

# Wärtsilä's Interim Report January–March 2021 – webcast transcript

*Emilia Rantala:*

Ladies and gentlemen, welcome to the first quarter earnings call of Wärtsilä Corporation. My name is Emilia Rantala. I'm from Wärtsilä's Investor Relations. And here at the stage, we have also Håkan Agnevall, our new president and CEO. Håkan will first give a brief presentation. And after that, we will have a Q&A session. If you wish to ask a question, please use the raise your hand function in the GoToWebinar tool. When your name is announced, please unmute your line and ask the question. You may also have one follow up question if you so wish. This session will last one hour. With these words I hand over to Håkan.

*Håkan Agnevall:*

Thanks Emilia and welcome everybody. Welcome to the first quarter of the year and also the first quarterly interim for myself as CEO of Wärtsilä. Couple of reflections joining, it's very exciting times to join Wärtsilä on a personal note and starting to meet with customers, starting to meet with our teams and also very much looking forward to meet with you as analysts, as investors. I am very grateful for the trust that you put in Wärtsilä. And let's look at our major messages for today. Order intake is stable, but COVID-19 continues to have a significant impact on our net sales and our profitability. And if we look at the market outlook in marine, it is on the newbuild side picking up from last year. I mean, last year, newbuild was down 30 percent. Then it started to shift in Q4 and we see newbuild picking up, still picking up in Q1, especially on the container side, but also on the bulker side. And however, on cruise and ferries, the market is still very slow. Energy also heavily affected by COVID. Many of our core markets are emerging markets and COVID has a significant impact, the vaccination programmes also take time, and that affects the decision process. That affects the whole market dynamic. Another highlight: EBIT. You will see we have made a significant provision in this quarter and we have done, me coming in as a new CEO, also with some senior experience from project business, together with the management team, we have done a risk review of some of the most complex, some of the biggest projects that we have. And we have changed the risk profile a bit in our product portfolio to make it more in line with the risk profile that you would expect in a project business like Wärtsilä. On the

technology side, I think there is a lot of exciting thinking going on, a lot of exciting dialogue with our customers going on, and as you know, Wärtsilä very well positioned in the decarbonisation journey. And we continue to invest in R&D and it's really exciting dialogues that we have with our customers. Then on guidance, this is still a time of high uncertainty, so on the demand side, we only give short term guidance and short term, it looks to be somewhat better than same quarter last year. So those were the highlights.

Before we go into the numbers in more detail. Let's really talk about what is in our focus right now, and that is, of course, our people in the COVID situation and our customers, and it's really important that we can provide a safe working environment for our people. They are out there on the sites. They are working in the fields supporting our customers, also in the offices and in the factories. So I'm really grateful to all those employees that are out there and really trying to provide the very best support for the customers that we can do. Our customers, they are going through some challenging times and we really want to be there to provide the best services that we can to support uptime, reliability and operations. And then at the same time, we need to perform, focus on cash, cost and continuous improvement. We need to be in this era of time of uncertainty, we need to be very careful on all these three elements.

Now, let's look at the numbers, so if we start on order intake, it's stable relative to Q1 last year and there was some positive highlights that services is growing. It's up 11 percent and it's both on the marine side and on the energy side. On the newbuild, battery storage is going very strong. And this quarter we received orders for 800 megawatt hours and very interesting prospects there. Also on the Marine Systems side, order intake has been strong. Net sales is down, as you can see, -19 percent. The major drivers are there is COVID impacting our deliveries on Energy. It's affecting site works, affecting our deliveries. And the other major driver is the scrubber business. We have significant scrubber deliveries ongoing. But now the container vessels, they are really operating heavily. The rates are high. Our customer make money. And then the scrubber programmes, they are postponed. And then on the EBIT, it it's down 28 percent, significantly down. But then you should be aware that we have taken 20 million euro in provisions and re-adjusting the risk profile of our product portfolio. So 20 million euros. On the positive side, cash flow, it continues to be very strong and keep collecting outstanding. We are also working with payables and also some down payments, but it's

a very strong continued focus on cash flow. And we can really see that that is giving results.

So talking a little bit more about the markets, first on the marine side and then on energy. As we saw it, markets are picking up, but it is a lot about container and lately also on the bulker side, whereas cruise and ferries are still slow. I mean, Q1 volumes 376 vessels being contracted compared to 127. So there is a trend there. And that's very interesting. But our core segments on the newbuild side still slow. When I talk to our cruising customers and I think there is a consensus that they will see more operations starting from July, August going forward and that there will be a ramp up. I think this is how they think about that business. And, of course, that should have a spill-over effect on us. So I would say cautiously optimistic.

