Financial Statements bulletin 2021 - Transcript

Heikkinen: Good morning, everybody, and welcome to this news conference for financial statements bulletin 2021. My name is Hanna-Maria Heikkinen. I’m in charge of investor relations at Wärtsilä. Today, our CEO Håkan Agnevall will start with the group highlights and business development, and then our CFO, Arjen Berends will continue with the key financials. After the presentation, there is a possibility to ask questions and get solid answers. Håkan, time to start. Please.

Agnevall: Thank you, Hanna-Maria, and welcome everybody. This morning, it’s snowing in Helsinki today, but I think we have a good wrap up of 2021 and also looking, of course, into the Q4 numbers. So, some key messages for 2021, full year. We start there and then we will move into the Q4. Overall, Wärtsilä is moving in the right direction in 2021. Orders, net sales, operating results and cash flow have all improved during the year, which is positive. Order intake increased by 32 percent. There is growth in all businesses. Also, good progress on the service side, which is very important for us. Order intake increased by 17 percent and net sales increased by 11. Profitability improved, as we will see. We had a strong cash flow. Actually, we had an all time high in the history of Wärtsilä in our full year cash flow in 2021. Really encouraging.

Then, on the challenges, COVID continues to have a significant impact and it has a negative impact on our business, both on the marine side and on the energy side. And I think one of the important milestones during 2021 is the new ambitious financial targets and decarbonisation targets that we have announced.

So, some key messages from 2021. If we first start to look into a little bit more detailed on the numbers for the full year, and then we move to the fourth quarter. So, you could see here that the order intake is up, as I said, 32 percent to 5.735 billion. And we also see that services continue in a strong way with 17 percent. But please note, you will quickly see that the equipment has new order, order intake for equipment has gone even stronger. It’s around 47 percent. This significant increase in equipment will of course, have an impact on the mix, the revenue mix for this year in 2022. If we look at the order book, it’s growing by 14 percent to 3.763 billion. Net sales, full year, has been growing with four percent, 4.7 billion and services is also growing even faster with 2.5 billion euro. Book to bill going in the right direction, definitely, with 1.2 for the full year.
And if we look at the comparable operating result, we improved from 6% to 7.5% to 357 million euro. We are on a journey and we continue that journey.

If we then zoom into the fourth quarter, I think we see another highlight. The order intake for Q4. It's up significantly. I mean, 2.150 billion euro, 92 percent up to same period last year. Of course, same period last year was very low. But this is another record in the history of Wärtsilä. All time high on a quarterly order intake ever. And here we see strong contribution, of course, on some of the big energy orders that we have taken. But there is also good orders intake in Marine Systems, in Marine Power and certainly on the services side. And on the Q4 net sales, it's up 31 percent to 1.597 billion euro. And we also see the increase of services with 16 percent to 761 million euro. Book to bill also very strong at 1.35. Operating results, improving nine percent or hundred and... Oh, I should say the comparable operating result at 158 million euro, 9.9 percent of sales. We all know Wärtsilä has normally a strong Q4 and that also happened in 2021.

So, let's here summarise the fourth quarter highlights. So, the net sales at 1.597 billion euro, 16 percent increase on the service sales. You can see how it is evolving. Comparable operating results at 158 million euro. 53 percent growth, mostly driven by more favourable sales mix between equipment and services.

If we look at the marine market development in general, the number of vessels ordered has evolved overall in a positive way this year, the increase to 1,855 vessels compared to 815 last year in 2020, I should say. In 2021, record level vessel contracting in containers was very strong, but also new build activity in gas carriers, and bulkers exceeded the pre-COVID era. Cruise, however, newbuild continues to be rather limited.

The transitions to cleaner fuels has started and 384 orders were placed globally for alternative fuel capable vessels. And if we look at the cruise operating pace, you could say around 70 percent of the cruise fleet capacity was active at the end of 2021, and there has been a gradual uptick throughout the year. During the summer, it was around 20 percent. Of course, we see now a little bit hick with Omicron, but when I talk to our customers, there is a strong belief in the summer season that is coming.
Energy situation is improving. There is good activity on the energy storage market. Also on the thermal balancing. The energy market is well recovering throughout 2021, despite of COVID, but in many of our core markets, COVID still has a significant impact on the decision making process and also on the execution. So, there are still postponements of energy projects. Energy storage with the battery business are very active and continuing at a good level and our market share, if we look on the thermal side, it has decreased to five percent, but we also know there is about a quarter time lag in these numbers, and with good order intake that we have had in Q4, I think this will affect the market share.

