Wärtsilä Corporation - Interim Report January-September 2021

Good morning, everybody, and welcome to this news conference regarding Wärtsilä's Q3 result. My name is Hanna-Maria Heikkinen and I'm in charge of investor relations. Today, our CEO Håkan Agnevall will start with group highlights, market environment and business area specific progress. Then our CFO Arjen Berends will continue with the key financials. After the presentation, there is a possibility to ask questions. Time to start, please, Håkan.

Thank you, Hanna-Maria, and welcome everybody. It's time for quarterly report from Wärtsilä again, and I will say, we are doing good. Order intake is up, net sales are up, and profitability is up. So, I think we had a Q3 that has been really exciting. Order intake increased by 21%, growth in all businesses. You could say that same time last year it was low, but we are moving in the right direction, and we are growing. Also highlighting services, I think our path there continues in the right direction. Order intake increased by 14% and net sales went up with 20%. Profitability improved 43%, so a significant step in the right direction. And still, COVID continues to impact us quite a lot, both on the marine and on the energy side. On the marine side, cruise is still not cruising, 50% operating of the world's vessel cruising fleet. There is still potential on the energy side. We do see COVID impacting still, unfortunately, as vaccination programs take time in many of our core markets. But in spite of COVID really having an impact, I think we are moving in the right direction, and I want to take the opportunity to thank the whole Wärtsilä team, all the people who are out there with our customers, supporting and helping, often in challenging times. So in the field, in the factories that are running, in the offices and at home. And as we are returning in parts of the world, COVID is still a very harsh reality in other parts of the world. So thanks a lot for the employees, really.

The numbers, we will quickly go through them. Order intake, as I said, up 21% from 981 million euros to 1,186. And you can see that the services growth there is 14%. Net sales up 11% from 995 to 1,103. And you see the strong growth on the services side, also on the sales. Book-to-bill above one, 1.07, so it's going in the right direction. Comparable operating result is 43% up at 87 million. That's 7.9% of net sales, moving in the right direction. Of course, we are not satisfied with 7.9, but we are going in the right direction. And the highlights are really the net sales at 1,103 million with a 20% increase in service sales. The comparable operating result at 87 million with 43% growth. It's driven by increased sales, a favorable mix between equipment and services, and also, I would say, good cost control. And you can see the comparable operating result Q-on-Q comparisons since 2019, it's going in the right direction. If we spend some time on the markets and start with the marine markets, it's mixed activity levels on the marine side. We see a significant increase in vessel contracting, mainly driven still by containers, and the number of vessels ordered, in this quarter, 1,400 plus compared to 500 in the corresponding period last year. It’s a significant uptick. But it's mainly driven by containerships, whereas cruise and ferry are still very, very low on the new contracting side. 297 orders for alternative fuels where LNG still is the major alternative fuel. Increasing. The positive news is that cruise is slowly recuperating. 20% cruising at the end of June, now at the end of September, 50%. When I talk to our cruising customers, I would say that the consensus is 65–75% by the year end of this year.

On the energy side, pandemic still impacts negatively. However, on the positive side, there is a strong demand on the energy storage side. COVID-19 has a significant impact in many of our core markets. The recovery will most likely take time, well into 2022 for the markets. The energy storage, it continues as a trailblazer in some of the key markets, North America, Australia, etc. But the slow of our core thermal markets makes us decrease our market share on the thermal side to 6%. I see this more as a COVID impact than anything else. At the same time, we keep our battery storage position as one of the three top players in the world in this space.

Order intake increased by 21%, and it increased all over the businesses and in all business disciplines. Especially on the equipment side, it was up 29%, supported by strong growth in energy storage. Service continues a good trend, up by 14%. And you see, it's still a good mix between service and equipment, and I think there is growth potential further on the services side. If we look at the order backlog, we are building the order backlog slightly, despite some of the divestments we have done. Book-to-bill above one, so the order backlog is building, so to say. Net sales increased by 11%. Equipment net sales increased by two, whereas the service really kicked off in this quarter and is also a strong contributor to our profitability growing by 20%. You can also see that we start to get back to pre-COVID levels on the service side. You can also see the 55%–45% split between services and equipment.

