Wärtsilä's Interim Report January-September 2020

Natalia Valtasaari: A warm welcome to Wartsila's Q3 result presentation. My name is Natalia Valtasaari and I'm Head of Investor Relations here at Wartsila. Before I let Jaakko take over the show and go through the presentation itself, I thought I'd say a few words around the practicalities surrounding the Q&A session, given that this is a bit of a new set-up for us. So, first of all, good to note that only the people who have registered via the GoToWebinar link can actually participate in the Q&A session, so please do so now if you haven't yet. When you do want to enter the questions and answers queue, please raise your hand. Use the raise your hand function. And when the moderator announces your name, please remember to unmute your microphone and then lower your hand once the question has been answered. In order to give as many as possible time to answer questions or to ask questions, please try to stick to one question and one follow up and then re-enter the questions queue later on. And that was about it. If you do experience audio issues, which I hope you don't, there is a chat function so questions can be sent in via there and I will try to ask them here online. If we don't have time for that, then I will get back to you later on. With that, I'll let Jaakko take over.

Jaakko Eskola: Thank you, Natalia, and good afternoon everybody. And welcome to the interim report presentation. I'll start with a short story about the market and the situation where we are today. First of all, the conditions in the marine and energy markets remain difficult with escalating COVID-19 infection rates and concerns over the pandemic's long-term economic implications delaying decision making. I mean, you have definitely seen that also in our order intake development. Customers are adjusting their CAPEX and OPEX plans to the prevailing market conditions. This is visible in low vessel contracting, postponements of new power plant capacity investments, as well as reduced spare part consumption and maintenance activities. The low level of orders received in the third quarter reflected the uncertainty in our market environment. You have seen definitely the demand decline in the cruise segment that has continued, to represent the main challenge what we have in Marine Power and Voyage, affecting both equipment and service orders. Marine Systems order intake developed quite well, thanks to good progress in our Gas Solutions business line, which was offset by the continued lack of scrubber orders. And in Energy, we experienced delays in finalising negotiations for certain orders, while service order intake declined due to the postponement of maintenances, overhauls, and agreement renewals. On a more positive note, orders for storage projects developed well, thanks to an increased need for short-term flexibility. And I say at this moment, probably will be said many times during the call, that we did not experience any major cancellations beyond normal patterns. One of the highlights was cash flow development in the third quarter, and this is mainly thanks to inventory management and our efforts to decrease credit risk by intensifying receivables collection. A couple of key figures – here you see order intake, no change actually from last year. But what is definitely seen here is also the service order intake which is lower than last year. Order book is at this moment 12% down from last year. Net sales, 11% less than the comparable number and, again, services -14%. Book-to-bill getting closer to one, which is always a good situation. And then comparable operating result – EUR 61 million is +55% compared to last year, and last year we all remember we had some difficulties with the projects, so this is probably also one reason why the percentage is so high. And again highlights: cash flow from operating activities +174 million. If you look at the markets a bit through a couple of slides, first of all, vessel contracting: September vessel contracts a bit less than 30 vessels. So this year we are a bit over 500, which is a very low number. If you look at it in tonnages, it's extremely low compared to the previous year. And then for us in Wärtsilä's specialised tonnage, I mean very, very low numbers. Of the September 29 or 28 or so vessels, quite many of those were tankers and so not so much supporting the special tonnage, which always has been very important for Wärtsilä. Energy markets saw some decline. Now it's good to remember that this figure here is one quarter behind. Wärtsilä's market share a bit higher, but also the energy markets have seen some decline. And order intake – as already discussed, flat development, but then again more equipment and less services. Going forward, of course, we should and we always try to aim to get more services than equipment. Order book – first of all on the left side, book-to-bill, now the trend is a bit to the right direction. Delivery schedule on the right hand side, you can here see delivery at this moment for the current year, around EUR 1.2 billion. Next year is at the same level as we were last year, and then delivery after next year, it has been dropping now down. Net sales, a small decrease. Again, if you look at, very importantly, one of the pie charts here, services again less than the development in equipment side. And comparable operating result – now when you start comparing one quarter to another, you need to remember also the distressed projects we have been having in our