On the energy side, I would say we keep our market share stable when it comes to the overall. But in emerging markets, heavy COVID impact and decisions are not being made. It is affecting our deliveries. So therefore, a flat market share in a market that is a bit slow, with one big exception, and that is newbuild on battery storage. And here we are really active and we see that also going forward.

On the order intake, as you can see, it is flat and as we pointed out, on the positive side, it's services, it's Marine Systems and it's battery storage.

The order book is down compared to Q1 previous year, but you can see here there is a bit of a trend shift in Q1 here. And a part of it is, of course, that we have lower sales. But I would say there is cautiously optimistic, a bit of a trend shift.

However, net sales is down, and we talked about that, driven mostly by energy deliveries being slowed down by COVID, but also by scrubber retrofits being postponed.

The operating result, and here you can see both the long term trend and the period results so to say and of course, it is not going in the right direction here, but we have taken a provision and we have done a very careful review of our product portfolio and also engaged senior management, including myself. And we found that we need to rebalance the risk profile. I mean, we are in project business. There will be risks that will be opportunities. And we need to have appropriate risk profile in our portfolio. And this

is where we found out that we needed to adjust the risk level. And that meant a provision of 20 million euro in the first quarter.

Cash flow, as we talked about, developing in a positive way, very much focusing on collecting and also working on the payable side and a really strong programme there and strong execution.

Technology and partnership. I think going forward our strategy is very much focused on the decarbonisation journey, both from the marine side and on the energy side, and there are a lot of initiatives where Wärtsilä is working together with other partners to develop new technology and the future technology. And when we talk about green and we see the journey, the green journey, both from the marine and the energy side, but when we talk to our customers, green is not black or white. There are different alternatives, there are different technologies that have pros and cons. And I feel that our customers are really looking for a speaking partner. And we want to be there to be able to provide different balanced viewpoints and also different solutions for our customers. And those solutions we develop some ourselves, but some in partnerships. And here we have some of the exciting ideas that we are working on now. I mean, carbon capture, we announced we will make a pilot installation, 1 megawatt pilot installation in Norway to test in connection with our scrubber business, how we can evolve that. And we have the Power-to-X cooperation in the Vaasa energy cluster, very important cluster for Wärtsilä and also for Vaasa and there are some really interesting stuff there going on the hydrogen side. We are testing different hydrogen blends in our machines. Then on the storage, we recently signed a frame agreement with AGL, it's one of the major utilities in Australia and it's a five year cooperation. And I think this could really mean a lot for Wärtsilä in the region. And it also proves that the battery storage industry is evolving. And finally, also not forgetting our ICE balancers, where we recently launched our next step on our balancer journey. And I see coming in, that the discussions on balancing need has been for many, many years. But it's clearly so as the power systems of the world evolves adopting more renewable energy, wind and solar, there will be more balancing power needed. I mean, the sun doesn't always shine and the wind doesn't always blow. And then, of course, there will be different balancing solutions, there will be different technologies, providing the balancing functionality, if you want. And here, I think both on the storage side, but also our ICE's driven by different

fuels, sustainable fuels, will provide some really interesting opportunity given the flexibility, given the total lifecycle cost.

So let's quickly go through the different businesses and how they have performed in Q1. So on Marine Power side, the order intake decreased with 10 percent to 446 million. And of course, this is driven by cruise and ferry segment being slow. Net sales decreased by 7 percent to 426 million euros. But the operating result amounted to 40 million euros and a 9.3 percent operating income, EBIT margin. And that is an increase. And it's driven by two factors. It's a good service sales and a good service sales mix, but also driven by some of the efficiency measures that have been taken in the business.

And if we look at our services side and that's, you know, we are working very actively, we're moving up the service value ladder and with different type of agreements and performance based arrangements. Net sales from installations under agreements have had in Q1 the decline. But that is more driven by COVID and the slow operation. I think has some really interesting opportunities going forward. Another example is where we recently signed an agreement, and that's a performance agreement for an LNG carrier fleet. And this is still, the customer name is still confidential. But I think this is a very interesting example, how we evolving, how we are evolving our agreement business.

On Marine Systems, order intake increased by 35 percent, to 153 million euro driven then by the equipment business in Exhaust, in Gas Solutions and also in Marine Electrical Systems. Net sales, however, decreased by 39 percent to 142 million euro. And that was mainly driven by the scrubber retrofit programmes that are being postponed because of the high container rates. People are making money and then they want to wait with the retrofits. And then the operating results came to eight million euro and a 5.5 percent, and that is, of course, affected by the lower net sales.