If we look at the ordering takes, coming back here again, up by 92 percent, you can really see the shift here. But of course, starting from a low level. It increased over all businesses and equipment order intake increased by 184 percent. And as I said before, the strong newbuild order intake will of course affect the mix of service and newbuild in 2022, the sales mix. Service order intake also increased in a good way by 20 percent. If we look at the order book, we are building the order book in a positive way and we can also see that we are building the order book both with delivery this year, but also with deliveries beyond this year. Net sales increased by 31 percent and equipment net sales increased by 48, services by by 16 percent. Going in a good direction.

Then, looking at technology and the partnership journey here. Wärtsilä, we are about shaping decarbonisation of marine and energy, and it's a lot about technology and services. And here on the technology side, we see some exciting development during the last quarter and the last year, I would say. I mean, the latest thing here, two stroke. We are doing some very interesting and promising technology development here. It's about having retrofit capability to convert. Going from diesel to LNG, from heavy fuel oil to LNG, but then also to continue to upgrade the engines to the future fuels. Very promising. We have introduced our new IQ series of exhaust gas treatment systems. That's the next step in the gas treatments with a smaller footprint and with a good performance so to say.

The ammonia journey is also ongoing, one of the exciting fuel avenues going forward, and we have announced the cooperation with Eidesvik offshore to convert an offshore supply vessel to operate with ammonia fuel combustion engine. Some of the early steps. Then on Voyage, smart port innovation and digitalisation, we have signed a
landmark memorandum of understanding with the Maritime and Port Authority of Singapore to further strengthen our collaboration and see what digital solutions can contribute to the shipping ecosystem in Singapore.

If we then go and look a little bit closer, business by business. So, if we start with Marine Power. Increase basically in all key figures, comparable operating result increased by 67 percent. You can see order intake up by 50, net sale by 20. If we look at the operating result, we could say the positive contribution here is from the reactivation of the cruise that took place throughout 2021. And that driving the increased volume in services. We have also had efficiency improvement actions, primarily on our field service network, but also in other parts of the business. The challenge is the cost inflation. We clearly feel it and we can mitigate it to some extent, but of course we feel it. And still we have a relatively low factory load, building up a little bit going into this year with the latest orders received on the energy side.

The service business and the service agreements, in this case, it's going in the right way, it's increasing after the COVID-19 related decline. An interesting example, we signed a long time optimised maintenance agreement with NYK Shipmanagement. It's a 13-year contract which is designed to ensure maximum uptime and equipment reliability with assured maintenance cost for LNG carriers. And this all includes the Expert insight, our digital platform, which enables dynamic, data driven maintenance planning and optimised maintenance. So, it's really to leverage digital tools and artificial intelligence to provide uptime reliability and create value for the customer.

If we switch to marine systems. Net sales and order intake increased. Service order intake increased by 21 percent. And you can see the order intake up 131 percent. Net sales up 32. If we look at the comparable operating results on the positive side, the demand for transactional services contributed in a good way. But there is still a low level of newbuild scrubbers and the margins on the scrubber business have come down. There is also a challenge with the mix between equipment and service that affects the operating result.

Voyage, clear improvement in profitability. Driven by improved sales volume, by the favourable equipment service mix and but also driven by the efficiency improvement that we are performing in Voyage. Also in Voyage, we have the challenge with the cost
inflation and also the continued increased investments in our digital competence. So, Voyage is in a positive trajectory. However, Voyage was helped in Q4, also by, I would say, some strong seasonal effects on the services side. So when one looks at the overall improvement journey and the profitability of Voyage, one should consider the full year result.