Technology, very important part of Wärtsilä's DNA and also certainly part of our future, how we can evolve cutting edge technology on enabling decarbonisation of energy and marine. What are some of the major things that we have done in Q3? First of all, we have we have upgraded a classic, the Wärtsilä 20DF dual-fuel engines. It's one of our big sellers through the years, and we have now taken it to the next step when it comes to power output, reducing methane slip with 40%, lower fuel consumption and also accepting a wider gas quality span. So really taking that to the next step. On the new fuels, we are developing a concept together with Samsung on ammonia-fuelled vessels. Ammonia is not only about the driveline itself, it's the whole vessel design with tanks, etc. We are working very closely with Samsung to develop this concept for the future. We are also working on the battery side with zero emissions and electric vessels. The first vessels fitted by the Wärtsilä battery containers. That's the concept, that's the product that we offer, and this has now started in commenced operations in the Netherlands transporting beer for Heineken. Also on the carbon capture side, we are moving with speed and here we have two initiatives in the LINCCS project. We are working to bring a maritime carbon capture solution, and we also have our first pilot project for full-scale retrofit with Solvang in Norway, and the target is to be operational in the beginning of 2024.

Today, we are also very proud to announce our decarbonisation goals, and we have set them for 2030. And this goes hand in hand with our strategy, which is very much about shaping decarbonisation of energy and marine. Then when we have set the targets, ambitious targets for the future and for 2030, we look at this from two perspectives. One thing is to become carbon neutral in our own operations by 2030. This is how we run our facilities, how we travel, how we operate in Wärtsilä. Then the other perspective is, you know, how can we help our customers in their decarbonisation journey with our products. There our goal is to provide a product portfolio which will be ready for zero carbon fuels before 2030. So, these are forward-leaning stakes in the ground for us and we are now fully committed at working on them. You also remember the communication we had about our product portfolio to have the ammonia concept ready for 2023 and the hydrogen concept ready for 2025, and we take it from there to have a product portfolio before 2030. Milestone event in Wärtsilä.

Now, let's move on and look a little bit at how the different businesses are doing. If we start with marine power, order intake and comparable operating result increased, and service order intake increased by 29%. Overall order intake is up about 8%, and net sales are rather flat. But still, you can see a significant improvement in profit. And I think the driver here is the gradual return of cruise business. And it's also the mix between equipment and services. On the challenging side, the factory load situation is not optimal. We are running at fairly low load, and we also have a cost inflation pressure. But in spite of this, we managed to counteract the headwind and increase our profitability.

If you look at our services side, the net sales from the installation under agreements have stabilised after the COVID-19 related decline. So, we see stabilisation in a positive way. An exciting example of how we are working with our service agreements is the Aurora Botnia, the new ferry running between Vaasa and Umeå, which is the world's most environmentally friendly ferry with the latest technology from Wärtsilä and in cooperation with the ecosystem in Vaasa and Umeå. We have now signed a ten-year Optimised Maintenance agreement covering the new ferry. The agreement includes the latest digital solutions based on AI machine learning, and it's all about providing predictive maintenance and uptime reliability, and then fuel efficiency and therefore also emission efficiency, and to really work on driving down and having the lowest possible carbon footprint.

If we go to marine systems, the marine systems order intake increased, net sales and comparable operating result decreased. You can see order intake is up 10%. A major driver is gas solutions, and the LNG tankers is driving demand for our gas solutions. Net sales are down 16%. The scrubber business is going slow right now, especially the retrofit I should say, because operators are out there with container vessels shipping, and they don't have time to bring them to port and do the retrofits. On the tender activity on the scrubbers, though, for new builds, we see fairly high level of activity. But the retrofit is slow, and you can see that our profit is coming down. On a positive side, gas solutions it is contributing in a positive way, but it cannot offset the declining scrubber volumes. We also have had an insolvency case amongst one of our customers, and also here we feel cost inflation pressure.