On Voyage, Voyage has also been severely affected by COVID. I mean, cruise is a very important customer of Voyage, so order intake decreased by 20 percent to 86 million euros. And net sales also decreased by 15 percent to 59 million euros. And also, the transactional piece of Voyage has been a bit slower. Once again, connected to cruise and to COVID. Comparable operating results amounted to -12 million. So it's -21.3 percent of net sales.

The interesting story with Voyage and you know, we are going through a transformation programme, we have put together all the different parts of the group that was in the digital space, so to say. The transformation is going according to plan. There is a lot of exciting things going on. And here one very positive, very important element of the Voyage journey going forward is to closely follow how our order intake and how the contracted fleet on cloud based solutions. And you can see here we have a significant and rapid growth and that continues. And so this focus on the cloud based, very important going forward. On the other side, we also have the radio and navigation technology and here we keep on taking orders. The latest here is LNG fuel tankers that will work in an Arctic environment, harsh environment, very stringent safety requirement. And here our solution fits in very well.

On the energy side, order intake increased by four percent to 493 million euro and then supported by the good storage activities, also with a healthy service order intake. However, net sales decreased with 18 percent to 288 million euros, and comparable operating results amounted to four million and only 1.5 percent of EBIT on net sales. And that is, of course, related to this 20 million net provision after that project risk review that we have made. And it's also affected by a delay of deliveries in projects affected by COVID.

If we look at the service business, because also for energy services is critically important going forward and also here we are moving after the value ladder, looking at performance based agreements. And I think we are making progress here. And another important business going forward is, of course, conversion. Conversion from heavy fuels to gas. And here we have one example from Senegal. And I think this is the type of business we will also see going forward.

So wrapping it all up and looking at the prospects, we expect the near-term demand environment to be somewhat better than the corresponding previous period, in previous year, but due to COVID the visibility is limited, so to say. And there are high, high uncertainties.

That was a short walk through of the Q1 results and now we open for Q&A and I'm very happy to take any questions you may have.

*Moderator:*

Ok, good morning. The first question on the line is coming from Sven Weier from UBS.

*Sven Weier:*

Yes. Good morning. Thanks for taking my questions. I hope you can hear me well. And thanks for the update Håkan. My first question is regarding the mid-term targets of the company. I mean, I trust you now have a short term impression. You've done the backlog review, but when should we expect you to give us more of a mid to long term potential as far as the growth rate of the company and the achievable margins are concerned? That's the first one. Thank you.

*Håkan Agnevall:*

So here it's all driven or related to, I would say, very much the COVID situation and the uncertainty that creates. And that's as difficult as it is to predict, you know, what sales and order intake will be, as difficult it is also to predict when it will become more predictable. So we will have to follow this closely going forward.

*Sven Weier:*

Ok, and the second question is on your comments regarding the marine decarbonisation and all the various projects that you have ongoing. I was just wondering in what respect you see also scope for speeding this up further, because I would assume that the pressure on the marine industry is going to rise much further here. And you will have more ambitious people like Maersk coming to the forefront wanting to accelerate this. I mean, what scope do you see on that end and what do you see with that with regard to your R&D now?

*Håkan Agnevall:*

I think we see and when I talk to my colleagues that has been engaged in Wärtsilä for quite some time, they see that the interest from our customers is accelerating and it will just continue to grow. And of course, we want to serve our customers and we are and we have announced the programmes that we are evolving in methanol, we are evolving in ammonia, and we also are evolving in different types and different blends of hydrogen. And I think this will drive our business very much going forward because we are leading in technology and we want to be leading in technology. We are investing to

be leading in technology. And I think also with the DNA we have we want to be a speaking partner. So I think here is some really interesting potential going forward.

*Sven Weier:*

Ok, thank you very much.

*Moderator:*

Thank you. Next question, on the line, Max Yates, please.

*Max Yates:*

Yes, good morning Håkan. And so just my first question would be around how to think about the profitability evolution through this year. I guess we're typically used to kind of Q1 being the low point and then improving through the year. So should we assume that if we look at Q1 ex. the provision of six point four percent, that we see a continued improvement through the year? When you look at pricing in your backlog, the cost profile, any of the furlough cost programme or the furloughed employees coming back, just how to think about that would be helpful.

