Wärtsilä Corporation Half year financial report January-June 2021
20th July 2021

Good morning, everybody, and welcome to this news conference regarding Wärtsilä's Half-Year report, January-June 2021. My name is Hanna-Mari Heikkinen, and I'm in charge of investor relations. Today, our CEO, Håkan Agnevall will go through the highlights and business performance of our Q2 report. And then our CFO, Arjen Berends, will go through the key financials. After the presentation, there is a possibility to ask questions. As we have only one hour for this event, the number of questions is limited, so each analyst has a possibility to ask one question and one follow-up question. And easiest way to ask questions is to raise, used the raise your hand function, and please, also remember to unmute yourself. It's time to start, please Håkan.

Thank you, Hanna-Maria, and welcome to Wärtsilä, by the way. It's great to have you on the team.

Thank you. I'm excited to be here.

Good. So welcome, everybody, to yet another virtual quarterly call. But let's do the best out of this. And today, I will be joined by Arjen, our CFO, and we developed the format here going forward. So quickly, what are the highlights? In general, I think we have a strong cash flow in the second quarter, but we still have a business that is hampered by covid-19. Positive side: order intake is up 14 percent. One should remember that Q2 last year started to get really affected by covid, but still order intake is up with 14 percent and the service's journey continues in a strong way, I would say. Order intake is up with 24 percent. And also on the services side, the net sales increased with 16 percent. On profitability, profitability actually improved while sales came down. Lower net sales. The stronger cash flow was driven by the flow from the operating activities. And covid continues to seriously impact our business. The business is stabilizing, but covid creates still an environment of uncertainty. And I would like to take the opportunity to thank all of the employees that tirelessly continue to support our customers in covid times because it's challenging to work under the travel restrictions, continue to work from home or in the factory, in the offices. So, a tribute to our employees in these special times. Okay.

Overall view of the numbers. Order intake up 14 percent overall, services up 24. You could see net sales is down seven percent. But services sales it is up 16 percent. The comparable operating result, it's up 30 percent. And that brings us to 6.3 percent margin on net sales. You could also see that the comparable operating results for the full half year, that is up one percent only. But you still remember the 20 million net provisions that we took for our challenging projects in Q1. So key message, 6.3 percent in the second quarter.

Now, if we look at the net sales of 1.1 billion. Minus seven percent, primarily due to lower equipment deliveries. Service net sales increased by 16 percent on the back of a weak comparison period. As I said, Q2 last year was definitely weak. The comparable operating results landed at 71 million euro, which is 30 percent, an improvement of 30 percent, despite the lower net sales. And it's driven by a more favorable sales mix between equipment and services.

If we talk about the markets, the marine market is recovering, but it's an uneven progress across the segments. And vessel contracting in cruise and ferry continues to be slow. So, if we look at the number of our contracted vessels in the review period, it's actually pretty good. It's 829, significant uptick from the same period last year, which was at 312. But it's major driven by the cargo sector, which has continuously improved from the lows that we saw in 2020, whereas cruise and ferry remains slow. On the positive side, the transition into alternative fuel is increasingly getting traction. And we have seen 170 orders for alternative fuel capable units during the first half year.

If we look on the energy side, it is expected that the recovery from covid will take time in the energy markets. But the good activity level in the energy storage market continues. Covid-19 has an impact on the investment environment, specifically in some of our core emerging markets, which is affecting both decisions on new projects, but also project execution. It's likely that the recovery will take time because covid had such an impact, the vaccination programs in many emerging markets are going a bit slower, unfortunately. But on the positive side, we have the energy storage markets, which is more concentrated to US, Australia, and a couple of other markets. It continues in a good level. And if we look at the overall, Wärtsiläs overall market share in the thermal space, it decreased a notch to eight percent from previous nine.

Looking at the order intake, as I said, increased by 14 percent. It increased across all businesses. Equipment order intake up four percent, whereas service really grew in a significant way by 24 percent. And that reflects the improved economic activity in general. And we see a broad increase in many of the segments on the services side.

If we look at the order book, there is a slight decrease related to divestments in our entertainment business, but the book-to-bill is improving and you see here that, if you look on the on the 12-month rolling, we are now back to book-to-bill above one. And the last time we were there was end of 2019, so going in the right direction.

