# Transcript for "Interim Report January-September 2024"

 **00:00:00 - 00:00:26**
Hanna-Maria Heikkinen: Good morning, and welcome to this news conference for Wärtsilä Q3, '24 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 performance, followed by the business performance. Then, our CFO, Arjen Berends, will continue with the financial highlights. After the presentation, there is a possibility to ask questions. Please Håkan, it's time to start.

 **00:00:26 - 00:01:53**
Håkan Agnevall: Thank you. Welcome everybody. Welcome to the summary of the Q3, which has been a good quarter and we are moving in the right direction. Let's look at some of the numbers. We do see improved net sales, improved profitability, and improved cash flow. Net sales increased by 18 percent. We continue to have a strong book to build and therefore a strong order book of about €7.6 billion. Our journey for improved profitability continues. Our comparable operating results increased by 41 percent. Our strategy of moving up the service value ladder also continues, and we do see good progress in services as we go along. Service order intake is up by four percent and service net sales increased by six percent. Strong cash flow, Arjen will talk more about that, but we do continue to see a very strong cash flow. In this quarter from operating activities close to €300 million. Let's look at the summary of the figures for the quarter. If we look at the order intake, it's pretty flat, but on the organic level, we are up four percent around €1.8 billion.

 **00:01:53 - 00:03:44**
Håkan Agnevall: We continue to grow in services with four percent growth up to €874 million. On the equipment side, we are down two percent. That is primarily driven by storage, so €929 million. I will talk about storage later. Net sales are up 18 percent. From 1.4, €1.5 billion up to €1.7 billion. We continue to grow in services from 762 to €800 million. However, as we talked about before, second half year, we will see strong growth on the newbuild side and the equipment side. We see here we are up 32 percent from 690 to €911 million. Strong book-to-bill continues a positive trend above one. We saw twice. Comparable operating result is up 41 percent from €125 million to €177 million, and we are now at 10.3 percent of net sales. If we look at the operating results we increased it by 65 percent and we are now at 11.2 percent. If we look a little bit at the markets or our industries in the marine, the market sentiment continues to be positive for Wärtsilä in our key segments. We do see an increase in demand for new ships in the third quarter. Looking at Clarksons, the number of vessels ordered in Q3 increased from 1,400 to about 1,900 to 2,000.

 **00:03:44 - 00:05:31**
Håkan Agnevall: Despite the growth of shipyard capacity especially in China, newbuild shipyard capacity utilization remains high, and it indicates actually still a bit of a shortage of yard capacity. Also some very interesting numbers. Global shipyard capacity is currently at around 70 percent of the 2011 peak level. The forecast is that this could increase to 80, or 85 percent by 2030. The major growth is expected to be in China, which is expected to account for about three-quarters of this increase since 2021. On alternative fuels, the positive trend continues. Four hundred and eighty-six orders for alternative fuel-capable ships year to date. That accounts for 25 percent of all contracted vessels, but maybe even more importantly, around 50 percent of all the vessel capacities. Strong growth in demand and a positive outlook in cruise has driven the newbuild ordering. A lot of activities on the cruise, which going forward we expect will have a positive impact on Wärtsilä. Also, container newbuild investments have increased in recent months as shipowners continue to renew their aging fleets. Looking at energy we see solid long-term market opportunities.

 **00:05:32 - 00:06:49**
Håkan Agnevall: On the challenging side, rising protectionism is an obstacle going forward. Whereas the decreasing inflation acts favorable for our market situation in general. The macroeconomic development continued to be impacted by protectionism and elevated risks in the geopolitical environment, creating uncertainty and also affecting the speed of decision-making, slowing it down. If we look at the US, the IRA, Inflation Reduction Act has boosted the outlook for clean energy deployment in the US. While policies such as domestic content requirements and import tariffs hurt the outlook for the energy transition. It's a mixed picture. If we look at natural gas, global natural gas prices continue to increase but moderately. The demand for balancing power has been strong in 2024, while baseload demand has been stable. We do see a strong growth in balancing '24 compared to '23.

 **00:06:49 - 00:08:22**
Håkan Agnevall: In October, DNV's Energy Transition Outlook predicted a peak in energy-related emissions to have been reached this year. Coming back to AI and data centers. We do see interesting opportunities in this space going forward. Today, data centers account for about one to two percent of the global electricity demand, but it's forecasted to double by 2026. We do see strong interest here. Organic order intake increased by four percent. Order intake increased by one. Equipment order intake decreased by two percent, primarily driven by the timing of energy storage orders. Service order intake increased by four percent. Looking at the order book we have a strong order book, and the rolling book to build continues above one. I think it's now the 14th consecutive quarter that we continue to have a book to build above one. Organic net sales increased by 21 percent. Net sales increased by 18 percent, equipment net sales increased by 32 percent, and service net sales increased by six percent.

