# Transcript for "Financial Statements Bulletin 2023"

 **00:00:00 - 00:00:25**
Speaker 1: Hello everybody and welcome to this news conference for virtual results 2023. My name is Hanna-Maria Heikkinen and I'm in charge of Investor Relations. Today our CEO Håkan Agnevall will start with the group highlights business performance. After that, our CFO, Arjen Berends, will continue with the key financials. After the presentation, there is a possibility to ask questions. Please welcome and it's time to start.

 **00:00:25 - 00:01:23**
Speaker 2: Thank you Hanna-Maria. A warm welcome to today's session. Focusing on 2023, it was a good step in the right direction for Wärtsilä. We improved in many areas and managed to have an all-time high order intake, net sales, and cash flow. We are improving our profitability and we have a clear path to our 12 percent operating margin target but more about that later. Order intake is at an all-time high of over seven billion euros, net sales are at an all-time high of over six billion euros. We continue to see good progress in the service business, where the service order intake increased by 15 percent and the net sales on services by 13 percent. Comparable operating results increased by 53 percent.

 **00:01:23 - 00:02:21**
Speaker 2: We are on our journey. On cash flow, you will see Arjen smiling more than usual today. We had a fantastic cash flow with 822 million euros. Let's look at the summary of the numbers and make some comments first. Now zooming in a little bit on the quarter and then also some summary on the full year. If we look at the quarter Order intake up 13 percent and it's both in services and equipment. You see that equipment is up 16 percent. The energy power plants had a stronger order intake in the second half of the year compared to the first half of the year. We had a really strong run towards the very end of the year on the energy power plant side. Order book continues to develop positively.

 **00:02:21 - 00:03:38**
Speaker 2: We will have a stronger order book going into 2024 compared to going into 2023. The book to Bill continues to be above 1.13. Now it's the 11th consecutive quarter that we have had a book to bill above one. Net sales are down at seven percent and you see services continue to go up, but it's the equipment side that is down. We will see more about that later on. Operating results are up quite significant and comparable operating results as 10.8 percent. Going back then to the full year, we have seven billion euros order intake, up 16 percent for the full year. Net sales at six, up three percent, and the comparable operating result landed at 497 million euros 8.3 percent. It's the step to the 12 still but we are on a journey. If we look at the marine market, the market sentiments remain positive for our key segments. In general, the appetite for new ships has increased.

 **00:03:39 - 00:04:30**
Speaker 2: The number of vessels ordered in the period increased to 1977 and that's compared to 1538 in the comparison period, so to say. So going in the right way. The uptake of alternative fuels remains more limited. The share was down from 30 percent to 23 percent, but that's more driven by the mix of vessels that were more bulkers, tankers, and less LNG. The trend is still very strong. We'll talk later more about that on the decarbonization journey in marine. There is a growing pressure to decarbonize. We can clearly see that it supports the demand both for new builds and services across the Wärtsilä key segments.

 **00:04:32 - 00:05:44**
Speaker 2: Decarbonization investments have been made in additional fleet capacity in direct fleet replacements, efficiency upgrades, fuel conversions, and also maintenance activities to keep the existing fleet compliant and competitive. Also, an interesting trend is that the yacht capacity basically in China and South Korea continues to increase, and that helps to remove constraints from new-build ordering across vessel segments and as yards become available. We see the acceleration of the price increases. If we look at the energy side, we see solid long-term opportunities in the energy market. The energy transition outlook is improving amid a fragile global economy. Our market share remains stable at 30 percent, as global orders for natural gas and liquid-fueled power plants decreased by 22 percent to ten gigawatts during the 12-month period.

 **00:05:46 - 00:07:02**
Speaker 2: And you know, this is a project business, it can swing quite significantly. We see a positive demand situation going forward. Price volatility, inflation, and interest rates have moderated. Global natural gas prices have decreased from the previous year's extreme levels but they are still above the pre-2021 levels. On the policy side, energy and climate policies around the world continue to evolve towards decarbonization targets. The Mid-term energy transition looks strong. Climate policies reached new milestones in Q4 when 120 countries pledged to trip the renewable energy capacity by 2030 and at Cop 28, which really supports the need for balancing power. I think the decisions, and commitments that were made during Cop 28 are clearly in line with Wärtsilä’s net zero strategy and frontloading net zero.

 **00:07:05 - 00:08:23**
Speaker 2: The coal face-out is progressing and since 2018, the installed coal capacity outside of China has decreased by almost 40 gigawatts. Organic order intake increased by 21 percent. If you look from an organic perspective, it really increased even more. We had effects so if you consider that, order intake grew by 13 percent, equipment order intake increased by 16 percent, and service order intake increased by 11 percent. We have a strong order book and enrolling book to build continues to trend up. The order book for the year 2024 is certainly higher than 2023. It is a positive development. Organic net sales decreased by three percent, net sales by seven percent, equipment net sales by 19 percent, and service net sales increased by eight percent.

