel. Roger already pointed out that the key challenge to the whole transition is the availability of the new fuels. That's clearly so. But if you look at the investments in vessels that are being made right here,

right now, you need to design in flexibility. And that's why Roger mentioned, you know, 60% of the container vessels so far contracted this year are enabled for methanol. It doesn't mean that methanol is available. There is clearly not enough methanol to fuel the expanding fleet. But owners have a very strategic view. 25-30 years' lifetime. How do I create that flexibility? And that's why, on equipment side, this is a market that is taking off now, although, of course, all the fuel is not available yet. And it's a little bit similar on the Energy side. I mean, when we think about hydrogen, you will rightfully say that it will take years, if not decades, until we will have a significant amount of green hydrogen available. But if you want to build a power plant for balancing or for baseload, it needs to be hydrogen-enabled to get planning permits and to move onwards. On the equipment side, customers are already focusing on the new sustainable technology, although the fuels will come in later. So, I just want to make that clarification.

Hanna-Maria Heikkinen:

Thank you, Håkan. Then, a couple of questions about storage. How big a part of the storage market in North America, Europe and Australia is such that the customers recognise and value the characters that differentiate Wärtsilä from the others? I.e., how big is the actual addressable market for Wärtsilä versus the total GW hours that that are being tendered?

Anders Lindberg:

I can only say that the major customers that I have talked to, and these are major customers in these markets, they do value the capabilities and reliability of having a major player that can execute the projects on time. It's important for their business cases. They normally also, in many cases, do this together with solar. And it is important for the business case that this is delivered on time.

Hanna-Maria Heikkinen:

Thank you, Anders. Then, continuing with another storage-related question. Regarding the strategic review of storage, in case you end up divesting the business. What would physically be sold from the group? Has there been a dedicated group of salespeople and engineers in storage, or has the business been run with a joint organisation with the thermal business? Would the sales of GEMS make it more difficult to compete in the emerging market thermal baseload space?

Anders Lindberg:

So, I think there was a couple of questions in there. First of all, we have set up the business, and already in the beginning of 2023, we set up these BUs with profit and loss responsibility. After the summer, we also included all the sales personnel that is needed for the storage business in the storage BU, so it's really an end-to-end responsibility. As Håkan mentioned before, there are certain functions, like group functions, and also functions in Energy, that still support. But I would say the core of the business is in this BU and is also measured. So, there will be no transfer of extra people in the core of the business, the main functions. Then, when it comes to the GEMS, that is of course important. And we have products together between the power plants, the thermal power plants and storage, and that we will have to solve, and there will exist a solution also. In a potential demerger, then, we would still make sure that we have a capability also for the thermal power plants to do the management of the energy system.

Hanna-Maria Heikkinen:

Thank you. Then, moving to services. Is there a significant margin difference in services from transactional contract and retrofits?

Roger Holm.

I would say on that part, it depends a lot on what we are talking about. And there are big differences depending on the value we provide to the customer. So, I think it's difficult to answer that question.

Anders Lindberg:

Yes. There are differences on the profitability side. Yes.

Hanna-Maria Heikkinen:

Any questions from Salmisaari?

John Kim, Deutsche Bank:

Thank you. John from Deutsche again. I just wanted to spend a bit of time on Energy. Can you talk to us about the outlook for base load demand and the role you want to play in that? Second unrelated question. You seem to have supernormal or above average market share in these dual fuel designs. How should we think about the margins on, say, a 3-to-5-year view in your original equipment segments? I imagine you can charge

more because you're offering more. How sustainable do you think that is? Or should we think of it more as a factory utilisation and absorption of fixed cost? Thanks.

Anders Lindberg:

So, starting with the first question. Base load, I showed in the presentation, that it we see a growth of 4% per annum on that. And starting from a higher level than the balancing is. So, we see that we can grow at least with the market rate, also on the base load side. And it will remain an important part of our thermal power plants. I chose to talk a lot about balancing because that is what has been discussed, and that's also what changes with the energy transformation. But the base load also remains important in many markets going forward and also down for our business, obviously.

Håkan Agnevall:

And then, thinking about your questions about margin development, et cetera. I think with, let's say, a 70% market share in engines, we have a lot of respect for our engine competitors, but I think we see the gas turbine players as our major competitors. And I think here, you know, with intrinsic benefit of our piston technology when it comes to flexibility, I think that, and also with the good operational improvements, you know, we are bringing value. We will capture some of that value. So, it's not only a volume play.