Voyage. Order intake and net sales increased. Service order intake increased by 75%. Significant uptick, mostly driven by cruise. Overall order intake up 20%. Net sales up 24%. And the sales volumes are mainly driven by services in cruise, and the profitability is going in the right direction, slowly but steadily. We are still spending a lot of R&D to evolve our digital offering and force in the other platforms that we have. Also, voyage has been affected by the COVID situation, where it's hard to transfer from different countries to do the services.

This is an important figure that we track, communicate, and follow up, and this is how we grow our cloud solutions, the volumes in our cloud solutions. And as you can see, it's rapid growth, 61% of if you look at numbers of vessels connected to our cloud solutions, so it's a steep growth journey. Another exciting journey in voyage I would say is the Cloud Simulation Solutions. The team has developed simulation solutions for COVID that you can run training through the cloud, and they are now available on Ocean Technology Group's Ocean Learning Platform. The learning platform aims to provide the broadest and most comprehensive range of maritime specific digital learning solutions. It includes instructor led interactive simulation training, automated assessment solutions, and growing library of self-directed simulation exercises. It's all about being able to do it digitally. It’s quite an extensive customer pool with 3,000 shipping companies plus a million seafarers, so the cooperation with those technologies gives the platform a very broad exposure.

Energy. Order intake, net sales and comparable operating result all increased. This was a really good quarter for energy. Service order decreased a bit, but it was still at a good level, I would say. You can see that order increased 52%, a lot driven by battery storage, energy storage. Net sales also went up with battery storage also being a major driver. And if you look at the profitability, it’s a major shift. Do note that sales volumes really contribute on the services side, it's the strongest growth driver, but also that we have a robust execution of our energy projects in Q3, which is very positive. We certainly managed to counterbalance the negatives, which is the low factory load situation, and we also face cost inflation.

Here's an exciting example from our battery storage business. It’s the latest order with AGL in Australia, we recently signed a framework agreement, so this is the first call of a 100 million euro plus order. It's their first installation, 250 MW / 250 MWh system to be installed on Torrens Islands in South Australia. When installed, this system will support a broad portfolio of generating assets, so both thermal and renewable, and help Australia to decarbonise on the journey towards 100% renewable future. This is one of Wärtsilä's strengths going forward, our capability to integrate different generating assets together with our GEMS platform and really optimise the energy cost.

If you look at the service agreements, the installed base covered by long-term service agreements is increasing in a good way. It's a good trend. We have one example here from Nigeria, I think it's a good one with Lafarge and their cement plant in Nigeria. We provide a dedicated supply of electricity to the cement manufacturing. The scope of the agreement includes the operating crew, the performance guarantees, plant availability, and spare parts. So, we have real skin in the game and it's about uptime, reliability of the power.

Now, Arjen, please join me here for the key financials.

Thank you very much, Håkan. Yes, let's move to the key financials. First of all, cash flow, we had a good cash flow in Q3, 49 million euro. Also, considering the fact that we had to increase our inventory somewhat to make sure that also the deliveries in Q4, which are expected to be higher than, let's say, historically in this year, can go out and can be going out on time as well. Working capital, some increase compared to what you saw at the end of Q2. Good cash flow also enabled us to reduce our debt levels further. In Q3, we repaid about 145 million euro of debt. Gearing, good development, fairly flattish if you compare it to Q2, 0.12 we had at Q2, now it's 0.14. Solvency is clearly also better than last year and also better than Q2, which was 37.8, now 39.3. Basic earnings per share, a really good improvement as you can see here from the numbers both in the quarter as well as for the year-to-date numbers.

Looking at cash flow, and if you look at the left side graph, I would say it's going really well. Our focus on cash flow is really paying off. If you look at the curve, OK, it's a little bit down, but still, if you look at the level and compare it to the profitability levels that we have, above 600 is a really good level to be. If we go to the right side of the page here, profitability 50 million. Of course, you add back the depreciation and amortisation, let's say 41 million, which is not cash. Then we have all the changes in the working capital, and basically, the main thing of change I would like to highlight here is what I mentioned earlier as well, the increase in inventories to facilitate, let's say, the deliveries for the later part of this year as well as partly into Q1. But with these words, Håkan, I will give the floor back to you.

