Wärtsilä interim report Jan-Sep 2023 - transcript

**Hanna-Maria Heikkinen:** Hi all and welcome to this result briefing for Wärtsilä Q3 results. My name is Hanna-Maria Heikkinen and I'm in charge of Investor Relations. Today our CEO, Håkan Agnevall will go through the group highlights and business specific performance. After that, our CFO, Arjen Berends will continue with recent financials. After the presentation, there is a possibility to ask questions. We are also happy to discuss the strategic review we have announced today for our energy storage and optimisation business. Time to start, Håkan.

**Håkan Agnevall:** Thank you, Hanna-Maria. Thank you and welcome everybody to our interim report. If we start from the very beginning, I think we see a very positive trend for Wärtsilä, improved profitability, strong cash flow and good development on the services side. Order intake is up by 11% and we have a good support from services. We continue to see good progress in services. Service order intake up with 15%. So this net sales also increased by 15%. On the comparable operating results we took quite a big step forward. We increased it by 53% to 8.6% now, and I think we are on a good path of improvement. The improvement is supported by continued good development in services. And now we could also announce for the first time that our energy storage business is profitable. And cash flow has also been good with good cash flow from the operating activities. Summary of the figures. You see it here. Also order intake up 11% in the quarter, close to €1.8 billion. And we still continue to see the growth of services 15%. Also, equipment continues to grow 7%. Net sales, you could say a little bit more flattish 1.4. But if you look at the organic growth, it's up 7%, actually, the sales. Services is strong, up 15% on sales. And on the equipment side, we are actually down 10%. Book-to-bill for the 10th consecutive quarter. We continue to have a book-to-bill above one, so now it's 1.23. Operating result is up quite a lot. And that is of course related to certain items affecting comparability that we had last year. Now we don't have them, so the operating result is up quite a lot. If you look at the comparable operating results it's up to 8.6%, 53% up, which is of course very encouraging.

Looking a little bit on the on the Marine market sentiment. It remains positive in Wärtsilä’s key segments. What hampers is the key segments is a little bit at it's low capacity. And for instance for LNG carriers. Available shipyard capacity is muted because there is so much work in the pipeline. And that has also led to a price increase. But in general, we see a positive development for the Wärtsilä key segments. The number of vessels ordered in the period increased to 1356. So it's up from about 1100 last year. That is mostly driven by the changed mix of contracted vessels. If we then look at the uptake of alternative fuel it remained more limited this time with 316 orders reported representing about 23% of all contracted vessels. Demand for new cruise ship capacity remains limited. However, we do see a bit on the new build coming back now, which is positive also for Wärtsilä. But the key focus for our cruise customer is to focus on a very good business with good passenger rates. Delivering the business and step by step reduce the debt they have on their balance sheet. But I would say, when I talk to our cruise customers, they are very optimistic about the future. Then very important in: In July, IMO revised its strategy on greenhouse gas emissions, and the new framework that are in discussion puts further pressure and creates opportunity for shipping companies to increase their investments to to decarbonise their operations. So the decarbonisation journey of the marine industry is very, very real. It's going to take years and it's going to be not a stepwise journey, but a gradual journey, but it's clearly a journey where Wärtsilä can play a key role and support our customers and also create shareholder value.

If we look on the Energy side, we see solid long-term opportunities in the energy market. The energy transition outlook is actually improving in a bit fragile global economy. Our market shares in the natural gas and liquefied fuel power plants stayed rather stable, around 13%. The overall market came down 22% to ten gigawatt if you look at the last 12-month period. They're coming down the market decrease from, I would say, relatively high level in 2022; was driven by by Europe and Asia. Also, the volatility of the global natural gas prices shows how the market is sensitive to disruptions in supply and demand. The trend in the transition to renewable energy sources continues globally, and that is certainly a key driver in the development of battery energy storage and thermal balancing technologies. And yes, we have seen a bit of turbulence on offshore wind lately. But I think the onshore wind, which is clearly the dominating share of the wind industry, is moving ahead. The energy transition outlook in the mid-terms remains strong. So order intake up by 11%. Equipment order take increased by 7%. On the services side order intake increased by 15%. And if we look at the organic order intake it actually grew by 18%. And we have a strong order book, and the rolling book to build continues to trend up. One thing that we would like to really point out is that the remaining order book for this year is lower than last year.