Tom Skogman, Carnegie:

Yes, this is Tom Skogman from Carnegie. I wondered about this LNG solution. You spoke a lot about the savings, but what is the CapEx side of it compared to the 2-stroke?

Roget Holm:

If you look at the total vessel cost, it's too early to say it since none have been contracted yet, but it will not be any significant difference from a CapEx point of view for the vessel compared to a traditional 2-stroke solution, which is the important question from a customer point of view.

Tom Skogman, Carnegie:

And then all these batteries on board vessels. I mean, we had a horrible situation in the Netherlands, and you are increasing the number of batteries in vessels and, of course, passenger ferries have their own challenges. Do you have any kind of solution for

passenger ferries here, and what kind of risks do you carry if there would be a fire in a vessel with your batteries in it?

Håkan Agnevall:

So, I think, if I start, Roger, I mean, I think the Dutch incident you're referring to that was a vessel carrying electric cars. So, the electric car industry needs to sort out their answer to your safety concerns. When it comes to the marine industry, these are not the same type of design of batteries as the car industry. And the whole regulatory framework around batteries for marine is very much different from the cars. I'm not saying it's better or worse, but it's certainly different. And I think with the whole concept in marine industry of class, class society, which needs to approve everything, I think there is a very stringent focus on safety aspects. But Roger, please.

Roger Holm:

And to add on, we already have today a lot of hybrid solutions for passenger vessels. So that's you can say it's normal business today as well.

Tom Skogman, Carnegie:

But how do you make sure that there is no fire when you have large batteries in them? And if it would happen, what kind of risk would that mean for you?

Roger Holm:

If you look at the safety aspect, already today, from an engine room point of view, you have these contained compartments. So, even from an engine room perspective, you usually separate two, even two engine rooms. So, already in the design of the vessels, you take this into account. So, you can say that the battery or engines or power technology on board is already considered. And to add to what Håkan said, the class societies are monitoring this. So, you can say that in a vessel, this is already a normal way of working.

Håkan Agnevall:

So, if you have the fire in the battery, you can still run the vessel.

Tom Skogman, Carnegie:

And then about fuel cells. You developed fuel cells at some point yourself, and then you decided to walk out. And I think you said you will do partnerships there. But to my understanding, the Chinese are putting a lot of effort on developing fuel cells. And then we have like small nuclear reactors, et cetera. So, can you perhaps, I mean, what is the latest in this field? How certain are you that the engine is the, kind of, superior technology, not only against gas turbines, but against these other technologies 10 or 20 years out?

Anders Lindberg:

I mean, it's a good question. I remember when I graduated from school in 1990, I went to Japan and I saw a fuel cell, and I was told by Toyota at that time that this is the technology of tomorrow, and I still think it's not in mass commercialisation. But nevertheless, we think that fuel cells are important and it's important to monitor and also work with partnerships in order to be prepared if that technology will be the dominating technology in the future. But we don't see that yet, and we still believe that the engines have a good role to play in the future, and at least for the foreseeable future, that we have in our strategy. So, we need to continue to monitor and form these partnerships, so we also can handle it if the technology will develop in a different way than what we think today. That would be my answer.

Håkan Agnevall:

And, I mean, I think there are two aspects to the answer. I mean, there is the energy aspect which Anders talked about. I mean, at the end of the day, it's about thermal efficiency. It's about ramping capabilities. And we are following the technology. And I would say, I think we are fairly confident in our technology. But, of course, we learn. We should be humble, so we keep on monitoring. On the Marine side, and I think Roger pointed this very clearly, pure hydrogen, it takes too much space for big marine. So there, if you want to go for zero carbon fuels, it will be more ammonia. There are safety concerns in ammonia, but step by step, I think this will be resolved. So, there are different facets. But I mean, we are not arrogant. We keep on the partnerships. We are learning together with our partners. But we do see that the thermal efficiency, the flexibility of our engines, it's pretty good, also compared to the new technologies.

Anders Lindberg:

And if I can add to what you say, Håkan, also on the Energy side, we see hydrogen as important because they are building these hydrogen hubs now in the US and also in Europe. And there, hydrogen will play a role, but it's very difficult to transport hydrogen, and you need the new infrastructure if you want to do the piping et cetera for transport. So, we also see that there will be other fields, and, of course, the fuel cells work with hydrogen, not other fuels. So, we definitely think that there will be several of these fuels in the future. And we need to be able to have a solution for all of them.