Net sales, however, decreased by seven percent. And on the equipment side, the net sales decreased by 24 percent and that's mainly driven by two factors. One is less scrubber deliveries, I mean, on the retrofit programs for the container side, the rates are very high right now and container vessels are not being brought in to be retrofitted. That leads to fewer scrubber deliveries. And then, on the energy side, we have delays in deliveries. Major impacted by covid. Then the service net sales increased by 16 percent.

Technology and partnerships, this is a very important way forward for us, thinking beyond covid, so to say. And also supporting our strategy around decarbonization going forward. And this quarter, we were extremely excited to announce our start of the test program for some of the new green fuels. And we are now starting a test program to have a technical concept ready for hydrogen, 100 percent hydrogen engines in 2025. In a similar way, a test program in parallel for having 100 percent ammonia and yes, by 2023. And this is an exciting journey we are on now. And it really plays into our sustainability strategy with the green fuels both on the Marine and the energy side. In Voyage, we continue our digital journey and also autonomous journey. And this is an exciting example from Rotterdam, where we are now engaging in demonstrating the viability of autonomous intra-port and inter-terminal container shuttle in the harbor of Rotterdam. And we are providing sensor systems, we are providing the route control and we are providing the electrical driveline and batteries as well. On the power-to-ex and power-to-gas in this case, the journey also continues. Well, we are now developing a cooperation with Vantaa energy in Vaasa, on producing a carbon neutral synthetic methane. And that is also an interesting fuel going forward in the sustainability journey.

Now, going in, taking a little bit closer look on the different businesses. So, we will start with marine power. And order intake in marine power, I mean, in general, marine power increased in all figures in a good way. Service orders increased by 30 percent. So, general order intake up 18 percent, net sales up 11 percent. You can see the comparable operating results at 9.1 percent, rolling 12. And you see the key drivers here. I mean, sales volumes on the positive side is up. Equipment and service makes, but also cost efficiency actions. And they clearly balance the counterweight of a factory load situation, which is not optimal, and also the cost inflation.

On Marine power service agreements, the net sales of installations under agreement. It's stabilized after a covid-19 related decline, which is positive. And we have one great example from one of our key customers, Åland and Eckerö Rederi. They renewed, once again, the five year service agreement. I think this is a great example of how we can contribute, in Wärtsilä to our customers uptime, reliability and really develop a strong partnership that creates win-win for our customers.

Marine systems. Had a very strong order intake. Mostly driven by gas solutions and the high level of activity on LNG tankers, and service order intake also increased by 34 percent. So, order intake up 54 percent, net sales down, however, 37 percent scrubber deliveries, we already talked about that. The comparable operating results, 9.3 percent, 12-month rolling. The equipment and service mix is contributing on the positive side. But the declining scrubber volumes and cost deflation has a negative impact.

Voyage. Higher net sales. Service order intake increased by 61 percent and order intake is up nine. Net sales is up 21 percent. Rolling 12 is negative, Voyage is still negative, but going in the right direction in terms of a less negative result compared to last year. And it's really the sales volumes that is driving the positive journey, but also in Voyage we are counteracting, have to counteract cost inflation.

Our journey in cloud solutions continue, and it's a steep ramp up. Vessels connected increased by 78 percent. Then we also continue to develop our route optimization and port optimization. And we are really proud about this Tangier Med example, where we had, together with our partners, the world's first digital port call. And it was the container Kobe Express docked in Tangier Med in Morocco using our Navi-Port system. Navi-Port is a digital platform that facilitates the exchange of real time data between ships and the destination to allow for accurate arrival time, and also avoiding the costly waiting time. So, it's basically it's about saving fuels, and the preliminary results were very interesting and we will come back on that going forward. It's about reducing fuels, it's about reducing emissions.

Then energy. Order intake and profitability improved. Service orders increased with 22 percent. Order intake up 11 percent. Net sales down nine percent. We talked about that deliveries and certain projects affected by covid. The rolling 12 at 6.5 percent operating result. And what is driving the improvement is really the mix of equipment and services, and then counteracting lower sales volumes, not an optimal factory load situation, and also here cost inflation.

This is a great example. Our latest thermal balancing order from Omaha. Basically, we are providing a 156-megawatt thermal balancing station and by that, we enable Omaha to add up to 600 megawatts of renewable energy. And I think this is a really interesting proof point of the thermal balancing opportunities as an enabler for the shift to 100 percent renewable power. We also had the, going into execution phase of Metaenergia. It was an order we have recognized before. Also, they're providing balancing functionality to town and the Italian market and enable the growth of renewables in the Italian system.