Net sales increased by 1%, which is fairly flat, so to say, but organic net sales grew by 7%. And we can see that equipment net sales decreased by 10% whereas services continued to grow with 15%. Profitability continues to improve in a good way. So whereas the net sales increased by 1%, the comparable operating result increased by 53% to 8.6 comparable operating margin.

Now some of our technology and partnership highlights. As you know it's all about innovation and technology and services. So we are very proud that we have been chosen for the world's first methanol fueled hybrid RoRo vessels. So Wärtsilä will supply an integrated hybrid propulsion system for two new hybrid RoRo vessels being built for the Swedish shipping company Stena Aurora. Each vessel will be equipped with two Wärtsilä 32M multi-fuel engines capable of operating on methanol and also ready for ammonia notation. The combination of new sustainable fuels and electrification that is really in line with where Stena wants to go and the company’s sustainable operating targets. We are very proud that we have a strong relation with Stena RoRo. As early as 2015, we converted the Stena Germanica to operate on methanol fuel. That was one of the industry firsts.

We also talked a lot about to evolve our service business and moving up the service value ladder. I think here we have a long-standing agreement with our Brazilian customer here where we have renewed our operations and maintenance agreement, and we talked about that before. On our agreement side, we have over 90% renewal rate, both in Energy and Marine, which in my view really shows the value that we are providing to our customers. So in this case, we have signed a renewal of operating and maintenance agreement for Gera Amazonas. The agreement covers the Ponta Negra power plant in Manaus, that is a plant that has been in place since 2006 when we commissioned the plant. And now we extend the agreement for another two years to ensure that Gera Amazonas can meet its power purchase obligations to Electronorte.

This plant was built and originally operated on heavy fuel oil. In 2013 it was converted to gas diesel technology. Now the plant basically operates 24/7 baseload, delivering 60 MW to the system.

Let's look at the different businesses and how they are performing. If we start with Marine Power, we see a strong development in the order intake and profitability and the good development in services continues. You can see order intake up with 33%, net sales with 26% with profitability improving. And the major drivers, we have good service performance. We also have good progress now in in the Voyage Services turnaround. We talked about that if we combine the two businesses that were earlier called Voyage, they are still loss making. But the losses are clearly significantly reducing. So we are really on a good path and the right path on our turnaround plan. If we look at the negative side in Marine Power the margin improvement was partially diluted by lower share of services this quarter.

We continue the good development on the Marine Power service agreements and on the net sales we are clearly increasing and exceeding now the pre-COVID level on the sales to our installations. Here is another example with a technical management agreement providing maintenance flexibility for China LNG shipping vessel. It's a 15 year agreement. So it's a long term commitment that will ensure the operational reliability and provide maintenance planning flexibility to the Dapeng Princess, that's the world's largest shallow draft LNG carrier. These vessels operates three Wärtsilä 34 DF dual-fuel engines. The technical maintenance agreement include constant data monitoring, maintenance support for the engines and the gas valve units. We took this in as an order in July 2023. So 15-year agreement, long term commitments. This is how we move up the service value ladder. Now, another really exciting example, more than on the driveline side is our order with with Incat Tasmania, which has selected Wärtsilä for the world's first zero emission lightweight RoPax ferry. So we will power this biggest battery electric ship ever built so far. And the vessel is a new ferry, the largest ever built of its type, and it's the world's first zero emission lightweight catamaran. It's built by Incat Tasmania and it's been ordered by the long standing South American customer Buquebús.

The Wärtsilä full scope includes our own energy management system, the power conversion system, the DC charging system, and also 40 MWh battery modules. The DC hub, the eight electric motors, eight Wärtsilä Waterjets and a ProTouch propulsion control system. You can see it's a fairly all encompassing scope, and this order was also booked in July.