 **00:08:22 - 00:09:47**
Håkan Agnevall: As I said, this is a little bit what we indicated before that during the second half year we would have strong sales, particularly in equipment. We are growing in both, but equipment is growing fast. Profitability continues to improve in line with what we have said. Net sales increased by 18 percent so we have support there. The comparable operating results increased by 41 percent. We are on a path to reaching our financial targets of 12 percent EBITDA target. Looking at technology and partnerships it's all about enabling the decarbonization of marine and energy. The landmark deal between Wärtsilä and Eidesvik Offshore pioneered the growth of ammonia in shipping. We have signed a contract with Norwegian shipowner Eidesvik to supply the equipment for the conversion of an offshore platform supply vessel to operate with ammonia fuel. We will supply the engine, but also the complete fuel gas supply system and the exhaust of the treatment needed for the conversion.

 **00:09:47 - 00:11:06**
Håkan Agnevall: The vessel, Viking Energy is scheduled for conversion in early 2026, and it's expected to start operating on ammonia in the first quarter of 2026, becoming the world's first ammonia fueled in-service ship. The order was booked by Wärtsilä in the third quarter. Another interesting example from the energy space is we have signed an agreement with Aqualectra to continue to support Curacao's decarbonization with a new thermal power plant for balancing renewables. We were again contracted by Aqualectra, which is Curacao's government-owned utility company, to provide an EPC contract for a 38-megawatt power plant capable of providing efficient grid balancing as the level of renewable energy in the system continues to increase. Earlier this year, Aqualectra placed an order with us for a battery storage system and also for the GEMS Digital Platform. Now we are bringing it all together the thermal, the energy storage, and GEMS to optimize the whole system. The thermal order now was booked in the third quarter.

 **00:11:08 - 00:12:39**
Håkan Agnevall: Let's look at the two businesses and how we are evolving. In marine, the good performance continues. Net sales and comparable operating results increased. Order intake is flat, but you should remember last Q3 last year we had some pretty big orders, especially on the ferry side. The comparison is a challenging one. In underlying order intake we see a lot of activities and have a positive outlook. Net sales are up 10 percent. If you look at the continued journey of improved profitability, the major drivers in Q3 were the higher service volumes and the better operating leverage stemming from our higher volumes. If we look at our service business, we see good development in marine services. Marine net sales to agreement installations have been stable at around €500 million in Q3. You see net sales to agreements installations. You could see it. It seems to be tapering off, but we have a positive outlook. You can see here the latest order intake we have on the agreement side in Q3 was a lifecycle agreement that we signed with Royal Caribbean to help Royal accelerate their sustainability goals.

 **00:12:41 - 00:14:07**
Håkan Agnevall: We signed a five-year lifecycle agreement with Royal covering 37 of their cruise ships. The agreement is designed to optimize the performance, reliability, and availability of the ship's engines, ensuring the highest level of operational efficiency. The contract covers both scheduled and unscheduled maintenance and includes also Wärtsilä expert insight services. This is built on a performance-based model, so it means that the gains resulting from best operation and maintenance practices will be shared by Royal and by Wärtsilä, further highlighting the collaborative efforts. The order was not booked in Q3. It will be booked in Q4. Moving to energy. Comparable operating results increased. Equipment orders and deliveries grew clearly in energy power plants. Yes, order intake is down 19 percent, but that is primarily driven by storage. If we look at the power plant side, Q-on-Q order intake is up 20 percent or even more. Net sales continue to increase by 31 percent.

 **00:14:08 - 00:15:28**
Håkan Agnevall: If we look at the very positive continued journey for energy, the main drivers are first of all, you will see in the next picture the continued improved profitability of the energy storage and optimization business. Then in general for the whole of energy, higher service volumes, and also here better operating leverage stemming from the higher volumes and robust project execution. Now zooming in on storage, we see that the comparable operating result margin continues to improve. However, order intake in Q3 was not what we expected it to be. However, we do see it will improve in Q4. It's about the periodization of certain big orders. The orders are getting bigger and bigger for us in energy storage, and when you have something sliding over a quarter, it will have a significant impact. Underlying, we are still very optimistic about the order intake for energy storage. The overall market sentiments are also very strong. If we look at services in energy. The agreement coverage in energy continues to be strong.

