# Transcript for "Interim Report January-March 2024"

**00:00:01 - 00:00:28**  
Hanna-Maria Heikkinen: Good morning, everybody, and welcome to this news conference for Wärtsilä Q1 2024 results. 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. He will also go through the 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 Håkan.

**00:00:29 - 00:01:55**  
Håkan Agnevall: Thank you Hanna-Maria, and warm welcome. First, I'm going to go and get my clicker. I'll be back. Sorry, I forgot that one. Welcome to a good quarter. Summing up a good quarter. We have made progress and we continue to make progress in a very good way. Evolving in the decarbonization transformation of our two industries, positioning ourselves and also improving our financial results. If we look at Q1, we came out with a double-digit comparable operating margin and continued strong order intake. Order intake is up 11 percent. Organically it's actually up 17 percent, and it's especially supported by good development in the marine order intake up 23 percent. It leaves us with order book at all time high at €7.3 billion. I think one of the highlights is that the comparable operating results increased by 50 percent. We are now at 10 percent comparable operating margin. The continuous journey of improvement is evolving.

**00:01:55 - 00:02:39**  
Håkan Agnevall: Good progress in services also continued. As you know, it's a very important part of the Wärtsilä business. Service order intake increased by seven percent and the net sales increased by 13 percent. Cash flow, also very strong, which is a very strong signal considering that Q4 also was exceptionally strong. Strong cash flow from operating activities €258 million. As a group, we are becoming a more focused and more profitable company, and we have now consolidated into two reporting segments: marine and energy.

**00:02:39 - 00:03:43**  
Håkan Agnevall: If we look a little bit closer to the numbers looking at the order intake, €1.9 billion up 11 percent. If you look on the survey side, 949 million, up 7%. The equipment order intake continues to grow in a very good way in both of our businesses, so €975 million, up 15 percent. That leaves us with an all-time high order backlog of €7.3 billion. Net sales are down, 10 percent to €1.3 billion. You can also see that net sales continue to grow on the services side, so 833 million. It's really the equipment that is coming down. I think the major message there, it's a periodization effect between quarters. It's not a trend shift. We have a positive outlook but there is a bit of periodization, especially in a project-related business between the quarters.

**00:03:43 - 00:05:58**  
Håkan Agnevall: Book-t0-bill at 1.46, 12 consecutive quarter with book-to-bill higher than one. Operating result up 38 percent, and the comparable operating results up 50 percent to €132 million and 10 percent of net sales. Outlook on our two markets, the marine market, the sentiments turned positive for Wärtsilä's key segments. In the first quarter, the appetite for new ships increased in general. The number of vessels ordered in Q1 was 411 compared to 255 in the same period last year. Uptake on alternative fuels remained on a healthy level, 118 orders, 29 percent of all the vessels, 45 percent of capacity. I think here as of first of Jan, a major step in the decarbonization journey for the marine industry suddenly in Europe, where the marine industry is now included in the EU's emission trading system, which is adding cost and incentives for shipping companies that operate in the EU, or that do port calls in the EU to really focus on reducing CO2 emissions. Either by, of course, modernizing existing fleets and upgrading existing fleets but also looking at strategies for new vessels going forward. Cruise segment is increasing very positively. A lot of cruising activities and we also see that the high demand for cruise is now filtering through to the first newbuild orders for large cruise ships, so to say. All the big players are indicating orders to come so it's a distinct shift from, I would say, a 4-year period of low rates.

**00:05:58 - 00:07:29**  
Håkan Agnevall: Clarkson also is optimistic in their most recent update of the forecast, basically taking the overall level of orders for 2024, up seven percent. Looking at energy, we continue to see solid mid to long-term market opportunities. In the first quarter though uncertain market environment continued despite some relief. The increase of share of renewables is the primary driver behind the Wärtsilä's balancing an energy storage solution demand. We do see a lot of activities and interest. Global natural gas prices continue to decline towards the pre-2021 levels. It's made possible by increased renewable generation, warm winter season, and muted demand growth. On the commodity pricing side, it has stabilized, although the uncertain geopolitical environment presents price and availability risks. The positive thing is that we do see several signs that the energy transition continues to advance. It's another year of record-high investments in the deployment of clean technology last years.