Moving to Marine systems, we see that the equipment order intake increased. However, the net sales is down. Order increased with 55% net sales down. Scrubbers is one part. The exhaust side is one part of that equation.

If we look at the comparable operating result, it's down. We have good service performance, but the lower equipment sales is affecting the operating income.

Energy. The comparable operating results increased. We see also here a good development on the services side. Order intake down 16%. We still see this a little bit as a periodization between Q3 and Q4. As you know, this is a project. Many parts of it is a project related business. And I think we also communicated before that for Energy power plant, that the second half of the year would be stronger than the first half of the year. We still hold to that, but for Q3, the order intake is down with 16%. Net sales is also down 12%. If we look on the profitability side, we do see a positive trend there, supported by the good service performance and also improved profitability of the storage business. But the lower sales volumes are affecting our profitability in Q3. On the energy storage comparable operating result is now positive. We are there. And the profitability is improving.

Now, you also saw earlier this morning that we announced that we are initiating a strategic review of our energy storage optimization business. So basically, the Wärtsilä board of directors have initiated a strategic review to consider options that would support the continued growth of our storage business in a way that benefits our customer, employees and our shareholders. Throughout this process, all potential alternatives will be considered, including different ownership options That involves all alternatives, from keeping the business to partial divestment, to full divestment and other possible strategic alternatives. Also very important to highlight: We will continue to develop and invest in our battery storage business as we have done also going forward to continue to build the business for the future. We have not set the timetable for the completion of the strategic review, as we want to thoroughly assess all the strategic options.

Now if we switch to energy service business, we do see continued good development in the service agreement side also here. Here once again, asset performance agreements to support the US utility’s efforts towards net-zero carbon emission ten-year Guaranteed Asset Performance agreement signed with OPPD in Omaha. The agreements covers the 150 MW Standing Bear Lake Station located in Omaha. It is set for commercial services in 2024. When we activate, the plant will provide dispatchable balancing power as part of the utility's Power with Purpose project. That's an initiative designed to add 400 to 600 MW of utility-scale solar generation and then 600 MW of balancing natural gas generation. This order was booked in in Q3.

Now to sum it all together. You see the waterfall here, how the different businesses have contributed to our improved profitability. And the biggest improvements are coming from Marine Power and Energy. As we see, the comparable operating results is increasing by 53%.

Now. Arjen, please join me.

**Arjen Berends:** Thank you. Håkan. I'm very happy to present here the key financials. In fact, if you look at it, it's all better than previous year at the same time. And it's also better than let's say Q2 and staged. So, a really good quarter in many ways. First of all cash flow €213 million operating cash flow in this quarter compared to €100 million the same quarter last year, €432 million year to date, which is a really good level considering also that it is about 92% of EBITDA. Working capital is clearly, one of the big contributors to a good cash flow, besides also improved profitability compared to Q2 and staged. Let's say we improved quite significantly on the working capital as well from 105 to 43. Net interest bearing debt, also going down from 477 last quarter to now 356, of course, supported by a very good cash flow in the quarter. That is also supported by the gearing ratio, which went from 0.24 to 0.17 in the quarter. Solvency also clearly improving 33.4% at the end of last quarter, now to 35.2. Basic earnings per share also significantly better than previous year. It’s good to remind that the minus 0.16 that we see year to date last year includes the 200 million write off related to the Russia exit, as well as, at that point of time, €75 million related to the Trieste manufacturing closure. While at the same time the 0.28 year to date basic earnings per share that we have in this year includes €45 million write off that we did on Portfolio Business or impairment actually that we did on Portfolio Business in Q2. So all in all, I would say looking at where we are today compared to previous year, all significant improvements on all financial parameters, I'm really happy with this.