 **00:08:26 - 00:09:40**
Speaker 2: Profitability continues to improve. When net sales decreased by seven percent, comparable operating results increased by 90 percent. If we look at technology and partnership highlights, it's all about enabling the industry's decarbonization. One interesting example here is how we continue to evolve our product portfolio. We enable the acceleration of Marine's transition to sustainable fuels with the introduction of four methanol engines. We are broadening our portfolio. We will introduce four new methanol engines to our portfolio, setting a new industry benchmark with the broadest methanol engine portfolio currently available in the market. In addition to our Wärtsilä 32 methanol engine launched last year, we will add the Wärtsilä 20, Wärtsilä 31, the 46F, and the 46 years to our portfolio and wealth of engines enabled to operate on methanol fuels.

 **00:09:40 - 00:10:47**
Speaker 2: We are one of the very few players in the marine engine market with extensive experience in methanol engines. These four new engine types that will be available, will be available for deliveries at different points from 2025 onwards. Now on storage, we continue to grow and invest in new technology to fuel the growth. We have launched quantum high-energy storage systems with advanced safety features. We also increase the energy density. As you know, one of the key differentiators for Wärtsilä storage systems is around thermal stability and fire safety. We have launched our quantum high energy, the next generation of energy storage systems with advanced safety features, and enhanced energy density. Furthering also our industry-leading track record on commitments to safety.

 **00:10:48 - 00:11:58**
Speaker 2: There is a new quantum HE compatible with the gems and with the digital energy management platform, which is a cutting-edge tool to monitor, control, and optimize energy assets both on-site and on the portfolio level. We are the third largest energy storage system integrator, according to S&P Global, with 7.5 Gigawatts hours of energy storage capacity awarded, contracted, or in deployment. Now let's look at how the different businesses have been performing. We start with marine power. We have seen a good development in order intake and net sales. Both equipment and service net sales increased. Please note that the comparable operating margin declined due to a less favorable mix between equipment and services. We've been growing both services and equipment, but equipment has been growing more and has this mixed effect.

 **00:11:58 - 00:13:00**
Speaker 2: We can see order intake up 13 percent, net sales up 17 percent. If we look at the comparable operating results, good performance in services has really supported the improvement in operating results. We have also increased our R&D costs from three percent to four percent of net sales for the group level and it is affecting, of course, the marine power. If we look at the services side, we see good continued development on marine power service agreements. The net sales on agreement installation are all-time high. You can see here we continued the growth. Services are more than 60 percent of marine power sales and so far 29 percent of that and about 30 percent of our engine installed base is covered.

 **00:13:01 - 00:14:04**
Speaker 2: There are ample growth opportunities. I think that the strong proof point that we are adding value is the renewal rates for service agreements because it's around 90 percent. For me, that is the ultimate proof that customers see and feel that we are adding value, and that's why they keep on renewing. I am really excited about this milestone. You could say that in Wärtsilä’s history of engine development, we clearly continue to set the pace for marine decarbonization with the launch of the world's first four-stroke, engine-based ammonia solution. It's not only the engines, it's the fuel handling and the treatment system, so it's a whole system. We are introducing the marine sector's first commercially available four-stroke engine based on ammonia as a fuel. It's now a part available on Wärtsilä 25 engine platforms.

 **00:14:05 - 00:16:15**
Speaker 2: It enables a significant advance in sustainable shipping operations during a time when shipowners are really seeking viable options among green fuels. The solution includes the ammonia pack fuel gas supply system. It's also the Wärtsilä ammonia release mitigation system and the Nox reducer and of course, combined with the engine. We have our first in-trade customer, we signed a letter of intent with Viridis bulk carriers and they're going to be the world's first zero-emission shipping company. It is intended to be the first shipment owner that benefits from the new ammonia solution. Going over to marine systems, equipment order intake increased, and that is a positive one but equipment net sales decreased.

We also have one challenging project in gas solutions to deal with. Order intake up five percent, net sales down to 46 percent, and scrubber gas solutions have a bit of cyclicality. If we look at comparable operating results, it's clearly diminishing lower net sales but the significant negative impact is this 19 million provisions for a single sizable turnkey project and gas solutions that we had to make in Q4. It's the same project that we also made a sizable provision in Q2. We have made two provisions, Q2 and Q4. The good part of the story, this project is now coming to an end, and as painful as it is we move on.

**00:16:15 - 00:17:12**
Speaker 2: Energy- comparable operating results at a record high. Energy is really making a strong comeback, order intake up 34 percent, and net sales down 16 percent.

