Transcript for "Interim Report January-March 2025"

00:00:01 - 00:00:27
Hanna-MariaHeikkinen: Good morning and welcome to this news conference for Wartsila Q1 '25 results. My name is Hanna-MariaHeikkinen, and I'm in charge of investor relations. Today, our CEO, Håkan Agnevall, will start with the group highlights, and then he will continue with the business performance. After that, our CFO Arjen Berends will continue with the key financials. After the presentation, we will continue with the Q&A session. Hakan.

00:00:27 - 00:02:03
Hakan Agnevall: Time to get rolling. The first quarter was a strong quarter. We improved our operating results, and we continue to grow strongly in net sales. We have an all-time high order book of about €8.5 billion. Net sales increased by 18 percent to about €1.6 billion. Operating results increased by 30 percent to €165 million, which corresponds to 10.6 percent of net sales. Comparable operating results increased by 29 percent to €171 million, which corresponds to 11 percent of net sales. Our journey in services continues. Good progress there. Service order intake increased by five percent. Service net sales increased by six percent. We continue with the book to build well above once at 1.12. Cash flow. We had a solid cash flow from our operating activities of €190 million. As we announced before, we have concluded our strategic review of energy storage. We have also set new financial targets for March 31st this year. Now let's look a little bit deeper into the numbers. If you see order intake overall was down a percent.

00:02:03 - 00:03:38
Hakan Agnevall: It landed around €1.9 billion. You can see that on services we still continue to grow, a five percent growth, €992 million. Equipment looks challenging down seven percent, but that is driven by energy storage. We talked about it before. This storage is a lumpy business. We had a slow Q3. You remember that very strong Q4. Now in Q1, we yet again have a slow order intake and energy storage. If you take away energy storage, the rest order intake on equipment is actually up by 19 percent, and the order book increased by 17 percent now at €8.5 billion, and current deliveries this year are at €4.172 billion. One thing we will talk about. We see an all-time high in order backlog, but we also see longer and longer orders. The sales will be spread out over more years. However, we will come back to that. Net sales up by 18 percent at close to €1.6 billion. We see services continue to grow by six percent to €884 million, and equipment up significantly by 38 percent to €676 million. Book-to-bill continues well above one at 1.22.

00:03:38 - 00:05:22
Hakan Agnevall: I think it's the 16th consecutive row that we have continued 16 consecutive quarters, and we continue to grow the book to be above one. Comparable operating result, up 29 percent to €171 million, touching 11 percent of net sales, and then operating results up 30 percent to €165 million, touching 10.6 percent of net sales. Starting with our outlook on the marine and our industry view, we see a more mixed market sentiment, and demand for new ships was negatively affected by the growing uncertainty. The number of vessels ordered in the review period decreased to 235 from 368 in Q1 last year, excluding late reporting of contracts. A more mixed outlook. The heightened uncertainty and also the caution around the measures suggested by the US against Chinese-linked ships slow down the investment appetite in new ships in some segments. However, in cruise, strong growth and demand have enabled cruise lines to continue new build investments, and also ordering for new container ships remains relatively strong as liner operators progress with fleet renewal plans.

00:05:24 - 00:07:04
Hakan Agnevall: The outcome of MEPC 83 was also a step forward. The agreed proposal decision will be taken in October, hopefully for a global carbon fee in the maritime markets supports the continued decarbonization journey. In the first quarter, 85 orders for new alternative fuel-capable ships were reported. Accounting for 36 percent of all contracted vessels and 65 percent of the capacity of the contracted vessels. We also see on the graphs how the vessel contracting trends are panning out. We introduced the new dotted line with the 10-year average. 2024 overall was a year of very high orders. We also see in the bottom graph that the vessel key segments are trending around a 10-year average, so to speak, also in Clarkson's forward-looking outlook. Turning to energy, strong long-term prospects, but I elevated uncertainty in the short term. High load growth continues for years to drive new power capacity. Wind and solar are expected to post all-time high additions in capacity in 2025. The main driver for capacity additions for wind and solar continues to be favorable economics.

00:07:05 - 00:08:30
Hakan Agnevall: Tariffs implemented by the US administration have impacted decision-making regarding new

orders, in particular for battery energy storage. For thermal power plants, we still see customers going ahead. Demand for baseload engine power plants is expected to remain stable. The drivers for balancing engine power plants continue to develop favorably in 2025 and beyond. Data centers are a promising baseload opportunity for us due to delayed grid connections, and according to the IEA, an additional 45GW of power capacity is expected to be added for data centers between 2024 and 2027. Once again, looking at a water intake. It decreased by two percent, primarily burdened by energy storage and optimization. Growth in the other businesses and equipment orientation decreased by seven percent, primarily due to lower orders in energy storage, while engine power plants actually increased by 35 percent. Service order intake increased by five percent, driven primarily by growth in marine. All-time high order book.