operations. Overall, if you take the rolling number, now the trend is a bit more positive. Cash flow – very good compared to the comparable number and has been developing extremely well this year. Moving on to the businesses, first Marine Power. Order intake decreased. Idling cruise vessels and customers adjusting capital and operating expenditures. Net sales decreased by 11%, and comparable operating result amounted to 8.3%, so a bit less than last year, COVID-19 heavily affecting the numbers. At the same, time weaker absorption of fixed costs. This slide, first of all, talks about net sales from installations under agreement. Quite major customers having ships which are not moving definitely affects the net sales level. At the same time, a good example of Wärtsilä providing a five-year maintenance agreement to the world's largest NGO hospital ship. These kind of ships are important also for our service operations. Marine Systems order intake increased by 16%. Good development in gas solutions. The reduced fuel spread, which hasn't been developing so much, is lessening the demand for scrubber investments, and this is one area where visibility is also quite bad. I mean it totally depends on the fuel spread. Net sales decreased. Last year, we had much more scrubber deliveries than this year. And the result – very good development, but then again, last year we had some cost overruns in certain gas solution projects. Voyage is also very much hit by COVID and the situation with the cruise and ferry segments. And really quite a drop in the order intake. Net sales didn't decrease so much. There have been COVID-19 related postponements and, at the same time, lower transactional service business. Comparable result amounted a bit better than the comparable number, and there the reason is mainly coming from cost savings. We have been talking about Voyage and the future, and one important element here is how we can get vessels connected, and here is a good example of the number of vessels connected. And a good example of a profit-sharing contract with Brittany Ferries, where we basically help the customer to reduce exhaust emissions. And this is an important number to look and follow so that we get these connected vessels into Wärtsilä's portfolio. Energy order intake increased, still affected by postponed decision making and travelling; site access is not so easy. Net sales also increased 6%, and operating profit amounted to EUR 14 million. Again you have to compare last year, when we had certain cost overruns in our equipment projects. And then one chart about Energy installed base, which is now flat. Of course, there are good examples of great deals. We have signed a five-year maintenance agreement in Cambodia for a 200 MW power plant, which supports, of course, the whole energy going forward. Today we also reinstated our prospects for 2020. And it's, when I started my presentation, it's now following the same story. Near-term demand is expected to improve from current levels. However, visibility remains limited. And the prevailing market conditions make the outlook uncertain. If you look at the order book I showed you earlier, based on that one, net sales for 2020 is expected to decline by approximately 10%. Last year, it was EUR 5.17 billion. Profitability is expected to continue to be burdened by the effects of COVID-19 and, while service demand is anticipated to improve, the seasonal pick-up is unlikely to be as strong as in previous years. So, we normally have quite a hockey stick in Q4; now this says that it's not going to be as strong as earlier. I will stop here and let everybody start asking questions. As Natalia said, two questions in a row, and then you get the next one. And once again, I have the whole Board of Management here so we can get the important elements of the markets from the business leaders. Please.

Moderator: The first question on the line, Andreas Willi, please open your microphone and ask your question.

Andreas Willi: Two questions, please. First one on your order book. You have removed a few more this quarter. What's the quality of the order book on the stricter criteria you now use? Is this process coming to an end, where we cannot slowly chip away some of the orders because of your stricter criteria in terms of what could materialise and what could not? And the second question on your balance sheet. You said you focus on a sound financial position. Maybe you could clarify what kind of metrics you look at to judge what is a sound financial balance sheet, and also what should we read from that for your dividend for this financial year?

Jaakko Eskola: Thank you Andreas. First of all, the order book and, if I understood it right, you asked about the quality of the order book we have. We have taken out around EUR 310 million during the nine months, mainly because we felt customers didn't perform as they should have, I mean those kind of cases, not cancellations. I would say the order book is a quality order book. Whether they will finally be delivered, all the products, at exactly when they should have been, there might be postponements. But we are quite strict at the moment also. If customer performance isn't as the agreements say, we will take it out from the order book. But at the moment, it has been scrutinised quite thoroughly, and I'm not worried about it. Regarding balance sheet, I would actually like to give the possibility for Arjen Berends, our CFO. Arjen, if you would open up a bit the balance sheet question?