The cloud solutions deliveries, an order intake continues to grow in an accelerated way, and we are also growing our cloud simulation service business. And here we have a very interesting example from Africa and the University of Mombasa. We are basically providing a cloud based simulation tools for modern training technology, and that will help African seafarers to be trained remotely. Of course, in COVID times, very valuable. The sessions will always be up to date with the latest content and also tailored content to be able to provide customer specific training that is accessible for all the participants. The cloud simulations is really a complement to the on premise simulations and to be able to ensure top notch remote training.

Ok, if we then move to the Energy side. Energy order intake, net sales and comparable operating results all increased. We had large single deals that came in from Mexico and Brazil and that really supported the Energy business going forward. But we do see a little bit of a trend shift here also on the thermal side. Still fully acknowledging this is a project business, what that means, so to say, in terms of the order intake. Sales volumes is clearly up contributing to the comparable operating results. Also, favourable mix within services so to say. On the challenging side or affecting the operating result in a negative way is the equipment services sales mix is increased the share also of energy storage, as we have communicated before. Currently, the energy storage business is loss making and we are improving it and turning it around over the next few years. And we also see, we are investing in the business, ramping up our execution capabilities and growing the business. And we are also in energy facing a cost inflation pressure.

So, the example for energy is the significant order that we received from CFE in Mexico for 480 million euro. CFE is a state-owned electrical utility in Mexico, and they have ordered two large multi fuelled power plants with a combined output of 600 megawatts. And these are actually the biggest generating capacity EPC contracts that Wärtsilä has ever received. It includes both the 50DF dual fuel engine and 34DF dual fuel engines.
Very important to order and also very encouraging for the Energy business. But Energy also has a strong focus on services, and if we look at the installed base covered by long term service agreement, it is really increasing. And when we talk about how to support our customer, remote support for power plant is constantly growing and we solve a lot of cases remotely every day. So a couple of interesting data points here. 96 percent of the support cases were actually solved remotely in 2021. 96. And 91 percent of the support cases, they were actually solved within the same day they were raised. So, remote support solutions help to reduce the operating cost and the lead time. And once again, using data and infrastructure, also using the digital tool to have a quick response time and also start to work with proactive maintenance and preventing problems from occurring. Other key financials, so Arjen, please join me.

**Berends:** Thank you, Håkan. Starting with cash flow. Håkan mentioned already, really a good cash flow, both in Q4, as well as for the full year. Record again after the record of 2020, which was the previous one. Of course, a good contribution by the profit, but definitely the main contribution, as you can see also from this slide, came from the working capital. All the actions that we have implemented historically, which are a couple of years back on, let's say, collection, inventory optimisation, et cetera. are really paying off. Also, let's say we had a good traction on the supply side, let's say with FCF programmes as well. Good cash flow, of course, contributes clearly, let's say, to lowering the net debt. Almost zero and gearing also equivalently following. Solvency improving slightly 0.5 percent and basic earnings going up as a consequence of increased profitability. Cash flow slide on the left side. Trend is going up. Really good level, I would say. Going to the right side of the slide, let's say the fourth quarter development. Looking at the main buckets here, let's say the trade receivables, they went up as a consequence of the high deliveries in Q4. Seasonality here. Also, that has an impact to the inventories which went down, of course, when you ship it out under very difficult circumstances. Logistics, I think we have mentioned that also earlier calls. And then trade payables coming from basically all businesses. But the main business here that is here is Energy business with a good traction and good payment terms toward suppliers. Looking at the dividend per share, the proposal is 24 cents, 73 percent of EPS, which is in line with our financial targets on the long term being above 50 percent of EPS. Give the floor to you.
**Agnevall:** Thank you, Arjen. So. Then to the final part of the presentation, the prospects. So we expect the demand environment in the first quarter of this year to be better than the corresponding period in the previous year. However, the prevailing market conditions make the outlook uncertain. COVID is still impacting on our business and is creating a uncertainty, so to say. So with that, that was the presentation Arjen.

**Berends:** Yes,

**Agnevall:** I think we open up for questions.

**Heikkinen:** Yes, exactly. Thank you, Håkan, thank you Arjen. Now, time for good questions. Handing over to the operator, please.

**Operator:** The first question on the line, please remember only one question per analyst. First question, please open up your microphone and ask your question. Sebastian Kuenne from RBC Capital Markets.