00:08:31 - 00:10:10
Hakan Agnevall: Rolling book to build continues to be well above one positive development. Here you can also see, to the right, that we have extended the periodization of the order backlog. Clearly, we are seeing orders that will be delivered further in the future, so to speak. That is reflected in these numbers. Organic net sales increased by 18 percent, supported by growth in marine and energy. Equipment net sales increased by 38 percent, supported by marine and energy as well. Service net sales increased by six percent, supported by growth in marine, energy, and portfolio business. Profitability continues to improve as well. Net sales were, of course, up 18 percent. Comparable operating results increase by 29 percent, and comparable operating results are more than 12-month rolling. We came in at 10.9 percent, up from 9.2 percent. On the technology and partnership side, a lot of things are happening and the decarbonization journey. If we start with our service business, we signed a lifecycle agreement to ensure operational reliability for 14 vessels in the CMA ship fleet.

00:10:10 - 00:11:41
Hakan Agnevall: We signed lifecycle agreements with CMA, which is a subsidiary of the leading French shipping company, CMA CGM. The agreement covers 14 large LNG-fueled container ships already in operation. Under the terms of the agreement, we will provide a full service package that secures reliable operation at fixed and minimized cost. The order was booked in the first quarter of 25. Now, some exciting news on the energy side, where we are introducing the next-generation engine to balance renewables and improve power plant performance. Basically, our next-generation 46TS engine is designed to balance renewable energy, provide highly efficient baseload power, and run on sustainable fuels in the future. The 46TS engine will be available from this year, starting from 2025. Actually, in January, we announced the first order for the new 46TS engine. The first customer is Kazakhstan Caspian Offshore Industries. It was placed in the fourth quarter of 2024. These engines will support the Kosi OI's new 120-megawatt power plant.

00:11:42 - 00:13:14
Hakan Agnevall: Additionally, it's the first hybrid power project of its kind in Kazakhstan, where you basically integrate engine power plants with wind and solar. It's very much a balancing application. Going into our businesses, looking a little bit closer at marine, we continue the growth, and we continue to improve profitability. Service net sales increased by six percent, supported by the merchant Navy and ferry segments. You see, the overall order intake is up two percent. Net sales up 17 percent. We also see the rolling 12 comparable operating results at 11.9 percent. The drivers on the positive side improved Newbuild margins. Good work there, higher service volumes clearly supporting and better operating leverage. Then on the detracting side, we continue to increase our R&D. We continue this strategy at three to four percent in R&D of the overall sales for the group. Then, in Finland, we had national strikes that also impacted the results negatively in the first quarter. Good development on the marine services side. Book-to-bill, well above one in all the service revenue streams.

00:13:14 - 00:14:42
Hakan Agnevall: We have introduced this graph that we will follow going forward. We have the spare parts, we have the field service, the service agreements, retrofit, and upgrades. You see trending well above one. We are growing. If you compare to 2023, an 11 percent category on the server side. Shifting to energy, the comparable operating results suddenly increased. Equipment ordering, taking energy power plants, was up 35 percent, but clearly decreased in energy storage and optimization. That led to an order intake overall down 15 percent. Net sales up 20 percent. Rolling comparable operating results at 11.1. If you look at the drivers, we had EPP, which is the power plant business. We improve the profitability in our new build portfolio. We also, in power plants, see higher service volumes. On the negative side, both EPP and battery storage have increased R&D costs. On storage specifically, we continue the investments that we talked about before related to selective entry to new markets.

00:14:44 - 00:16:10

Hakan Agnevall: Zooming in on energy storage, the comparable operating results decreased due to the mix of the projects that were executed, and also for the cost related to selective entries into new markets. Energy services is also a good development book to bill well above all the service revenue streams. You see similar development in the marine side. Here we are up compared to Q1 2023 with a nine percent category. If we do the breach in Q1, so to speak, from 24 to 25, what are the drivers? We see marine improving profitability from 11.4 to 12. We see energy coming down a little bit, primarily storage from 11.1 to 10.8. Portfolio business really performing very well, improving profitability from 0.6 to 6.9. This is in line with what we have said before. We want to turn companies around and then sell them. That led to improving the comparable operating result for the group from 10 to 11 percent and basically increasing the comparable operating results by 29 percent.

00:16:12 - 00:17:36
Hakan Agnevall: Now, earlier this quarter, we also communicated that we are separating energy into two independent segments, and we're also introducing nine new financial targets. Basically, from April 1st, we have three reporting segments. We have vessel marine, vessel energy, and the solar energy storage and portfolio business continues to be reported as other business activities. The change in the reporting structure will be reflected in our financial reporting starting from the second quarter of this year. The restated financial information for 2024 and for the first quarter of 2025 will be published during the second quarter of '25. To better reflect the new organizational structure, our Board of Directors has approved that we update our financial targets. We will have combined financial targets for marine and energy, and separate new financial targets for the energy storage business. Just to give some kind of reference for the last 12 months. Marine and energy combined. Comparable operating results were 12.9 percent, and an order intake increased by nine percent.

00:17:36 - 00:18:09
Hakan Agnevall: Just to recap the new financial targets. Marine and Energy combined five percent annual organic growth. Fourteen percent operating margin. Then, these specific targets for energy storage are low double-digit annual organic growth and, three to five percent operating margin. Then on group level, we keep the gearing and dividend targets less than 0.5 and gearing and more than 50 percent in dividends of earnings. Arjen, over to you.