Arjen Berends: Yes, hello. Thanks Andreas for the question. Of course, now in this period of COVID-19 there's so much uncertainty in the world, the main focus has been on keeping a strong balance sheet and also an extremely good cash flow. And as you can see from the numbers, I think that has been quite successful. If we then talk about what we will eventually do with this good cash flow, if it also holds going forward, which we of course really try to make happen, I think that for a later decision we will, first of all, need to close this year in good financial matters. The outlook is good, but we only know it when the year is over, and then we will make the decision about the dividend.

Jaakko Eskola: Thank you.

Andreas Willi: Thank you.

Moderator: Next question on the line, Johan Eliason, please open your microphone and ask your question.

Johan Eliason: On the guidance, you talked about where the revenues will end up at, and also that the normal bounce or hockey stick in the fourth quarter will be lower than normal. I suppose you still expect the margin in Q4 to be the best of the year. But would you say that it's a dramatic difference from last year in terms of how the margin will progress?

Jaakko Eskola: Johan, thank you for the question. I don't want to go more deeply into trying to translate the wording here. The reason really, Johan, is that you know we have an order book, and you can add the order book to the net sales we have had so far. And then we always have services. Now, transactional business depends totally on the mix, and that visibility is not good. So, I mean you can hear it and read it from here, but I cannot open, or I really don't know what to say anything more.

Johan Eliason: Okay, fine. Then just on the cruise, we obviously see that it's the most impacted segment, and I was just wondering how it works with your long-term contracts. We see some operators selling their ships, and they've not been running some of them etc. How does it impact, for example, I think you have a 12-year service agreement with one big client in the cruise segment?

Jaakko Eskola: Thank you, Johan. A very good question. Roger Holm, the head of Marine Power is constantly having these discussions with our cruise customers. Roger, if you are on the line, please could you elaborate on the situation?

Roger Holm: Yes, absolutely, and hello from my side as well. It's a bit of a mixed impact, of course. If we look at the agreements and old vessels are scrapped, it will have an impact on our business, because in a normal situation we would have less vessels operating. But the key for us on cruise is really to get the vessels back in operation. Depending a bit on the contractual structure, as you can see, the major impact for our agreement business is really coming from less cruise vessels operating, so there you clearly see the impact. For us, the key is that we need to get the cruise vessels back in operation.

Johan Eliason: Okay, thank you very much.

Jaakko Eskola: Thank you.

Moderator: Next question on the line, Antti Suttelin, Danske Bank. Please open your microphone and ask your question.

Antti Suttelin: Yes, hi. Still on the cancellation, I'm puzzled because you say that you have not seen cancellations, but then you take orders away from your order book. To me, it's the same as a cancellation, or am I misunderstanding this?

Jaakko Eskola: Antti, actually, there is a cancellation which is normally coming from the customer, saying that they cancelled, for example, the ship. That's what we have normally seen, and then the shipyard cancels the engine order. But some of these projects we have taken out from the order book is a customer who might have been there and is finally not able to get financing or an arrangement together, which clarifies our requirements and where we see that the risks are too high, so we take it out of our order book. We might still continue the discussions with the customer, but it's our decision to take it out.

Antti Suttelin: Okay. Is it mainly Energy, or is it mainly Marine?

Jaakko Eskola: I don't want to start opening where it is, and some of them might be even quite old transactions.

Antti Suttelin: Okay. Finally, what do you think is the problem in the low ship contracting? If we leave aside cruise, because we all understand the problem in cruise, but leaving that aside, do you think it's overcapacity, or is it because there are so many technological changes happening, and that makes simply customers from ordering?

