Wärtsilä Corporation - Interim report January-March 2022

Heikkinen: Hi everybody, and welcome to this news conference for Wärtsilä Q1 results. My name is Hanna-Maria Heikkinen and I'm in charge of investor relations. Today, our CEO Håkan Agnevall will start with group highlights followed by business area development, and after that our CFO Arjen Berends will go through the key financials. After the presentation, there is a possibility to ask questions. Time to start. Please, Håkan.

Agnevall: Thank you, Hanna-Maria and a warm welcome to everybody. So the interim report for first quarter. What are the highlights? I mean, order intake increased. But of course, the major topic for the first quarter is the write-down of 200 million euro that is burdening the operating result. But looking at the order intake, it increased by 11%. On the equipment side, with 17% and on the service side with 6%. Net sales increased by 30% following a strong order intake last year. Service net sales increased by 17%. Now, the Russian-Ukrainian war has intensified the overall uncertainty and amplified the concerns related both to cost inflation and to the global economic environment. And I will also say that the pandemic situation, especially in China, also triggers additional challenges on logistics and cost inflation. The war between Russia and Ukraine certainly has an impact on Wärtsilä. I mean, first of all, we condemn the war in Ukraine. We have suspended all deliveries, sales orders, bidding to Russia, and we comply with all the sanctions applicable for our operation. In the current environment, it's not viable for Wärtsilä to maintain activities in Russia. Therefore, we have decided to further downscale our Russian operations. We have it now included in the first quarter a write-down of approximately 200 million euro. And these 200 million euro includes approximately 75 million related to impairment of voyage, goodwill and intangible assets, approximately 50 million euro of impairment related to assets in Russia, and then approximately 75 million euro related to write-downs in trade sanctions, projects, and receivables. And also, to give the magnitude, Russia related activities account for about 5% of our net sales in 2021. And out of that, about 40 million euro was services. The key figures in a short summary. We will go through the details. So let's jump into the details. And if we look at the net sales, up 17% on the service sale, up 11%, sorry, the net sales up 30% in general, 17% in service sales and the operating, comparable operating results, we reached 65 million euro, 5.3%, and that's a 61% growth quarter on quarter. But we should acknowledge that first quarter, 2021, we also had some net
provision related to distressed projects. But we are moving in the right direction. And basically, overall, you can say that we are supported by higher sales volumes. And the marine market activity varies by segment. Newbuild investments soften mostly due to the increased prices and also challenges with slot availability at key shipyards. And if we look at the number of vessels ordered, they decreased compared to previous quarter 274 compared to 376. The contracting was largely driven by containerships. Cruise newbuild activity remain limited. The transition to cleaner fuels has already started and we had 107 orders in the market placed globally for alternative fuel capable vessels in the first quarter. And at the end of March, around 70% of the cruise fleet capacity was active and that was flat compared to the end of December. However, I would say, when I talk to some of our customers, they have an optimistic view of the way forward here to the summer. On the energy market situation, the whole Russia-Ukraine creates turbulence and price volatility. And it has created an unforeseen turbulence and it has a negative impact on global supply chains, increasing prices and also delaying customer decision-making overall. The pandemic has somewhat stabilised, but full recovery will most likely take time, and thus we have additional uncertainty within the investment environment. And especially in China, we all know the impact of Covid there and its impact on supply chains. Increasing amount of intermittent renewable energy is definitely a theme going forward and it will require flexible power, where we have some of the key technologies for the balancing power. We see that as a mid to long term trend that probably will be even accelerated by the current challenges in the energy market. And then the market share in gas and liquid fuelled power plants increased to 8% from 5. Order intake increased by 11% on the equipment side it increased by 17% and on services it increased by 6%. Looking at the order book, we see it’s increasing. Book to bill decreased a bit, but that's because we are ramping up sales and delivering. We also see that the order book develops in a positive way, both for this year and for the two coming years. Net sales increased by 30%. Equipment by 48%. Services went up with 17%. And also reiterating one of the key messages that we will have a sales mix with a relatively high share of equipment sales compared to services sales for the full year. And we know that services has somewhat higher profitability than equipment sales. Now, technology and partnership highlights. A lot of interesting things going on in Wärtsilä and in the world to enable decarbonisation. So, a couple of proof points from our side. We had, in the quarter, we had our first order for newbuild methanol fuelled engines. It's the next generation of methanol fuelled engines. Van Oord placed the order. It's for offshore wind installation vessel. And now we have