Cash flow continues to trend upward. And that's what we want to see. Also working capital to net sales ratio are now on a 12 month rolling level just below 1%, while long term average, if you compare 2015 to now, is just below 9%. So we are at a very good level. Nevertheless, we will, of course, continue to work with our working capital and try to improve it further by collection of receivables, getting better payment terms with customers and suppliers, inventory reductions, et cetera. So really going well forward. With these words I give it back to you, Håkan on the prospects.

**Håkan Agnevall:** Yeah, so if we look at our prospects first. If we start on the Marine side, we expect the demand environment for the next 12 months to be similar to that of the comparison period. Similar. And on the Energy side, we expect the demand environment for the next 12 months to be better than that of the comparison period. So Marine similar. Energy better. Okay, I think that wraps up the presentation for today.

**Hanna-Maria Heikkinen:** Thank you. Håkan. Thank you. Arjen. Now we are happy to take questions.

**Presenter:** Yes. And please keep your microphone muted while not talking. Thank you. First up is Daniela Costa from Goldman Sachs.

**Håkan Agnevall:** Hello, Daniela. We can't hear you. Welcome.

**Daniela Costa:** Hi. Can you hear me now?

**Håkan Agnevall:** Now. Daniela. Welcome.

**Daniela Costa:** Oh, perfect. Thank you. Sorry for the difficulty. I have two questions here. First one, wanted to explore on sort of the strategic rationale for the storage. Why doing the strategic review now? I guess not obvious from us from the outside, that there is a massive disconnect between your valuation and the valuation of some of your main storage pure play peers. Also, you have articulated that one of your differentiating points in the past was having this integrated balance, power and storage. So can you talk through some of the benefits of potential different ownership structures and really the timing. Why now? So that's my main question. The second question, it sounds like your portfolio company is actually doing a bit better than expected. Can you articulate what's the vision for that segment going forward? I think in the past have interpreted that as maybe being more of a non-core segment. Just any update there would be would be useful. Thank you very much.

**Håkan Agnevall** [to Arjen Berends]:If I take storage, maybe you take your portfolio? If you look at storage and why now and what's the logic? I think we found the timing good. I mean we have grown this business now to successfully to one €1 billion, give or take. And we now brought it to profitability. I think this is a good time together with the board to take a step back and look at how do we want to support the continued growth, because clearly this is an industry that is growing, we are growing and we need to find the best way to fuel that growth. That's why we want to do the strategic review to look at different ownership alternatives. The conclusion could be that we keep the storage business, but it could also be that we partially divest, fully divest etc.. So the timing. We kind of reached the milestone 1 billion now profitable okay. How do we continue to support the growth? So that's the rationale

**Arjen Berends:** Your question. Daniela on Portfolio Business, of course, let's say this is as we have also communicated earlier, let's say non-core, it’s not strategic or critical for us to keep. And therefore we have also earlier decided many business units to put in Portfolio Business. So the plan remains to divest. We are very happy with the performance. Good profitability always makes it easier also to divest these businesses. So it's a temporary thing. We will not reverse our earlier decisions. So the divestment roadmap continues.

**Daniela Costa:** Okay. Thank you very much.

**Presenter:** Next up is Max Yates from Morgan Stanley.

**Max Yates:** Can you hear me?

**Håkan Agnevall:** Yes, hello Max. Welcome.

**Max Yates:** Good morning. Just, just my first question was on the on the Marine orders. And obviously there was some pretty good equipment orders in there, particularly in the marine systems business. So I just I just wanted to understand if we're thinking about kind of run rates of order intake, were there any kind of abnormally large sort of one-off orders that maybe we should sort of strip out in the business? How should we think about some of those growth rates and the momentum going forward? Thank you.

**Håkan Agnevall:** If I start with Marine Power, maybe [Arjen Berends] can comment. Marine Systems order intake. Marine Power strong equipment order intake: Some of the core segments of that is delivering in Q3, including cruise. So that is a driver. And I would say that we see continued positive development in our core segments from a demand side.