If you look at the profitability, you can see that it's really good performance in services. Now, when we compare to Q4 last year, you remember that we had to take a provision for Olkiluoto one and two projects, a 40 million euros. That was a project that we captured in 2013. It's an old legacy project. It's now stabilized but of course, it makes the comparison a bit special. In Q4 2022, we still were heavily affected by a portfolio impacted by cost inflation. We can see energy is on the right path and clearly stepping up in profitability and also moving into 2024 with a project portfolio with 80 percent EEQ instead of EPC.

 **00:17:12 - 00:18:07**
Speaker 2: That is basically a doubling of the share since when we went into 2023 so energy is in a good role. On energy storage, the comparable operating result margin is positive and profitability is improving. We continued the strategic review that we communicated at the end of last year. Nothing new to report so it goes on. I would say the demand side here is evolving in a positive way and storage is doing a great job. If we look at energy services, we see here about 30 percent of the installed base. We have under agreements and we are growing it. There is significant additional growth potential.

 **00:18:09 - 00:18:57**
Speaker 2: This is one of many examples, but this is really the core of what agreement business is about. We secured a 12-year agreement extension with a power plant operation in Pakistan. It's the operations and maintenance team that signed the agreement with Sindh Nooriabad Power Company in Pakistan which is an independent power producer. They have extended this service contract for another 12 years. We started the agreements in 2017. I think the length of extension reflects SPNC's satisfaction with the services we are providing, and the value that we can create.

 **00:18:58 - 00:20:00**
Speaker 2: The agreement covers two SPNCs one and two power plants located in the same province. It's five, that's exactly 34 east engines and one steam turbine generator and basically, the combined output of this plant is 100 megawatts. The order was booked in let's say Q4. We have many of these so to say types of orders. It's driving our agreements business. Now to sum it all up. Here's the bridge from you say Q4 2022 to Q4 2023. From 5.3 percent to 10.8 percent. It's an increase of around 90 percent. I think what is also very interesting, is looking at Marine Power 11.9 and energy at 12.4. We are on a solid path to 12 percent for the whole group. Now Arjen presents the financials.

 **00:20:01 - 00:20:52**
Speaker 3: Can I have the clicker? All right. The financials. After almost crying in 2022 about the operating cash flow being negative. Now I can really smile. Let's say 822 million euros operating cash flow for the year is an all-time high record or I can mention it already. As you can see from these numbers in particular the quarter number, a big portion of it came actually in Q4. If you go deeper into Q4, it was a lot in December to be very frank. We got a lot of milestone payments as well as advances from actual customers that we anticipated this year but came in 2023. That also had an impact on the working capital, which is also now lending on a negative number and is a bit extraordinary.

 **00:20:53 - 00:22:02**
Speaker 3: Good cash flow supported also our net debt situation. We improved it to 35 million euros. We paid back in the year about 90 million on the loans and our cash increased by about 350 million euros. Good cash flow supports the gearing up, now standing at 0.02, and solvency improving to 37 percent. Basic earnings per share 44 cents on the full year and of course, a significant improvement compared to 2022. It's good to remember that in 2022 it was heavily burdened by a 200 million euro provision for the Russia closure of activities in all the projects related to it, as well as about 90 million euros related to Trieste. If we look at the graphs, basically it's the same story. We saw a very good trend line, the orange line on the left on cash flow in 2023 after a very declining trend line in 2022.

 **00:22:02 - 00:22:52**
Speaker 3: If you look at the right side, we see two bars with negative working capital. The first one was -100 in 2021, which was actually the year that we had the previous operating cash flow record at 731. Now, we beat it with 822. The working capital is a big contributor to the improved cash flow, besides also significantly improving on the profitability side. In the final slide from my site dividend, the board proposes to the AGM 0.32 cents of dividend, which is then very well in line with our financial target of paying at least 50 percent of EPS out as a dividend. Over to you again Hakan.

 **00:22:52 - 00:23:27**
Speaker 2: Thank you. If we look at the prospects, we guide on the demand environment for the next 12 months, and we guide for marine, it's going to be better than that of the comparison period. It's an upgrade. On the energy side, we also guide that the demand environment will be better compared to the previous comparison period. That sums up the presentation and let's go into the and open up for the Q&A.

 **00:23:28 - 00:23:31**
Speaker 1: Handing over to the operator, please.

 **00:23:35 - 00:23:58**
Speaker 4: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Vivek Midha from the city. Please go ahead.

 **00:24:01 - 00:24:34**
Speaker 5: Thank you very much everyone and good morning. I'd like to start on the marine demand outlook upgrade. Would you be able to comment as to which you expect to be growing faster over the next 12 months on equipment or service? For, example, could you help us understand how much of the upgrade is driven by better underlying demand from customers and cruise compared to the easing of supply with better shipyard capacity? Thank you.