Yes. Thank you, Arjen. Let's wrap this up with the prospects before the Q&A. While market conditions remain uncertain, we do expect that the demand environment for our offering in the fourth quarter will be considerably better than that of the corresponding period in the previous year. I think that's a positive outlook. Having said that, I think we start with the Q&A. Before we do that, we should also remember that we have our Capital Markets Day on the 18th of November, which we all hope you can attend either physically here together with us in Helsinki or digitally through the internet.

Thank you, Håkan, and thank you, Arjen. So now, handing over to the operator. Let's start the Q&A session.

Right, first question on the line. And remember one question per analyst. Please open your microphone and ask your question. First, Andreas Willi from JP Morgan.

Good morning Håkan, Arjen and Hanna. I have a question on the energy business and the performance in Q3, particularly on the service side, where revenues seem to be about 20% above the level prior to the pandemic? Maybe you could comment a little bit on that. Is that the new level you expect to cruise at? And if so, why is that substantially higher? Or was there something unusual in Q3 that drove that very strong service activity, which I assume was also the main driver for the stronger profitability than we maybe normally see? Thank you.

You're right in the sense that services were the major driver for the stronger profitability. I would say that in general, we see a positive trend in the services side. But I would say that Q3 was a little bit of extra because we had certain retrofit projects and similar that took place in Q3.

Is that COVID catch-up as well in terms of things that haven't been done in the last 12 to 18 months or is it just random volatility from one quarter to the other?

I would say it more as – when you look at our operating fleet, you can identify certain intervals where you need to do retrofits, etc. And that is happening right here right now. And that is happening not only over one quarter, it's happening over a little bit longer time as well.

Maintenance cycles, basically. Yes.

Thank you very much.

Next question on the line, please, you can ask your question, Sven Weier from UBS.

Good morning from my side as well. The question I had was on the energy storage business as well and your plan to strategically develop it. I mean, you think it's best developed within the current set up or when we think about the example of Fluence, which is now listing, obviously, you think that it could also develop better in such a constellation going forward?

No, I think we see a journey going forward within Wärtsilä, and that's coming back to what I perceive when I listen to our customers. One of our core competitive advantages is our capability to integrate different generating assets together with a battery storage. So our ICEs, wind, solar together with the storage and together with GEMS optimise the operation in various aspects. So I see a logic for very interesting total solution offering from Wärtsilä.

Understood. Thank you Håkan.

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

Good morning. I decided to follow up on the energy margins, so it looks like the margin will end up somewhere between 7–8% for this year. I think you've been very open in saying that the battery storage business is a growth business. So this is almost as much a kind of housekeeping question. Maybe if you could just give us an indication of how much of your energy backlog, energy storage is today and how that will look as a share of revenues into next year. As we understand that business today, do we think that the balance of utilisation picking up in the energy division can offset the negative mix? Or actually, should we expect a temporary dip in margins as we go into next year?

I won't do any forecast for Energy's year end results. But having said that, it's clearly like we have communicated before that the life cycle profitability of storage is certainly less than on the thermal side. I think we should also say that if you look at order intake for Q3, if you look at the Energy new build order intake for Q3, over 90% was energy storage related. If you look at the Energy new build sales for Q3, over 40% was storage. And then to your point, and as we have communicated before, this is a growth business. When you look at it from a profitability perspective, we invest in R&D, we are ramping up, scaling up the business and from that, the profitability is what you would expect from a growth business.

Okay. Just so I understand. So if we look at sort of year-to-date orders, I mean, you obviously give us the MWhs, the MWs of gas and oil. But just if we look in absolute value, it's fair to assume that I think you said 90 percent of orders are energy storage this year or in Q3, correct?

About 280 million.

Yeah, in Q3.

Okay. And does that figure sort of stand for the full year? So 80, 90 is probably what we would expect for the percentage of orders year-to-date. Or was it very different this quarter to each one?