**00:07:31 - 00:09:34**  
Håkan Agnevall: Looking at our numbers more in detail. Organic order intake increased by 17 percent. Order intake grew by 11 percent. Out of that, equipment order intake increased by 15 percent. Service order intake increased by seven percent. All-time high on the order book as a result, and one important thing to highlight and note here is that the 2024 deliveries are tilted towards the second half of the year, especially on the energy side. The rolling book-to-bill continues to trend up. Organic net sales decreased by six percent, so net sales decreased by 10, and equipment was the big driver. Equipment net sales decreased by 33 percent, whereas service sales continues with the positive journey increasing by 13 percent. As I mentioned before, the equipment net sales decrease is mostly driven by prioritization between quarters in project business. Profitability continues to improve. We are on a journey of continued improved financial performance. Net sales decreased but the comparable operating results increased by 50 percent. Clearly, this is supported by more favorable mix between services and new builds. We have about 63 percent of our sales in Q1 service-related. That gives positive impact on our profitability for Q1. The lower sales give lower operational leverage so that goes the other way, but in general, I think we are on a solid path to reach our financial targets.

**00:09:36 - 00:10:35**  
Håkan Agnevall: Technology and partnerships. This is really what we are excited about in Wärtsilä. It's all focused around our strategy for decarbonization. A couple of examples from Q1. First of all, we are very happy and proud that we are part and we are actually leading a €200 million collaboration in an ecosystem to develop autonomous power plants and also autonomous zero emission power plants for balance and solutions going forward. This is a five-year collaboration program. It involves more than 200 Finnish companies, industrial organizations, research institutes, and universities. We call it Wise, and it's really about developing innovative clean energy concepts and autonomous zero-emission balancing solutions by using data analytics and artificial intelligence.

**00:10:35 - 00:11:21**  
Håkan Agnevall: Our goal as an outcome is to offer flexible, autonomous power plan concepts by 2028. On the storage side, we continue to invest and continue to launch new products. In Wärtsilä we have introduced a quantum to optimize the deployment of large-scale energy storage facilities. It's a fully integrated, high-capacity, battery energy storage system optimized for global large-scale deployment. It enables our customers, product developers to meet capacity requirements with improved transportation and deployment speed and unparalleled safety.

**00:11:21 - 00:12:30**  
Håkan Agnevall: As you know, we have the industry-leading thermal safety track record. It's flexible to include modules from various manufacturers, allowing optimized configuration for each project and for different partners in the supply chain. If we then zoom in on our two businesses. Starting with marine. Good performance continued. Order intake, net sales. comparable operating results all increased. Order intake is up 23 percent. Net sales are up six percent. If we look at the comparable operating result, we see good performances in services supporting the result but we do have an increase in R&D costs and higher depreciation and amortization. As we talked about, we are investing in new technologies on the marine side, new fuels, hybrid solutions, carbon capture, etc. We want to position ourselves as a technology leader in the industry. I think we have a very strong position.

**00:12:43 - 00:15:12**  
Håkan Agnevall: If we look at the services side, we have good development in marine service agreements. Marine net sales to agreement installation continue to increase. We took one example here with many of these but this is really what the service business is about. It's a lifecycle agreement to support optimized low-emission operations for two P&O ferries. We signed the agreement with P&O, a five-year agreement, two vessels, Pioneer and Liberte, designed to optimize and ensure minimal impact on operation. The scope includes parts, maintenance services, maintenance planning, operational support, and also Wärtsilä expert insight for predictive maintenance services. This order was booked in the first quarter. Now, looking at energy, comparable operating results increased, equipment net sales decreased due to the periodization of deliveries between quarters, as we talked about before. Order intake up four percent, net sales down, 30 percent quarter on quarter. If we look at the operating result, it was supported by good performance and services and also improved profitability in our EPP business. Decreased sales. Of course, we have lower operational leverage with the sales coming down. Also, on the energy side, we are investing for the future, being positioning ourselves as a technology leader. This, I think is a great example of balancing and of the global trend that we are seeing in balancing, which is very strong, particularly in the US. One of our, you could say, repeat customers have placed another order. It is the Lower Colorado River AuthorityLCRA. They provide wholesale power to the Texas power grid. LCRA actually gave us an order in 2022 for 190MW, and now they are returning, which we are very happy to place an order for another 10 engines, the 50thiest engines. It will basically double their output. I think the statement here by senior leadership in LCRA is spot-on with what we are doing in Wärtsilä on the balancing side and, actually, the message that we have been giving.

**00:15:12 - 00:15:44**  
Håkan Agnevall: Quoting here, "we really appreciate Wärtsilä's track record in supplying efficient and reliable engines. The flexibility of the Wärtsilä engine is particularly important in providing the rapid ramp-up of power needed for a new peaker plant, which will be called upon to quickly come on line when other generation is not available to meet the power demand of a growing state. This is balancing power spot on. This order was booked in the first quarter.