If we look at the service agreements, then the installed base, that is covered by long term service agreements, has been stable during 2021. And I mean, one great example, this time from Nigeria, is where we have optimized the maintenance agreements and signed new agreements. Will be covered by a five-year agreement to produce 132 megawatts. And we are there in the agreement to ensure uptime, reliability, peace of mind for the customer. Now, let's go a little bit deeper on the financial side, and to do that, I would like to invite our CFO Arjen Berends, please join us.

Thank you, Håkan, and also welcome to everybody on my behalf. A few words about, let's say, other key financials besides all the numbers that have been shown already. First of all, cash flow. I would say it was a fantastic cash flow now in Q2, again. Not as high as last year in the same quarter, that was a pretty much a record quarter Q2, I would say. But very close to that. Year to date 312, as far as we could trace back, that's a record. Big contributor is there is the working capital, of course, as you can see also from these numbers. Good cash flow enabled us to also, let's say, reduce our net debt. We were able, in Q2, to decrease interest bearing debt with about 200 million and at the same time increase our cash with, what was it, close to 190 million. And of course, this supports very well. Let's say the net debt being lower, that the gearing is also improving. Was a good development on the on the solvency compared to last year and basic earnings per share quite much better in Q2 and year-to-date a percent better than one year ago.

Cash flow in the second quarter, as you can see from the right-hand graph, main contributor is working capital. In particular receivables that we saw also, let's say last year in Q2, we had, what was it, 190 million, if I remember right. Working capital contribution to the cash flow, this time it’s 173. All these areas being it trade receivables, being it inventories, being it trade payables. We have a very, very high focus on, let's say, working capital and trying to decrease it all the time with a lot of initiatives ongoing. If I give the word back to you, Håkan, on the final slides.

So, finally, on the guidance and prospects for the future, so we expect that the demand environment in the third quarter to be better than that of the corresponding period the previous year. However, the prevailing market conditions make outlooks in general uncertain. So, with that prospect, I suggest that we move into Q&A, but before that, we just like to remind everybody that we will have the market capital days, capital market days coming here on the 18th November, and we really would like to invite you all to that and looking forward to that.

Absolutely.

Ok, let's move then into Q&A.

First question on the line, please open your microphone and ask your question, Yuxin Lin from JPMorgan.

Hi, can you hear me?

Yes, we can. Welcome.

Good morning, good morning. Thanks for taking my question. My question is around the regulation proposed by EU regarding the decarbonization of marine industry last week. Can you please elaborate on what this means for Wärtsilä in general and how the proposal compares to what you have hoped before? There seems to be some general disappointment about the slow phasing-in emission limits. Specifically, what does it mean for the current four-stroke of your engine technology, given the focus of reducing total wealth to make emissions, which could put your current four-stroke engines above the limit due to the missing slip? Thanks a lot.

I mean, first of all, I would say that if I summarize the Wärtsilä strategy in one word, it's about decarbonization and it's about our journey into different type of green fuels. And the EU regulatory context, I think will support that journey. Then, we should acknowledge that, you know, the industries take time to move. And I mean, we also have the latest IMO regulations kicking in 2023. So, I mean, I see the EU steps as positive and we are very well aligned. And I think from our side, we would like to go even faster. But we also acknowledge that there is a certain dynamic in the industry. These are major assets, and they operate for very long time.

Thank you.

Next question on the line, please, you can ask your question, Max Yates from Credit Suisse, thank you.

Thank you. Can you hear me?

Yes.

Yeah, thank you, my first question was just on cost inflation. It's obviously something you mentioned in the report. And I just wondered, could you give us a feel for how much you think that impacted the quarter? And specifically, is this raw materials, is this labor, and have you tried to or are you in the process of raising prices to try and pass that through to customers?

Okay, so, if we look on the incoming side and then we'll talk on the outgoing side, on the pricing side. So on the incoming side, I mean, what we see, it's raw material related. I mean, we have long term contracts with some of our suppliers. So there we lock in. But we certainly also, we are impacted by the raw material increases, for sure. And on the pricing side. And it's a little bit similar there. We have ongoing deliveries there. The pricing is fixed. In future tenders, there will be opportunities to work with the pricing element. But still, we need to acknowledge it's a very competitive market. However, also moving into to the new technology, I think there should be some opportunities to work with price realization.