 **00:24:37 - 00:25:52**
Speaker 2: I understand your question, but we don't go into the specifics if the service is going to grow faster than the new build. I would say both will be growing and you could say that the growth is fueled by our core segments. It's about a cruise, a ferry, and offshore. That's basically the focus when it comes to the shipyard capacity that is being expanded gradually. There is a long story if you take the 10-15 year perspective. There was a lot of expansion then that was construction. I now think the turning point was around 2020 and now slowly it is expanding. That is easing the situation in general for many different segments, energy, carriers, containers, and offshore, et cetera. We do see that the price increases when it comes to vessels that are clearly leveling off, so to say. Arjen, do you have further comments?

 **00:25:52 - 00:26:29**
Speaker 3: I think you're right. It's a growth in both areas and coming back to the shipyard capacity, we have been talking about that a lot in single individual investor meetings. The low point was in 2020 and since then we have seen an increase in particular in China eight to 10 percent increase according to Clarkson and about four percent in Korea and Japan. That is also needed to facilitate the decarbonization of the whole marine industry. You need yard capacity to facilitate that. I think also yards understand that need and that's why it's increasing.

 **00:26:29 - 00:27:02**
Speaker 2: I fully agree and I would say there is another dimension to your capacity. There is, of course, a new build piece to the equation. There will also be a retrofit piece to the equation if you look at the total fleet of certain tonnage, the bigger ships are about 100,000 vessels, maybe 50,000, and need to be upgraded. It makes a financial sense to upgrade. That's something that will require quite a lot of shipyard capacity if we take a 10-15 year perspective.

 **00:27:06 - 00:27:22**
Speaker 5: That's great. Thank you very much. Finally, just a quick follow-up, from the one on the energy power plant business, where you've had a very strong end to the year, you highlighted the Indonesian power plant orders. Which other markets contributed to the order intake in the quarter? Thank you.

 **00:27:25 - 00:28:04**
Speaker 2: We highlighted Indonesia, but it's in the Middle East. There are many smaller orders in many different geographies. You could say it's some of our core geographies in Southeast Asia, the Middle East, and also a little bit of Latin America. Looking also into 2024, we see a solid pipeline on the power plant side. There are a lot of activities in America and that continues to be activities in Indonesia and Southeast Asia.

 **00:28:08 - 00:28:09**
Speaker 5: Thanks very much.

 **00:28:16 - 00:28:22**
Speaker 4: The next question comes from Daniela Costa from Goldman Sachs. Please go ahead.

 **00:28:24 - 00:29:16**
Speaker 6: Hi, good morning. I hope you can hear me and I hope you're all well. My one-and-a-half question is regarding storage. First, I guess just looking at the profitability which you said about 1.9 percent and it was still negative in the first half. It looks like in the second half you're doing maybe meetings of digits finals difficult depending on the volumes. Can you talk through whether you think this is like a steady state? What's the potential upside that we still have? How far away are we from covering six costs in storage? Then maybe an update on what have you been doing in terms of the strategic review in the last three months, to the extent that you can just give us some further color there, and if you have views on the timeline on when this might finish. Thank you.

 **00:29:16 - 00:30:03**
Speaker 2: If I start with your second question. The review is ongoing. We have engaged people and we are talking to different parties. I cannot go through the details. It's still the same message. We haven't communicated a clear deadline for the review, because we want to give us the opportunity to explore different avenues. I can also reiterate what we said about trigger points. We reach one billion euros. It's now in profit. It's a good time to take a step back. How do we continue to grow this business, support our customers, but also, of course, create shareholder value? The ample growth opportunities and then as part of the review, we will look at different ownership alternatives.

 **00:30:03 - 00:30:39**
Speaker 2: One alternative is we keep storage as we have it today and we continue to operate. We will also look at alternatives, which means partial or full divestments. It's the same scope. Then coming to how the business is developing operationally. Step by step, we are taking it in the right direction. You've seen the volumes go up and I would say that storage profitability is on a positive trajectory in general.

 **00:30:40 - 00:30:47**
Speaker 3: Yes, I would say so. There are clearly possibilities to further improve. We are working hard on that by different means.

 **00:30:49 - 00:31:20**
Speaker 2: I would highlight one thing that of course we are proud of, but the team has done a great job. I think we have consistency in execution. That is the feedback that our customers are giving us in terms of being able to deliver with the right quality on time, meet your expectations, and also do that with the right risk-reward balance in our product portfolio, and consistency in the financial journey.

 **00:31:20 - 00:31:21**
Speaker 6: Thank you.

 **00:31:29 - 00:31:35**
Speaker 4: The next question comes from Akash Gupta from J.P. Morgan. Please go ahead.

 **00:31:37 - 00:32:26**
Speaker 7: Hi, good morning everybody, and thanks for your time. I have two as well. I'll ask one at a time. The first one is on storage, where I see your orders are plateauing at around 260 level average for the year. Maybe a question on why we are not seeing sequential growth here is whether there are any internal factors such as constraints on sourcing of battery sales, labor, and cost. If you can elaborate, are there external factors such as lower market activity, or maybe some peers who are a bit more aggressive than you? Just as a follow-up to that, with a Book to Bill falling to 1.4 times in 2023. Shall we expect a more normal or more modest growth in 2024, in the range of maybe low teens?