*Håkan Agnevall:*

As you know, we don't give guidance on profit and profit margin, so to say. So I when I talk about the order intake and the demand side, I said we are cautiously optimistic on the marine side. On the energy side, we see that the impact from COVID will be a bit longer. And of course, you know, we will have to work on this. Service side is picking up nicely. Let's see what happens on the marine side, if cruise gets back cruising, so to say. And when I talk to our customers, consensus is there, there's going to be a start in July, August, and then the ramp up. And that will, of course, also affect our order intake, et cetera.

*Max Yates:*

Ok, and just my follow up would be on the cost base. From your initial kind of work, obviously we've had the situation where margins have come under pressure because volumes have come down. Do you see any kind of fundamental problems with the cost base and your capacity that need to be addressed? Or do you see this as more of a margin improvement story coming from recovering volumes on an already appropriate cost base? I'd just like to get your take on that.

*Håkan Agnevall:*

So we are following the demand development very closely. And I mean previous, in 2020, we worked a lot with short term layoffs, et cetera. And we continue to monitor the demand side very closely. And next week, and this is also official information, we will go out with a short term layoff programmes in Trieste. As you know, this is where we manufacture our most of our energy machines, and that short term layoff will affect approximately 370 people. So we are taking actions as we go to adapt our costume, you might say, depending on the demand side.

*Max Yates:*

Ok, and maybe if I could just squeeze in one more, I'd just love to know, given that energy storage is obviously a big part of the energy order intake. What should we be aware of from a sort of financial and economic standpoint of when you take these orders, what it means for margins on the equipment, what it means for the aftermarket business? I just feel like we should be much more aware of this, given the kind of relative size of the business now.

*Håkan Agnevall:*

Yeah, it's a good point. We don't split out the margin on our storage business. I would say storage for me is a growth case. As the volumes continue to grow, the profitability continues to grow in that business. And there is, of course, less, you can say, running maintenance of storage compared to a moving machine. But there we are also looking at different ways to move up the value ladder. And I would say, coming in a little bit with an outside-in perspective still, I think the GEMS platform that we have combined with our battery storage, but we also have the capabilities to combine that with wind and solar and with our own ICEs. And we can build something on performance based services around this. This, I think will be very interesting going forward.

*Moderator:*

All right, thanks, Max. So next question on the line, Johan Eliason from Kepler Cheuvreux, please.

*Johan Eliason:*

Yes, good morning and welcome Håkan. The key number, obviously, today was the strong recovery of the service orders, 11 percent, if I remember correctly. Do you think this is a bit of a catch up or is this sort of the level one can expect for the coming quarters as well? I mean, there is probably still travel restrictions and things like that in place.

*Håkan Agnevall:*

Yes, I think we are observing this and it's too early, actually, to say if it's a catch up or if this is the new normal, so to say. I think that was a very strong development towards the end of the quarter and it remains to see how this develops. But we are cautiously optimistic because we all know cruise is not running in any large extent and cruise should be coming back, when I talk to our customers, as I said, in July, August, and then ramp up.

*Johan Eliason:*

And then just, I mean, you have a major technology shift ahead of you in the marine side, applying your technology to potential green, if you like, ammonia, etc., that actually has a checked background with the late conversion of two-stroke to gas, for example, and obviously the ballast water as well. You have some good examples on the four-stroke, and scrubbers, obviously, but how can you make sure now that the conversion goes right? That's a major issue for the company in the coming years.

*Håkan Agnevall:*

This is one of the most critical companies we have for that. So we really want to be leaders in the, you could say, green transformation of the marine industry. So how do we make sure that we are relevant? I think we need to be very focused on our R&D programme and also on the execution of the R&D programme. And that requires good people, good processes and management attention. And I can guarantee it's certainly there. And it's also a fantastic opportunity for us, because as we see our, you know, four-stroke business evolving, I think that we see some of our customers that they will look for four-stroke providers that can really provide the new technology in a reliable and with the right uptime, with the right reliability and with the right support, quite frankly. So I think this gives us opportunities, but it needs to be very strong focus on execution.

*Johan Eliason:*

Ok, good luck. Thank you.

*Moderator:*

OK, thank you, Johan. Next question on the line from Antti Kansanen from SEB, please Antti.

*Antti Kansanen:*

Yes, good morning, Håkan, and thanks for taking my question, my first one would be on the first impressions of the energy side, because if we look at the market transitioning to, you know, back up balancing power and storage, which kind of potentially shifts your profile to more project driven, less aftermarket intensive. So how do you manage this shift from profitability and predictability view? I mean, do you need to accelerate the technology collaborations or is it just altering the sales processes or could you give us a few early impressions of that?