**00:15:46 - 00:16:43**  
Håkan Agnevall: If we look at energy storage, the comparable operating results continue to be positive. We had low net sales also here due to the periodization of project deliveries between the quarters and the strategic review continues. Energy services are at a good level, with good agreement coverage, 29 percent of the installed base is under the agreement. You see a slight reduction of megawatts under agreement in Q1, but that is also affected by periodization. It's not a general trend. We do see a positive development of our agreement business also in energy. For us, one of the major metrics continues to be the customer's renewal rate on the agreements, and they are 90 percent, so a strong testimonial that we are creating value for our customers.

**00:16:43 - 00:17:13**  
Håkan Agnevall: To sum it up. Looking at how the comparable operating results have improved. The breach from Q1 last year and you can see the contributors here marine energy portfolio business. I think it's worth to note that marine and energy both are now above 11% EBIT. The comparable operating result increased by 50%. Arjen, other key financials.

**00:17:13 - 00:19:27**  
Arjen Berends: Thank you. All right. Other key financials. If we look at all these, let's say other key financial parameters or KPIs, however we want to call them. Actually, we can clearly see that it is on all lines improving compared to the same quarter last year. Actually, it's also improving compared to Q4 last year, except for solvency and basic earnings per share. Solvency typically goes down in the first quarter as the AGM decision about dividend is accounted for in equity. If we look at the basic earnings per share, it's actually only 0.02 down from Q4, which is actually for Q1, a very good level. Our operating cash flow is €258 million. Actually, it's an all-time-high Q1 record. For Wartsila, we have never had such a high cash flow in Q1. Clearly supported by customer payments, down payments, very much I would say related to the good order intake that Hakan was reflecting upon earlier. Actually, our order intake in Q1 was higher than Q4, which is really a good trend, but also other milestone payments from customers, but also clearly supports--the cash flow is on continuous improvement on transactional services because their transition from order to cash on transactional services is a lot shorter. That can have quite a significant impact even on single quarters. Looking at this graph or the slide, actually, the left-hand graph, cash flow from operating activities is actually going really strong. Actually, it generates that we are in a net cash position today. Very much supported by improved profitability, but also our continued negative working capital. I would still say that negative working capital is exceptional, and it relates very much to project execution milestones in our order backlog. That can vary a lot, let's say quarter on quarter, but Q1 is extremely good and the trend is clearly positive. Back to you, Hakan, on the prospects.

**00:19:27 - 00:19:47**  
Håkan Agnevall: Thank you, Arjen. Coming to the prospects, I think we have a fairly positive outlook. We expect the demand environment for the next 12 months on the marine side and the energy side to be better than of the comparison period, so the positive journey continues.

**00:19:50 - 00:20:12**  
Hanna-Maria Heikkinen: Thank you, Hakan. And thank you, Arjen. Maybe you can join here for the Q&A. We will continue with the Q&A now, but I would like every analyst to ask one question. One question per analyst first, and then please say the follow-ups until every analyst has had the possibility to ask one question. Thank you. I am handing over to the operator.

**00:20:16 - 00:20:22**  
Speaker 4: Our first question comes from Sean McLoughlin. You can unmute your microphone and ask your question.

**00:20:27 - 00:20:29**  
 Sean McLoughlin: Good morning. Can you hear me?

**00:20:29 - 00:20:30**  
Håkan Agnevall: Good morning. We can hear you. Welcome.

**00:20:31 - 00:21:04**  
 Sean McLoughlin: Thank you so much. My one question. Just trying to understand a little bit your comments around prioritizing projects. Just what is going on here? Is there any sense that your capacity is constrained? Are there potential supply chain limits on your ability to deliver, or what else is causing this let's say you're having to decide which projects move forward and which take longer. Are there any also risks that we see maybe project delay?

**00:21:06 - 00:22:13**  
Speaker 2: Just to clarify, the word is periodizing, not prioritizing. periodizing. What does that mean? It means that when we deliver projects, we invoice our customers, and we do revenue recognition for some of the projects based on invoicing. For some of our projects, we use the percentage of completion to recognize sales. We have a bit of a mix of that, but what happens is that if an invoice slips a week from one quarter to the other, or you have a certain milestone in a delivery scheme that can slip for two weeks, then you can have quite a lot of impact on our quarterly sales. This is not about lack of resources or supply chain constraints or capabilities; it is about what sometimes happens in project-related business that you have milestones slipping from one quarter to the other. That's why we are confident this is not a trend shift or anything. This is more of a quarterly phenomenon.