If I may add a few comments to that. We are also facing definitely, let's say, price increases on the logistics side. Both inbound and outbound. Let's say, transportation is getting much more expensive than it has been before. And furthermore, let's say we also face cost inflation in the use of people, let's say getting people around the globe, let's say with all the current requirements, it's a very inefficient use of people. And that has been mentioned many times in the past as well. And let's say, as long as covid is around, I think this will continue to affect us. We try to do as optimum as possible to make sure that we use the people as efficient as possible. Also, more and more making possibility, let's say, from remote services, et cetera. But for certain jobs, you need people on the ground. And that's not easy today.

Oh, okay. And maybe just my follow-up question is on energy storage. Could you give us an idea of your marine backlog, sorry, your energy backlog? How much energy storage currently makes up ideally, in a sort of euro value number? And also, given this is going to be a much bigger part of 2022 revenues, how should we think about profitability for the energy division as this business evolves? Will it look sort of different, either better or worse, or how should we sort of prepare and think about this for next year?

So still, we are not separating out the storage business. We don't give guidance there. And as you seen, I mean, the order intake for Q2 500 megawatt hours and there is still a continuous trend. I think if you look on the on the lifetime margin on the battery storage business, it is lower than on the thermal side. But we are not providing transparency on that. Also on the question, what is the profitability of the storage business. We are not providing guidance that the comments we are making, it's a growth business. Arjen do you want to comment…

Okay. I guess the reason I asked, I mean, consensus has an increase of 160 basis points and margins next year. And I'm just trying to understand, kind of obviously you'd be benefiting from higher volume service recovering, but will the mix mean that that may look meaningfully different? Or do you think, actually, kind of the combination of recovering volumes, services can still allow for that stuff up the margins, even with more storage?

So, we don't give future guidance and margin given the uncertainty. I think one of the ways that we are working with profitability and evolving profitability on the storage side, is also to moving up the service value ladder where we are looking to evolve our type of performance based contracts.

Okay, that's helpful, thank you very much.

Next question on the line, please ask your question, Manu Rimpelä from Nordea.

Thank you and good morning. Continuing on the energy storage theme, how do you see the pipeline, and if you could be a bit more specific in terms of kind of what are the regions, where we're seeing that growth coming through? Obviously, we've seen that very significant step up from virtually no orders in the first half of last year and still quite low for the full year, then suddenly this very strong growth. So, do we see that the first half second order intake rates in the energy storage is kind of a new normal level? Or, how should we think about this business in the second half of the year and also the further years on?

I think that the battery storage business is on a significant growth trajectory. And where we see core markets, it is US, it is Australia, it is UK, and the growth is very rapid.

Okay, and then if I may follow up on that, can you help us to understand that what is the competitive advantage that you have against, I guess, Tesla and Fluence are the two, number one and number two, and you're probably the number three in the market. So, what is your competitive advantage and why do customers choose you?

I think on the positive side, we have quite a few of, you know, the strong utilities coming back to us. And the feedback we get is that the way we think around power system and our capability to integrate different assets with the Gems platform and optimize the operation. That is one element where we stick out. And the other one is also how we continue to evolve certain functionality, the Gems platform, you know, to provide support for trading, energy trading, et cetera. So, I would say it's our system knowledge and also how we can optimize operations in cooperation with our Gems platform.

And I would add definitely also our customer context. I think we have been in the energy market for a long time. I think that definitely helps us in this in this journey.

Okay, thank you, I'll get back into the queue.

Next question on the line, please ask your question, Edward Maravanyika, from Citigroup.

Hello, good morning. Thank you for taking my question. I just had a question on the cash, on the sort of potential use of cash just given the strong cash performance and the deleveraging. Can you give any guidance on whether you'll be more aggressive with use of cash?

I think we will utilize cash for definitely for, let's say, R&D. Sorry, I have a strong echo now, We will use cash for sure, let's say to continue, to develop our portfolio spending money on R&D. I think that will not decrease. Furthermore, let's say cash allocation might be in the area of M&A. But of course, that needs to be evaluated case by case and it needs to fit our strategy. Otherwise, I will not answer anything more. This is what we are looking at and let's see what happens in the future.