*Håkan Agnevall:*

As I said, I mean, the need for balancing functionality, that would grow in my personal view, then power systems and power generation look different in different parts of the world. So, you know, the transformation where more wind and more solar will come in, it will take different routes and it will go with different time phasing in different parts of the world. But it's coming. For me, that's a very strong trend. And then the balancing functionality is needed. And then there will be different technical solutions to provide these balancing solutions. There will be ICEs, there will be gas turbines, there will be fuel cells, that will be power storage, et cetera, et cetera. And here I think we have some of the critical components. And for the other components, we will look at different type of partnerships and. Also, when it comes to the services side, less operating hours, but extreme focus on uptime and reliability and also I think potential to move up the service value ladder, moving more to performance based agreements. So, you know, as services is not only about selling spare parts, I think much more going forward, it will be about providing uptime reliability and performance.

*Antti Kansanen:*

All right, thank you. And then secondly, maybe on the cost side, I mean, you have flagged a lot of kind of extraordinary cost levels, cost inflation during the COVID times in

2020. But then we are also seeing kind of input costs, whether it's raw materials, components, prices rising, availability under pressure. And I know that your pricing hasn't been, let's say, optimal in recent years. So how should we look at the cost year over year? I mean, there are some new headwinds emerging and maybe some old ones shifting away.

*Håkan Agnevall:*

Yeah, no, I think you're right there. I think when we look at our incoming side, you know, the costs are going up. We can see that, we see a trend there, and there, of course, we need to do work more actively on the purchasing side, also forming new partnerships to work on our cost side, also designed to cost those type of, you know, action oriented elements. When it comes to our pricing, I mean, through COVID in 2020, pricing, it's been extremely competitive. It's been extremely focusing on protecting. So, of course, that has had a negative impact on the pricing, so to say. And we still need to recover from that.

*Antti Kansanen:*

All right, thanks so much.

*Moderator:*

OK, thank you Antti. The next question on the line Andreas Willi from J.P. Morgan.

*Andreas Willi:*

Good morning Håkan. Thank you for giving me an opportunity to ask a question. I have a little bit a kind of longer term one looking back, when you came into your position and look at the profitability development over the last few years, the margins started to come under pressure prior to COVID and prior to sales coming down and you moved further away from at least the higher end of your margin target. Can you help us understand what you see as the drivers for this, because it's quite difficult from the outside to take apart price pressure versus mix versus execution, if you could give maybe a little bit of an indication so that we better understand why we ended up where we are as a starting point to also get more confidence in where we can go back to.

*Håkan Agnevall:*

Yeah, and I would say one critical element here, and I have a lot of respect for my predecessors. I think when you go in as a new CEO, you should be, you know, very respectful of the past as well. But I clearly, looking forward, I see, you know, a really strong focus on execution on big projects with risk management, both on the tender side or the sale, I mean, order intake side, but also during the execution of the project. I think here is some areas that we really want to focus on going forward. Then I would also say that, you know, some of this growth opportunities that I think we have talked about and identified in the past, I think they are now starting to realise a bit. I mean, look at storage, battery storage. We are really seeing now an uptick. And, you know, I think personally, I think there is great potential in Voyage. So it's also, you know, starting to realise some of those growth trajectories that we've been talking about before. Also on the Energy side. And this balancing is nothing new, but I think we all acknowledge the very strong focus now on sustainable, renewable energy. And that's all over the world, I mean, in any heavy industrialised country, but also in emerging countries. And that will drive the need for more balancing. Then, of course, we need to be careful on, you know, when and where, because it will go with different pace in different parts of the world.

*Andreas Willi:*

Yeah, thank you for that, my follow up on that answer, if you look at some of the ideas Wärtsilä has had for growth over the last 10 years, including the expansion into be it, for example, the LNG terminals and so on, it's as you said, it's execution that sometimes was the problem. What do you plan to change in terms of risk management and oversight in the company and who approves projects and of how much freedom do you give your people to go for that growth relative to central risk management?

*Håkan Agnevall:*

Yeah, so I think that's a really good question. And this is the question that I really burn for. I've worked a lot in project businesses, so to say. So I do bring some experience here. And I think, you know, if we start on the tendering side working in a very structured way with the capture team, risk reviews, the deal pipeline, and when we do the risk reviews, it's not only the focus on terms and conditions, it is the technical side and it's civil installation coming together and having a management team that is operationally experienced and operationally oriented. I think that is critical. Then under the project execution phase we have the project reviews where you engage senior management, including myself, in the most difficult and most challenging projects,

stacked structure. It's not rocket science. But, you know, I think there is significant potential for us to get this in place. And I see, also coming in, I think there has been some very good learnings made from previous challenges, if I may call it. And I see that, you know, there is a good structure in place, but we need to work on and practise it and develop it further. So we will get that on the execution side.