 **00:32:27 - 00:33:16**
Speaker 2: When we look at the order intake for storage, we need to acknowledge it's a project business. It can vary quite a lot up and down. I think as I said there are ample growth opportunities and we focused on disciplined growth. We have a focused geographical strategy in the US and Australia-- we continue to execute consistently along that. I don't see supply chain bottlenecks. The partnerships that we have with our supply chain are definitely supporting our continued growth. It is about discipline, taking the right opportunities in the right markets, and then making sure that we execute. Where we differentiate we talked about it.

 **00:33:17 - 00:34:00**
Speaker 2: When I talk to our customers is our capability to execute consistently. It is our fire safety and thermal stability. We are taking new steps there in the next quantum generation that we are having. It is also our gems capability to integrate the battery storage with other generating assets like renewables batteries but also with thermal generation and we have a couple of examples with customers that had tried storage but they haven't got the full benefit. Then they come to us and ask how we can help them.

 **00:34:02 - 00:34:41**
Speaker 3: I think we are confident about the growth and I think that's clear. The market is also clearly supporting it. We have a good pipeline, but it is a project business, as Hakan says. The size is very different per project and the timing is very difficult to estimate exactly when it will come. Between the first negotiations and the final contract, it can sometimes be even years in between. Exact momentum determines also very much when orders are booked. I think for us we are confident in the growth, the market is supporting it and the timing is then a bit difficult to estimate but we will see the growth going forward.

 **00:34:44 - 00:35:37**
Speaker 7: Thank you and my second question is on the recent press news flow regarding methane emission in cruise ships powered by LNG. I'm wondering if you can share your thoughts on this topic. There were some studies by ICCT that showed that cruise ship engines have an estimated methane slip of 6.4 percent on average. Maybe you can say how it compares to your study or your engines. Finally, on the same topic, this methane slippage is some AKPI or something as part of the contract. For example, if your engines are having more emitting slippage, could this bring any consequences later on? I don't know if this is something you are promising in your order intake. Anything on that would be helpful. Thank you.

 **00:35:39 - 00:36:37**
Speaker 3: First of all, methane slip should be taken very seriously. Secondly, there is a significant-- If you look at the vessel development over time the methane slips have reduced significantly over time. Just the last year we have taken further steps to even reduce it. There are independent studies and I think we could share them with you by reputable academic institutions, which basically show that the vessel is world-leading in methane slip and four stroke. We are now getting very close to one gram per kilowatt hour, which is basically outstanding. We will continue with the journey. It's good to have this focus on methane slip, but you need to look at the performance of the engines from different suppliers.

 **00:36:38 - 00:37:15**
Speaker 3: You also need to look at the advantages of the engines, because a new LNG-fueled engine is something completely different than an LNG engine maybe ten years ago. When it comes to guarantees et cetera, I think we are very confident in the type of performance that we are giving our customers. We are so confident that we also signed performance agreements on them and-- I see that we have the risks clearly under control.

 **00:37:17 - 00:37:18**
Speaker 7: Thank you.

 **00:37:28 - 00:37:33**
Speaker 4: The next question comes from Max Yates from Morgan Stanley. Please go ahead.

 **00:37:36 - 00:38:11**
Speaker 8: Thank you. Good morning. Could I ask a quick question on the provisions? The 19 million that you've taken. There's a comment in the release that talks about the provisions being 48 million for the full year rather than 38, which I would guess you took one in Q2 that was 19 and another one this quarter that was 19. It should be 38, not 48. I'm just trying to understand what was the full-year provision number for the projects and gas solutions.

 **00:38:11 - 00:38:41**
Speaker 2: It's a very good observation. The overall provision is 48 for the full year. You're fully correct that we did 19 in Q2 and 19 in Q4. Along the way, we have also done an additional ten. Nineteen plus 19 plus 10 is 48 and 19 has not been material enough that we have disclosed this in our quarterly reporting. That's why it's adding up to 40.

 **00:38:41 - 00:38:42**
Speaker 3: The additional ten you mean?

 **00:38:42 - 00:39:16**
Speaker 2: The additional ten [crosstalk 00:38:42] We have disclosed the 19-19, not the ten. Now we disclose everything. That's the mathematics behind and then just to also reiterate some of the backgrounds. This is one singular project in gas Solutions. It's an EPC project. We have stopped selling EPC in gas solutions for many, many years, I think three years now and this project is coming to an end.