**Kuenne:** Good morning, gentlemen, can you hear me?

**Agnevall:** Yes. Good morning.

**Kuenne:** Thank you. My key question is on the tax rate today. I spoke to Arjen this morning and there seemed some issue with losses in the voyage business that leads to, let's say, regional differences. You know, you have losses in one region, gains in another region you can't offset really leading to a high tax rate that was probably the main disappointment today. What do you expect for the next year? Do we have a similar headwind from tax? And what does it mean when the energy storage business is growing? This is loss making. This could make large losses in one region. Do we have to expect tax rates of 40 percent, 50 percent going forward? Maybe you can elaborate a little bit on that. Thank you very much.

**Berends:** Thank you, Sebastian, for the question. Very valid one as well. I would say 40-50 percent is really high, so I don't expect that. But we have been having unusually high ETR over the past years. And it's really, as you also commented, actually driven by losses in a few countries that we cannot, let's say, yet at least recognise the deferred
tax assets. We are working on a turnaround. Let's say, as you mentioned, let's say big parties related to the voyage turnaround as well. Not all of it, but it's a big part of it. But it will take some time to turn it around. So, it will not be, let's say, low this year. It will be on the higher end this year, but it will not go to 40-50 percent. That's too much, I would say.

**Kuenne:** Energy storage is growing fast and...

**Berends:** Sorry, good point on the storage. Of course, storage is, let's say, not making any profits today. But of course, let's say it depends very much on, let's say, where storage is, in which country. And let's say, are there any other businesses of Wärtsilä with profits in that country as well. So it depends very much, let's say, where it is, whether you can or cannot, let's say, recognise deferred tax assets. And in storage case, there is more in that unit where storage is.

**Agnevall:** Yeah, and I would say, I mean, if you look overall, I think storage is very active in the U.S. and as you know, we have been very strong in North America in our thermal order intake.

**Berends:** And also services. Yes.

**Kuenne:** Thank you very much.

**Operator:** Next question on the line. Please open up your microphone and ask your questions, Sven Weier from UBS.

**Weier:** Yes. Good morning from my side. My question is on the margin trajectory, right? You mentioned the mixed comment that has an impact in 2022. On the other hand, we have to see the 12 percent margin target. And I think that you talked about a steady margin improvement towards that goal. So is that still consistent? Should we also look for some sort of margin improvement in 2022? Or has your mind changed on that end? Thank you.

**Agnevall:** No, I think we are on a journey, so to say, and we have clear targets. But we also said that, you know, and as you know, Sven, that our businesses, or especially in
the Energy side, is project driven, so to say, so that means that you can have certain variances through the years, so to say. And it's clearly so that when you have a strong order intake on the equipment side, which fundamentally is positive, then you go into a time period where you deliver, I mean, we will deliver Mexico, Brazil, et cetera. And then that has a certain impact on the mix between new builds and services.

Weier: Well, but it doesn't mean that margins will be, I don't know, stable or down this year.

Agnevall: I mean, we don't provide guidance for profit margin development for a year. But I think that, you know, if you have a year with a lot of newbuild relative to service, that will have a certain impact on the margin.

Weier: And why did you refrain from giving a guidance for 2022? I think that was one potential idea to go back to giving a guidance.

Agnevall: It's really about the uncertainty of the market situation. COVID still has a significant impact. I mean, looking at Omicron here, you know, I think now we are moving by the weeks. Maybe now there are in the global scale, there is a more optimistic outlook in terms of countries opening up. But if we go back only a couple of weeks, there were serious concerns about lockdowns again. There were, CDC were making certain recommendations affecting cruise, et cetera. I think this just recent development really shows the uncertainty that COVID is creating, and that is the background.

Berends: And the infection rates go up in many places.

Weier: Thank you.

Operator: Next question on the line, please, you can ask your question, Nancy Ni from Goldman Sachs.

Ni: Hi, good morning, thank you for taking my question. So my question is you recently announced a large new build methanol order. And I was wondering, given that you've
had this technology since 2014, kind of what, how come you have only just had your first large one? And do you expect this to pick up going forward?