Erkki Vesola, Inderes:

It's Erkki from Inderes again. Roger, you talk about container vessel orders running on methanol, but container vessels have not traditionally been that important a segment for Wärtsilä. How much are other vessel type orders methanol powered? I mean, what's the trend there and what's your competitive position?

Roger Holm:

Yeah, it's on the container vessels. It has been mostly the auxiliary engines from our side. But if we look at the main engine side, we have seen, we have published a heavy lift vessel with main engines from methanol already. We have seen movement on the cruise side already and also on the passenger side. So, it's also happening in other segments. I would say this change is happening across all our different segments.

Erkki Vesola, Inderes:

But do you see that the trend is slower there than in container vessels?

Roger Holm:

I think percentagewise, yes, it has been clearly the biggest because that's where it started. And that has been the biggest trend so far. So, percentagewise, yes, it's been the biggest there.

Erkki Vesola, Inderes:

But do you see that all the other vessel types are, kind of, following suit?

Roger Holm:

It is following suit, yes. Now it will come back to what Håkan said earlier. Now the owners are investing in the flexibility. Now the fuel availability will need to follow, and that's where we are not there yet on the green fuels, both methanol and ammonia.

Erkki Vesola, Inderes:

Okay. Thank you.

Antti Kansanen, SEB:

Hi, Antti from SEB. The first question is on the EEQ versus EPC on the Energy side. So, I mean, the benefits are quite obvious regarding the project risk profile, but you are bringing essentially somebody in to carry those project risks. So could you describe how client facing are you when you do equipment only? Does it compromise your ability to take service agreements, get aftermarket opportunities? What's the downside of not doing EPC?

Anders Lindberg:

Now, first of all, when we do EEQ, we have the same capability and same opportunity to capture the service business. We are an OM and, of course, all the parts, et cetera, we have control over, so to say, when it comes to the engine. So, I don't see the difference in service opportunity there. As you say, the risk will be lower with the EEQ than EPC. There are some markets where we definitely see an opportunity and where we have the experience and capability to do EPC, and we will continue to do so on those markets.

Håkan Agnevall:

And I would say, I mean, one, I would say typical situation, in some markets is that we work a lot with power system studies and project development. And this is kind of long-term development. And then you develop a project, and we establish a good customer relation. Then we structure. And sometimes, then, that comes into a civilian installation contract. Or they might be prime, and we are the equipment supplier. So, they sign the contract. But we have been in a relationship with this customer for years developing the power system thinking. So, it's not that we are, you know, three steps behind and we don't have a customer relation. That is a fairly typical situation, I would say.

Antti Kansanen, SEB:

I'm just then wondering why do EPC at all, other than to get a bigger top line.

Håkan Agnevall:

No, I mean, in certain markets it could be to make a project happen. We need to take a step forward and bring it all together. Because in that market, there is very limited experience from engine power plants. And if we can find the right conditions with the right risk-reward, we will still do that going forward. But I mean, if you take markets like the US, that is an EEQ market already today. I mean, you don't do EPC in the US. I think the whole industry is structured like that. Germany, I think we will not do EPC in Germany going forward.

Anders Lindberg:

But I would like to emphasise what you say, Håkan. It also depends on the market. In some markets, there are very well-established EPC companies that do this for a living, and in other markets, there are not such companies. And, of course, that also affects our approach to it.

Antti Kansanen, SEB:

Okay. And then, on the Marine side, I mean, just a question on your client base's investment appetite. I mean, you mentioned that the IMO regulation has taken a couple of steps forward. Your technology has matured. So, are we already past the phase that the clients were very hesitant to invest because there's so much uncertainty regarding technology, regarding regulation? And then, I guess the other aspect is more cyclical, that vessel costs have gone up quite a lot, financing is more difficult. So, from these aspects, how do you see the situation?

Roger Holm:

I think from a from a movement point of view, the customers have to move, because if you don't move, if you look at the fuel emission cost curve, you will be out of business. And if you move too fast, you are out of business. So, you need to continue moving. That's very clear. You can't have a strategy to wait. Then, it's clear that we are moving from a fairly single fuel environment to a multi fuel environment. So, a key question from our customers is: please tell us which is the fuel of the future of the maritime industry? No one can answer that question. It will be a multi-fuel industry, and you need to create

the flexibility in your vessel. And that's where we can help the customer on that flexibility. So, yes, the customers need to invest. You see it in the container vessel segments. Now it's very much to be on top of the decarbonisation curve. But then, the flexibility needs to be there.