Thank you.

Next question on the line, please ask your question Antti Kansanen, SEB.

Yeah, good morning, this Antti from SEB. Thanks for taking my question. It is a bit of a follow up on the previous one on the M&A side and capital allocation. Håkan, you’ve been with Wärtsilä for a number of months now, so, why do you think about the technology portfolio and especially regarding the decarbonization, the battery storage side? Is the offering complete enough to kind of maintain the competitive edge, for example, on the storage market? Is there something that you should add by M&A or partnering regarding renewables or things like that? What are your first views on that matter?

So, if I widen the question before I zoom in on battery storage, I think in general, I think we have a very strong technology portfolio in the thermal space. If we start there. I mean, with involvement of the new green fuels, it goes directly to the core of that, which is about fuel efficiency. It's about fuel flexibility. And it's about… Since many years are leading knowledge and experience in different type of fuels, and also the systems around the fuels. So, there I think we have a really strong portfolio and we are really, continue to allocate capital into to investing in R&D. On the battery side, I think we have certainly with a Gems platform that we continue to invest in. We continue to evolve there. I think also going forward, you know, would we consider partnerships – potentially, if they make sense. And I think this is an area where we need to continue, to explore. I think we have a strong base to build. It could be that we need to complement it a bit. And then, I would say the third element, we should not forget Voyage and the journey we are doing there with force. And also with our autonomous system, and also there I think we have a core that we can really build upon. But similar, you know, partnerships probably we need to consider that to evolve, so to say.

All right, and then a follow up on the storage side, you mentioned that the lifetime profitability may be lower than, what, on the thermal side. But could you comment a little bit about the earnings pull on this project? How much is the Gems system and kind of the license payments and regarding, sorry, recurring revenue and things like that, of the total earnings pool that you are looking at on these projects? That's kind of the initial capex.

Yeah. And I today, I would say that the major chunk is still on the equipment while we're evolving our software as a service model for Gems, as we build on functionality, and as we also prove our optimization capability. So, today, I would still say that there is a high degree of equipment, but we are evolving into the SAS space, so to say, with Gems.

All right, thanks so much.

Next question on the line, please, you can ask your question, Sven Weier from UBS.

Yes, good morning and thanks for taking my questions. The first one is coming back on the decarb regulation. And of course, if we look at the latest EXI from IMO, it's hardly very ambitious. But I was just wondering, I mean, Maersk has recently said that 50 percent of their clients are already following some kind of ESG agenda, and that is really driving the decarbonization move rather than the regulation. I mean, isn't that at the end of the day, also what is going to drive business from your customers? Not so much the regulation, which is not so ambitious, but really the ESG move, that's the first one.

Thank you Sven for that question. And I think you're very much right. I mean, when we look at the IMO, I mean, EXI to design, I mean, that would be a lot of speed reduction. Probably there might be some, you know, facilitation of air around to make the vessel run smoother. But I think the real opportunity or could really make a difference going forward is the CII, because, as you know, the classification of vessels in different, you know, kind of CO2 emissions categories. That opens up opportunities. And that ties to your point for the customers customers, have to say. Because, and I think we all and you certainly know that as an analyst, I mean, I would say any company in certainly any industrial company these days, including Wärtsilä, we are, of course, getting even more formulated on our sustainability targets going forward. And then you look through your whole value chain from a CO2 perspective, and somewhere in that value chain, you had transport and logistics. And I think there will be many industrial companies that wants to decarbonize the transport that goes for the land, but certainly also for the marine transport. And that is, I think there is a strong logic, for that will create opportunities for the operators to provide that green transport. And then these classifications that you have in CII might actually give an opportunity to, kind of be more specific on what type of sustainable transport you want to purchase. So, I think, yes, there is a regulation, but I think the business opportunity will also evolve and drive the development. And maybe that will drive the development even faster than the regulatory components.

Thank you, Håkan. And the second question I had was just on the Voyage business, because I think here you are, you're aiming for an EBITA margin break even in the next few years. I was just wondering how that compares when we look at the storm to your business, Alfa La val obviously already making quite some nice mid to high teens EBIT margins. I mean, how does that compare to the navigation bit of your Voyage business and why are you not more ambitious in terms of the profitability of the business overall?