Agnevall: So you could say this is the first order with Methanol 2.0 offering, so to say. The very, very first order was with Stena a couple of years back, but this is the next generation taking it to the next level. So that's why we call it, it's the first on the new generation of methanol engines. And when we have talked about future fuels, methanol is, in our view, certainly one of the future fuels. And as we discussed, our thinking is that, you know, in the era that is coming, an era is a couple of decades. We are moving into space where there will be multiple fuels depending on availability of the fuel, but also depending on which application you operate, et cetera. So, methanol will, in our view, be one of the major avenues.

But there will be other avenues as well. There will be ammonia, there will be hydrogen blends, there will be electric. There will still be LNG and fossil fuel as well, and biofuels. But methanol is one of the major avenues forward.

Operator: Please, you can ask your question, Max Yates.

Yates: Hi, thank you. My question was around the energy margins. And I mean, I guess you mention a few things. You mentioned a few things that have impacted the margins and why it's down year over year. You talked about the mix from storage and also cost inflation. So, I guess my question was which of those two impacts sort of storage mix or cost inflation, would you say was the bigger of the two issues? And as we think about next year, I'd love to understand a little bit better how it works when you take a contract in energy, say like the 480 million order and how you manage your costs as you come to deliver that order in 2022. Is there any risk that you take a fixed price contract and we're seeing it from some other project companies that the cost profile looks very different as you start to deliver it? I imagine that's a challenge in an inflationary environment. So how do you manage that?

Agnevall: So I start with your second question, and then I will ask Arjen to answer your first question. But if I start, you know, if you take a big order like the Mexico or how does that affect in the landscape that we are currently moving in the cost inflation. I mean, when we lock a contract, when we sign a contract with a customer like we signed with
CFE, of course, we have a very solid cost calculation and well worked through cost calculation where we have included assumptions on inflation in various areas. And as we then go in to deliver in 2022, we will, invoice and we will realise the margin content and the provisions that we had. So I think, you know, Mexico, it's a very solid order. My comment on the mix is, that I talked about before, is of course that if you install an engine and we will install quite a few engines in the power plants, you know, the services will only come later. So we will see the impact and the benefit of the service later than 2022.

Berends: Yes, then on your question on mix, let's say storage now in Q4 150 million more sales than, let's say, last year in the same quarter. So that clearly has an impact. As I said, this is at the moment a loss making business. We are turning it around, let's say, in a few years. We believe it will be profitable as well. But of course, you have always, let's say, within the newbuild, even on project level you have you have mixed differences. Let's say one project has a different profitability than another. And then of course, you have also, let's say, the same within the service environment. Let's say that the variation between, let's say, spare parts, field service agreements and projects in the service side also have different margin levels. That all has an impact on the mix going forward. And as Håkan also mentioned earlier. Also in energy, we will see quite significantly, I would say in particular in energy, a very heavy newbuild year in 2022.

Operator: Next question on the line, please, you can ask your question, Manu Rimpelä from Nordea.

Rimpelä: Thank you. My question would be relating to this mix impacts we talked about already. So if you kind of, you know your backlogs, so you obviously have a pretty decent view about what's in there and how that mix looks. So I don't really sense that you're helping us to really understand how to model the margin in 2022. I'm not asking for any guidance, but if you look at the backlog, can you see that the kind of equipment only backlog, so will the equipment margins, if you take out the storage part of the business, will you see that part of the business thinking going margins up because you have higher utilisation rates, which would be then driving operating leverage, or will that part then be offset by cost inflation? Or is the mix within that equipment part negative?
**Agnevall:** I mean, first of all, we don't provide any guidance. I would say that, you know, what we are signaling is clearly that, you know, if I may say 2022 will be a year with a lot of newbuild. That is what we are signaling. And as I said before, based on the question that we got, if you look at some of the key orders that we have taken recently, of course we have, you know, factored in, you know, various cost elements in that.

**Rimpelä:** Ok, but if you think about the newbuild part of the business, I mean, if you think about the moving elements you have in that, so you have cost inflation working against you. Then you have pricing. Do you see that will be kind of net positive or negative? And then on top of that, we should have a very significant step up in the utilisation rates. So shouldn't that mean that that part of the business profitability should nonetheless go up if you just think about the equipment?