*Andreas Willi:*

Thank you very much.

*Moderator:*

Thank you, Andreas. Next question on the line, Erkki Vesola, from Inderes, please Erkki.

*Erkki Vesola:*

Hi, good morning. On the marine side and the LNG vessel orders currently being actively placed, so where do you currently stand from competition viewpoint in terms of LNG vessel main engine orders, auxiliary engine orders, gas treatment systems, etc.? I mean, how big part of the cake do you intend to take going forward?

*Håkan Agnevall:*

I don't think we guide on market share. But I mean, we are certainly involved in the more advanced applications. We talked about this LNG order here. And so we are engaged on the propulsion side, then also on our gas solutions side, of course, we are engaged in the project, providing the equipment needed in order to operate the LNG vessels so to say. And then, of course, it's also this balance between two-stroke and four-stroke. And we are very much focused on the four-stroke, as you know.

*Erkki Vesola:*

Ok, so you're not concerned about that the two-strokes would take almost all of the LNG orders going forward?

*Håkan Agnevall:*

I think the two-strokes, they have had a fairly strong presence already. And I think on the four-stroke side, we will continue to be strong in the more demanding applications where you really need, you know, the variability of the power, so to say, like in the Arctic

applications, et cetera. So we will continue to be strong in those applications. And two-stroke, I think they carved out that segment. It's steady state operation and they will have that space.

*Erkki Vesola:*

Ok, thank you so much.

*Håkan Agnevall:*

Then I would say on the other side, I mean, just to complement on that, because now we talk newbuild, on the services side, I think there we could see some potential going forward and looking at conversion regimes, et cetera, et cetera, our existing fleets. So there might be something to look into.

*Moderator:*

Ok, thank you Erkki. Our next question on the line, Antti Suttelin from Danske Bank, please, Antti.

*Antti Suttelin:*

Thank you. Yes, this is Antti, and I have one on the energy side and one on the marine side, starting with the energy, now that you've looked at the business. Do you think Wärtsilä is doing the right thing? I mean, the backbone of your business is still the engine business. And when I listen to you, you talk more about batteries. You also mentioned the word fuel cell in one of your answers. And I always thought this is a potential risk to engines technology-wise. So how comfortable are you with that, with engine business in the Wärtsilä energy portfolio?

*Håkan Agnevall:*

As I said, I mean, going forward, that will be different, you know, providing a balancing solution. So, first of all, we shouldn't forget that, you know, the standard business, transitional baseload, is still there. It's running. It's still an important way forward, more going to gas, so to say. But it will be there for many, many years to come. And then when they look at balancing solutions, there will be different technology. But I see a very strong presence of the ICEs there, because the ICEs, they provide this, you know, very interesting application, a lot of power with great flexibility, and this balancing, they will be run on sustainable fuels. They will be run on ammonia, they will be run on methanol

and they will be run in the future by different blends of hydrogen. So in my book, the ICE is still definitely still part of the future. Then we need to acknowledge that there will be applications where other technologies will be more competitive. And this is I think this is one of the challenges, because we are coming from a history where there has been a couple of fuel solutions. It's been a, you know, a fairly consistent technology space for a number of years. But now we are moving into an era, that's going to be more things happening the coming 10 years, according to me, than to the previous 20, 30 years. So it's not going to be one solution fits all. And with that context, the ICE definitely has a future. And why I talk a lot about, you know, battery storage today is, of course, that our order intake for the first quarter is pretty good.

*Antti Suttelin:*

Yes, thank you. And then on the marine side, I'm a little bit puzzled here, Marine Systems order intake was up 35 percent. And you said it was partly because of scrubbers, I understood. But then on the other hand, you say that your backlog is postponed in terms of scrubber deliveries. So what's going on? Are scrubbers making a new comeback in orders but having difficulty of getting delivered?

*Håkan Agnevall:*

I mean, the straight answer is containers is making a comeback on the award of newbuilds. So, you know, we talked about the recent uptick in Q1 on vessels being awarded. There is quite a few containers coming up. And for newbuilds the scrubber solution is the selected solution. So that is driving the order intake. And it's not the retrofit that is driving the order intake now because the retrofit, the spread, the hundred dollars, it needs to be stabilised until the retrofit will drive additional order intake. So order intake, it's about containers newbuild. The sales is down because we have ongoing retrofit contracts, existing vessels they want to upgrade with a scrubber. But now, and these are container vessels, but they are running in traffic. The rates are very high, very profitable. And then the owners choose to postpone those scrubber retrofits. So newbuild and existing fleet. I don't know, was it clear?