**00:22:13 - 00:23:07**  
Arjen Berends: In addition to that, I think it also links to our order intake pattern of the past. If you look at order intake in particular on projects, storage, and engine power plants, for example, it has been more in the second half of last year when we took the order intake, as we have also earlier commented, and typically that is then also delivered, not in the first half of this year, but typically, the second half of last year and beyond. What we also see as a trend is that the time between booking the order and delivery, so sales recognition, you could say in the marine side is slowly increasing because of yard capacities being full. Where we used to say it's 12 to 18 months between that it's now more to, let's say, 18 to 24 months. That's also a clear change in what happened in the market actually.

**00:23:08 - 00:23:08**  
Håkan Agnevall: Also--

**00:23:09 - 00:23:10**  
Arjen Berends: Relates to periodization. Sorry.

**00:23:11 - 00:23:27**  
Håkan Agnevall: Also to make a final comment on sales recognition for this year, we clearly also made the statement that if you look on sales in general over the year, we will see a gravity towards the second half, especially on the energy side both in storage and power plants.

**00:23:27 - 00:23:27**  
Arjen Berends: Correct.

**00:23:30 - 00:23:32**  
Speaker 5: Thank you. I'll get back in line.

**00:23:40 - 00:23:45**  
Speaker 6: The next question comes from Vivek Midha from City. Please go ahead.

**00:23:49 - 00:24:22**  
Vivek Midha: Thank you very much, everyone, and good morning. My question is on margins and seasonality for the year. You noted the unusually high standard share of sales, and you commented that commitment is likely to pick up in the second half. How should we think about the phrasing of the margins over the quarters this year? If I may, when you comment about a solid party or financial target, is there any more color you can give at this stage as to when you hope to achieve that four percent margin target for the full year basis? Thank you.

**00:24:23 - 00:25:21**  
Håkan Agnevall: We have 12 percent operating margin target. We have said over a few years we are not more specific than that. We emphasize our journey of continuous improvement of our profit margin. I think Q1 is certainly a testimonial to that journey. Then, also we do underline that first quarter, the sales mix services versus newbuild was favorable from a margin perspective because with 63 percent service sales in comparison to newbuild, of course, that supports a positive margin mix. We also say that when we look at the sales recognition for the full year then we talk about newbuild will gravitate more to the second half than the first half. I don't know if you want to comment.

**00:25:22 - 00:25:25**  
Arjen Berends: No I Think that covers it quite, quite well, I would say.

**00:25:27 - 00:25:29**  
Vivek Midha: Okay. Thank you very much.

**00:25:34 - 00:25:40**  
Speaker 6: The next question comes from Sven Weier from UBS. Please go ahead.

**00:25:42 - 00:26:15**  
Sven Weier: Yeah. Good morning and thanks for taking my question. It's regarding the marine order intake. Specifically my question is on offshore, where I think you were more bullish on the offshore segment for 2024, but we haven't seen that coming through in Q1 order intake yet. I was just wondering if that is a timing issue. Also, specifically, I was wondering, in the merchant segment share of marine order intake to 30 percent, how big the tanker exposure is in that? Thank you very much.

**00:26:16 - 00:26:40**  
Håkan Agnevall: I would say that we still have an optimistic outlook for offshore this year. We are still optimistic about the segment. Then, tanker impact, I would say it's limited because it's mostly two-stroke engines. We do deliver some auxiliaries, but maybe not so much into that specific segment.

**00:26:42 - 00:26:53**  
Sven Weier: I remember when you did the handwork, the acquisition years ago that they had some, I think, pump exposure also to tankers, but that seems to be relatively small right?

**00:26:59 - 00:26:59**  
Håkan Agnevall: The pump business, in Amway we divested a couple of years back, so we don't have the exposure anymore.

**00:26:59 - 00:27:01**  
Sven Weier: That's what I said.

**00:27:01 - 00:27:26**  
Håkan Agnevall: What we see, though, in Gas Solution, the business unit that we have put in the portfolio, there is a lot of activities on transport. As you know, Gas Solution delivers transport systems for different types of gas carriers. There are quite a lot of activities in that particular segment, but as I said, this is nowadays in the portfolio.

**00:27:26 - 00:27:27**  
Arjen Berends: Also on ammonia actually on that segment.

**00:27:31 - 00:27:32**  
Speaker 8: Very clear. Thank you.

**00:27:36 - 00:27:42**  
Speaker 6: The next question comes from Max Yates from Morgan Stanley. Please go ahead.

**00:27:45 - 00:28:26**  
Max Yates: Thank you. Good. Could I just ask on the marine service business? When I look at your order intake in marine services, it looks like it is up 16 percent. Organically it's probably up in the 20s. How much of this is underlying activity and how much of this is multi-period bookings? I'm just trying to get a real sense of what the underlying market is doing and maybe what the uplift from your own [inaudible] is if you can give a context of that, whether that service level of 568 million in marine is sustainable.