**Arjen Berends:** For Marine systems it's better to look at a bit more long term trend and not standalone quarters. There can be very big orders, in particular in the gas solution business within Marine systems, while on the other businesses like shelf[?] solutions and exhaust treatment, they are typically smaller in size. So if you have these incidental bigger ones every now and then, it can of course make a big difference in one quarter. So I would recommend to look more at rolling 12 month trend than any specific single quarter. I think that makes more sense.

**Max Yates:** And just just secondly, just on the energy storage announcement and I think I completely understand your comments of taking a taking a look at kind of what's the best path forward. Just in terms of how integrated that business is in your organisation. Would it cost kind of substantial money to disentangle this? Do you have a sort of shared service network at this point? How should we think through kind of how integrated that business is and any kind of cross of people involved in both organisations. If you could comment there, that would be helpful. Thank you.

**Håkan Agnevall:** There are certain synergies clearly, especially on the on the admin side, on everything there. There is also a bit of synergies on the salesforce side. As we talked about, there are many options, but if we pursue that option we will need to see how the structure would look like. I mean, clearly what we're doing today is that that we are tracking the profitability separately. I think we have a good understanding of the cost structure. That is valuable input for the review when we consider all different options.

**Arjen Berends:** Just to add on that, as we also commented before, there is a lot of cross utilisation of people as well depending on load in the different parts of Energy being at EPP or storage. So on the sourcing side, on the logistic side, but also in the in the group functions like shared service centres. Of course, they are also supporting let's say storage. I wouldn't say it's super complicated, it's not super integrated.

**Arjen Berends:** And then of course we have the GEMS platform that we use in both parts of the business. So there are synergies and that's why we need to look at all different options.

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

**Presenter:** Next up is Vivek Midha from Citi, please.

**Vivek Midha:** Hi, everyone. Thank you. Can you hear me?

**Håkan Agnevall:** Yes, welcome.

**Vivek Midha:** Perfect. Thank you very much. I have one question on the energy business relating to the thermal power plants business. It sounds like you're still looking for an improvement in demand in the fourth quarter, but could you maybe expand on that. What gives you that confidence that that's going to improve in the fourth quarter? Thank you.

**Håkan Agnevall:** Well, I think we look on our pipeline of potential projects and that gives us some some positivism, so to say. Also going in, if you look at our guidance for next year, we do see certain power auctions coming in South America etc.. So we are looking into our pipeline.

**Vivek Midha:** Thank you.

**Presenter:** Next up is Sven Weier from UBS, please.

**Sven Weier:** Good morning from my side. I hope you can hear me.

**Håkan Agnevall:** Yeah. Good morning. Sven. Welcome.

**Sven Weier:** First up, also on energy storage, just coming back to the motivation for the strategic review, I was just wondering, did you also have an increasing amount of expression of interest in the business lately? Is that maybe also behind the motivation, or would you only expect that to happen once you start a clear process there?

**Håkan Agnevall:** Now, I think this is clearly driven inside out. It's more our strategic perspective together, working together with the board. It's not what I would call an opportunistic approach, so to say. So it's clearly coming from taking a step back, looking at how do we best fuel the continued growth and looking at different models.

**Sven Weier:** And when you say partial ownership, you mean IPO as an option.

**Håkan Agnevall:** We don't rule out any option at this stage.

**Sven Weier:** Okay. Second point was just regarding the phase out of the legacy contracts for the last time in Q3. I was just wondering which business unit there has been the residual impact of that phasing out.

**Håkan Agnevall:** Well, I think we talked about that before. It has been on Energy, it has been on Marine systems so to say.

**Arjen Berends:** Mostly not only.

**Sven Weier:** Same inQ3?

**Håkan Agnevall:** Yes.

**Arjen Berends:** Yes.

**Håkan Agnevall:** Correct.

**Sven Weier:** Okay, thank you.

**Presenter:** Next up is Sean McLoughlin from HSBC. Please.

**Håkan Agnevall:** Sorry, Sean. We can't hear you.

**Sean McLoughlin:** Can you hear me now?

**Håkan Agnevall:** Yes, Sean.Welcome.

**Sean McLoughlin:** Oh, perfect, thank you. I just wanted to come back to Vivek’s question a little bit about what is driving the improved outlook in energy. Is it across all segments? Is it specifically driven by storage over thermal? Is it more the services side within thermal, i.e. more customers willing to take on long term service agreements, just any moving parts within that guidance improvement?