00:18:14 - 00:19:17
Arjen Berends: Thank you, Hakan. Let's look at the other key financials for a moment. As Hakan mentioned, let's say cash flow from operating activities in Q1 was very solid, supported clearly by let's say good profitability, but also due to the fact that our working capital stayed on a very low level, actually. A negative level here in this respect. As you can see from the numbers, working capital ended at 770 at the end of the quarter, which was more or less the same level as we had at the end of last year. Then it was seven, eight, seven. Good working capital development, good cash flow, and net interest-bearing debt going more negative. Also, let's say good development in that respect. We have now also introduced, let's say, EBITDA as a KPI. You could say earlier we had EBITA, which was more relevant at the time that Wartsila did a lot of acquisitions. This EBITDA is what we believe is a more, let's say, used KPI also internally, because eventually this should turn into cash flow in the future.

00:19:18 - 00:20:34
Arjen Berends: We also introduce another new KPI, return on capital employed, which we also use actually internally a lot. We also want to reflect externally. It's on a very good level clearly driven by let's say a good operating result, as well as let's say a very negative working capital at this point in time. Gearing improved from, let's say end of last year to the end of, let's say, quarter 1.31 negative at the end of last year. Now, 0.34 negative insolvency went a little bit worse from 37.4 at the end of last year to 35.2 now. That is driven by the decision of the AGM to pay a dividend, and that has now been accounted for in equity. Earnings per share on, let's say, a quarter level are 0.21. Clearly, let's say better than last year, Q1, and I would say on a very good level for the first quarter. Then, if we look at the graphs, 12 month rolling cash flow very strong, despite, let's say small, let's say downturn. I would say from Q4 last year to Q1 now, let's say on a rolling 12-month basis, but still at a very solid and good level.

00:20:34 - 00:21:14
Arjen Berends: Also, let's say, looking at the working capital, I mentioned it before, 770, not so different from the situation at the end of last year, about minus eight percent of sales ratio. That compared to, let's say, a five-year average, which is around two and a half, three percent. Also, working capital is very strong. I said it before, I will say it again. This is an extraordinary level. I do believe that, let's say, at the end of this year we will land with negative working capital, but not at this level, that is not what we believe. Mid to long term, I think it will go up a bit. With these words, I give it back to you, Hakan, on the prospects.

00:21:14 - 00:22:08
Hakan Agnevall: Thank you, Arjen. Looking at the prospects, we have similar or the same guidance for marine and energy. Basically, we expect that the demand environment for the next 12 months will be better than in the comparison period that we say, both for marine and for energy. However, we also underline that the current high external uncertainties make forward-looking statements challenging due to the high geopolitical uncertainty, the changing landscape of global trade, and the lack of clarity related to tariffs. There are risks of postponements in investment decisions and of global economic activity slowing down. With that, we start the Q&A.

00:22:08 - 00:22:26
Hanna-MariaHeikkinen: Thank you, Hakan. Thank you, Arjen. We will continue with the Q&A. We will start with the questions from the lines. I kindly ask all of the analysts to start with one question and leave the follow-up questions later. There's also a possibility to ask questions via chat. Handing over to the operator, please.

00:22:28 - 00:22:54
Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. [silence 00:22:40-00:22:54]

00:22:54 - 00:22:55
Arjen Berends: I'm sure they will come.

00:22:55 - 00:22:57
Hanna-MariaHeikkinen: Yes, we have a couple of questions also on the chat.

00:22:57 - 00:23:02
Operator: The next question comes from Akash Gupta from JP Morgan. Please go ahead.

00:23:04 - 00:23:49
Akash Gupta: Yes. Hi. Good morning, and thanks for your time. My one question is on this risk of uncertainty that you flagged in your outlook. Clearly, things have changed since you closed the quarter. With a lot of tariffs coming in from 2nd April onwards. Maybe if you can comment, have you seen anything already on the ground in April in terms of your discussions with customers, or is this more your anticipation that you have not seen much change, but based on how things have changed since early April, this is something that you may expect. Any color on what sort of discussions you are having with customers since the close of the quarter would be appreciated. Thank you.

00:23:49 - 00:25:09
Hakan Agnevall: You're fully right in the sense that we all know it's a very dynamic environment. I would comment on it from a marine energy power plant and from energy storage, because it's a slightly different situation. If we look at the marine side, you could say that shipyards and owners, et cetera they are primarily domiciled or operating outside of the US. We see a limited direct impact of tariffs. I think now in section three or one has landed. The expected impact is much less than if there were other scenarios where it would have a much bigger impact. I would say the direct impact on the marine side is rather limited. The indirect impact is what happens if global trade is really stopped. Of course, there is an uncertainty in that. There is also a bit of holding back on the decision-making overall in the marine. However, the underlying once again core segments that grew are ferries offshore, et cetera. We still see people going ahead having fairly optimistic outlooks. MEPC was a big step forward. Yes, I know there are mixed views.

00:25:09 - 00:26:30
Hakan Agnevall: Was it good enough, or did one reach what one would have wanted? Probably not, but like many times I say, let's take a step backwards. This was the first time that MEPC actually had a vote. This is actually the first time that we have on the table a proposal to introduce tariffs for CO2. I think this is a big fundamental step forward. Let's see if the decision is eventually taken in October. However, I think this will also continue to support the decarbonization transition, and we said it before. This is a transition not over years, but over decades, so to speak. That's my perspective on marine. If you look at energy power plants, we still see customers in the US going ahead. The US is a very important market for our power plants business. It's not the only market, but it's certainly an important market for balancing, potentially for data centers, et cetera. However, we do see utilities and municipalities, data centers, and power providers to data center owners going ahead. Carefully optimistic. There is uncertainty, but we still see them going ahead.