**00:28:26 - 00:29:33**  
Håkan Agnevall: It's the sides of the equation. First, there is of course a high level of activities in general in the fleet. I would say, with the geopolitical challenges in the Middle East and also the droughts around Panama and therefore the impact on the Panama Canal makes people take longer routes and that has a contribution to the service business. With that high level of activity and considering the very current stage ships are actually going longer, which has a positive impact so to say, but that's only one piece of the equation. The second piece of the equation and I would say it's more the important piece of the equation is a strategy around moving up the service value ladder. We really see that strategy playing out. Bringing new customers into agreements, and bringing customers there in agreements to more advanced agreements, etc. Both are benefiting but I would say our strategy is really, really delivering.

**00:29:36 - 00:29:37**  
Max Yates: Okay. That's helpful. Thank you.

**00:29:45 - 00:29:50**  
Speaker 6: The next question comes from Sebastian Kuenne from RBC. Please go ahead.

**00:29:51 - 00:30:37**  
Sebastian Kuenne : We'll take my question. I have a question on energy storage and the impact that these project delays or later deliveries have on the margin. Energy storage dropped or deliveries dropped by 80 percent year on year. First of all, I would assume that the margin increase you have in energy, the 500 bits is really driven by thermal and services, and that the storage business is basically absorbing a lot of the SG&A costs into later quarters. I would like to understand the dynamic what the normal margin would have been in energy if you had delivered normal storage volumes. I hope that makes sense. Thank you very much.

**00:30:37 - 00:32:03**  
Håkan Agnevall: No, Basically, I let Arjen, also comment. You could say that sales in storage are very low this quarter. You could say the main contributor is the EPP, the power plant and the service business. I think that's one thing to reflect upon. Just to clarify this with periodization, it doesn't mean necessarily that we have delays in projects that's not the major driver.It's just that we have a project basis and milestones and payments are planned in a certain way and unfortunately, they are not planned for quarterly reporting. It's not that things are slipping and sliding, it's just that the projects in the business have a certain cadence. It leads to sales recognition in certain times. As I said, if a time is not the last week of the quarter, but maybe two weeks into the new quarter, of course, you will see this as a decline in sales in Q1. Just underlining that there are no major delays, it just happens that a kind of project cycles-- In storage, we do have quite some big projects, so planning of distinct milestone can have this impact on our sales recognition but Arjen,give over to you.

**00:32:03 - 00:32:26**  
Arjen Berends: I think you said many things already. One thing to add you're absolutely right, Sebastian, that let's say, of course, with a low sales in storage, the operating leverage is clearly impacted. We will not open up what exactly is, but it's a clear effect. We believe that over time, looking more on a full year perspective, this will get back in line basically.

**00:32:28 - 00:32:45**  
Sebastian Kuenne: It would basically mean if the low-margin business which is currently still in storage, if that comes back into to Q3, it could lead then to lower margins because you add back all the SG&A costs in these projects into your books.

**00:32:45 - 00:32:57**  
Arjen Berends: No, SG&A costs are already hitting storage as of today, basically because you cannot put it on the balance sheet. That's not working capital or working process.

**00:32:57 - 00:33:16**  
Håkan Agnevall: You could say that you might recognize that if you look at the 12-month rolling as we presented for the EBIT of energy storage, it continues to be positive and that is still absorbing the SNA. It's not like we are reallocating SNA.

**00:33:17 - 00:33:17**  
Arjen Berends: Exactly.

**00:33:17 - 00:33:38**  
Håkan Agnevall: I think that also shows the underlying strength of the project execution in storage. We have a very solid project portfolio and we have a good profitability development of that portfolio. Storage keeps on carrying its own SNA by all means.

**00:33:39 - 00:33:40**  
Sebastian Kuenne : Thank you so much.

**00:33:47 - 00:33:53**  
Speaker 6: The next question comes from Vlad Sergievskii from Barclays. Please go ahead.

**00:33:54 - 00:34:26**  
Vlad Sergievskii: Good morning. Thank you very much for the opportunity. I was just trying to understand this 75 percent drop in storage sales. I assume a significant part of sales recognized here are cost-to-cost method, and therefore shouldn't be impacted by delivery milestones or invoices. Well, if indeed the revenue is recognized on delivery, then I would expect inventories to go up if you have been building those projects, and I don't really see that happening. If you can help me to understand the drop, that would be very much appreciated. Thank you.