**Håkan Agnevall:** I think we actually see in all those dimension positive signs that triggers this outlook. So it's about new build in power plants. This is about new build in storage. It's about service. So it's you could say it's a broad array of drivers. And if I come back, for instance, on the power plant side, we see certain auctions coming in South America etc.etc. So we see the market demand evolving in a positive way.

**Sean McLoughlin:** And on the thermal side you specify LATAM. I mean is that then region specific or is that a regionally broad better outlook.

**Håkan Agnevall:** It's a broad outlook. I just gave that as an example. It's not only in South America. We also see it in certain countries in Asia etc.

**Sean McLoughlin:** Thank you.

**Hanna-Maria Heikkinen:** Thank you. Do we have any further questions? We still have some time. So in the case you have a question, we are here for you.

**Presenter:** Next up is Erkki Vesola from Inderes, please.

**Erkki Vesola:** Hi, good morning, guys and doll. [Laughter on the podium] How much of a threat regarding the legacy projects? How much of a drag were these in Q3, and how big an improvement should we expect in Q4 regarding the admittance of this?

**Håkan Agnevall:** It's a good question, but we don't get guidance for the profit margin. I mean, it's the story that we have communicated in the past. When we went into this year, we had about €1.2 billion in our order backlog left of orders that had been heavily affected by the accelerating cost inflation. We have now worked that out through this year until now. So those projects has also had an impact on Q3. But we are not guiding on the on the margin impact.

**Erkki Vesola:** Okay, thanks. And then let's take a look. Still coming to this storage review? Why did you have to come public with this starting this review? I mean, you could have just carried this out internally. Is it just that you are kind of kind of flagging that we are out here and we are looking for partners etc? What was that?

**Håkan Agnevall:** No,I think being a listed company; we need to to follow the regulations, of Nasdaq. This is a sizeable decision, even to enter the strategic review. So the board made the decision and we immediately go out and release the news that we need to do in alignment to being a listed company.

**Erkki Vesola:** Size and potential magnitude?

**Arjen Berends**: Yes.

**Håkan Agnevall:** Yes.

**Erkki Vesola:** So you were more forced to do that. Not just that you were wanting to come public with this?

**Håkan Agnevall:** No, it's part of being listed. If you make sizeable decisions that could have a significant impact, you need to immediately go out and disclose it. And that's what we have done.

**Erkki Vesola:** For now, thank you.

**Presenter:** Next up is Tomi Railo from DNB, please.

**Håkan Agnevall:** Hello, Tomi, we can't hear you.

**Tomi Railo:** Sorry about the short delay. A couple of questions. Firstly, maybe on the Energy outlook as well. To what extent is it a true environment improvement that you see or is it just a reflection of the weakness or delays in the market activity, customer signing deals in the previous quarters?

**Håkan Agnevall:** Well, if you look at the development during the second half of the year, it's a bit of periodization between the quarters. But when we do the outlook, I think we are looking at two things that are a little bit hard to delineate. There are up and demand for power and then there is the decarburization journey. Both of those are coming together. That gives us confidence when we look into our pipeline going forward.

**Tomi Railo:** Okay, and secondly, if you could maybe explain a little bit about the service profitability development, very strong order sales, as we have seen in the previous quarters. Have you been able to improve the service profitability as well?

**Håkan Agnevall:** I think we are gradually doing that. There is of course a volume effect. The key thing here in fueling our growth, of course, we have high utilization of the equipment that that our customers are using. But this strategy of moving up the service value ladder, we clearly see that it's fueling the growth. I mean, we showed some examples here with the maintenance agreements, I mean 10-15 years agreements and they are profitable. We are creating value for the customers, as I said, 90% renewal rate of these type of agreements. So it shows also customer thinks that we are creating value. That is one of the major growth levers, and we are growing profitably.