00:26:30 - 00:27:11
Hakan Agnevall: Now, coming to energy storage, our battery business. There, we see a concrete impact. I would say in the US, the market is at a standstill. Of course, a lot of the material is coming from outside the US. Certainly, batteries coming from China and here it's, let's say one quarter or two quarters, there will probably be a standstill. However, I would like to underline. Our storage business is also very much active outside of the US. I mean, big orders in Australia last year. We saw continued opportunities in that region in Europe, et cetera. That's the overall picture.

00:27:12 - 00:27:23
Arjen Berends: Just to add, let's say the order intake of EPP in the first quarter was actually a large part was US based. That confirms also that things are moving forward there.

00:27:23 - 00:27:47
Hakan Agnevall: Also, if we talk about the order backlog on marine, no cancellations, and the power plants, no cancellations. There is one cancellation in energy storage that we have included that was related to tariffs. However, no major kind of cancellations from the US market overall.

00:27:47 - 00:27:57
Arjen Berends: That one that we took out was about what is it, 65 million USD. There were no execution going on yet. Very little cost.

00:28:00 - 00:28:15
Akash Gupta: Thank you. Maybe just a follow-up. If you look at the tariffs that are in place so far, how should we think about impact on your backlog margins? Do you have the ability to pass it on to customers, or you may need to absorb some of the extra cost? Thank you.

00:28:15 - 00:28:44
Hakan Agnevall: If we look at the backlog we have normally in our contracts, we are not the ones paying the tariffs. It's our customers who are paying the tariffs. In those rare cases where we are paying the tariffs, we have the contractual provisions to pass them on. From that perspective, or from the order backlog, no major forward-looking impacts. We will increase prices to compensate for the tariffs.

00:28:48 - 00:28:53
Akash Gupta: Thank you. [silence 00:28:49-00:28:53]

00:28:53 - 00:28:57
Operator: The next question comes from Sebastian Kuenne from RBC. Please go ahead.

00:29:00 - 00:29:50
Sebastian Kuenne: Yes. Hi. Thank you for taking my question. I was wondering if you could give some indication on the marine side. You mentioned that contracting is also down for offshore and specialty vessels, but to a lesser degree than compared to commercial or merchant vessels. What do you expect going forward, given that oil prices are coming down? Maybe there's less demand than for vessels supporting offshore oil and gas. Also in the US, you see the risk that offshore wind farms are being stopped. How do you assess the risk that even in your core markets for marine, the demand is slowing down further?

00:29:51 - 00:30:27
Hakan Agnevall: I always say that if I talk about them overall, I think we have a fairly optimistic view. Cruise is very strong. There are a lot of activities on ferries. Offshore, you tell me where the oil price is going forward, so to speak. There has been high activity. Maybe it's coming down a little bit. I will not give any forecast. You can look at Clarkson. I would say overall, for that last segment, if you put them in a portfolio, we have a rather optimistic outlook. However, we underline, of course, that the level of uncertainty is higher than ever.

00:30:31 - 00:30:36
Sebastian Kuenne: Cancellation risk, you say, is not increasing much. Yes.

00:30:36 - 00:30:42
Hakan Agnevall: However, so far, we haven't had any cancellations, and I don't see that on the horizon. No.

00:30:44 - 00:30:45
Sebastian Kuenne: Thank you very much.

00:30:47 - 00:30:51
Operator: The next question comes from Vivek Midha from Citi. Please go ahead.

00:30:53 - 00:31:20
Vivek Midha: Thank you very much, everyone, and good morning. If I may, another question on the marine outlook. Just looking at the container segment, as you highlighted, the line is still continuing with their fleet renewal plans and a similar theme to the other questions. How much concern do you have about that continuing and the line of balancing out their renewal needs versus the uncertainty around trade? Thank you.

00:31:21 - 00:32:12
Hakan Agnevall: I think there was some holding back on the container side related to section 301. However, I think now the clarity is there. As I said, based on Clarkson, the impact will be very limited. They estimate that, for instance, it's I think it's about seven percent of all the container calls in the US that would be affected by the new. That means that 93 percent will not be affected. When I talk to our customer, they will be able to manage that situation by how they allocate the vessels and how they build their networks, so to speak. I would say that after this kind of wait-and-see, I still see the long-term trend when operators and owners will continue to renew and revitalize, so to speak.

00:32:15 - 00:32:20
Vivek Midha: Thank you. [silence 00:32:16-00:32:20]

00:32:21 - 00:32:25
Operator: The next question comes from Antti Kansanen from Seb. Please go ahead.

00:32:28 - 00:33:05
Antti Kansanen: Hi guys. Thanks for taking my question. It is also on the Marine outlook. The charts that you're referring to are from the Clarksons. It appears that the Newbuild side is fairly flattish. It has been for some quarters now, still guiding for growth given all of the uncertainty. How much is this driven by aftermarket versus something that you see that has already been contracted, but maybe the engines haven't been awarded yet, or something like that? However, should we mainly expect a positive mix in terms of orders going forward, with the aftermarket clearly outpacing the new build?