Jaakko Eskola: Good question. I can start by, first of all, saying that seeing what's going on always in the marine market, it's not easy to say what might be the real reason. Definitely, there are a lot of new technologies. People are wondering about the IMO requirements going forward. Could you, Roger Holm, open up what IMO is planning now and why customers are waiting?

Roger Holm: Yes. Thanks Antti for the question. As you said, cruise is a bit of an own story, as well as ferries go a bit in the same direction as well, depending on the needs for the vessel, but I would say the key issue is the overall economic uncertainty. That's number one. Number two, which starts to definitely come more and more in the discussion as well, is what the future fuel of the shipping community is. And now I talk about 10-20 years ahead, but we need to remember that the investments that our customers are making are for really long-term investments. And here I see that Wartsila has a strong role to play both to provide the needed fuel flexibility, whatever the fuel will be, but also to make sure that the conversion opportunity is there when that is coming. So yes, for sure to some extent I think the technology and the fuel plays a certain role, but I would still claim that the global uncertainty, economic development, plays a clearly bigger role at this stage, and it's our role then to make sure we support our customers on the long-term conversion opportunity for whatever fuel comes.

Antti Suttelin: Okay. Thank you very much.

Jaakko Eskola: Thank you, Antti.

Moderator: Next question on the line, Sven Weier from UBS. Please open your microphone and ask your question.

Sven Weier: Yes, hi, good afternoon. It's Sven here. Two questions from my side please. The first one is on the outlook statement that you've given on the short term. First of all, I was wondering, I mean the Marine order intake in the quarter was not so bad. I was just wondering if there's a common denominator in these orders why they have been okayish despite the weak ship yard orders. And also relating to that, given your slightly more positive short-term outlook, is that just because of Q4 seasonality? Because Q4 is always better, or does that also slightly go beyond that? That's the first one, thank you.

Jaakko Eskola: First of all, in a way it's easy to talk about Q4, because we see the order book. At the same time, at this moment it's not so easy because you don't really know about services. Roger, I'm disturbing you all the time about the marine order book. What would you say?

Roger Holm: I would say, if I start from the order intake, I think since these are fairly big fluctuations in projects that can fluctuate from quarter to quarter on the newbuild side, now and especially when we talk about so low vessel contracting as we have now, some deals might make a big difference actually. But, as you said, I think we had a fairly decent order intake despite COVID. Then on the service side, we see fairly big fluctuations, and that's our main challenge, and these go between months, actually today. It comes from two main items. One is that we see that customers, of course, are much more careful in spending money for obvious reasons. And to some extent also we have still challenges in moving field service resources. It has lately become a bit better to move field service resources but, of course, while the COVID infection rates are going up, this is something we need to very, very carefully monitor. And that's also why we see the fluctuations in service sales.

Sven Weier: Okay. And if I then may follow up, when I just look at your Marine Power equipment order intake in the first nine months and look at the break down by end market, it seems to me that your absolute order intake on the cruise and ferry side has gone up compared to the first nine months last year. Is that because of the ferry side then?

Roger Holm: No, it's not. Ferries have been also fairly okay, but we need to remember here that these orders come with a delay. They might still be cruise orders. For sure, we know that there will not be any major cruise ship orders for some time. But there are still vessels ordered by the yard that have not ordered equipment, so this is what you also see in our order intake. We haven't seen cancellations coming from the yards, but we have seen movements in the order book, so they are moving vessels forward. But that means still that we have received orders for cruise vessels that will then be delivered based on existing orders at the yard.

Sven Weier: Okay. Thank you.

Jaakko Eskola: Thank you, Sven.

Moderator: Next question on the line, Alexander Virgo from Bank of America, please open your microphone and ask your question.