So, I think we first need to acknowledge that Voyage is coming together quite recently. And as you know, we made acquisitions of, overall, it's five companies coming together. And we are molding this into one company. And, you know, there is a core which is very much hardware related. And then there is as a growth area, which is much more kind of software related and platform and cloud related, and optimization related. So, the Voyage is a mix of those two businesses and the team is working on finding the right balance there and to evolve the software business. And that that takes a little bit of time. But I think the program that the Voyage team is running in terms of finding the right balance and finding the right cost structure is evolving as we expect.

Ok, thank you.

Next question on the line, please, you can ask your question, Sebastian Kuenne from RBC Capital Markets.

Can you hear me?

Yes, now I can hear you.

Ok, perfect. On the marine systems and LNG’s side, the orders that you see currently, the order increase in marine system, is this already kind of related to the boom in the container vessel business, or is this still the kind of the old, let's say, inherited a business from the last years? And when do you think the container vessel boom would kick in? And the next question, maybe because it's related, how much more business do you think you can make on a new container vessel that runs on dual fuel and needs more, let's say, environmental equipment? Is there a big jump in content per ship? That would be my first questions.

Yeah, so container LNG, I think the LNG related orders we see, it's based on the, you know, there has been a growth in LNG tankers. And because what we are providing there is equipment for liquification, reliquification, and it's not engines. It's, you could say it's gas handling equipment.

Cargo systems.

Yeah, cargo systems. So that is directly related to new vessel being awarded, LNG tankers being awarded. Strong correlation.

And now all the LNG, the dual fuel container ships. So... [inaudible 40:14] is mainly dual fuel. And so they probably need much more equipment.

So coming to LNG tankers, I mean, from a driveline perspective, I mean these are still, where you have the four-stroke today, is in more challenging applications like arctic application, where you need that variable power and this is a subsegment and LNG. And we have had some success there. Coming to your question, as I understood it, on the journey of our green fuels and container vessels, I would say that there is, you know, an avenue there where the auxiliary engines, which are four-stroke, will become a bit decommoditized. And that we see should have a positive impact. But, of course, since the journey of green fuels will take some time, this development will also take some time.

Okay, so just to be clear, the order increases on marine system is not related to the boom we saw in the first six months.

Because, okay, marine system is about the handling the LNG as a cargo system. So, it doesn't deal, I mean, the LNG engines, that is in Marine power.

Yeah, I know that. And scrubbers for the new vessels is also not included yet in the orders, I guess, for the…

Yeah, on the container boom. We see a lot of tendering activity for scrubbers. But those orders are not in the order intake so far. So, no, to a significant extent.

Perfect, understood. And then for energy storage. Could you just again explain. I might have missed it, but what exactly is your value at for energy storage and who is your battery supplier for energy storage? Thank you.

So, our value add is that we acquire the batteries, and I don't think we are public on the on the battery providers, sorry about that. But we procure the batteries, then we integrate them into a battery system which is containerized. Then we do the EPC contract installation, and we add the Gems platform to it, which then enables integration with different assets and sometimes also with trading systems, et cetera.

Okay, I think that would be all.

And also on top of that, sorry, because I was focused on equipment. Then, of course, services. As I said, you know, the running service of battery storage, there are no moving parts. So there is a limitation. But we are involving the service business into an outcome based, performance-based service business where we are warranting uptime reliability. And where we are also looking at evolving this even further, or so to say. In making, you know, commitments on providing available power.

Thank you very much.

Next question on the line, please, you can ask your question, Tom Skogman from Carnegie Investment Bank.

Yes, good morning. I have a couple of questions. I'll start with networking capital. Is, I mean, I understand that you won't be able to cut your NWC during the covid crisis, but your structural change because of the growing energy storage business and the way that you can have structured lower networking capital in the future, or should we just expect that you go back to old levels again, when the demand picks up eventually?

I think that depends very much on the, let's say what we can agree with customers. Let's say, of course, the working capital has many elements. Let's say, how do we buy the batteries, for example, is a very important factor. And also, let's say, how do we agree contracts with customers, what are the advance payments, the intermediate payments, et cetera? I would say in general, okay, we don't guide on working capital and that, first of all. But I wouldn't say it would deteriorate tremendously, at least not with what we see today.

So, I think you need to clarify, this will not…

No, I don't think our working capital will be majorly impacted from, let’s say what we have seen in the past. That's what I mean.