00:33:05 - 00:33:24
Hakan Agnevall: Now, I think we see appetite for new build activity suddenly being there in our core segments. We will continue to grow on services as well. I think we are expecting growth in both legs or disciplines, I would say.

00:33:29 - 00:33:30
Antti Kansanen: All right. Thank you.

00:33:34 - 00:33:38
Operator: The next question comes from Sean McLoughlin from HSBC. Please go ahead.

00:33:41 - 00:34:01
Sean McLoughlin: Thank you. Good morning. A question on portfolio. This is another quarter where the results have surprised. Where are we on sale on separation process. Is this now an increased focus of yours following the end of the strategic review of energy storage?

00:34:02 - 00:35:19
Hakan Agnevall: Basically portfolio business. ANCS signed at the end of last year, and we're going to close in the second quarter. We are still on plan to do so. A lot of the positive development in the portfolio is related to ANCS, but we also have positive development in the other one. We still hold marine electrical systems, gas solutions, and water and waste. We are in a turnaround situation, a preparation situation for divestment. I would say we are executing as planned. We said it before, we will exit these businesses, find new owners, and realize shareholder value for those shareholders over a few years. If I can compliment, it's not that we have put a portfolio on the back burner while doing the strategic review. Portfolio has been in focus, and will continue to

be in focus. The process takes time because, as I said before, we wanted to turn around some of these assets before, and then we want to make a wise and have a good divestment process that creates shareholder value.

00:35:19 - 00:35:25
Arjen Berends: The turnaround has been very successful. Let's say a couple of years ago, all these businesses were loss-making. Now they are profit-making.

00:35:30 - 00:35:35
Sean McLoughlin: Thank you. [Silence 00:35:30-00:35:35]

00:35:35 - 00:35:39
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:35:42 - 00:36:04
Panu Laitinmaki: Hi. Thank you. I have a question on the power plant orders which were quite strong in Q1 and have been in for a while. Can you talk about how much was balancing in Q1? Did you have any data center orders already? How do you expect this to develop in the balancing and data center segments going forward?

00:36:06 - 00:36:07
Hakan Agnevall: I don't have the specific share.

00:36:09 - 00:36:09
Arjen Berends: A hundred percent balancing.

00:36:10 - 00:36:53
Hakan Agnevall: I asked 100 percent. I would have said hi, but it's 100 percent confirmed by Arjen. As I said earlier, also, strong order intake actually from the US on the thermal side. That continues in a good way. Data center orders, no new orders. To say we are working both in Europe, we talked about the corporations we have there, but we are also working in the US. There is a lot of activity, a lot of interest. As I said before, this is one segment that is certainly going ahead in the US. As soon as we have the income paper, we will have something concrete to report, we will certainly do so.

00:36:56 - 00:36:57
Panu Laitinmaki: Okay. Thank you.

00:37:01 - 00:37:04
Operator: The next question comes from Sven Weier from UBS. Please go ahead.

00:37:08 - 00:37:53
Sven Weier: Yes. Good morning, and thanks for taking my question. Just to follow up on the energy outlook that you've confirmed today. Obviously, Q1 was super soft, as we all know, on storage. I guess we could have understood if you lowered the outlook one notch. Obviously, now a few more hedge clauses are associated with that. However, is it keeping the guidance basically to say that you do expect the thermal part to be maybe stronger than you originally thought, and that could compensate some of the more lasting weakness on the storage side, or is it also on storage, the potential that you basically see outside the US?

00:37:53 - 00:38:22
Hakan Agnevall: Thank you. I still think we see a lot of growth opportunities on the storage side. I would say that is a major growth. We have a lot of focus on the US for natural reasons. However, don't forget that many of our big markets are outside of the US. We talked about Australia, the UK, Europe, et cetera, so in the demand outlook, we certainly see growth opportunities on the storage side. We also see growth opportunities in the power plant.

00:38:25 - 00:38:42
Sven Weier: Can I just have one follow up on storage? Because you also source like 100 percent of the cells from China and nothing from Korea. What's the exposure there, also, your latest thinking on the assembly in the US, actually? Thanks.

00:38:42 - 00:39:11
Hakan Agnevall: We have a diverse sourcing base. Yes, we source from China but we also source from other

countries in Asia as well. Manufacturing battery cells in the US. The industry is building up. It's taking time. We are engaged in discussions, but it will take time. It's not a quick fix. Ramping up battery cell production. I think we all know it takes time, so to speak.

00:39:13 - 00:39:32
Sven Weier: How does it work? If you import the cells from China to, say, Finland, and then you pass them on to the US, how does the tariff work? Are you then tariff with the European tariff on the overall price, or are you also having to pay a tariff on the bit that it sells from China?

00:39:32 - 00:39:54
Hakan Agnevall: No, if you source from China specifically on the battery side, and we wouldn't bring it to Finland, we would bring it directly to the US. The latest tariffs are probably like 175 percent or so. That's why we are saying, there are more people than us sourcing from China, and that's why the market in the US right now is very slow.

00:39:57 - 00:40:05
Sven Weier: I thought you had some assembly in Finland, and before you pass it on to the US, so it goes directly. Okay. Understood. Thank you guys.