Alexander Virgo: Thanks very much. Good afternoon everyone. Hi Jaakko. Can you just do one thing for me? Just on this order cancellation thing, I just want to understand why it was considered an order in the first place. Presumably money had changed hands, or money hasn't changed hands. I'm just trying to understand why you would consider an order in the first place and now no longer consider it an order? Although I appreciate the latter point a little bit more easily given what you already said. I'm just trying to understand quite how much of this backlog we need to be thinking about in the context of potentially in the future, if things continue, you know, how much are we likely to see further reviews and further revisions, whether you call them cancellations or not. And then the second question is your commenting guidance in the mix. If we continue to see limited development of the service business, clearly that has a margin headwind. I'm just thinking about the context of margin progression over the next 12-18 months in the context of your cost actions that you've taken to date. You had originally expected, I suppose, to be getting up towards double-digit. That's obviously not going to happen, but I'm just wondering what sort of headwinds you would anticipate we need to think about. Can you give any kind of quantification for that? That would be really helpful. Thank you.

Jaakko Eskola: Thank you, Alexander. First of all, it depends on the customer. When we take an order, there has to be a down payment, or there has to be a security and also security for further payments. If the customer’s situation changes during the time when the order has been taken finally in and whatever we then do, what comes to the contract, there might be situations where we feel the customer's credibility is not anymore there. So basically you shouldn't be worried about our order book. Of course, some customers might get in a very difficult position, and they would probably like to have the order, but we feel that it's not anymore there. I'm more worried about customers who by themselves start cancelling, but again, we have securities for that. I remember the years when there was a huge amount of cancellations after the financial crisis and those, based on our contracts and what we do based on the contracts ourselves, those years actually developed quite well. Regarding again the guidance, the prospects, what are the headwinds and so on, I think you have heard already many times here where the market is and what might be there. Roger was referring to the marine sector, and cruise ships have been taken up many times. We all expect the American cruise liners, some of the major ones, to start operations in November, if everything goes like planned. CDC has agreed with them, they will start in November. Are they really going to start then and with how many ships, nobody knows, and how quickly can they actually get those ships in a condition so that they can be sailing with all the elements that you have to take into account with this pandemic situation. So again, outlook is uncertain because of COVID-19 making everything so difficult.

Moderator: Next question on the line, Max Yates from Credit Suisse, please open your microphone and ask your question.

Max Yates: Hi. My first question, I wanted to get an update on the projects that you had problems on last year. Obviously, we know there was a kind of a EUR 65 million provision that was in last year’s numbers. So I just wanted to understand how much, or an update on those projects and actually to what extent the zero-margin revenues from those projects were still weighing on your EBIT this quarter? That's my first question.

Jaakko Eskola: First of all, all the actions we have done have actually been implemented, and I'm happy to see how the organisation, first of all, runs those projects and then how we take new projects in. In Q3, these projects which were delivered, it was EUR 20 million around with a zero margin. So probably your next question is, I can already answer to that one, in Q4 it's EUR 30-40 million with a zero margin.

Max Yates: Okay. My second question is, maybe a sort of a bigger picture question. If you think about the time that you've been in charge of Wärtsilä, do you think that looking back there's been a structural change in the market, where in marine the environment has become more competitive, and it's an issue where essentially people are now prepared to give away the equipment, and you're having to follow the pricing on the OE down just to get the same service revenue, so structurally we're going to see lower margins than the sort of 12% historically going forward? Or do you see kind of some structural changes in the service business, so more service taken in-house that's actually putting pressure on the service profitability, because some of the high-margin areas like selling sort of simple products like seals where perhaps in the past you were able to charge kind of very high margins, there's cheaper alternatives out there from smaller competitors. I just thought to know, in your time in charge of Wärtsilä, are there any structural observations you'd make for the marine business, and are either of those right in your view?