No, you cannot draw that conclusion because it's highly, as we all know, this is a project business. So it very much depends on which orders we take and when. So for Q3, we are clear on this one, but you cannot draw that conclusion for the full year.

Okay, understood. Very helpful, thank you.

Next question on the line, please, you can ask your question, Antti Suttelin from Danske Bank.

Hi, this is Antti. A question on the energy side and services specifically. I'm just looking at your order intake for the traditional business and it looks like, yeah, it's not doing very well. So I wonder at what point is the installed base starting to fall and how should that impact your services business?

So far, the installed base is not falling, I can clearly say that. And as I said, I see interesting growth opportunities on the services side, both marine and energy. But if we zoom in on energy, you have the transactional business, which we are now addressing even more proactively than before, we have the service agreement, which we have really structured and focused. And I would say the new Wärtsilä organisation, which was put in place before I came in with an end-to-end responsibility, has put even further focus on services. So if you talk about the spare parts, very strong focus. If you talk about agreements, very strong focus, and we see good growth trajectories there. Then we have been talking about moving up the performance value ladder. Here we are still at an early stage in energy, but we do see some interesting potential. We have come further on the marine side with the PBL contract, etc., but we do see that we can bring some of those concepts into energy as well.

So you wouldn't expect the installed base to start falling basically at any point, or how do you see that?

You're fully right in the sense that we have a low thermal new build order intake right now. If that would continue forever, of course, it would go down sooner or later. I would put it like that, you know, COVID has affected our core markets. Right now, we see actually quite a lot of interesting tender activity in thermal. In a number of places in the world, still no orders. But there are interesting activities.

Ok, thank you.

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

Can you hear me now?

Yes, now we can hear you, Antti.

Good, sorry about that. The question is on kind of your traditional equipment business if we exclude the storage side and maybe focus on the marine power and the thermal energy. What should we think about going into the next 12 months if you look at the cost inflation that you are seeing, and I guess the pricing pressures that are logical given even the poor level of demand, and then considering the workload situation going into 2022? So phasing of all of this, I mean, I guess your backlog, the sales conversion has been a bit limited during COVID times. So perhaps there's a bit of a catch-up on the revenues. But as a big picture, how should we think about the timing of this, perhaps adverse impacts for your equipment business?

First, I would say that, and you know this since you've been following Wärtsilä many years, we have normally a kind of periodic business over the year where Q4 is a strong one. And I think we can say that it's fair to assume that this year's Q4 will be a little bit in line with the other strong Q4s. So that's one thing. Then when it comes to the cost pressure and supply chain. Yes, as you know, certain parts of our supply we have locked in with long term agreements. Certain parts of our supply are more like on spot. And yes, we are feeling the cost pressure. If you look at our pricing power, I would say that in existing ongoing contracts, of course, we are locked in with the prices we have. On the new build side, it’s still a competitive market, but I do see some opportunities. Then on the services side, I think that there is more opportunity to pass it on to the market.

It's a shorter cycle, right? Yea.

What about the workload situation on the engine factories? How concerned should we be regarding 2022 when we look at the marine power and the thermal energy order development?

I think we are running the factories with a low load right now. I mean, we have taken measures to have a costume that fits us now. Short term, we will actually have an increasing activity level in our factories. But a little bit mid to long term, yeah, we constantly need to monitor the situation and adapt our costumes so to say. A little bit like we have done in the past. But I see this more in the light of continuous improvement.

All right. Thanks so much.

Next question on the line, please, you can ask your question, Tom Skogman from Carnegie Investment Bank.

Good morning. I would like to get a better understanding of the risks you take with these energy storage projects. It's a really new item and the business (- -), you have built up a large order backlog. To my understanding, this is not really a walk in the park. Many companies would refuse to take responsibility for integrating batteries, etc. So I just want to make sure we don't end up with loads of cost overruns in the next few years because you have done something wrong.

Thank you for that concern. I would see we have a cutting-edge approach once again in GEMS because we are monitoring everything in our batteries what is going on in a real time manner. So we have a significant database. Sorry, somebody's driving or something or –

Or vacuum cleaning.