 **00:39:19 - 00:39:58**
Speaker 8: Okay. That's clear. The second question is about what you're seeing on the lithium prices in your battery or your energy storage business. I guess I just wanted to understand when looking at your order intake, are you seeing any sizable price decrease? I imagine you will need to adjust your prices to reflect battery costs. I'm just trying to understand when we look at your energy storage volume order numbers, are we actually seeing volumes grow and prices down and how should we think about that going forward?

 **00:39:58 - 00:40:55**
Speaker 2: Now prices are clearly down because lithium costs have been coming down. After the dynamics that we had in the first half of 2022, the general principle of having material indices is established in the market. I think you also see in my that--We delivered and if you look at the full year I think there are 4.5 gigawatt hours. If you compare the fees, you see that the sales revenues are a little bit up. You see the mathematics that prices per megawatt hour, and gigawatt hours is going down. That is related much to the raw material prices and indices that are passed through the system.

 **00:40:58 - 00:41:20**
Speaker 8: Okay and just my final question. I've got two really quick ones hopefully. Just on your working capital to sales. Could you just give us an idea because negative working capital is not normal for a business like this? Could you give us just an idea of the cycle, what do you think is the right working capital to sales for your business?

 **00:41:20 - 00:42:07**
Speaker 3: We are not guiding on working capital, but a negative as I mentioned is an extraordinary situation. We had the same extraordinary situation in 2021 at the year-end, which was the previous record on operating cash flow driven by the payments that we received in both years which were expected at the beginning of the year after. What is a normal level? I think it would be pretty good to look at the graph that we are producing every quarter and what is the average level. I think you can extract pretty much a range from there. I will not be guiding exactly on what is the right percentage or turnover days.

 **00:42:09 - 00:42:57**
Speaker 8: Okay. Maybe just a very quick final one on components and what's happening in the Red Sea with obviously the disruption of shipping. How should we think about that affecting your business? I remember when you had quite a lot of component inflation. It was mostly because of your kind of European component suppliers. I guess firstly, how much or what is the risk of shipping components imported from China? Are there quite a lot of those if those are being disrupted and are you seeing anything so far? Then secondly, thinking about shipping the other way. What percentage of your sales is sea freight? Do you use that kind of Europe to Asia channel quite extensively? Anything about that would be helpful.

 **00:42:59 - 00:43:41**
Speaker 2: First of all, you're fully right that if you look at our supply chain, it's euro-centered with one exception and that is, of course, storage. Then, of course, on tier two and tier three levels, there are sourcing from China Electronics. I think we saw that impacted us to a certain extent when we had the previous disruption of supply chains. However, we haven't seen a major impact so far. We follow the situation very closely but no major impact so far I would say.

 **00:43:42 - 00:44:08**
Speaker 3: I think it's a different dimension to it as well. Of course, from running hours point of view. If they have to go all around Africa, that's of course running hours related to service business. That's a positive one, but the risk is in the delivery times and potential delays that you run into and that might impact but so far as Håkan says, we don't see any major financial impact.

 **00:44:11 - 00:44:13**
Speaker 8: Okay. That's great. Thank you very much.

 **00:44:18 - 00:44:24**
Speaker 4: The next question comes from Sven Weier from UBS. Please go ahead.

 **00:44:27 - 00:44:56**
Speaker 9: Yes. Good morning. If I may, It's been a few questions from my side. The first one is a follow-up question on storage. I was just wondering-- I understand there is no clear deadline from you on when you have to come up with an announcement here. Is it not fair to assume that if you go the disposal route for the business you have to do it rather sooner than later with a view to the US election risk? That's the first question.

 **00:44:57 - 00:45:09**
Speaker 2: No, I think we delineate the US election from our strategic review. I don't think we will let that macro event affect the time schedule.

 **00:45:13 - 00:45:22**
Speaker 9: Yes, but it could have quite an adverse effect on how renewable assets are valued, especially with the high US sales share that you have. So [crosstalk 00:45:22- 00:45:25]

 **00:45:25 - 00:45:49**
Speaker 2: I think there is a lot of uncertainty around the US election, its outcome, and what impacts it could have et cetera. IRA, there are different views on this, but as I said before, we focus on the fundamentals, and do proper work. We will not accelerate given this type of very important, but still, externalities.

 **00:45:50 - 00:45:51**
Speaker 9: There can be more--

 **00:45:51 - 00:45:54**
Speaker 2: Influencing factors on this as well.

 **00:45:57 - 00:46:32**
Speaker 9: The second question was on the marine upgrades because one of the areas that are turning more bullish is offshore. I was just wondering if you look at other companies in the sector, they already had a very strong offshore year last year on larger orders. I was just wondering, do the upgrades reflect the strengths that we already had in yard orders last year, or especially on the capital equipment side, obviously or is it that you see ultra-strong offshore shipyard orders in 2024?