**Tomi Railo:** Thank you very much.

**Presenter:** Next up is Max Yates from Morgan Stanley, please.

**Max Yates:** Thank you. I just had a quick follow up question on the service's order intake. If look at your 12 month rolling service order intake it's nearly up 40% versus two years ago. I guess we've seen in some other industries we're now starting to see kind of orders normalize. We've seen some early ordering of supply chains, have made customers do strange things with their ordering behavior. To what extent do you see any of that in your own business? And do you think we could then go through a period of more stable order intake as customers sort of focus on the deliveries, or do you just see a sort of fantastic runway ahead with lots of opportunities on maintenance contracts, and you think this is customers behaving in a normal way? Any colour on that would be helpful.

**Håkan Agnevall:** I think we see a mixed portfolio, so to say. If we look at the different segments, I see clearly that the merchant side is starting to stabilize a bit. Offshore has been growing a lot, very steep. Cruise is also going up. So it's a mixed bag. Certain segments are clearly kind of levelling off might be going down. Other segments are growing.

**Arjen Berends:** If you make a comparison to two years ago, of course, one factor that is clearly not continuing going forward is the effect of moving out of COVID. So the exceptional growth rate, definitely 2021 still being deep into COVID and the cruise returning, let's say ferries coming back to life again has clearly had an impact. We have a strong belief in the growth of the service also on a continuous basis going forward.

**Håkan Agnevall:** Because what we do see, the decarbonisation journey retrofit project, you remember that we talked about in our previous CMD, we see a €2.5 billion retrofit market potential of our own equipment over 5 to 10 years. So the retrofits are still there.

**Max Yates:** Maybe just a follow up. If I go back 2 or 3 years ago, one of the kind of negative cases on your stock was the potential risk in energy services of more flexible power in your baseload, less running hours. And that would negatively impact energy services. We don't seem to be seeing any of that. Is that a case of some of these retrofits and kind of bigger service contracts are offsetting lower consumables for some of your customers, or are we just not really seeing that happen at all in any parts of your install base? Is that happening in pockets, because there's obviously offset. Help us through that.

**Håkan Agnevall:** Basically we are growing our installed fleet of megawatts on the energy side. And we do see that the total, if you aggregate all the number of service hours, is stable. Although our share of balancing, which has lower running hours is increasing. So we grow we grow the installed base. The total number of hours is stable. On top of that, and we talked about that before moving up the service value ladder, we clearly see that that is supporting the growth. Moving customers into agreements.

**Max Yates:** Thank you very much.

**Hanna-Maria Heikkinen:** Thank you. Do we have any further questions?

**Presenter:** Next up. Vivek Midha from Citi, please.

**Vivek Midha:** Thanks very much for the follow up. A quick follow up on Max's question. Are the service order intake been growing quite a bit over the last few years? Appreciate it if you can't disclose this, but could you give us any indication as to where those prices are in service compared to, say, two years ago or pre-COVID levels so that we can work out, X price whereas your service activity versus previous levels, thank you.

**Håkan Agnevall:** I won't go into the X percent you might be looking for. Sorry for that but we have clearly worked with price realization and we have had to do that in the wake of inflation. And as you know, there has been a rather steep inflation. On the services side, we have been able to work quite a lot with price realization.

**Arjen Berends:** It's exactly as you say. We will not open on this one. It's very competitive. Sensitive as well. But what we can clearly see is that the whole industry has done the same, so we are not an outlier in this respect.

**Vivek Midha:** Thank you.

**Hanna-Maria Heikkinen:** Thank you for great questions and thank you Håkan, thank you. Arjen, I would like to remind you about our Capital Market Day, which will take place on November 9th. So please register on our website and join us following it, thank you.

**Håkan Agnevall:** Thank you.

**Arjen Berends:** Thank you.