**Agnevall:** So as I said before, I mean, the signal that we are sending, it's it's the mix that is to have an effect on 2022. I also said in Mexico and other energy projects, of course, we have done solid cost calculation of what goes in into the project.

**Rimpelä:** Ok, thank you.

**Operator:** Someone on the line, please, you can ask your question. Sean McLoughlin from HSBC.

**McLoughlin:** Good morning, thank you for taking my question. I just wanted to look at the very strong cash flow situation. You entered 2022 effectively. Well, neutral net debt position. I mean, how does that or does that influence your thinking around M&A? And what are the areas that you would target?

**Agnevall:** So if I start and Arjen ask you to continue, I mean, we have at CMD, we also communicated. When we look at M&A, we see more of the type of bolt-on acquisitions. I mean, acquiring, you know, technical competence, I mean peak technical competence that we could bring in to our core business, so to say. And we have also communicated that we do think that we have a balance sheet that would support such a strategy. And I think that strategy remains.
Berends: Yeah, I would almost say there’s nothing more to add, right? Our view on M&A definitely has not changed since since CMD. Let’s say we are looking for these, let’s say, strategic, relevant items all the time and we will pursue them if feasible. So I would say it’s, you could say, almost independent of the cash flow. Let’s say we as a company are always scanning the market for, let’s say, useful M&A opportunities.

McLoughlin: Thank you.

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

Kansanen: Yeah, hi, good morning, it’s Antti from from SEB. So you mentioned that it will be a pretty equipment heavy year in 2022, but then if we look at the service business, what are you kind of seeing still as a potential to improve? And I mean, like if we are going to see the COVID impact starting to fade and obviously cruise is still a tailwind for the first half. So where are we if you think about the normalisation of profitability, where there are still potential to grow faster than what the, let’s say, the structural growth in services. Could you provide a bit more outlook on the services side regarding Marine divisions and Energy? Thanks.

Agnevall: Yeah. So I mean, if we talk long term or mid to long term, I mean, clearly, we are excited about the opportunities on the services side. And we talked about the service value ladder where we do see growth potential both on the transactional side, on the agreement side and the performance based side. And I will also say on the retrofit side. And those still hold. Now, coming back to cruise, which is of course, very important for Marine Power. It is... There is a strong correlation between the utilisation of the vessels and our service business. So when you see the cruise utilisation moving, our service business moves correlated with that. And as I said, when I talk to our cruise customers, they, there was, you know, a setback, I would say, a slight setback considering Omicron. But when I listen to them now, they are fairly optimistic about the summer.

And then if you talk about, you know, the performance based service as an agreement, I think we showed some examples here earlier. It is evolving in a positive direction.
Kansanen: All right, and then if we think about the service project business, I guess you have flagged that there has been in certain areas a bit high activity in 2021, so is it something that we should be concerned regarding year over year basis or is the demand kind of accelerating on that front still?

Agnevall: I would say service, the product services business, it's on a high level and yeah, we see it continuing into 2022.

Kansanen: Ok, and then last question for me, if we look at the backlog that you have to be delivered in next year and a year beyond that, we are looking at like 15 to 20 percent growth year over year. Can you comment a little bit on what's the volume or the price impact on that growth?

Agnevall: Could you repeat the question, sorry, I didn't get it.

Kansanen: Now the pricing in the backlog, I mean, we see that the backlog value is significantly up year over year. What's the component of price in that one?

Agnevall: Yeah, I would say that, you know, projects have been taken... It's a mix, I would say. There is still, of course, a competitive pressure, no doubt. But, you know, with new technologies and new applications, there are also opportunities for price realisation. I would say it's a mixed picture.

Berends: I fully support that. Let's say, it's of course, very different in different markets. But in general, I would say that the price pressure is in none of our markets really less. It's either stable or, let's say, pressing even more, because if you take the marine side, for example, the volumes are still rather low. So you're in a smaller market fighting with the same competitors and that has not really improved. So, price pressure, I wouldn't say, has really deteriorated a lot, but it's definitely, absolutely still there to a large extent.