Jaakko Eskola: Max, extremely good question and I remember five years back, I mean after the financial crisis, we have been saying many times that the marine market has been getting extremely competitive and you really need to fight for your margins, basically, quite a lot because of overcapacity in certain segments. Offshore used to be extremely strong for us, and an important element has disappeared totally off the market. So everybody, even if you look at the easiest product to think about, engine players, we all are fighting for the same ships now, and the amount of vessel contracting has been going down for several years. So of course, yes, the margins are extremely depressed. I don't want to use a word that we give something away. It has always been extremely important for us to look at the total solution. Wärtsilä wants to work with the customers – and now we talk about the end customers – we want to work with our customers so that we can provide something else than only the engine, so there is a bit more possibility to negotiate for the margin, because Wärtsilä is going to be there and can provide something more than an engine to the customer. But the market has been developing to be extremely competitive. It can definitely ease if vessel contracting comes back, but for us, I think, the more important element is to look at the future, like Roger was telling earlier, that what do the customers actually need going forward. Decarbonisation, efficiency, and safety. When you can develop something which fulfils the requirements of the markets and the customers, I'm not so worried about where we are today. I'm sure that with all these developments, even the equipment margins can be defended. And then, services are important. For us, services have developed quite well. It's not only about sending somebody there, but also looking at the digital development where we can remotely monitor, we can remotely control, we can provide something more to our customers, and then link all that huge portfolio of engines we have on board the thousands of vessels, and through sensors the information back to our Voyage business and combine really the thinking of the most efficient and safe journey. So yes, today we are in a quite challenging position, more challenging than ever. But it’s a bright future when all these requirements are getting actually tougher and tougher.

Max Yates: Okay, thank you. I guess just an observation is that it's particularly in the merchant segments we've had kind of service continually pushed out, and I think we've seen that happening for the two or three years now, and I guess, is there a point at which maybe this isn't service being pushed out and it's actually an issue where they're finding alternatives to service the engines in different ways, taking it in-house and finding cheaper alternatives. Do you have a view on whether you have seen any of that change in behaviour?

Jaakko Eskola: That's a good point. I rather have an opinion that the customers would let us actually do more. But Roger, why don't you jump in and help me also. How do you see the future now going on?

Roger Holm: I think this is a very good question. I also see positively on this one for a few reasons. One is that technology gets more complex, so there we can have both our capabilities as well as the data. It's also getting more complex due to what I referred to before, due to decarbonisation, where we see our technology being really something that can help our customers to decarbonise. So being there to make sure that we can also do retrofitting over time. So from that angle, I rather see this as something that supports our development also in the service side, that we definitely have an opportunity to look at more things together with the customer. I'm not looking at it only from a performance agreement point of view but even further from a retrofitting and decarbonisation point of view.

Max Yates: Okay, thank you very much.

Jaakko Eskola: Thank you, Max.

Moderator: Next question on the line, Sebastian Kuenne from RBC. Please open your microphone and ask your question.

Sebastian Kuenne: Hi gentlemen. Two questions here. First of all, on the see-through of the lower ship contracting into your order book. As you mentioned today, you have the 26% in the global ship contracting, that's what you observe. And then we hear companies like Carnival Cruises pushing out 30% of their ship deliveries beyond 2024, so there are virtually no cruise ships being delivered in 2023 and 2024. When will this be through to your equipment orders in Marine Power? It was mentioned earlier that Marine Power is still quite strong on orders, but the numbers from the shipment record looked very dire. When would this go through your books? That would be my first question.

Jaakko Eskola: Thank you, Sebastian. Roger, again, a lot of marine orders and situations. Please Roger.

Roger Holm: Thank you for the question. We need to remember here when the order books at the cruise yards are moving, they are doing it because no one assumes that there will be new vessels ordered for the next two to three years. What they are doing is that they are flattening out the existing order book, so they have an even amount of work until they expect to get new orders that will then be for deliveries after 2025 most probably. This means also that we will still have deliveries to the cruise yards during the coming years, but it will be more flattened out than we thought pre-COVID. There are still some orders of existing vessel contracts that have not been placed an equipment manufacturer yet. So there might still be cruise orders still coming, but those are not for any new vessels. So it will gradually change, and that means that for the coming year, we need to focus on new orders for something else than from cruise. It will be only existing vessel contracts that will be in the pipeline for next year.