 **00:15:29 - 00:17:11**
Håkan Agnevall: Here is one of the examples where we continue to strengthen our commitments to Zambia with O&M agreement renewal for the Ndola power plant. We signed the renewal of an operations and maintenance agreement covering the 105-megawatt power plant owned by the independent power producer and Ndola energy company in Zambia. The previous agreements have been enforced since 2013, so now it's time to renew. The plant operates 12 and Wärtsilä 32 engines. Six includes two-stage turbocharging technologies. We continue also to have this high renewal rate both on marine and energy on our service contracts. Over 90 percent renewal rate. You can also see that our megawatts share continues to improve. We are around 30 percent, and we talked about that. We have opportunities to grow the percentage going forward. Now to sum it all up, the comparable operating results improved in all businesses. Marine, energy, and portfolio businesses. You see that the waterfall here is from 8.6 to 10.3 percent, marine improving from 10 percent to 10.4, energy from 8.4 percent to 10.5, and also portfolio businesses going from 3.9 to nine percent.

 **00:17:11 - 00:17:33**
Håkan Agnevall: If we zoom in on the portfolio for a while, we said, these are businesses we are going to divest, but we want to turn them around and want to prepare them for divestments. This is what we are doing. You can see it here. Comparable operating results once again increased by 41 percent. Now other financials, Arjen, please.

 **00:17:35 - 00:18:52**
Arjen Berends: Thank you, Håkan. I'm very happy with this page. All the key performance indicators on this page improved compared to Q3 last year, and they also compared to Q2 this year. Good improvements on all the numbers that you see on this page. Operating cash flow was very strong if you compare it to last year. The main contribution came from improved profitability, while the contribution from changes in working capital was more or less on the same level. The good cash flow contributed clearly to a further improvement in net debt as well as gearing and improved profitability supported the solvency ratio, as well as the EPS tool to further improve. Looking at the long-term trends. If you look at the left side, operating cash flow on a rolling 12-month basis, we have reached 1.16 billion now over last year's generated operating cash flow. We are happy with that. If you look at the working capital to net sales ratio on the right side of the slide, the line is now lending at minus eight percent. If you look at the five-year average, the working capital to net sales ratio at about two percent, as you can see from the dotted line in the graph.

 **00:18:52 - 00:19:19**
Arjen Berends: For reference, if we go on the 10-year average, it's about five percent. This level of working capital to sales ratio is negative minus eight percent on a rolling 12-month basis. I keep saying it. It's extraordinary. We do expect this to normalize in the near term as well. With these words back to you, Håkan, on the guidance.

 **00:19:20 - 00:19:44**
Håkan Agnevall: Thank you, Arjen. On the guidance a positive outlook for demand. We do see that the divine environment will be better for both marine and energy going forward in the coming 12 months. Underlying positive market outlook. Time for Q&A.

 **00:19:46 - 00:19:59**
Hanna-Maria Heikkinen: Thank you, Håkan and Arjen. Now it's time for Q&A, let's start with one question from analysts. Please leave the follow-up questions for the second round. Handing over to the operator, please.

 **00:20:03 - 00:20:08**
Operator: The next question comes from Daniela Costa from Goldman Sachs. Please go ahead.

 **00:20:10 - 00:20:38**
Daniela Costa: Hi, good morning. Thank you. The topic I wanted to ask about is if you could give us a little bit more detail on storage. Looking at the orders and the sales charts it looks like you have a big gap this quarter. How much of the backlog have you used now and how much you have left? Was it just one order that maybe got slightly delayed that you expect to receive in Q4? Is that what is behind it or more broad-based?

 **00:20:39 - 00:21:40**
Håkan Agnevall: If we look at our order intake and as I said, it's a low order intake for Q3, but this is a project business. We are negotiating several contracts with several customers, and sometimes these slide from one quarter to the other. However, based on what we have in the pipeline and what we are negotiating, we feel confident about Q4 and we do see a strong underlying demand. I think that the storage business in general is developing positively. You could see the improved profitability. We have had a focused strategy. We have been focusing on certain markets in the US, Australia, the UK, and a couple of other markets. We are focused on execution. We can see it translating into financial results as well. Overall, yes, Q3 might not look good on the order intake side, but I think we have a very positive outlook.