Antti Kansanen, SEB:

Okay, then a final one on the same theme. I mean, from a financial perspective, how do you make money out of this? I mean, are we talking about higher profitability because you're adding more value? Are you seeing yourself winning market shares? What's really kind of, from numbers perspective, how would this play out in Marine side?

Roger Holm:

It's starting, of course, by targeting growing market shares. As you saw on the sweet spots that we have, the sustainable engines have higher market shares in the market. And, of course, moving into the "money talks" part, the talk I mentioned already, the carbon cost or the emission cost will create higher fuel costs. So, it means that the payback period for the customers for any upgrades will be clearly shorter. And that means, of course, that we are looking into our value-based pricing in the same way to see how we can then optimise the value for the customer.

Antti Kansanen, SEB:

Okay. Thank you.

Håkan Agnevall:

Thomas, I think.

Hanna-Maria Heikkinen:

Thomas.

Thomas:

Thanks, and thank you for inviting us here, very informative presentations. I've got a math problem that I'm hoping that the men in blue will be able to help me with. You set the 5% revenue growth target in 2021. Since then, inflation has taken a step higher. All the businesses that you took us through today, apart from thermal baseload, are growing quite a lot quicker than 5%. And also, I guess the portfolio of businesses are

growing less than that. So, what's the component that I'm missing that makes the 5% still the relevant target?

Håkan Agnevall:

Well, I think we look at 5%... I mean, you're fully right in your analysis. I think we look at the 5% over a longer time horizon, because right now, we are growing faster than 5%, clearly. And we said before, with or without storage, you know, the business is growing more than 5%. I think if we take a longer-term perspective, we have the 5% target. If we supersede it. That's good.

Hanna-Maria Heikkinen:

Thank you. Now we have time for one question. That will be the last one.

Panu Laitinmäki, Danske Bank:

Thank you. It's Panu Laitinmäki from Danske Bank. Just on the Marine outlook, you presented the Clarkson forecast for the sweet spot, which was quite optimistic. How big a part of your sales is this segment? I'm just thinking of the 12-month market outlook that you gave, that it's a similar demand, but then you sound quite positive on the services and also on the sweet spot. So, what is coming down, or are you kind of less optimistic than Clarkson on this sweet spot for the next 12 months?

Roger Holm:

Now, of course, when we look at what I showed, what's up to 2030 for the medium speed made engines, and we will see a growth during that period, clearly. Then, of course, we have many more aspects of what we provide. Where we see a more challenging market today is, for example, the service on the container vessel, because it's clear that the prices have been coming down on the container vessels, which means that we will see more challenges on the services business related to that segment. So, it's very segment-specific, while others are actually growing quite a lot. So, it's a mix of different parts.

Panu Laitinmäki, Danske Bank:

Okay. Thanks.

Hanna-Maria Heikkinen:

Thank you. Now, handing over to Håkan for the final concluding remarks.

Håkan Agnevall:

Thank you. So, we are coming to the end of the day. And, as I started, we are really excited about where we have Wärtsilä today, and for the future prospects. And we've been trying to reconfirm our strong commitment and our strong belief in our financial targets, in our sustainability targets. We have a clear path. Yes, we had a challenge in 2022, but we have a clear path going forward. If we start on improving profitability, it's about service, moving up the service value ladder. It's about operational improvements that we have done with rebalancing to equipment, working with a better order book, and continuing to improve the profitability in Storage, Voyage less loss making. A lot of operational improvements made. Also, structural changes that we have made, seized manufacturing in Trieste. Continue to manage our business portfolio, continue to prune the portfolio, making the divestments, and then having the Wärtsilä way as the overarching tool to communicate, both internally and externally, our strategy. And really bringing the people with us in a performance culture where we focus on the customer and the difference we can make.

Continuing growth. I think it's very strong when Roger, with 26 years of experience with Wärtsilä, says that it's the strongest position he has ever experienced in these 26 years. And we have a fantastic opportunity with the decarbonisation journey. The industries need to move on the Marine side. Double digit growth in our selected segments. On top of that, decarbonisation, with escalating fuel prices, fixed by regulation but also a green market, evolving market. Market leading positions and technology lead are clear in Marine. And then on the Energy side, renewables will grow, will continue to grow. There might be some hiccups on the way, but it will continue to grow. Then you need a balancing power. We have some of the winning technologies for the balancing power. And we are clear market leader in those technologies. So, I think we have some really interesting growth prospects going forward. So, with that, we feel very confident when we are reconfirming our targets and our commitments to improve profitability and continued growth. So, thanks a lot for today.