Agnevall: And I would say, I mean, what is balancing that is, of course, us moving up the service value ladder when we move to more performance based, when we take on more risk that we manage and we do it in a profitable way. So there we see some exciting opportunities for price realisation.
Berends: And the technology leadership.

Kansanen: But you're not willing to provide any, let's say, ballpark on price increases that you realised during 2021 orders or in the backlog. Just any numerical.

Agnevall: No. For competitive reasons I don't think we would do that. No.

Kansanen: Ok, thank you. That's all for me.

Operator: On the line, please, you can ask your question. Vivek Midha from Citi Research.

Midha: Hi, sorry about that. Thanks very much for taking my question. Good morning. So, in the Marine Power and Marine Systems businesses, you've called out the effect of large orders. Could you maybe give us some commentary on how smaller or base orders are developing in this business? Thank you.

Agnevall: So if I start with Marine Power, I think it's developing in a good way. I mean, why, for Q4 was as, I said before, Q4 normally in Wärtsilä is a quarter with a lot of business ongoing. And Q4 2021 was no exception. I mean, but 2021 was exceptional from the sense that, you know, we are hitting the all time high, so to say. The all time highs, they are driven by the big orders, I would say on Marine Power, the smaller orders, they are on a fairly stable level. Now, coming to Marine Systems. It is a little bit more challenging because the scrubber business is down. So there we... It's a bit weaker, so to say. If you look at the order intake for Marine Systems, the uptick here is mostly driven by gas solutions. So, it's a mix, scrubbers down, gas solutions is up.

Midha: Thank you very much.

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

Vesola: Hi Håkan, Hi Arjen, can you hear me?

Agnevall: Yes, welcome.
**Vesola:** Yes. About the storage market competition dynamics. I mean, what are currently the major decision factors the customers have? Is it integration capabilities and track record? Is it the optimisation software? Is it price? Is it lead times? I mean, how is the current competitive arena vis a vis the likes of Tesla and Fluence and what makes you win the contracts if and when you do?

**Agnevall:** I mean, why don't you first, there is not only one customer, there are different customer segments. There are the utilities. There are the IPPs. There is the more industrial customers and they have a little bit different profile of, you know, what criteria is on the top of their list. And I think where we are having our biggest successes is with the biggest utilities. They are really looking for a credible supplier with a strong track record, strong execution skills that can also integrate into the power system. The other segment where we are strong is on the industrial side, where we can really combine different generating assets to provide uptime reliability and energy savings. So these characteristics that are mentioned here, this is clearly how we want to position Wärtsilä. I mean, we come with a strong power system background and power system capability, and we try to leverage that by bringing in the storage. The battery storage is one tool in our toolbox and then combine it with thermal renewables. And as some of our customers are saying, GEMS are a software platform that's the quarterback of the system. This is where we implement our power system knowledge.

**Vesola:** Ok, that's very helpful, thank you.

**Operator:** Ok, we have one more question left. Please, you can ask your question. Sebastian Kuenne from RBC Capital Markets.

**Kuenne:** I have a follow up on the energy storage again. There's talk that battery prices go up this year rather than down per kilowatt hour. How do you hedge that business? Because this is now becoming almost half of your energy business. It's extremely high growth rates. So how can you explain how you hedge the costs in that particular business and on the margin, just briefly, you say it's loss making sure, but is it loss making on the gross profit level or just on the EBIT level of service loss making on the gross profit level, you can grow it as much as you like, it will never turn positive.
**Agnevall:** Ok, so the first, how do we hedge? I mean, we have key partnerships with battery cell providers and we have long term agreements with them. So that's how we hedge your position. And then we have also said in the past that, you know, the storage business, it's a growth business. We are investing in R&D, we are investing in scaling up and it is negative now.

**Berends:** On EBIT level.

**Agnevall:** On EBIT level.

**Kuenne:** So positive on gross profit. Do you have a contribution margin from that business currently?

**Berends:** Yes.

**Kuenne:** Thank you very much.

**Operator:** Next question on the line, please, you can ask your question. Matthew Donen from Morningstar.

**Donen:** Hi, thanks for taking my question. Just another question on the sales mix in the energy segment. At the CMD, you alluded to storage order book of more than 700 million. What did you manage to achieve for the full year? And then maybe just a follow up on that, how lead times due to the transportation shortages are being impacted this year? And have you had any penalties as a result?