 **00:46:34 - 00:47:15**
Speaker 2: The upgrade of the guidance is driven by all sectors which are cruise, ferries, and offshore. I think on the services side, we saw strong growth last year on offshore. Now we will see some start on the growth on the new build side as well, so it's a combination of new building services. As I said the upgrade of the guidance is broader for marine as we call it nowadays. It's broader than just offshore.

 **00:47:17 - 00:47:35**
Speaker 3: The utilization of the existing fleet has actually been really high. That's also what we saw in the service business. Let's say with the fundamental staying quite good level actually for quite a while already. We believe also that some newly built activities will reactivate in the coming time.

 **00:47:38 - 00:48:03**
Speaker 9: Finally, just reminders on the capital allocation priorities, because obviously, you're almost net cash. You have likely good cash flow also this year, maybe not as good as last year. Then you have potentially a lot of disposable income. Can you just remind us of your priorities there on using that excess cash?

 **00:48:04 - 00:49:01**
Speaker 3: I can answer that. Of course, the principles don't change. First of all, let's say we have our financial target of paying 50 percent of EPS out as dividends. Furthermore, we need, of course, cash for our fixed assets that you continuously need to work on as well. We anticipate it to be around the same level as depreciation in the coming time. Of course, we don't expect major changes in financial items, or in financial costs compared to let's say 2023 and of course, in our R&D. We have lifted the R&D the last year closer to the four percent level rather than the historical three percent. It's a conscious decision to really be a frontrunner and maintain a frontrunner position as well in the decarbonization journey. Those are the priorities for us and they don't change.

 **00:49:01 - 00:49:21**
Speaker 2: I would say on the M&A side, it's still the consistency that we certainly have the firepower to do. The focus is on bolt-on acquisitions, bringing in critical competence or technologies that are still the focus.

 **00:49:24 - 00:49:27**
Speaker 9: Buyback is not a small part of the capital allocation.

 **00:49:28 - 00:49:31**
Speaker 2: So far the board has not entertained this discussion.

 **00:49:31 - 00:49:32**
Speaker 3: No, no.

 **00:49:34 - 00:49:34**
Speaker 9: Okay. Thank you.

 **00:49:43 - 00:49:49**
Speaker 4: The next question comes from Johan Eliason from Kepler Roll. Please go ahead.

 **00:49:51 - 00:50:15**
Speaker 10: Yes, good morning. This is Johan Eliason, you didn't want to discuss the timing of storage outcomes. What about gas solutions? We seem to have some program projects still running. Do we have to wait for all of these legacy projects to be done, or can gas solutions be solved at an earlier stage?

 **00:50:16 - 00:50:31**
Speaker 2: No. I think that with gas solutions, we have practical things to do now and all the administrative undertakings, and we also need to work out this particular project--

 **00:50:33 - 00:50:34**
Speaker 3: Which is nearing completion.

 **00:50:34 - 00:50:48**
Speaker 2: Which is nearing completion. We haven't communicated a proper timeline this year, or next year but we have a couple of standard steps to take before we can go to the market.

 **00:50:50 - 00:50:57**
Speaker 10: Okay. It could be next year as well. That's not an imminent timing on that one I understand.

 **00:50:59 - 00:51:00**
Speaker 2: It's definitely possible.

 **00:51:03 - 00:51:34**
Speaker 10: On the service contract. It seems like you know both in marine and energy around 30 percent of the installed base. How big a shell you can reach depends on the age profile of the install base as well. Is there some realistic target setting of contract coverage that you think could foresee for both the marine and the energy side?

 **00:51:35 - 00:52:27**
Speaker 2: We are not. It's a very reasonable question, but for competitive reasons, we are not going out with that. The only thing I can say is that we do see continued growth opportunities. Of course, the theoretical limit is 100 percent, but that is theoretical. There is a practical somewhere along the route, but we don't give out those numbers. I have to say there are continued growth opportunities. Also, please, don't forget that when we talk about our service strategy, we talk about moving up the service value ladder. We have four different steps on the ladder. We have the transactional piece which is the spare part service hours, the agreements, the retrofits, and then we have the performance-based agreements. Agreements are one of those steps. We are also growing the other steps in this service value ladder.

 **00:52:31 - 00:53:22**
Speaker 10: Excellent. Then just one final question. You're having earlier year indicated that backlog is tilted towards equipment deliveries rather than, service revenues et cetera which would have an impact on the model you could achieve in the coming year. You haven't said anything about this, but services continue to grow well. We obviously have the legacy-impacted projects from the inflationary period, all pointing to the fact that we should expect margins to improve in 2024 over 2023. Are there any things you would like to highlight to make my assumptions on modern development a bit more cautious than one needs to consider?