**00:34:26 - 00:35:34**  
Arjen Berends: I'm not sure if I fully understand your question, but I think you refer to the percentage of completion application, which is of course, what we apply in storage largely, but I think the answer to your question because at least what I understood through the line is that you think that it should be more or less say, gradual coming over the overtime. That depends very much on when are we buying, for example, the batteries in a storage project. As you can see from our order intake last year, majority of the order intake was actually in the second half of the year, which means that we buy the batteries later so that also brings the percentage of completion to a later moment. You cannot buy the batteries earlier because then would you get the batteries too early they will deplete so they will not deliver the performance you have promised to your customers. Related to my earlier comment that the order intake last year was rather late in the year, then you could basically say, okay, it tilts more to the second half of this year when it comes to the deliveries and even on the percentage of completion. Hopefully, that answers your question. If I got it right, what you meant.

**00:35:35 - 00:35:36**  
Vlad Sergievskii: It does. Thank you very much.

**00:35:43 - 00:35:49**  
Speaker 6: The next question comes from Senha Sinha from J.P. Morgan. Please go ahead.

**00:35:52 - 00:36:18**  
Teresa Sinha: Good morning. Thank you for taking my question. In your income statement, your revenues are down about 10 percent, but your expenses are down by about 14 percent. I would imagine lower equipment sales would imply lower production costs but could you please comment on SG&A in the quarter and whether it was up or down verses last year? Can you also tell us what level of inflation you saw in your cost base versus revenues in Q1? Thank you.

**00:36:19 - 00:37:34**  
Arjen Berends: I would say that the cost inflation, of course, has impacted us. We are clearly seeing in particular on on salary inflation a clear impact in this year. I think we are not the only one. I think many companies face the same. Material cost inflation I would say or in the services, I would say that has been stabilizing pretty much. There is not too much from there. It's also good to know that when you think about orders being down and cost being down on a just quarterly basis, I think on a standalone quarter, bit wrong to compare like that because you're still producing for all the quarters to come, you need the resources to sell in the market. We are clearly ramping up resources on the service side in order to facilitate our service growth. It's not an exactly one-to-one. If your sales goes down, your cost goes down. That doesn't work on a quarterly basis. Of course, the long-term trend is that sales are going down. We need to take more radical measures but actually, at the moment we are in certain particular points, in particular on the server side, more ramping up than ramping down.

**00:37:36 - 00:37:37**  
Teresa Sinha: Thank you.

**00:37:43 - 00:37:49**  
Speaker 6: The next question comes from John Kim from Deutsche Bank. Please go ahead.

**00:37:53 - 00:38:28**  
John Kim: Hi. Good morning. If we could stay in the energy segment and talk a bit about the sequencing of revenues, perhaps through the year, I've heard you clearly say that the division is likely to get weighted, but given the impact of periodization on your accounting, do you expect Q2 to be up sequentially without getting into great details? Or, put slightly differently, is the storage revenue the new normal in the short term?

**00:38:28 - 00:39:02**  
Arjen Berends: No. Storage sales that's not the new normal. Let's say €62 million sales for Q1 is not normal. You can look at the order book and also the order intake of the past. I think that substantiates a clear improvement from Q1 levels to the next quarter's but I said the delivery volumes are tilt to the second half. I would say I will not guide you exactly, but the second quarter will be better but the most is tilted to the second half of the year.

**00:39:04 - 00:39:08**  
John Kim: Just to be clear, you're not seeing order push out of any real magnitude.

**00:39:08 - 00:39:24**  
Ariane: No. It's just related very much to what I earlier explained. The order intake patterns of the past that make that the delivery patterns of this year are what they are. There are no delays from our side. There are no delays on customer request either.

**00:39:25 - 00:39:26**  
John Kim: Okay. Thank you.

**00:39:29 - 00:39:35**  
Speaker 6: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

**00:39:39 - 00:40:07**  
Panu Laitinmäki: Thank you. I have a question on the energy market outlook. Storage orders were down, and you mentioned some slower decision-making in the commentary, but the energy outlook is unchanged, and you expect improvement. Could you talk about what you see in the market? You previously commented that you expect improvement in all three energy categories: service, storage, and power plants. Is this still the case?

**00:40:07 - 00:41:34**  
Håkan Agnevall: If we start there and you saw our guidance, we expect the demand environment to be better. If we look at the balancing side and if we start on battery storage, there are a lot of activities out there. Countries like US, Australia, UK, etc. a lot of market activities. It is this narrative about more renewables challenges with stability of the power system, and the need for balancing power. That's a clear driver for the storage but it's also a clear driver for our power plants. If you look at the LCRA the Lower Colorado River Authority, there are many of these types of dialogues that we have ongoing in the US right now so a lot of activities. Then if we look at the baseload for energy power plants, there are quite a lot of activities both in South-east Asia and in South America. That is the kind of underpinning logic. If you look on our services side, we continue also on the energy side service value ladder moving in the right direction. You can say that Q&Q, is a bit flat, but coming back, that is also periodization. We see continued positive development.