Can you hear us? So basically, with GEMS, we have a real-time, artificial intelligence tool that really makes it possible for us to track what is going on and also backtrack if we have issues. And that means that the relationship that we have with our partners and suppliers, and they are well-established, big suppliers, is very, very clean. That's one from the supply side. Then on the project execution side, to your point, because many of these projects are EPCs, so there is civil installation. What we are doing now, when we are building up, because we are ramping up the team, is that we are transferring competence and people from our thermal business to our storage business. And to run projects, I think that is something that we have done in Wärtsilä for many years. Some of you will tell us that, yes, some of the big ones were not so successful. We know that and have dealt with that, but I think in general, we have a strong culture on projects in Wärtsilä and we are transferring some of that into battery storage now.

Yes. Obviously, it’s a unique part of your offering that you are better positioned to take care of these risks, but I still don't really understand what are the kind of key difficulties with integrating and how you overcome those challenges. Is it just this GEMS software that is further developed than competitors offering or what should we think?

Yeah. You were asking about how we do risk mitigation, and this is to have full control like we do on the marine side, we have full control of the equipment, we can take proactive actions, etc. That's the risk handling. When I was talking about how we can add value with our power system optimisation concept, a competence that we have. Because you could say that anybody can hook up a battery storage. Yeah, but if you want to optimise it when it operates with a wind farm, a thermal, and something else, and get the lowest total energy cost, that is disciplining itself. I think here we have something, at least that's what our customers are telling, that really sticks out. And that is based on our DNA and where we are coming from. As you know, we have been working with power systems and power generation for decades. And you can say that that knowledge is manifested in GEMS. So GEMS is a software platform, but it is, of course, the knowledge that goes into the platforms that makes the difference.

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

Hi there. Just kind of on the back of that, I have a question regarding Fluence's energy, which is listing soon, and I understand it's one of your main peers in storage. Could you give some detail on where you think your market share is versus them and how your profitability of the business compares with theirs?

In market share, I think there is a lot of data out there. I think Bloomberg has a good data set. If you ask me this question today, I will say one number. If you ask me in two weeks, it could be another number because there is a lot of orders spinning around. I would say Tesla is the biggest, and then I think it's a battle between Wärtsilä and Fluence. We are all in the top three. And when it comes to profitability, as I said, you should regard this as a growth business. We are investing heavily in R&D and scaling up.

Ok, makes sense, thank you. Just really quickly on marine, I think consensus has been quite kind of overexcited about it and you sort of mixed expectations. Do you see a significant acceleration of the business in the next year or will most likely take multiple years?

If you ask me about the marine side, when I talk to our customers, cruise is coming back step by step. But of course, it's hinging on how COVID evolves. I think we all know the uncertainties around that, but I think there is a positive sentiment in general.

Great, thank you.

Next question on the line, please, you can ask your question, Colin Moody from RBC.

Hi guys and thanks for taking my question. So just a relative quick one, and I'm sorry if you answered it already, but are you seeing much in the way of significant logistical disruptions in deliveries to customers, you know, just given the nature of your products and your relatively global customer base?

So far, we been handling our customers, I think, in a good way. We have managed our supply chain. We have also, of course, had disturbances in our supply chain, but with a lot of hard work from our team, we been managing to deliver to our customers.

And let's not forget the logistics as well, I think logistics is also a challenge. I think that's not only for us, but I think for many industries in the world. Great compliment to our logistics teams that get all the stuff on time, inbound and outbound so far at least.

Another challenge if we address the challenges that has been during COVID is, of course, normally we send service engineers all over the world. With COVID, you really need to have a very structured and conscious approach because of quarantine rules, etc. So that is also hampering our operation currently.

Thanks very much. Next question on the line, please, you can ask your question, Manu Rimpelä from Nordea.