also included the MethanolPac, which is a fuel supply system to the engine itself. So, methanol, one of the green fuels going forward. On Solstad, we are cooperating with Solstad on decarbonising their entire fleet, about 90 vessels, and the target is to achieve a 50% reduction in CO2 by 2030. And in this agreement, we are working together with the customer to identify and evaluate and implement solutions that will increase fuel efficiency and also reduce the greenhouse emissions from Solstad offshore vessels. On another area, on the energy side, we have just opened our expertise centre in Houston, Texas, and this centre will deliver support to our US and Canadian energy customers and enhancing our ability to grow our service business. And what we do in the expertise centre, we collect and we use all the data analytics to improve customers’ uptime reliability, to improve the performance. And this is really part of moving up the service value ladder strategy that we have. Now, if we go business by business and we start with Marine Power. Marine Power, increase in all figures. Service order intake increased by 15%. You see the order intake overall, 34% up, net sales 7% up. When we look at the comparable operating result, up from 40 million euro to 44. Key drivers, service sales, very strong. On the challenging side, we see increasing cost for fuel testing, increasing transportation costs. Also overall increasing cost in our supply chain. And also when it comes to some of our service business, Covid and lockdowns in China has a significant impact also on some of our JVs in China. We also have a cost this year for ramping up our new facilities in Vaasa, the Smart Technology Hub. If we look at the service side and the service agreements on Marine Power. Net sales from installations under agreement are increasing. And we have one interesting example here from Japan. For MMS, gas carriers, it’s an optimised maintenance agreement covering two LNG carrier vessels and operated for MMS. The agreements are designed to live a maximised engine uptime and long-term cost predictability, optimising maintenance for highest efficiency and lowest carbon footprint. Central to the OMAs is our predictive maintenance solutions, expert insight, where we use artificial intelligence and advanced diagnostics to monitor onboard equipment and systems in real time. If we then move to Marine Systems. Also an increase in all figures. Service order intake increased by 41%. Overall order intake up 29%. Net sales up 15%. And if we look at comparable operating result, going from 8 to 12, and here the key driver is the favourable mix between equipment and services. Services has a strong contribution. On the scrubber side, we still see lower deliveries, although the fuel spread is very high and from that healthy for the business. Our customers have a very active business now and therefore weights with some of the scrubber retrofits. If we look at Voyage. Here, we
have more of a challenge. Order intake and comparable operating results decreased. Profitability has been burdened by delays and the sanctions of Russia. If we look at the order intake, it's down 23%. Net sales is up 2 and you can also see here the comparable operating result. We have a decrease from -12 to -14. On the positive side, services is contributing positively, but we have challenges in delays in projects. Higher material and transportation cost, FX (ruble). And also, we have a cost now when we rebuild our capabilities outside of Russia related to Voyage. So we are downscaling in a staggered way and building up competence, making sure we have business continuity and serving our customers. But of course, we are incurring cost to this. And you could say this whole Russia challenge will delay the turnaround of Voyage. And if we look at how our cloud solutions are developing, I mean, we have a 28% increase in connected vessels. You see a little bit of a downturn in the first quarter. There is more prioritisation. Certain cruise are not renewing in the quarter, but coming later, et cetera. So, I think the trend is still very positive for connected solutions. A very interesting example from Voyage, we are investing in Marindows to support the shipping decarbonisation in Japan. This is the consortium in Japan and where Marindows links edge computing on board ships with cloud services and shore-based applications to provide a range of maritime specific services to seafarers and to vessel operators. And the collaboration, which will include the area of vessel optimisation and autonomy, will create significant value for the Japanese market. And by reinforcing synergies and leveraging a digital ecosystem of applications that can run on board and ashore, companies will bring to market safer, greener, and more efficient operations. Switching to Energy, we had a significant increase in net sales and profitability. Service order intake decreased by 7%. Overall order intake is up 3%. Net sales is up 86%. And you can also see comparable operating result from 4 to 24 million euro. Service volume growth has been a key enabler for the increased operating result. Our challenge here, clearly cost inflation and less favourable sales mix. We talked about that before between equipment and services. A key example here, the flexible thermal balancing journey continues. And here we have yet another order in Italy for balancers where all fast-starting internal combustion engine technology will be used to balance the power system in Italy and ensure it is stable when the share of renewable is increasing. And this order was placed by A2A, and it will be delivered as a full engineering, full EPC contract in partnership with the Italian engineering group Cefla. The new plant will operate with six of our 50 SG gas engines and will come in operation in 2023. And when we have completed this, this will be the largest power plant in Italy using internal combustion engines. If we look
on the services side and our service agreements, the installed base of long-term service agreements is also increasing. And here we have one interesting example, our guaranteed asset performance agreement, where we are working with our customers in Senegal for a power plant. It's a ten year contract. It covers 130 megawatt of power plant in Malicounda Melec, which is scheduled to be commissioned in 2022. The Flexicycle power plant will operate seven 50 engines and it combines the advantage of flexible, simple cycle operation with the outstanding efficiency of a combined cycle plant. And this agreement, the service agreement, will provide operational reliability with scheduled maintenance and spare parts, as well as heat rate and power output guarantees after major overhauls. Now, Arjen, some comments on other key financials.