00:40:09 - 00:40:13
Operator: The next question comes from Vladimir Sergievskii from Barclays. Please go ahead.

00:40:15 - 00:40:45
Vladimir Sergievskii: Good morning, and thank you very much for taking my question. I again wanted to follow up on storage, and just to understand how it works. I understand that there is limited new ordering activity given the uncertainty, but what about the existing backlog in the US? If you have a delivery obligation within the existing backlog, how does it work with, as you mentioned, tariffs and 175 percent? It's hard to imagine that anyone in the value chain, you or your client, will actually agree to pay.

00:40:47 - 00:41:17
Hakan Agnevall: First of all, just to point out again, our biggest market for storage is clearly outside of the US. If we look at our US contracts, we actually have provisions that we pass costs on tariffs to the customer. Then, of course, the customers are hesitating, and if they want to terminate, we have a termination clause which will compensate us for the cost accumulated. From that perspective, we have a fairly good contractual situation on the backlog.

00:41:20 - 00:41:21
Vladimir Sergievskii: Thank you very much.

00:41:25 - 00:41:29
Operator: The next question comes from Mikael Doepel from Nordica. Please go ahead.

00:41:31 - 00:42:18
Mikael Doepel: Thank you. Good morning, everyone. I have a question also on the marine outlook here, just to be clear. Basically, you are guiding for a better outlook. As I understand it, it is driven by a continued growth in the aftermarket business. I also think it's driven by the 2024 shift in contracting in core segments where engines are likely to be ordered. However, do you also expect contracting to increase this year compared to '24 for your core segments? It's really the questions. You said that you have a fairly optimistic view and so on, but you also expect contracting to actually improve this year compared to last year for your core segments, which also will drive your, I guess, orders towards the end of the year.

00:42:18 - 00:42:33
Hakan Agnevall: We only give guidance as we give. I will not give you a guidance for this year specifically. You will have to interpret it, but clearly we have a positive outlook on the demand side as we talk about here for the next 12 months.

00:42:36 - 00:42:37
Mikael Doepel: Okay. Thank you.

00:42:39 - 00:42:44
Hakan Agnevall: It's a correct observation also that we see growth both in mobile and in services.

00:42:44 - 00:42:45
Operator: Go ahead.

00:42:49 - 00:43:06
Mikael Doepel: Could I just have one clarification before I ask? You've talked about energy storage in the US. It's not your biggest market. Could you just clarify how much of your orders and energy storage the US was last year? By what percentage?

00:43:06 - 00:43:08
Hakan Agnevall: I'm not sure we have disclosed.

00:43:08 - 00:43:12
Arjen Berends: No, I don't think we have disclosed that, but the majority was outside the US.

00:43:12 - 00:43:14
Hakan Agnevall: Yes, the vast majority was outside of the US.

00:43:16 - 00:44:07
Mikael Doepel: Okay. My question is just actually on your service business, and I guess more for marine than energy, but I guess also for energy. When we think about spare parts in the US, we all understand that a lot of the production of the new engines in energy happens in Vaasa, but on the spare parts, how does that actually work in practice? If a US customer docks his ship at a port, or you've got an installed engine in the US, a thermal power plant. When they buy spare parts, where are those spare parts actually being produced? Are those much more local for local, or will those also be produced in some of your major production hubs in China and Finland, just to understand the sort of flows of spare parts, in particular in the service business?

00:44:08 - 00:44:40
Hakan Agnevall: Spare parts in general, you could say that we, with the exception of storage. However, if we take the engine business that we are talking about now, you could say that we have a supply chain that is denominated, so to say, and we use the same type of equipment and products for our spares as for the new build. It's coming from the same supply base now. The customers can, of course, choose where they do the service. If they don't want to do them in the US, they can do--

00:44:40 - 00:44:41
Arjen Berends: Marine.

00:44:41 - 00:45:04
Hakan Agnevall: For marine, clearly. We just thought that. Customers can choose where they do and that will certainly have impact on the tariffs that they will pay. Then on the energy side, we are providing spare parts to the US market. Of course, the tariffs will apply to 10 percent from Europe. We are increasing prices.

00:45:07 - 00:45:46
Mikael Doepel: However, just not to labor this point because I know some of your competition historically in marine has been the mom and pop service shops that sit in the ports, and they can sell some of the lower-end products. If you're having to put up prices on your energy aftermarket and on some of your marine spare parts by 10 percent as a result of tariffs, I assume those local service competitors are just sourcing locally. How are you not going to become more uncompetitive in your service business versus some of those local service providers on some of those more basic spare parts for those customers not in service contracts?

00:45:46 - 00:46:46
Hakan Agnevall: Basically, there's the fundamental logic where we have also seen a strengthening of our spare port business versus the pirates. We have IP, first of all. It's not like you go out and buy whatever you buy in the shop. This is high technology. We have IP on the spare parts that we provide. Not all, but a big chunk. Secondly, if you're a customer, do you want to take a risk on buying cheap spare parts and then have one billion or 100 million? Hundreds of millions of dollars vessels are standing still because you try to go cheap on spares. Many

of our customers will have a very simple answer to that. We go for that, and that's nothing new. That is the consistent dynamics, including 10 percent tariffs or not.

00:46:49 - 00:46:50
Mikael Doepel: Okay. That's helpful. Thank you.