**00:41:37 - 00:41:40**  
Panu Laitinmäki: Okay, so no change in the statements basically.

**00:41:41 - 00:41:41**  
Håkan Agnevall: Correct.

**00:41:43 - 00:41:43**  
Panu Laitinmäki: Thank you.

**00:41:52 - 00:41:57**  
Speaker 6: The next question comes from Mikael Doepel from Nordica. Please go ahead.

**00:42:00 - 00:42:42**  
Mikael Doepel: Thank you. Just give me a brief back to the aftermarket business, where you had probably double-digit organic growth in the quarter year over year for the order intake, which is obviously a very strong number and a continuation of what we've seen in the past couple of quarters. Within that, I can see that marine seems to be very, very strong, and it seems to be a bit more muted based on a year over year. I was also just wondering, is this the level of growth fair to assume going forward as well? In energy, are things kind of slowing down there? Some more color would be pretty great. Thank you.

**00:42:42 - 00:42:52**  
Håkan Agnevall: I didn't hear in the beginning. Were you're focusing on service business or new business. Can you just start the first quarter? You're talking about service okay?

**00:42:52 - 00:42:54**  
Mikael Doepel: Yes. I'm talking about service only. Yes.

**00:42:54 - 00:44:35**  
Håkan Agnevall: Okay, good. I didn't hear it. Now I think we see a positive development clearly, going forward. It's these two pieces of the equation that I talked about. Strong underlying operations of the assets. When we look in the market, I think still the underlying operations will continue to be strong, certainly in our core segments. Then the other piece of the equation, which is, of course, moving up the service value ladder, and there are so many activities. I talked about service agreements we continue to see a positive trend. We can also talk about the retrofit business. Now with the marine industry joining Europe's ETS. A strong focus for shipowners to develop their CAI, their carbon intensity index strategy, how to drive down the CO2 emissions. They start maybe with slow steaming, but then it comes to retrofits or maybe bringing hybrid system, bringing methane slip down, doing drastic the rating of two-stroke engines and all of these retrofit businesses we are very much active. It is a positive outlook. On the energy side, you could say this strategy is the same, moving up the service value ladder looking at agreements. We do see a continued positive development.

**00:44:35 - 00:44:49**  
Mikael Doepel: Thank you for that.

**00:44:49 - 00:44:54**  
Speaker 6: The next question comes from Tomi Railo from DNB. Please go ahead.

**00:45:01 - 00:45:25**  
Tomi Railo: Good morning, it's Tomi Railo from DNB. Question on marine equipment. Would you be able to share how much or comment how much engines represent of marine equipment orders and how much alternative fuels represent out of engine orders in the first quarter?

**00:45:26 - 00:45:47**  
Arjen Berends: I think in the first quarter, but that was more of a market trend. I think it was 45 percent alternative fuel-generated orders. I don't have exactly in my head now how that translates to our order intake, but I wouldn't expect it to deviate a lot. It might actually be a little bit more on our side.

**00:45:47 - 00:46:53**  
Håkan Agnevall: So far we haven't made public the share of the incoming orders. Maybe this is something we should consider, but so far we are not making this public but I can clearly say that if you talk about methanol, we have a solid order backlog for methanol-enabled engines because as we talked about, it's a lot about dual fuel or even multi-fuel capability. We still see a lot of demand for the LNG, also for the heavy fuel type of engines but it's really focused on dual or multi-fuel capability. If we talk about ammonia, we commercially launched our ammonia engine by Q4 last year and we are still negotiating the first order. That is a very early stage but I would say methanol is really catching up volume-wise but let's see if we are prepared going forward to be more transparent about the volumes.

**00:46:56 - 00:47:29**  
Tomi Railo: Thank you. We have our calculations, but I'm happy to confirm later if you can. The second question would be on energy and the level of EPC orders or maybe not, EPC rather your own kind of product orders in the first quarter. In the capital markets day you mentioned that more than 80% of the backlog is equipment orders. What is the situation during the first quarter?

**00:47:30 - 00:47:54**  
Håkan Agnevall: I would say the trend continues. Clearly, the focus on equipment relative to EPC continues, not a major shift but I think also when we look at this and then we discuss this, just looking at one quarter, you will have a lot of swings. I don't think we should talk about the percentage for every quarter because it's going to swing a lot.