**Berends:** Yes, thank you, Håkan. If we start with cash flow from operating activities. Minus 122 million euro negative. And the main negative contributor, you could say is the working capital. We had to increase our working capital in Q1 in order to facilitate the higher delivery volumes in the coming months. And that you can also see on the working capital line, it's still negative, -18, coming from, what was it about, -100 at the end of last year. Net interest bearing debt, 276 coming from close to zero at the end of last year. This includes about 50 million repayment of debt as well as about 60-70 million euro increasing of lease commitments and mainly coming from the STH facility ramping up in Vaasa. Looking at gearing 0.14, solvency 35.3 and basic earnings per share -24. If we would exclude the provisioning of the 200 million also addressed earlier by Håkan, gearing would be 0.13, solvency 2% higher at 37.3, and basic earnings per share six cents positive. Looking at the breach from profitability to operating cash, starting with 142 on the left side, on the on the right side graph here, adding back, let's say the depreciation amortisation, which is not cash. This includes about 85 million euro of the write-downs related to the 200 million provisioning assets in particular. Then we have a few blocks on the working capital, 169 million euro down for the reasons I mentioned earlier, to facilitate deliveries in the coming months, higher deliveries. And then the other part is also related to the 200 million write-down, because the major part here is the write-downs of VIP in projects as well as receivables on Russia related matters. If we move on to the prospects, then Håkan.

**Agnevall:** Thank you, Arjen. So, if we look at the prospects, we are saying that Wärtsilä, we expect that the demand environment in the second quarter to be similar to
that of the corresponding period in the previous year. However, the prevailing market conditions make outlooks uncertain. So, that was a summary of Q1.

**Heikkinen:** Thank you, Håkan. Thank you, Arjen. Now we are ready to take questions. Handing over to the operator.

**Operator:** First question on the line, Andreas Willi from JPMorgan. Please, open up your microphone and ask your question.

**Agnevall:** Hello, Andreas. We can't hear you.

**Willi:** Yeah. I'll try again. Good morning. Can you hear me?

**Agnevall:** Yes. Now we can hear you.

**Willi:** Thank you. My first question is on the strong service activity in Marine. If you can comment a little bit on that in terms of underlying trends versus customers buying spare parts, given all the uncertainty. And what should we expect basically here going forward, also, given some of the lockdowns in China that may affect that business? That's my first question.

**Agnevall:** Yeah. So if I start, I think, first of all, it's a broad growth in the service side in different customer segments. And I mean, it is driven by higher utilisation. We are seeing that... Sorry, we are seeing that, for instance, the cruise customers, they are increasing activity levels and preparing for the summer, so to say. So it's a broad growth and it seems to be continuing as well.

**Berends:** Yes, not only, I think in cruise, I think it's, as you say, broad segments. We see also more activities in the offshore driven by the higher oil and gas prices. So it's really a wider event happening. Of course, that is an element of a bit of pre stocking when the market is unsecure and volatile. Customers also have the tendency to pre stock a little bit more than they normally do. But this uncertainty, we expect to remain still around and this extra stocking from customer side on the spare parts, it might be a little bit temporary upward, but we still believe that it will continue also to a certain extent going forward.
**Operator:** Next question on the line. Max Yates, please, you can ask your question.