*Antti Suttelin:*

Yeah, I understand that last year was so weak in scrubbers because containership contracting was weak. There was no new scrubber orders. Understood. Thank you.

*Moderator:*

Thank you, Antti. So next question on the line, Manu Rimpelä from Nordea. Please Manu.

*Manu Rimpelä:*

Thank you. My first question would be on the services impact on the first quarter margins, if I understand correctly, the share of service was quite high in the quarter. Clearly higher than in the previous quarter. And I just wanted to understand how to think about the impact on the margins. And obviously, if it starts being the equipment business picking up the equipment sales should also start to increase. So is the Q1 margin level in a way comparable to what we saw a year ago or temporarily boosted by these services' share and low equipment share?

*Håkan Agnevall:*

I think, I mean, services as such is, of course, a very profitable part of our business, that is for sure. I don't think we give the split out on the different margins in the different sections. One of the key questions is, of course, and we talked about how will the service business evolve going forward, and here, it's still too early to say if the Q1, was that a catch up or is it the new normal? We are cautiously optimistic because cruising is still not running at full speed, so to say.

*Manu Rimpelä:*

Ok, thank you. And then my second question would be on the energy services business model going forward. So you talked about moving towards maybe a performance based model and seems to be that you are increasingly looking to take some sort of a system integrator all across different types of energy or energy generation forms. But looking at your past history or the company's past history, venturing into new areas in the energy business and also, I guess, you would have a lot higher risks in terms of guaranteeing some sort of an output. So could you talk about the risk side in terms of moving into this direction and how should we think about that in the light of the company's history?

*Håkan Agnevall:*

Yeah. I think we can provide certain of our core equipment. We have that GEMS platform, which is a platform that is, I would say, cutting edge in being able to integrate different, you know, elements in the power system. And I think here we have the

opportunity. I'm not saying that we should venture into building wind farms and solar. So I think when it comes to our core equipment, we should stick to our knitting, so to say. But then on the integration side, I think GEMS is offering some potential. And here, I think with the installed base that we have, and here comes the digital piece with our digital capabilities, and those we will evolve over time. Our intention is to build a very solid knowledge of the power system that we are interacting with. And we can leverage that to de-risk the whole setup so to say.

*Manu Rimpelä:*

Ok, thank you.

*Moderator:*

Thank you Manu. So next question on the line from Tom Skogman from Carnegie, please Tom. Can you hear me, Tom? OK, then we can also move on if Tom come back, if you can hear me at some point. Then just to make sure there was Frederick Ness also, could you, Frederick, can you hear me? Apparently not. How about Tom?

*Tom Skogman:*

I am here. Can you hear me? All right. Good morning, everybody. And I've just noticed that ABB is also trying to develop a fuel based power solution for cruise vessels, an alternative to engines. And you used to study fuel cells yourselves in a way, you know, many years back at Wärtsilä. So I wonder what kind of pros and cons are here, you know, and how realistic is this alternative? Because that would be a kind of a major risk for you longer term.

*Håkan Agnevall:*

Well, as I said, the solution space, there are going to be different solutions. And we are moving into an era where people are trying out technologies, trying the pros and cons. Fuel cells, it's an early stage in the marine applications. People are looking at it. There are pros. Certainly there are also cons. And we are, I would say we are rather embracing this because, you know, our customers are coming to us and asking us, you know, what is your advice, which application, where? And I think that some of the fundamental elements of it, for instance, fuels like methanol, like ammonia, they will have clearly strong benefits in certain applications, energy density, safety aspects, handleability, existing infrastructure. And we should not forget, one of the major

challenges in this green transition is actually the availability of the fuels. So fuel cells will be there for certain applications. So I don't see it as a threat, quite frankly. I see it as an opportunity. When we talk about thought leadership, you know, the first step is that we as Wärtsilä, we want to be able to talk about the different technologies and their pros and cons. We would like to evolve our customer offering to quite a few of these technologies. And to deliver on those, we will have certain own core technologies. And for other core technologies, we will partner up.

*Tom Skogman:*

All right, then we have discussed it a bit during the conference call already, but I don't really get a clear picture from you regarding the outlook for the energy market. I'm not kind of wondering about, you know, next quarter or so, but just the fact that it is tilting so much more to battery deliveries that, you know, you're not making batteries yourself. So just to get it right, basically all the analyst expectations, so will the margin now go down? Because it will be based so much on components coming straight from other suppliers.