**Agnevall:** So, so I mean, these are numbers that we are now providing openly, so to say. If we if we look at the full year order intake for energy storage, it was 720 million euro. And if you look at the sales recognition, it was 325 million euro. So there you have the balance. When it comes to the execution, you could say that we are still relatively early and ramping up our execution capabilities. But so far, I think we, you know, we are progressing in a good way, like you would expect from a, you know, a well-run project business.

**Berends:** But the larger part of the 720 million will be in delivery this year.
Donen: Thank you. Appreciate it.

Operator: Next question on the line, please, you can ask your question. Max Yates.

Yates: Thank you. I just I just wanted to come back on working capital. You've had a good performance in terms of the reduction. I just wanted to understand how you think about it as we go into 2022 because obviously your sales are going to be up. But as a percentage of sales, do you see the kind of levels where we are now as achievable? Or was there anything sort of abnormal in terms of how quickly you were able to bring that down, but maybe you need to invest a little bit as we go into a sales recovery?

Agnevall: I would say, if I start, I mean, we had one exceptional situation and that is, of course, we had a lot of big orders coming in with down payments in Q4. So those were exceptional occasions. And however, as Arjen pointed out, we have a continuous and fairly successful programme to bring down the working capital. But one, I would say Q4 was exceptional, it leads the full year of 2021 of being exceptional.

Berends: Yeah, I would almost say that, OK, we have now broken the operating cash flow record two years in a row. I, to be honest, don't expect that to happen again in 2022. You never know, but I don't think so. I think now, as Håkan said, we have received quite some significant milestones and that you can see also in the Q4 numbers. Actually Q4 on a standalone basis, operating cash flow was also record. So it's really high. And we got a lot of milestone payments. Not only in, let's say, down payments, but also, let's say, milestone payments on big projects in Q4. Some even earlier than anticipated. So in the way you eat from then, let's say, this year, basically 2022. I would still expect a good cash flow for 2022. But I don't think we will break the record again. And working capital will likely go up. And sorry. Sorry, what was your question?

Yates: No, no, that's great, thank you.

Berends: Ok.
Operator: Next question on the line, please, you can ask your question. Nancy Ni from Goldman Sachs.

Ni: Just a quick one for me, I was wondering if you could provide a split within your energy storage orders between hardware and software.

Agnevall: I don't think we disclose that.

Berends: No.

Agnevall: Sorry, sorry about that, we don't disclose that.

Ni: Ok, no worries, thank you.

Operator: Next question on the line, please, you can ask your question. Sean McLoughlin from HSBC.

McLoughlin: Thanks for taking my follow up. Just back on energy storage. If you could give us an indication. 720 million is not going to be enough to take you to positive EBIT. Do we need to see that double again? Do we need to see that triple again before you reach EBIT profitability?

Agnevall: I don't think we go into those details. I mean, the comments we said the road to profitability is a road that will take us a few years. I think we'll leave it at that. And also clearly, you know, there is an expected growth in the market, but also the growth of our business.

McLoughlin: And is it then something fundamental in the contract structure, or is it pure scale that drives you to profitability, looking at what you'd expect in 2022?

Agnevall: I would say what is driving the profitability of our way of looking at the business is, of course, there is an element that which there is in all industries you need to be cost competitive. But the other part of the equation that we found very important is how you can integrate the battery system to the overall power system and then unlock
values, so to say. And you manifest that in the, you know, the software platform that you provide.

**Berends:** And the synergies with the thermal energy business, right?

**Agnevall:** Yeah. And from our side, we can also leverage the synergies that we have on our thermal balancing.

**McLoughlin:** Thank you.

**Heikkinen:** Are there further questions? It seems like not. Thank you, Håkan, thank you, Arjen. Thank you for great questions. Wärtsilä Q1 report will be published on April 28, but we will be also active during Q1. We are hosting several events for investors and analysts. One of those is Sustainability event, which will take place virtually on February 25. More information from IR team or from our website. Stay safe and healthy. Thank you.

**Agnevall:** Thank you.

**Berends:** Thank you.