**Yates:** Hi, can you hear me?

**Agnevall:** Yes. Hi, Max.

**Yates:** Yes, perfect. Just hi. Just my first question is around the guidance and obviously, I appreciate it. It's very difficult to guide in the current environment, but your implied sort of orders or demand for Q2 implies an order level sort of quite a bit below where we were in Q1. So I was just wondering if you could comment whether that was kind of geared towards any particular segments, whether there was kind of anything particularly you were seeing in April on the servicing side that was driving this or it was just maybe a broader reflection of the uncertainty. But just if there was any sort of colour around what was driving that and if anything specifically has weakened in April, or it was just a reflection of perhaps tougher backdrop.

**Agnevall:** I would say it's more of a general reflection. I think we mentioned already services is progressing fairly strong. But on the newbuild side, it's more on the level where we were last year. I mean, on the energy storage side and the battery storage side, you're seeing that the first quarter, the order intake was definitely lower compared to previous periods, if you look in 2021. And here we see still a bit of a market reset on the costing and the pricing. I mean, the cost of lithium has increased with a factor of three the last 12 months. And we have and others have increased the battery prices. And I think that price increase is still being digested by the market, I would say.

**Yates:** Okay. And just my second question was just around, obviously everything we've seen with rising input costs around sort of particularly things like stainless steel. Would you be able to give us any idea of how much your direct raw material purchasing is? And just maybe more broadly, do you think that the margins that we're seeing sort of printed by the business now fairly reflects obviously costs rising versus fixed price contracts in the backlog, given we've just seen everything take another leg up in terms of costs, we see some incremental pressure on margins as we go forward. I'm just wondering kind of where we are with that balance of price-cost in the backlog and
whether that's fully reflected on what sort of in the PNL today or that sort of maybe worse is still to come?

Agnevall: So I would say we see increased inflationary pressure. I mean, certainly since the beginning of this year compared to previous years. And we think that inflationary pressure will continue throughout the year. And I mean, we have certain possibilities to increase prices directly where for, on the services side, but also for some of the newbuild. But we also have a situation, we have an existing order backlog to deliver where there are more limited opportunities. So I would say that the net impact of this situation will be negative for us.

Yates: Okay. Because, I mean, the reason I ask if I look at one of your peers, Alfa Laval, I mean, they showed a pretty, I know it's a slightly different business and different products, but they showed a very sharp sort of sudden sequential drop in their marine margins. And I guess I'm just trying to sense whether when you look at what's in your backlog and costs today, there's a risk that we take a sort of sudden lag down in Q2 margins versus Q1. Or is that not what you see when you look at your current marine backlog in particular?

Agnevall: So we don't provide particular comments on EBIT guidance, neither for the quarter nor for the full year. My comment would be, we do feel an inflationary pressure and it will have have an impact on our profitability.

Yates: Okay, perfect. Thank you very much.

Operator: Next question of the line is Sven Weier from UBS. Please, you can ask your question.

Weier: Yes, good morning from my side. I had a follow up question on the service question from Andreas. I mean, you specifically referred to the restock in Marine Power, but when I look at the service order intake in Voyage and in Systems and even in Energy, I mean, last year you had a very, very high service order intake of the [unclear 28:36]. If you adjust for that. I would say the Energy service was also good. So is that the same driver as in Marine Power behind it or different ones?
Agnevall: No. I mean, on the Energy side, we see a high level of utilisation of many of our power plants, quite frankly. And that drives the service.

Berends: And also, let’s say in Energy in particular, you have these overall cycles and they happen on a frequent basis, not every year. But clearly we are now in a cycle, in the point of the cycle, you could say, but there are a lot of overalls, actually, and that drives in particular Energy service side.

Weier: So also in those divisions, the strength could actually continue in the short term, not just in Marine Power.

Berends: Yes, I would say in energy, it’s still also going strong. Yes.