**00:47:54 - 00:47:56**  
Arjen Berends: Eighty percent has not been diluted.

**00:47:56 - 00:47:59**  
Håkan Agnevall: No. Exactly. I think the trend is very clear and continues.

**00:48:01 - 00:48:11**  
Tomi Railo: Would you say that this has played a clear role in the profitability in the first quarter? I know one quarter is one quarter, but--

**00:48:15 - 00:48:28**  
Håkan Agnevall: No. You recognized in the bridge there that we said that the profitability of EPP is increasing and the shift to more equipment certainly is contributing to that. It is.

**00:48:30 - 00:48:31**  
Tomi Railo: Thank you very much.

**00:48:36 - 00:48:42**  
Speaker 6: The next question comes from Sven Weier from UBS. Please go ahead.

**00:48:43 - 00:49:28**  
 Sven Weier: Thanks. The follow-up question from my side is a slightly bigger picture question on the marine business because as we all know, in the last 15 years, we had a bit of a structural downcycle, of course, which has led to the lower shipyard numbers. I guess you guys have also reduced your capacities. I was just wondering how you go about capacity planning with a view to the maybe next upcycle that is driven by decarbonization. Are you still extremely reluctant to add a lot of capacity here? Is that limiting your ability to accept orders because we talk a lot about yard constraints, but I'm more curious about the constraints that you have on the capacity side potentially.

**00:49:28 - 00:50:26**  
Håkan Agnevall: Now, first, the general remark, I think the trend for shipyard capacity I think it turned in 2020, 2021. We actually see that shipyard capacity is a little bit coming back, but you're right in the sense there was a big downturn before that. If we look at our capacity now we are not a bottleneck. As you know, we have now stopped the manufacturing of engines in interest in Italy. We have our two major manufacturing hubs, you can say, in Vaasa in Finland, but we also have our Chinese JVs. We will not be a bottleneck. We have significant capacity to scale up if needed because we have the built-in flexibility in Vaasa and in China. We would take that as a very positive challenge if the volume suddenly would go up very drastically. I think the long-term trend, we do see a positive development and we are ready for it.

**00:50:28 - 00:50:40**  
 Sven Weier: Does that also mean you don't have to invest a lot of CapEx to get there? It's more about managing the shift and managing people numbers in the factories.

**00:50:40 - 00:51:10**  
Håkan Agnevall: As you know, we invested about €250 million in a stage in Vaasa so we can grow within that facility. If it really would grow, we can build a little bit more but I think the the overall CapEx level will not drastically increase. I think we have an industrial system, including our supply chain that is is flexible and also capable to scale in the growth scenario.

**00:51:13 - 00:51:14**  
 Sven Weier : Thank you, Hakan.

**00:51:21 - 00:51:26**  
Speaker 6: The next question comes from Vlad Sergievskii from Barclays. Please go ahead.

**00:51:28 - 00:51:56**  
Vlad Sergievskii: Thank you very much for taking my follow-up and hopefully, the line is all right. I would like to ask about your progress on the strategic review of storage. It has been ongoing for about six months now. Would you be able to give us some idea why is it taking such an extended period of time, and maybe some preliminary conclusions that you have come up to after six months of the work? Thank you very much.

**00:51:57 - 00:52:27**  
Håkan Agnevall: No. Good question. I think when we set out the strategic review, we said that we are not going to communicate the specific deadline because we wanted to take the time that is needed. That's the same approach that we have today. We haven't said and we will not say the deadline. Time is running clearly but we are also working through the review. I think it's premature for us to go out and say where we are. I'm sorry but you will have to wait for that when we are ready with the analysis.

**00:52:29 - 00:52:31**  
Vlad Sergievskii: No problem. Thank you very much for sharing that.

**00:52:34 - 00:52:42**  
Hanna-Maria Heikkinen: It seems like there are no more questions on the queue, but we still have a couple of minutes left. In the case you have a question, now we have a good time to answer.

**00:52:48 - 00:52:49**  
Speaker 5: No questions.

**00:52:50 - 00:53:16**  
Hanna-Maria Heikkinen: Thank you, thank you. Hawken. Thank you, Ar. Thank you for all of the good questions. I would like to remind you that we are hosting a marine theme call together with the president of the marine, Roger Hulme, and together with Arjen Berends, our CFO. It will take place on May 7th. And then we are also hosting a site visit to our sustainable technology hub in Vaasa, which will take place on May 30th. Hope to see many of you there. Thank you. Thank you.

**00:53:16 - 00:53:17**  
Håkan Agnevall: Thank you for today.

**00:53:17 - 00:53:17**  
Ariane: Thank you.