*Håkan Agnevall:*

So then just to clarify, so Q1 report strong order intake on the battery storage side so that was the key message. If we talk long term, different solutions, ICEs will definitely be there. And because in this providing balancing functionality, you have short peaks, you have long peaks and battery storage will only address a section of those. And we talk normally in the batteries, zero to six hours. Our machines will be there to support the other intervals. So just to be clear from my side, the ICEs, it's a major way forward for Wärtsilä in the future. Also long term future.

*Tom Skogman:*

I understand that, but if you would, for instance, assume that, you know, storage would be one third of orders in the future, would that kind of mean that margin structure would be lower than if you sell, you know, engines and spare parts that you have done so far, basically?

*Håkan Agnevall:*

So, I mean, when it comes to the profitability of the storage business, as said, it's a growth case and this we are evolving. And then we also are looking at the performance based services around it.

*Tom Skogman:*

And then I would like to know, this is your first quarter being the CEO, so could you, you know, when you have met a lot of people, spoken to customers, could you give highlight kind of what kind of key strengths and what surprised you positively. And of course, also it's interesting to hear if there are something that you're worried about, if you see that you have too many factories still or something or so.

*Håkan Agnevall:*

Now, I think the key strength is, you know, the in-depth technology knowledge that we have in our core areas. It's also, I would say that this integration skills, having a holistic perspective, both for the power generation and system, so to say. I think this is definitely a core strength, the technology. The other one is the services. I mean, the knowledge that we have in services and experience and the capability to provide that support. I think that's a very strong base to build upon uptime reliability, and that will be even more important with new technologies, because customer wants to, you know, move forward with new technologies. But they also want to make absolutely sure that they can rely on our solutions. And then I think our service component is extremely important. Then areas where we need to continue to develop, and I think history shows that bit. We need to continue to develop our project execution skills. And as I said, I've seen there's been some really good, solid learnings that we are evolving in this. And we will continue that journey. And believe me, my own management team and myself, we are very much engaged in that.

*Tom Skogman:*

Ok, and then finally, perhaps just about the service order strength, could that partly relate to the fact that there are so many, you know, ferries and cruise vessels out of traffic that many have just decided to have, you know, dry dockings and perhaps kind of put larger maintenance work a bit earlier?

*Håkan Agnevall:*

It could be so, but I don't have the facts to substantiate that. Facts are that the cruise and ferries are running at a very low pace and as I said, consensus when I talk to our customers looking to pick up in July, August and ramp up from there.

*Tom Skogman:*

All right, thank you.

*Moderator:*

Ok, thank you, Tom. Next question is from actually our question wall. Emilia, could you read it?

*Emilia Rantala:*

Yes, so we have a question through the chat. What is the potential from EEXI and CII measures motivated retrofits? Are you seeing more interest from customers from this? Are you seeing more interest for your Fleet Operations Solution as a response to CII and increased shipping ESG focus in general?

*Håkan Agnevall:*

Yeah, I mean, the short answer is yes, definitely, because the industry is moving, new regulations are coming into place, and our customers, many of the customers that I have had dialogue with so far, they are, you know, very focused on this. They, and it's partially driven by the regulation, but it's also partially driven by their customers because their customers are wanting green solutions. And there will be different tools and our whole toolbox, so to say, to address and to be able to meet, you know, the new regulations that comes in. There will be scrubbers, there will be different devices, there will certainly be different fuels. But the whole shift, the whole focus, including the regulation, is driving this very much forward. OK, we have time for one final question, so please.

*Moderator:*

Yes, actually, we have one question left, so Anssi Raussi, from OP Markets, please.

*Anssi Raussi:*

Great, can you hear me? This is Anssi Raussi from OP Markets. Just one question about this 20 million energy segment provision. I had some technical problems. I

couldn't join from the beginning. But could you open a bit about the background of this project provision, what kind of projects it is?

*Håkan Agnevall:*

So basically, we made a in-depth review of our product portfolio in Wärtsilä, triggered by me coming in and working together with my management team. And then we found a need to rebalance the risk in certain projects, primarily on the energy side, to rebalance the risks. So we are at the risk level that could be normally expected in a project business like Wärtsilä. So that is the background.

*Anssi Raussi:*

OK, thank you.

*Håkan Agnevall:*

OK, so thank you very much and I hope you found our dialogue constructive. I'm really looking forward, as I said, to meet with you in the future and continue on dialogue on Wärtsilä. To wrap it up, I think we have some exciting times in front of us. Thanks a lot.