Weier: Thank you. And the second question was just following up on Voyage. And I think the R&D centre you have or had in Russia. What’s the plan here? Are you rebuilding it somewhere else and how quickly does it go? What about the talent you need in those centres now?

Agnevall: We are downscaling the business and downscaling our operations in St Petersburg. At the same time we are building up competencies outside of Russia and it’s part of the transition we do. We keep the business certainly going. We have a lot of exciting opportunities and we have a team that can support our customers and ensuring the business continuity here is extremely, of course extremely vital for us. And I think the team is taking good steps. But of course, it’s a challenging effort to downscale in one part of the world and ramp up competences in another world. We are incurring additional cost to do so.

Operator: Next question on the line is Sebastian Kuenne from RBC. Please, you can ask your question. Sebastian, can you hear us?

Kuenne: Can you hear me now?

Berends: Yes.
Kuenne: Okay. Sorry. A question in marine on the fuel spreads and what it means for the scrubber demand. If I look at the numbers MGO to high sulphur fossil fuel, the spreads are now, you know, 300-400 dollars per ton. So incredibly high levels. Wouldn't that mean strong demand for refitting? And what do you expect for well, for the rest of the year and for the next year, that would be my first question.

Agnevall: Now, you're right that the spread is very favourable for scrubber technology. What is positive for our customers is that they have so much work to do. There is such a boyant market for transport that they prioritise that and they wait with bringing the vessels in for retrofits. It's also challenging from a Covid perspective, because Covid is affecting quite a few Chinese shipyards, so it's hard to get a slot. So that's why in Q1, as we highlighted here, we saw a negative impact actually on the scrubber side, on Marine Systems.

Kuenne: Understood. And then you mentioned the downscaling of Russia. Can you just confirm that the 200 million write-down covers your entire Russian business and there is no further potential of write-downs on Russia?

Agnevall: Well, I mean, this is our best assessment right now. It includes all the businesses. I mean, all the four businesses. And it's the assessment right now of what it will, what cost it will incur.

Kuenne: I understand, I understand. Yeah.

Berends: But it includes all operations in Russia.

Kuenne: Yeah, understood. My last question is on Energy. You mentioned margins would be affected by product mix. Does that comment, is that comment mainly triggered by the energy storage business where you say, okay, we have more deliveries this year? Margins in that business are still negative on that level. Therefore, we have that product mix. Or is there also other reasons or other triggers that would make you think that the Energy business sees more incremental pressure?

Agnevall: Yes. So you're right about the battery storage. We have a lot of sales going on. And, yes, the operating margin is still negative. The gross margin is positive. I would
say the other element, as you noted in Q4, we had a very strong order intake on the Energy side, key projects in Brazil and Mexico. And we are delivering those projects now. And this is also why we come back to this, that 2022 will be a newbuild year, i.e. the relatively speaking, there will be more new building services compared to the normal mix, so to say. So it's those two phenomena together, it's the battery storage and also that we are delivering, you know, order intake from an all time high Q4 last year.

Kuenne: Understood. Thank you very much.

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

Kansanen: Hello, Håkan and Arjen. Hopefully you can hear me good. Coming back to the question on the equipment business and the cost inflation that you are seeing. So could you perhaps provide a bit more colour on where the challenge is in terms of adapting to the inflation or the highest, whether it be on certain divisions or certain type of type of equipment, businesses, long lead time projects and so forth. And what are kind of the key elements in the input cost inflation that are the biggest concern to you regarding certain materials or certain components? So a bit more colour on this one, please.

Agnevall: I'll start and I'll let Arjen then complement. I mean, we see it certainly on raw materials. We see it certainly on logistics cost, we see it certainly on electronics. And as I said before, it's escalating compared to previous years. So it's of a different magnitude compared to 2021. And we also see increased disturbances in the supply chain. I mean, electronics now, this is nothing new. But this is for us, it's hitting us also even harder now compared to last year. And that is also affecting, you know, availability of electric circuits, basically.

Berends: Yeah. There's not so much to add. I think you said it quite well, actually.

Kansanen: Yeah. I was just thinking, for example, on the large thermal energy projects that you booked late last year and I guess you are rolling out them this year and start of next one, are those contracts something that have clauses and things that you can
adapt if kind of the input cost level rises throughout that you are executing that projects or are you totally fixed?