All right, so eventually [inaudible 45:04] again, half a billion more in networking capital, basically. Then, what inside, do you have to these, you know, cruise vessels that have been ordered but where construction has been delayed due to the pandemic? Please help us understand what's happening there. Will this ever be built or what's really going on?

I think there are delays. I mean, as you know, there has been orders with options. And I would say many of these are sliding in time. And I think the industry needs to see a market recovery on the passenger side, and let's see then how this evolves. So far, to my knowledge, there hasn't been any cancellations, they’re being postponed.

And then, if you order a dual fuel vessel, is there a strong incentive still to install a scrubber if you're prepared to run it increasingly on gas against the backdrop or could be kind of low sulfur [inaudible 46:05] not HFO?

Well, I think that that every customer has his or her own view on this, so to say. But I must say that there are, for instance, if you look on the new container ships that are being built now, there is a lot of scrubbers that's going to be installed still.

And then I mean, I realize you have the losses in the Voyage, which makes it a bit perhaps troublesome to acquire other companies in future technologies. But there seems to be a lot of things popping up like, you know, sales coming back in shipping as a way to decarbonize, you know, logistics, et cetera. Are these losses in Voyage kind of holding you back from, you know, being brave and trying, you know buying many small companies with different technologies because it seems to be so many things happening at the moment.

Oh, I think we are still brave, we hope we are. But I mean, to your point, you know, for us, Voyage is a growth story and the whole digitalization space and suddenly sorry, there is some noise… On the whole digitalization space, there is a lot of M&A activity, as you know, and certainly as Wärtsilä as a group, we are in a position to be active in there in M&A space, and we have a continuous process where we are looking at M&A opportunities, not only Voyage, I mean in different businesses. So, if we find something interesting in the digitalization space with the right valuation and the right cultural fit, we can still definitely do acquisitions.

But what do you think specifically about this, you know, modern way of sailing with cargo ships, is that going to be a thing or not?

I, personally, we believe very strongly in this. I mean, the way how you can optimize the routing and therefore the fuel consumption and therefore the emissions. And both, there is significant value both in the fuel and emission reduction and in the time save. So, this is for real. Then, one should also acknowledge that this is an ecosystem, it’s about the vessels, it's about the port, different parts of the port. So, it's a journey and it's not a quick fix, an easy fix. Another element is, of course, also that with certain size of container vessels, the infrastructure in certain harbors might also be a bottleneck. But I mean, we still see a very strong logic for that, for the value creation potential in the route optimization space.

But the question, my last question was really about sales. Like going back to the age of having sales of large cargo vessels.

Sales? Okay. I mean, we have a partnership with one of the providers for routal sales. And this is also in the journey going forward, there will be multiple solutions. And they all have their pros and cons, they all have their sweet spots. So, yes, there are certain applications where sales would make a lot of sense, but there are many applications where it probably wouldn't make sense. So, is this going to be a major solution for the future? I think that remains still to be seen.

Ok, thank you.

Next question on the line, please, you can ask your question Antti Suttelin from Danske Bank.

Thank you. This is Antti and the question is about your reporting practices and in the storage business, because I can see that last year you spoke about megawatts when you reported storage orders. Now, this year you have been talking about megawatt hours. So, I would just like to update myself, what, on the value per unit? So, when you get a storage order, how much worth is one megawatt hour please?

Yeah, and this we don't disclose for competitive reasons, so to say. But just coming back, the shift, because you're fully right, we need a constant shift from megawatt to megawatt hours. Because if you if you want to assess the value, even if we don't disclose the value for competitive reason, you need to look at the energy stored in the storage, and that is measured in megawatt hours. Because a lot of megawatt hours is a big battery. You could have, I mean, theoretically, you could have a lot of megawatts, but that's lasting a very short time. And then the megawatt hours will not be so high and the storage and therefore the value will not be so high. So, that was the reason why we moved to megawatt hours.

But given it's such a central part of your business these days, it would be really quite helpful to have a bollpark. How much, you know, it's one unit worth?

Yeah, and we appreciate that. But we don't want to give that away to competition either. So, that that is, of course, a balance that we need to strike.

Okay, thank you.

Next question on the line, please, you can ask your question, Erkki Vesola from Inderes.

Can you hear me?

Yes, we can.