Sebastian Kuenne: Okay. In that context then regarding cost control, I was a little bit surprised that you still rely fully on temporary cost savings, whereas Alfa Laval, for example, for their Marine, they announced something late January, early February; next year then MAN had a 30% staff cut recently. You now seem to be the only one who is currently still relying on temporary savings. Is that linked to the still strong order book for next year, or what is there behind? Or do you come up with proper capacity cuts then later next year? What's your view there?

Jaakko Eskola: Thank you. First of all, our set-up is already today extremely flexible. Basically, we are assembling the engines, so we rely heavily on our sub-suppliers. And please remember, if you go back a couple of years, compared to any of these names you mentioned, we have done a huge amount of restructuring. If we really talk about the bigger facilities we have, we only have one in Finland and one in Italy, and then basically one and a half in China. And the Chinese market is really supported only by those, and that's a totally different story. So a flexible model. We have done a huge amount of restructuring. And you need to remember that we make the same engines for the energy market in these two facilities in Europe. So you have to be extremely careful if or when you start any re-structuring. As you see, we are getting Energy orders in. Basically, the same line produces the energy engine as the marine engine, and that's why we haven't yet been in that situation where the calculations show that we need to do something more drastic. But be sure that we have a plan B and C and D when the right moment comes. But now these markets are moving a little bit in different cycles, so we are getting good Energy orders. There is a good pipeline also in Energy and we need to see if we are getting them through in Q4 and, if not, of course we need to get back to the drawing table.

Moderator: Next question on the line, Andreas Willi from J.P. Morgan. Please open your microphone and ask your question.

Andreas Willi: I just had a follow up question, if you have time. If you look at your outlook where you said you are more positive, that you expect the market to improve – on the marine side I would say service, given that cruise is so low, that makes sense that it will improve going forward, but on the equipment side you normally lag ship contracting, so would you also expect your orders on the marine side to improve in the next few quarters, on the equipment side?

Jaakko Eskola: We say near-term demand is expected to improve from the current levels. That's what we say, but at the same time there is a concern about, you know, the market conditions, if they move in one or another direction.

Andreas Willi: Maybe another question on the power side. The share of storage projects is increasing, as that market continues to grow. How does that impact your margins compared to the engine business longer term? So the storage projects you're getting relative to the engine projects you get on the power side.

Jaakko Eskola: That's a valid question and, of course, in storage you don't have the same elements of services as you have with engines, so there are no parts which you need to change and, of course, that's a totally different one. We will have and we normally have our software included in those, and the concept has to be a little bit different with the storage side. I would like to give the possibility for Sushil Purohit now, who is for the first time in our call, head of Energy. He's now based in Houston and I hope, are you Sushil on the line and could comment a bit about Energy?

Sushil Purohit: Thanks a lot Jaakko, I'm here. I think it's a good question. We are seeing increased activities, of course, in the energy storage market, so you can see that in our order pipeline already. Currently, we don't see any difference between the newbuild engine and energy storage, but it's a competitive market, and it is going to be likely lower than what we have seen on the engine side. Again, the service part will not be there as much, but what we are right now looking at, of course, is trying to see what other values we can bring towards our customers, because every customer is also right now trying to understand how they can view what kind of revenue streams that they can actually derive from the use of energy storage, and we are going to play a part in that one going forward as well.

Andreas Willi: Thank you very much.

Jaakko Eskola: Thank you.

Moderator: Next question on the line, Johan Eliason, Kepler Cheuvreux. Please open your microphone and ask your question.

Johan Eliason: Hi, it's Johan here again. While on the subject on energy, we see low energy prices out there, and there are people thinking they will stay now lower for a longer time as well. Do you think that could overall imply better demand for your power business, as the fuels used are cheaper, or maybe even delay some of this renewable backup power? So how do you think these lower energy prices will play out for your Energy business?

Jaakko Eskola: Sushil, can I get you back?

Sushil Purohit: I think that's a very good question. We, of course, see in every place that, you know, solar and wind are becoming cheaper and cheaper, and I think a lot of countries and power systems are investing in these. We see that this is really going to increase the demand for flexibility. Going forward, if you see how Bloomberg estimates flexibility, you know, with gas technology it's going to go from 5 GW a year to 20 GW a year, in the next five years' time. So we definitely see increased demand going forward with our technology.