Agnevall: When it comes to our contracts, it’s a bit of a mix. In some we have indices, material indices. In some it’s a fixed price versus the customer. And then we factor in an expected inflation to cover ourselves. So it’s a fixed price, but we have baked in inflation. So, it’s a mix between different contracts. But as I said, the inflationary pressure has gone up.

Kansanen: Okay. And then the second one perhaps on the cruise services and I guess you referred to the 70% utilisation rate that the marketplace had on the first quarter, and surely this is expected to trend positively going into the summer season. Is 70% a good proxy on where you are? If you think about what you expect, where you expect to be or where you were pre-Covid in terms of the service revenues or orders in that business.

Agnevall: So if you talk about cruise at 70%, we are not at pre-Covid. So from that perspective, there is more potential, I mean, 100% than we would be back to pre-Covid. And as I said, when I talk to our major cruise customer, they have a very optimistic view of the summer season. They think that they will, if nothing unexpected happen, they will get back close to the pre-Covid levels.

Kansanen: Yeah, I was maybe more referring. I mean, we’ve been previously talking about that it’s quite linear, kind of between your service revenues and kind of the cruise traffic. But is there something that you have already seen benefiting, let’s say, more than the utilisation rate would kind of imply. You mentioned that the customers are preparing for the summer season and so forth, so are you actually running at the higher level than what the utilisation would imply?

Agnevall: And here, this is very hard to gauge. I mean, how much is the pre-stock phenomena and where is the balance? But my comment would be that we continue. I mean, of course, we trace this every day and we see in April, we see a continued positive development.

Kansanen: Okay. And then last one for me is regarding the guidance. Should we kind of think about that the recovery after the initial Covid shock has now kind of run its
course and the market is stabilising on a certain level or or did kind of the renewed macro uncertainties, the war, the Chinese lockdowns and all of those kind of had a incremental negative impact, if you would compare Q1 to Q2 this year.

**Agnevall:** I would say that, yeah, we came out to Covid and that was certainly one uncertainty. Now, we still have Covid and we know the impact of China. So there is a lot of uncertainty that remaining. On top of this, we add the geopolitical situation with the Russian-Ukrainian war. So we are still moving in an environment of a high level of uncertainty.

**Kansanen:** All right. Thank you.

**Operator:** Next question on the line is Panu Laitinmäki from Danske Bank. Please, you can ask your question.

**Laitinmäki:** Thank you. I had two questions related to Voyage. So basically, just to understand how big is the operation in Russia and what do you exactly need to rebuild elsewhere? And then secondly, more specifically on the numbers, what is the cost for rebuilding? And should we look at the Q1 as a kind of run rate for the coming quarters for this business.

**Agnevall:** So overall, we are about 650 colleagues in Russia. And I would say that the Voyage, it's about 350-400 colleagues (on the R&D side). So there you have the magnitude. And when we say downscaling, it's a stage process. We do it observing the local rules and regulations, also making sure that we can do it in a safe way for the employees. We have Russian colleagues that are relocating. We are also upscaling, bringing in new competence to the group. And we are incurring costs for that. But we don't break out the details, how the costs are. That is also triggered by, you could say, a certain uncertainty on which pace we can run this. But what we do and we have a setup and this is critical at all times that we can support our customers in a stable way and that we can also continue the R&D development. Because, I mean, if you look at our connected vessels operation, we have a state of the art software platform that is creating a lot of values for our customers. So it's extremely important to secure also the R&D going forward. And I would say Voyage is doing a great job, but of course this is a very special situation, definitely with this risk elements.
Laitinmäki: Okay. Thank you.

Operator: The next question on the line is Andreas Willi from JPMorgan. Please, you can ask your question.

Willi: Yes. Thank you for a second question. I wanted to ask something about gas systems. You mention in the release that you see price pressure there. Is that pressure from rising input costs or is that price pressure from market price pressure in terms of competition? And the second one on gas systems, you announced an interesting order yesterday on the bio LNG. What's the scope that you're prepared to go in these projects? Are we going back to maybe taking some larger EPC projects in gas systems like we've seen a few years ago with the LNG projects?