Good morning and thank you for taking my question. You talked about the Q4 this year seeing normal type of seasonality, and I'm not sure if I fully kind of registered the way you were thinking about it, but should we think that that should be in line with this kind of typical 5–6 percentage points higher margins in Q4 compared to the third quarter type of a seasonality? Or how do you see that? Because we know that from the backlog of deliveries, you will have strong Q4 sales and you're also pointing to a very strong order intake in Q4. So it really boils down to the kind of a margin and how do you see the moving part from Q3 to Q4? So just kind of trying to understand that, one, it would obviously be very helpful for you to give us more guidance on the fourth quarter with that being your biggest quarter by far and we have a lot of uncertainties around. Anything you can say on that would be extremely helpful.

As you know, we don't guide on EBIT. I can only say if you look at the prospects that we are bringing, I would say it's positive and considerably better on the demand side. And we have a positive outlook. What do you say Arjen?

I would say we are very confident in that outlook. Coming back to the question on delivery. I would say our order book both in new build and services really supports, let's say, the higher Q4 also from a delivery point of view. Of course, there is always a lot of stuff that needs to come through in and out through the quarter. And that also refers back to the comment I just made on the logistics change, or we need to make sure that the logistics is not disturbing our plan of delivery too much. But if everything works according to plan, I think we will see a good Q4 in that sense, supported by the order book. But margins, as you said, we won't comment on.

Ok, and maybe just to follow up on that. In terms of the key moving parts between the third and the fourth quarters, obviously we know the deliveries will be very strong. But what else is there? Obviously, we will see higher storage deliveries I guess burdening the margins compared to what we may have seen in the past. But anything else that could make it different from the kind of historical fourth quarter difference between third quarter type of a –.

As we said, we have a positive outlook on storage. We have a positive outlook on services. There are activities on the thermal side.

Yeah, I think it's basically everywhere. It's looks quite OK, actually. Of course, there are areas that are not moving that fast forward. We have challenges in scrubbers, for example, but I would say in general, it looks quite good.

Thank you.

Next question on the line, please, you can ask your question, Johan Eliason from Kepler Cheuvreux.

Can you hear me?

Yes, now we can hear you. Go on.

Okay, sorry. Thank you for taking my question. I was just wondering a little bit about the margin in the energy side. I mean, you're taking a lot of provisions over the last couple of years. Did you release any of those provisions to any significant degree in this quarter? Are there any more left to impact this going forward? Thank you.

In the last couple of years, we have had a number of challenging projects, big complex projects, primarily, not only, but primarily on the energy side. We have had the negative deviations that you're referring to. You also remember that in Q1, we did an assessment of the riskiest part, most complex part of our product portfolio. And as a result of that, we did a net provision of 20 million euro to basically bring the risk level of the whole portfolio to a level that I personally would consider to be in line with what you would expect in a project business like Wärtsilä. Because a big chunk of our business is project business, and you will always have some projects that are doing very well, some less well, but you really need to avoid the outliers on the negative side. That assessment of the risk level we have not changed.

OK, thank you very much.

Next question on the line, please, you can ask your question. Andreas Willi from JP Morgan.

Thank you very much for the opportunity for a second question. To come back to the comments you made earlier on energy storage, if you get a typical project like the 250 MW, 100 million order, what's a typical breakdown of sourcing materials or batteries, balance of plant services, logistics, all of that, relative to the value add in terms of the project integration and the GEMS platform.

I don't think we will give a detailed breakdown. I think the competitors would love that, but we don’t. But I mean, it's no doubt that the battery in itself has a major portion of the of the overall cost structure.

But some general comments, is it 50, 60, 70% of a total project that is basically building services and costs?

I think it depends also a little bit by project, but I would say around half is probably right.

In that magnitude. Yeah.

Thank you very much.

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

Thank you for taking my follow-up question. It was just trying to understand a little bit around what happens into next year as the sort of, I realise I sort of asked this, but I guess this is more from a sort of engineering and management standpoint. You're obviously going to have your traditional factories where you disassemble your – your thermal engines are going to be emptier realistically than they were this year. But then conversely, your energy storage, and I'm trying to actually understand how your facilities work. Is it in the same facility that you will, I don't know, what do you assemble? How does that actually kind of end up looking from a capacity utilisation standpoint in your existing facilities? Is it shared production? Is it elsewhere? How does that actually work in practice now?