Okay, very good. On the marine engines in your presentation. One hundred and seventy percent alternative fuel capable units being ordered on the first half. is just the number of engines. And if so, how many vessels does this transfer to? And a couple of follow-ups.

It's the other way around. It's the number of vessels. It's not the amount of…

Okay, and what were these fuels actually? What is considered as alternative fuel?

It could be a different type of hybrid drive lines. I mean, you have batteries combined with IC, it could be biogas, it could be a methanol a little bit, et cetera. I'd say everything that is not diesel and pure LNG, pure diesel and pure LNG.

Ok, and finally, where does Wärtsilä stand in this regard, regarding these numbers?

And out of those 107, how many do we provide Wärtsilä drive lines for, do we have that figure?

No, I don't think we have that figure. We have a market share figure and that's more or less like that. But, I think, let's say we can offer solutions for any of these, right? So, I don't think we have that figure exactly. But our market share should give a good indication.

So, we are providing. we are providing hybrid solutions. We are providing, you know, for biofuels, et cetera, and from ethanol. So we have a very broad offering, but we don't have the exact, out of those, how many have Wärtsilä drive lines. No, we don't have that.

Fair enough. Thank you so much.

Next question on the line, please, you can ask your question, Antti Kansanen from SEB.

Hi, thanks for taking my follow-up. This is more detailed regarding the near-term profitability outlook and kind of the P&L impacts of the cost inflations. So, I mean, you have a lot of positives going for you, book-to-bill is above one, you are seeing a positive mix from service recovery, but how cautious should we be that we see kind of deacceleration when the bigger impact of the raw material, cost inflation, logistic cost inflation hits, let's say Q3 and seasonally important Q4. You have a lot of fixed price contracts. So, Arjen, could you give us a little bit of a bridge about the positives and negatives going into the, let's say, the second half of this year?

Thank you for the question. And yes, of course, let's say, I can understand that this is a question that many of you have. But let's say, as you know, we are not guiding on profitability. We are indicating and I think that that picture does not really change a lot, that, yes, we face challenges on the on the supply side, let's say, raw materials have been mentioned as well. I think it's also good to remember that covid is not gone. So, all these restrictions and complications that we have in utilizing our resources globally, as well as, let's say, in the logistic chain, are still there. We need definitely, let's say, a recovery from covid and then let's say, okay, how raw material will develop over time. Let's see, on the short term, I think we are reasonably well mitigated. We have good contracts, longer term contracts also with our suppliers, but also in this whole supply base. Let's say, certain contracts are due and up for renegotiation and then it might be a different story. So, yes, we have pressure. I think it will get a little bit worse on the product cost, component, cost side. So, this cost inflation, I don't see immediately disappearing. I think it will stay there. At least in the short term.

Thanks. And then specifically on the services side, I guess, where the lead times are maybe a little bit shorter. What type of inflationary pressures are there and how quickly can you adapt with, let's say, price increases?

I would say the contracts that we have with many of our suppliers cover both newbuild and services. So, it's better to say, if you buy pistons or whatever, let's say component, let's say it's a long term contract where we combine, of course, for scalability and volume reasons, also to suppliers, let's say all the volume together and then get the best price basically. So, let’s say, what happened, what applies to newbuild also applies to service.

But then how about the pricing in the, let's say, more transactional service business that would be more dynamic than…

Yeah, I think there you have better possibilities to be a bit more, let's say, dynamic on the shorter term. Let's say, if you have, let's say, a contract agreed with a customer on the newbuild side and the deliveries next year, I could almost say 99 percent of the cases it's impossible to renegotiate that. Let's say. I don't know of any case where a customer would have had easily accepted. On the service side is, of course, a bit more flexible, and so we can maneuver a little bit with, let's say, global price list.

Okay, and then lastly, can you say anything about kind of the seasonality on Q3 versus Q4? Because last year there was not the typical quarter on quarter margin expansion. Now, given what you see on the environment and on your outlook, how should we think about this year?

We are not guiding on that. We are guiding on demand and order intake and that was in the prospects. We are not guiding on sales and profitability. Sorry.

Okay, thanks.

Are there any further questions? It seems like that the presentation was very clear. Thank you for your great questions and excellent answers. Please remember that our capital markets day, like Håkan already earlier said, will be on November 18. Save the date on your calendar. And before that, please enjoy the summer. Stay safe and healthy. Thank you.

Thanks a lot. Thank you.