Agnevall: If I start answering the second question, I leave the first one to Arjen. Now I can clearly say, no, we are not going back in EPC in LNG terminals, I mean, that is a market that will grow. Right now I think we are all following the development in Europe, but we are not going to go back as an EPC. This particular contract, we are delivering equipment only.

Berends: And on the price pressure question, I think it's a bit of both. Let's say, of course, the pressure from our suppliers to us, but also the price pressure that we face in the market also from competition. So it's both actually.

Willi: Thank you. Next question on the line is Daniela Costa. Please, you can ask your question. It seems your mic is muted. Can you open your mic? Next question on the line is Sebastian Kuenne from RBC.

Kuenne: Yeah. Two more questions from my side. On energy storage, I mean, we hear stories that the Chinese battery manufacturers have their own problem sourcing. And I was wondering if there's a risk of actually supplies being cut or delayed to Wärtsilä for the installation of your batteries and what that could mean in terms of penalty risk for the projects that you have currently in the order book. Could there be severe delays that could result in penalties? And the other question is relating again to the 200 million write-down or provision. It looks like it's not tax deductible. Would that be correct?
Because when I compare pre-tax profit and net profit, the impact seems to be very similar. Could you just elaborate a little bit on that? Thank you.

So I start with the first and then Arjen does ETR. So there is a clear price and cost dynamic where the costs of the batteries are going up. And this is something that we are working with our supply chain with. And that is also leading to that we are increasing prices to our customers. That's triggering, I would say, the reset of the market of battery storage. Now, so far our team and also working with our supply chain in a good way, we have been able to execute on time and secure that we have, you know, batteries available. But of course the whole pricing, costing element, that's a great dynamic around that.

**Kuenne:** I understand. But the availability of batteries is fine from currently for you?

**Agnevall:** With the efforts from our team, our battery storage team. So far we have managed the situation.

**Kuenne:** Yes. Thank you.

**Berends:** Then if I answer your question on ETR, yes, you're fully right. Let's say a big part of the 200 million euro provision is non tax deductible. I think Goodwill is a good example. So yes, that has a severe impact on the ETR immediately. You can see it in the numbers already.

**Kuenne:** Okay. Thank you so much.

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

**Ni:** Hi there. Thanks for taking my question. So I just wanted to ask firstly, could you clarify on working capital, how much of the drag is storage deliveries and following on then shall we expect that to continue for the rest of the year as you still have a lot of storage orders to deliver this year, or do the price renegotiations at the moment ensure that you can recover that? And just one final one on how many of the storage customers are receptive to renegotiations currently.
Agnevall: You want to start?

Berends: I can start with the working capital part. Let's say the working capital is really, I would say, largely delivery related. I think there is not so much else in there. So let's say we foresee the coming months, really extremely high deliveries compared to previous periods and previous year periods. So that's really where it comes from.

Agnevall: And on, you know, the pricing dynamics. This is a reason why you see, I would say, relatively low order intake for energy storage in Q1 because, you know, we need to get to a certain price level to do business. And I think that, of course, it takes some time in the market to settle in and see, you know, how is the overall market price evolving. But it gives a clear indication of our price discipline.

Operator: Next question is from Daniela Costa. The questions are written here. I will read them out loud. 1. Can you clarify on VC how much of the drag is the storage deliveries? 2. Shall we expect that to continue for rest of the year as you will have a lot of storage orders to still deliver this year or do the price renegotiations at the moment ensure you can recover that? 3. How many of the storage customers are receptive to renegotiation on price?

Agnevall: So, in general, I mean, what we deliver now, we had us order intake last year. So, we had locked in most of it with our supply chain. So, I think the profitability level will continue. I mean, as we discussed before, this is a business that will take a couple of years to turn around. So that's one part of the of the answer. The second part, how many customers are willing to have a discussion around price? I mean, here we need to look at new orders. I think there is a new price level being established. And as I said before, I think we have a strong price discipline here from our team. And then on the order backlog, of course, there you have agreed on a certain price, but for the most part, we also have secured that with our supply chain.

Berends: I think to add, basically that there's a whole reset happening in the whole storage market, right? So, let's say lithium prices have gone up 300% in the last year and doubled since November. So it's not only us, it's everybody. And on the question, okay, our customers are willing to accept, I think it's the whole market that is resetting
the price. So I think if they don't accept and there is also nowhere else to go because everybody is raising the price because of the raw material price increases. We don't want to be responsible, nor do I think any of our competitors want to be the sponge to absorb it.