If you look at the battery storage assembly, it's not in our engine factories. From that perspective, it's not that we move staff or assembly staff from one type of manufacturing to the other. So then on the engine side, yes, we are at a low level right now. But we have a fairly optimistic outlook on many areas on our demand side.

Sorry to sort of (-) on this point, but if your sales, currently 60% of your business is from thermal energy this quarter and orders are only 10%, then your book-to-bills going into next year are going to be under quite a lot of pressure. So surely that suggests that your traditional thermal facilities are going to need quite significant adjustments to manage down that capacity as your, as battery assembly? Or maybe I'm misunderstanding that, but from the outside that is just how I would interpret what is likely to happen next.

Yea, and to the point. But then you also know the demand guidance for Q4, where we see a considerable improvement.

At the same time, I would also add that historically we have taken measures to adjust if we feel it's needed to adjust. With temporary layoffs, we had it recently in Q2 and in the Trieste factory. So if we feel that it is too extreme, I think we will make adjustments again, whether temporary or something else.

Okay, understood. Where is your battery storage facility, where actually geographically is it?

I think we do the assembly in China, in India, in the US.

Thank you very much. Thank you very much.

Next question on the line, please, you can ask your question, Tom Skogman from Carnegie.

Hello again, this is Tom. I have two questions. How many employees do you have in the Indian assembly? And then my second question is regarding the power crisis that you see now. You kind of hint that you see better demand, but please open a bit more in terms of geographies, etc. You know, we see extreme kind of – the market is scared of power shortages, etc. So, give us a bit more granularity about what you see in Germany, the US, etc. where we have had really big problems in the last year?

I don't think we will give out how many assembly staff we have in certain factories, but if you come to the market and the energy side with the current high gas prices, and that's a global trend, I think what we see short term as a consequence is that there is actually more heavy fuel power generation. And we see that as a short-term phenomenon. Long term, the currently high gas prices will accelerate the shift to renewables. As you know, we really think it's necessary, and we also see a very interesting opportunity for balancing energy, both thermal and battery storage. Now, how exactly this will play out in different countries, it's different context all over the world. I would say there are a lot of exciting things going on in the US right now on the power system side. On battery storage, it's clearly one of the major growth drivers. But I will also say on the early stage of thermal, there is quite a lot of activities. I would say there is some upcoming activities in South America. We see storage being very strong in Australia. We talked about that, and we also see some thermal opportunities there. If you look at Europe, I mean UK is a very active battery storage market, but there are also some thermal opportunities. We have talked about that many times before, power assistance looks different and if you zoom in on Europe, as wind and solar will continue expand, that will be balancing power needed. But that development will probably take longer time in Europe than in the US and other parts of the world.

Thank you.

Next question on the line, please, you can ask your question, Sven Weier from UBS.

Hello, Sven. We can't hear you.

Can you hear me now?

Now we can hear you.

Yeah, sorry for that. There was just one follow up question from me on your order book delivery schedule. Because if you look at the status at the end of September, obviously deliveries for next year are still quite a bit below where they were a year ago. And of course, consensus is like a 10% sales increase next year. I was just wondering, given your upbeat Q4 order intake guidance, should that graph look quite a bit different than at the end of Q4?

I think that depends a bit, let's say on what we what we take in and not, but we have a good outlook on order intake Q4, as mentioned in the prospect. We have also good outlook on our deliveries. Then it's a question of the book-to bill, right? Let's see what it ends up with.

So there's a good mix in the delivery schedules of the pipeline that you have, because on the marine side, I think things tend to be having delivery times of maybe two years sometimes, but it seems like a good mix between the delivery dates.

You're right, there is there is a good mix.

Ok, thank you.

I'm afraid that we are now running out of time, so thank you for the great presentation and thank you for great questions and good answers. Just as a reminder, our Capital Market Day on November 18 will be a great opportunity to learn more about Wärtsilä operation strategy and future opportunities. Hope to see you there. Thank you.

Thank you very much for today.

Thank you.