Johan Eliason: But do you think the energy prices as such have a positive or a negative impact for you?

Sushil Purohit: Well, you know, the negative or the reductions in energy prices are just going to help us, because people are going to invest in renewable and solar, and that should increase the demand for flexible generation going forward, so, on the contrary, we would see an increase in demand going forward. During the COVID period, if you look at where the share of renewables was much higher, especially in Europe, for example, we have seen negative prices on energy. And that is because of inflexible capacity. So if this cost increases, then people will invest more in flexible generation with gas-based technology, as well as on storage. We already see orders on the storage side from that point of view.

Johan Eliason: Okay. And switching to marine, we discussed your service opportunity and the risk there's an acceleration of scrapping in cruise, for example. I think the picture is very different in most of the other shipping segments, or is there any other segment you see a little bit at risk for accelerated scrapping that could impact your service opportunity later on?

Jaakko Eskola: Thank you, Johan. Roger, any other segments where scrapping is going on?

Roger Holm: Of course, normal levels, but I think cruise is maybe the one that was not expected pre-COVID, so I would say that's the main worry for us from a scrapping perspective.

Johan Eliason: Okay. Thank you very much.

Jaakko Eskola: Thank you.

Moderator: Next question on the line, Erkki Vesola from Inderes. Please open your microphone and ask your question.

Erkki Vesola: Thank you so much. You guys seem to be pretty cautious regarding LNG vessel contracting going forward. Qatar and Russia, they are placing LNG vessel orders mostly in South Korea. I'd like to ask, where do you stand currently in terms of, say, auxiliary engine, gas solution, navigator system orders, etc.? Are you seeing any of that?

Jaakko Eskola: Yes, we are. Roger, do you want to open up the LNG carrier ordering?

Roger Holm: Of course, all of those are on the table, and preliminary bookings have been made for yard slots as well, both in China and in Korea, for example for Qatar. I don't think we will see movements in order intake on those before sometimes into next year. Let's see where it ends. And yes, of course, we are in discussions for auxiliary engines and gas systems etc., so it's definitely something that we follow closely.

Jaakko Eskola: Erkki, the engines for those ships will be two-stroke engines, the main engine, sorry, and Wärtsilä is not in...

Erkki Vesola: I'm aware of that.

Jaakko Eskola: Good.

Erkki Vesola: But thank you so much.

Moderator: Next question on the line, Antti Kansanen from SEB. Please open your microphone and ask your question.

Antti Kansanen: So my question would be on the cruise service side, and if we think about the revenue and earnings prospects when the COVID situation someday fades away and ships return to sea, do you expect any kind of structural changes? Are customers talking about pricing or scope, or are we looking at business as usual and eventual return to same profitability and volumes as pre-COVID? Scrapping was mentioned as a minor headwind, but anything else?

Jaakko Eskola: Thank you, Antti. Roger, could you start and then Sean Fernback, head of Voyage, could actually add to it. If Roger starts and then Sean follows.

Roger Holm: I can start then. From a Marine Power angle, I think the key point to look at is to get the engines back into operation. That's for us the key point, and when they do, the business will start coming back.

Jaakko Eskola: And Sean, could you open up what we do in Voyage to provide services to our customers?

Sean Fernback: Thank you. And thanks for the question. So yes, a couple of things really. On our services side, we saw most of the drop in Q2 and a pick-up towards the end of Q3, and certainly this quarter we're seeing more activity. A lot of that is of course related to COVID and the ability to access the vessels. On the pricing side, it looks like it's returning to normal pricing, which is, of course, very encouraging. And I think the second thing to add, which I think is a result of a number of cruise ships being, not sailing, docked, is we're starting to see a positive pick-up in retrofits, certainly in this quarter.

Jaakko Eskola: Thank you. Alright. Thank you for excellent questions and thank you also for my colleagues for the answers. See you then next time in January. Thank you. Bye bye.

[recording ends]