Operator: Next question on the line is Erkki Vesola from Inderes. Please, you can ask your question. Erkki, can you hear us?

Vesola: Yes. Hi, Håkan and Arjen. Can you hear me?

Agnevall: Yes, we hear you perfectly.

Vesola: Yes. Good. My question is linked to the question already represented. My question is, how long can the storage products be postponed altogether if there's a renewable project like a wind farm being built, as there are so many globally? When will they have to start building the storage capacity no matter what the cost, just to ensure an uninterrupted electricity supply in the future?

Agnevall: I mean, this is of course, since we are right in a very dynamic situation, it's very hard to be specific. But, you know, in our view, this will pan out relatively quickly, so to say. We are not taking years of delay because to your point, you know, you need the balancing power, in this case of informal battery, to have the power system stable and to be able to hook up your wind and solar power. But, of course, I think when you have such a big reset in the market, it's the dynamic between suppliers and customers. And also for customers to finding out that there is a certain new market price level, so to say. And as Arjen pointed out, I don't think any on the supply side has the capability or the willingness to absorb this significant increase in raw materials and in batteries, I should say.

Vesola: Okay. So if I guess that the postponements would be in the ballpark of 6 to 12 months. We're not talking about several years.

Berends: No, we are not talking years here.

Agnevall: We are not talking years. That's our view, at least.
Vesola: Okay. Thank you so much.

Operator: Okay. We have time for one more question. Max Yates, please. You can ask your question.

Yates: Thank you very much. I just quickly wanted to walk through the impact that you're seeing from China lockdown. So, could you maybe sort of just kind of remind us or remind me what exactly you kind of produce in China, where the lockdowns are having sort of the greatest effect. And I guess kind of whether this is kind of the factories that were locked down have restarted now or just where we actually are in that process. And I guess I'm trying to understand, is this something that kind of affected throughout Q1 or was it very late on in the process and is it right if everything is locked down currently that the impact might be bigger in Q2 versus Q1. But just a little bit of colour, exactly how that sort of the production set up where the biggest impacts are.

Agnevall: And I would go through it because it's not only about production. I will talk about that as well, but it impacts many areas of our business. That's one thing. Second thing, we see this continuing, so to say. So where is it affecting us? Let's start on the supply chain. I mean, when you have lockdowns in China, you know, we buy materials. We don't get the material. It also creates logistics challenges. I think we are all aware of the severe challenges on the container trade, so to say. And so that's one area where we are affected. Another area affected is in our service business because, you know, we don't get into the shipyards to perform service or that our customers cannot bring their vessels to the shipyard to perform dry docks, et cetera, because of the lockdown. So it has an impact on our service business. And then coming to the manufacturing. I mean, we do have engine manufacturing in JVs in China. And this is completely locked by the moment because we are in the areas that are in complete lockdowns. So this has a real impact and it will continue to have a real impact.

Yates: And maybe just one quick follow up. When you talk about your, when you talk about your backlog for delivery for the remainder of this year. So you've talked about sort of 3.3 billion order book for delivery. I'm just wondering whether that is based on kind of what you would view as a sort of normalised phasing of the backlog or whether you've actually made an assumption there for some lost revenues and disruption from
China, i.e., you've kind of taken a haircut to what would be the normal phasing of the backlog.

**Berends:** If I can answer this, let's say the order book is based on our latest best estimate of when we can deliver that order book. That's always the case. So whenever you look at Wärtsilä order book, that's how it is. So our best estimate of delivery is reflected in the order book.

**Yates:** Okay.

**Berends:** Considering challenges and discussions with customers et cetera. All is included.

**Yates:** Okay. Fantastic. Thank you very much.

**Heikkinen:** It seems like that there are no more questions. So thank you, Håkan, thank you, Arjen, and thank you for great questions. Q2 report will be published on July 18, but before that we are hosting several large IR events, including the CEO mid-quarter call, pre-silent call with Arjen and then also site visit to our new technology centre in Vaasa. So I hope to see you in some of those events. Thank you.

**Agnevall:** Thank you.

**Berends:** Thank you.