00:46:53 - 00:46:57
Operator: The next question comes from Akash Gupta from JP Morgan. Please go ahead.

00:47:00 - 00:47:33
Akash Gupta: Yes. Hi. Thanks for the follow-up. The follow-up is on the margins in thermal power plant site. We have seen from some conventional turbine manufacturers that they have reported improvement in prices this year on top of what was the level last year. Maybe if you can comment on what are you seeing on the pricing side of these power plants, and are you also seeing any incremental pricing this year versus what it was last year? Thank you.

00:47:33 - 00:48:01
Hakan Agnevall: I think if you look at the global situation, there is a high demand for power generation machines. Our machines, the gas turbines and that of course drives opportunities for price realization. Then, in our particular case, what is also contributing to the shift, and we talked about it before is you could say the overall shift from APC to equipment. That also improves the profitability of the backlog.

00:48:03 - 00:48:14
Arjen Berends: It's also good to add that let's say every project is negotiated case by case. There is no standard, let's say, price for any engine in particular, both for energy and marine. That's the same.

00:48:18 - 00:48:18
Akash Gupta: Thank you.

00:48:21 - 00:48:25
Operator: The next question comes from Sebastian Kuenne from RBC. Please go ahead.

00:48:27 - 00:49:02
Sebastian Kuenne: Yes. Thank you for taking my follow-up question. Again, on the US storage business, you say you have contract termination clauses that compensate you for the costs incurred. However, how does it look on the other side? You are sourcing the batteries in China. You get an order from a US customer. You order the batteries simultaneously in China. How do you design those contracts? If the US customer pulls out, you have to pull out from the battery purchase as well. What does that mean for your costs?

00:49:02 - 00:49:33
Hakan Agnevall: I would say we have a pass-through just to make it simple. I will not go into a contract review or detailed distances, but I can understand your question from a perspective, our risks are limited related to you as tariffs and energy storage. The biggest impact on tariffs in energy storage is the indirect impact. Because, of course, when our customers see how the costs are going up, they hesitate. That is the major impact. The major impact is not an increased risk for the PNL.

00:49:35 - 00:49:43
Sebastian Kuenne: Okay, so you don't incur major costs because you are withdrawing from contracts with your Chinese battery provider. Is that correct?

00:49:43 - 00:49:44
Hakan Agnevall: Yes. Correct.

00:49:44 - 00:49:45
Sebastian Kuenne: Thank you.

00:49:48 - 00:49:53
Operator: The next question comes from Tom Skogman from Carnegie. Please unmute your microphone.

00:49:56 - 00:50:14

Tom Skogman: Yes. Hello, this is Tom. I have two questions. First, you have fixed prices in your service contracts. I wonder if this is a risk now with tariffs. You know that when you have to import the spares to the US, and if you have agreed on fixed prices, or do you have clauses for this?

00:50:14 - 00:50:24
Hakan Agnevall: We have clauses for everything, including that. That's the short answer. The commercial setup is such that we can compensate for changes in laws and tariffs, et cetera.

00:50:24 - 00:50:27
Arjen Berends: Indexes as well. It's not a fixed price.

00:50:28 - 00:51:12
Tom Skogman: Okay. Good to hear that. Then I wonder about this new margin target of 14 percent. As you said, you had 12.9 percent last year. Usually, when companies come out with margin targets, they at least initially seem very ambitious. However, this is like improving by one percentage point. I would like to hear a bit more, the reasoning behind this. I guess you have a higher return on capital employed. However, you also have great market shares in what you do and a great service business. However, is it simply so that you expect that the sales mix change will be quite negative in the coming years, with equipment growing faster, which will hold back the margin progression?

00:51:12 - 00:52:38
Hakan Agnevall: We upgraded, you can say from 12 for the whole group to 14 percent for marine and energy combined. In our view, that is actually a more aspirational target than what is included in the 12 percent. Then you might rightfully say that we didn't jump five or six percent, and then I commented on that before. Our view as a leadership team, and you know it, is that for many years had a 14 percent margin target and really not reached those targets. Now we set these 14 percent, and we are committed that we will get there. Then once we get there, we will take a second look at, can we further improve our target. That's our view. This was also our view when we were at five or six percent. We said that once you get a target, you take the next step, so to speak. What will be the major driver for the continued profitability going forward? We start with services. It's a major driver both for growth and certainly for profitability. Better margins of our marine Newbuild projects, and certainly better margins also on the new building energy, are also supported by the shift from EPC to EQ, so to speak.

00:52:38 - 00:52:41
Arjen Berends: A better operating leverage as well. Sorry.

00:52:44 - 00:52:45
Tom Skogman: Okay. Thank you.

00:52:50 - 00:52:54
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:52:57 - 00:53:18
Panu Laitinmaki: Thanks for taking my question. I just wanted to ask about the new build margins that you said were better in both energy and marine, year and year. Was this due to pricing, or what was driving that? Then, going forward, are the orders that you are now taking at a higher margin than the ones that you are delivering at the moment?

00:53:18 - 00:53:37
Hakan Agnevall: The drivers are pricing, but it's only on the operational side as well. Working with the good old levers of cost, working with risk management in energy, moving away from or rebalancing from EPC to EQ. I would say those are the major drivers.