 **00:53:23 - 00:54:31**
Speaker 2: I think we don't give guidance on margins. To go through the logic. First of all, if we look at the order backlog, the biggest chunk is clearly around new build because services the turnover time is much faster. There's definitely more new build than service in the order backlog. That's part of the general business dynamic. Now, what is positive for the order backlog on the new build side is energy. This focus where we now have 80 percent of the energy order backlog is equipment-related. It's not EPC. We talked about that when we went into 2022, 40 percent was equipment. We basically have gone from 40 percent to 80 percent equipment share of the energy backlog with a better risk-reward balance. That sets us up, I would say in a better way for 2024.

 **00:54:34 - 00:54:59**
Speaker 2: Then as you alluded to, we have been very clear that the previous order backlog was heavily impacted by this acceleration of cost inflation at the beginning of the 2022 Ukrainian war. We have now worked that out by the end of quarter three. That also sets us up in a good way for 2024 and onwards I would say.

 **00:55:02 - 00:55:08**
Speaker 10: There is no caution that we should bear in mind as well on the margin.

 **00:55:09 - 00:55:15**
Speaker 2: As I said, I think we have a product portfolio that clearly has a better risk-reward balance.

 **00:55:17 - 00:55:19**
Speaker 10: Okay. Excellent. Thank you very much.

 **00:55:21 - 00:55:27**
Speaker 4: The next question comes from Antti Kansanen from SEB. Please go ahead.

 **00:55:31 - 00:56:04**
Speaker 11: Yes, Hi, guys. It's Antti from SEB. I guess only one question at that point. I would ask about the order book delivery schedule that you provide on a group level. Does that differentiate very much between marine and energy? You've been flagging that the change of having more EEQ deliveries might have an impact on revenue recognition. On energy, we see orders picked up quite strongly in the second half. Is it a fair assumption that the order book is longer and perhaps more geared towards next year and onwards on energy?

 **00:56:06 - 00:57:01**
Speaker 3: I think there are many elements in the order book that can be very different. Of course, the shift from EPC to EEQ also changes the revenue recognition methodology from the percentage of completion to the completed contract delivery. Where earlier with more EPC. You could say it's more spread throughout the year or the year beyond. Basically, one project can be in two years. I think that has clearly changed and now what we see more and more on the energy side in particular is more EEQ, which means more or less a completed contract methodology. If you now have a sizable order intake that we saw in the second half of 2023, most likely that will be going out in 2024 or the second half. Typically it averages about a year in between but it can vary by project as well.

 **00:57:03 - 00:57:22**
Speaker 11: Okay. I want to quickly follow up on something that you said earlier on the cash flow that you had a strong December. Was that driven by completions, milestone payments, or advanced payments in the sense that you got more orders in December than you thought would or did you just complete more projects?

 **00:57:22 - 00:57:41**
Speaker 3: Both. If you look at the receivable balance throughout 2023 with sales going up or receivable balance going about 120 million out of my head down and also advances received were a couple of hundred million actually up, so it's both. It's not one.

 **00:57:43 - 00:57:55**
Speaker 2: I would complete by saying that the team both on the energy and marine side. I think we have taken steps forward, very good steps forward in managing our working capital requirements.

 **00:57:55 - 00:57:58**
Speaker 3: Absolutely, and still ongoing. It's not stopping.

 **00:58:04 - 00:58:10**
Speaker 4: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

 **00:58:14 - 00:58:41**
Speaker 12: Thank you. I wanted to ask about the marine power margins, which were down year on year in Q4. You had like 100 million higher sales than last year, but the EBIT was up by only 2 million. I guess the mix change doesn't fully explain that. The question is how much did the R&D costs increase and is this kind of front-end loaded, or how should we think about the margins in marine power going forward?

 **00:58:42 - 00:59:40**
Speaker 3: I think it's good to remind, that Of course, there is always the mix between new build and equipment, which is clearly one factor. It's also the mix within services because within services you have different revenue streams, spare part field service projects, and agreements basically. That can also have an impact on this equation. Besides that, there are also within the new build side margins that are not equal project by project. There is also mixed effect there. In the biggest portion, it's new build services but there is also mixes this within those two pillars. [crosstalk 00:59:24- 00:59:27] Specifically on R&D, we are not opening up by sector or by segment sorry because R&D spending is also partially related to both businesses.

 **00:59:43 - 00:59:44**
Speaker 12: Okay. Thank you.

 **00:59:46 - 01:00:07**
Speaker 1: Thank you everybody for the great questions. Thank you, Hakan for the answers and the presentation. Financial Q1 will be published on April 26th. I hope to see you there. I would like to also remind you that we are hosting several public calls before that. The next one is the strategy call with CEO Håkan Agnevall on February 29th. I hope to see you there. Thank you.

 **01:00:07 - 01:00:08**
Speaker 3: Thank you for today.

 **01:00:08 - 01:00:08**
Speaker 2: Thank you.