00:53:39 - 00:53:47
Arjen Berends: I think our value proposition compared to competitors is really appealing to customers. They are willing to pay for that as well.

00:53:50 - 00:53:59
Panu Laitinmaki: Okay. Then, if you think about the order book kind of Martin, is it better going forward than what you have delivered in Q1?

00:54:00 - 00:54:03
Arjen Berends: We are not guiding on margins. Sorry.

00:54:04 - 00:54:06
Panu Laitinmaki: Okay. Thank you.

00:54:08 - 00:54:12
Operator: The next question comes from Mikael Doepel from Nordica. Please go ahead.

00:54:14 - 00:54:46
Mikael Doepel: Thank you. Just a quick follow-up on storage and also talking about profitability here. Based on my calculations, it seems as if the business was loss-making in the quarter. I'm wondering, is this how we should think about this going forward? Is this just a function of the revenues being fairly low or is this something else also burdening profitability that we should take into consideration? How do you think about profitability?

00:54:47 - 00:55:26
Hakan Agnevall: You're fully right in your assessment, where we were loss-making in storage in Q1. That's why the LTM is coming down. You remember, in the new financial targets we guided for an operating margin between three to five percent. I think you start to see the logic. What's the driver for Q1? It's a mix. It's a product mix. We have certain projects with higher margins and certain projects with lower margins. It is, of course, also this lumpiness going forward, and we will continue to see such lumpiness going forward.

00:55:26 - 00:55:31
Arjen Berends: Relatively low sales levels in Q1, actually, which, of course, from an operating leverage point of view, doesn't help.

00:55:35 - 00:55:37
Mikael Doepel: Yes, of course. All right. Thank you.

00:55:39 - 00:55:44
Operator: The next question comes from Vladimir Sergievskii from Barclays. Please go ahead.

00:55:46 - 00:56:05
Vladimir Sergievskii: Yes, thank you very much. Stepping away from energy storage this time. Working capital contributed positively to free cash flow in Q1 once again. Would you be able to disclose what part of working capital actually played favorably for you? Is it the asset side? Is it the liability side? Thank you very much.

00:56:06 - 00:56:58
Arjen Berends: Yes, I can open up that a little bit. Let's say, as I said already earlier, when presenting the numbers, or negative working capital stayed more or less on the same level, let's say 787 at the end of last year, 770 now. I would say the main positive, sorry main positive contributor in Q1 was actually advances received and sizes of orders get, let's say, more lumpy and bigger. Also, of course, down payments get bigger. That, in combination with an order book that gets longer or can introduce, let's say, the new graph that we have now for the order book extra year. That, of course, helps very much the cash flow. In particular, now we saw that in Q1 that the down payment comes now when the cash out, you could say on those same projects, is coming more and more into the future. Advances received were the main highlight, I would say.

00:57:01 - 00:57:02
Vladimir Sergievskii: It's very clear. Thank you very much.

00:57:04 - 00:57:14
Hanna-MariaHeikkinen: Thank you. Now I would like to take one question from the chat. What will be the drivers of higher demand in the next period? What is the background for our prospects?

00:57:15 - 00:57:17
Hakan Agnevall: In marine and energy.

00:57:17 - 00:57:17
Hanna-MariaHeikkinen: In both.

00:57:18 - 00:58:01
Hakan Agnevall: Okay. Yes. On the marine side, we do see continued growth in our core segments. Cruise ferries, offshore special vessels. That's a major driver. We do see continued focus on the decarbonization journey. MEPC 83 didn't go all the way, but it's still a milestone in the marine industry if the decision is taken in October. We do see continued focus from owners on how I am going to decarbonize over the lifetime of a vessel, which is 25 years. People have a longer horizon than just this year or so to say.

00:58:01 - 00:58:12
Arjen Berends: Just to add to that, let's say there is more regulation than just what is now coming out of the MEPC 83. There is already an existing regulation that drives decision-making as well.

00:58:12 - 00:59:35
Hakan Agnevall: Yes. Then the third element in the marine services continues to grow. Our strategy of moving up the service value ladder is playing out. On the energy side, what will support the growth of storage? Yes, a lot of focus now on the US, where the market is at a standstill. However, please remember our major markets are outside the US, so to speak, and there we do still see ample opportunities to grow on the thermal power plant side. The balancing narrative continues to be strong in the US. Customers are going ahead so far. We also see interest in data centers both in the US and in Europe continuing, and also on the energy side, services continue to grow. Those are the major drivers, but having said that, there is an uncertain environment, and the levels of uncertainty, both when it comes to tariffs, geopolitics in general, and also, you could say, the global economy, are very high right now. That's why it's difficult to make forward-looking statements, but we have a positive outlook.

00:59:37 - 01:00:04
Hanna-MariaHeikkinen: Thank you, Hakan. Thank you, Arjen. Thank you for all of the good questions. Wartsila Q2 report will be published on July 18th. Before that, we have many exciting events coming up, including the site visit to the sustainable technology hub here in Finland. It's in Vaasa. Then we will also host a CEO strategic call in June and president call also later in June. Please follow our IR calendar. Thank you.

01:00:05 - 01:00:05
Hakan Agnevall: Thank you for today.

01:00:05 - 01:00:06
Arjen Berends: Thank you very much.