 **00:21:41 - 00:21:48**
Arjen Berends: No, I fully support that.

 **00:21:48 - 00:21:48**
Daniela Costa: I'll go back to the queue thn.

 **00:21:48 - 00:21:51**
Operator: The next question comes from Vivek Midha from Citi. Please go ahead.

 **00:21:53 - 00:22:20**
Vivek Midha: Thanks very much for taking my questions and good morning. My question is again on the storage business. It looks like the implied ASP in storage is roughly half the year-on-year. Clearly, there's a large contribution of that from lithium prices. However, over and above this, has there been any underlying pressure on pricing due to greater competition and new entrants? Thank you.

 **00:22:20 - 00:23:47**
Håkan Agnevall: You're perfectly right. The lithium prices are coming down quite significantly. I think they are down about 40 percent year-on-year or even more. First of all, if you look at the order backlog, we have locked that in. It's not affecting our current order backlog. If we look at new order intake, the orders we take in, we deliver more and more megawatt hours for the same price. It doesn't affect our margins. We still have the margins that we need to have. The underlying fundamentals are in place. Competition is increasing. I think this is also where our focus strategy serves as well. We talked about it before. You cannot look at the battery storage market as one unified market with one unified customer type. We focus on customers who value our core propositions, and they are delivering on time with the right quality, execution skills, and thermal stability. So far, we haven't had a thermal incident in our power plants. Our power system knowledge and our capability to integrate battery storage with different generating assets for the highest uptime reliability.

 **00:23:47 - 00:24:08**
Håkan Agnevall: That's a customer proposition that hits and is attractive for certain customer segments. There are other customer segments that are more CapEx-focused. We continue to focus on our core segments, and I think we are using our key competitive advantages in that segment, so to speak.

 **00:24:11 - 00:24:11**
Vivek Midha: Thank you.

 **00:24:16 - 00:24:20**
Operator: The next question comes from Max Yates from Morgan Stanley. Please go ahead.

 **00:24:22 - 00:25:20**
Max Yates: Thank you. Good morning. My first and only question is just on the marine margins. If I look at the margins, they've come down by about 100 basis points quarter on quarter. However, if I look at the Mix of the business equipment and service, it hasn't changed that much since the second quarter. Part of what you've talked about, implying weaker margins in the second half has been driven by Mix. My question is, should we expect, as Mix gets worse from here, that we see another sizable or meaningful 100 bips sequential margin step down in the fourth quarter? Could you maybe talk about if it wasn't a big change in Mix, what drove the sequential margin weakness in marine? The sequential trends in marine margins and then also how to think about the fourth quarter because I assume that should get materially worse with a worse Mix.

 **00:25:22 - 00:26:03**
Arjen Berends: There is more than just a Mix of equipment and services. Also within equipment, you have a Mix in project. Not all projects have the same margins. It depends on what segments are you operating in as well as in the service business itself. You have different margin levels between spare parts, field service agreements, and projects. There is Mix and Mix, and I think this has a quite significant impact on the numbers as we see them today. As we have guided before, we see a similar trend happening also in Q4. These all-time high EBIT margins that we have always seen in Q4, we don't anticipate that to see this year to the same level at least.

 **00:26:04 - 00:26:05**
Håkan Agnevall: Then to complement, Arjen--

 **00:26:06 - 00:26:06**
Max Yates: Can I just--

 **00:26:07 - 00:26:19**
Håkan Agnevall: To compliment Arjen, we are not guiding it specifically for Q4, but as we talked about it, we do see our continued journey to reach our financial targets.

 **00:26:19 - 00:26:21**
Arjen Berends: Absolutely. I'm very positive about that.

 **00:26:23 - 00:26:42**
Max Yates: Can I just clarify what you're trying to say with this guidance? If we simplify, are you saying there is a reasonable probability that margins will be below the third quarter in the fourth quarter, or should we compare it to the first nine months? I realized that you don't want to guide explicitly, but just in plain English, what is it you're trying to guide to?

 **00:26:45 - 00:27:12**
Arjen Berends: I will not guide you on that question. We have said and we said it already at the end of Q2, that the second half of the year, from an EBIT percentage point of view, will not see the same hockey stick effect as we used to see in Wärtsilä in Q4. The second half EBIT margin was expected to be on a lower level than what we saw in the first half, which was 10.7 percent. That still holds.

 **00:27:12 - 00:27:22**
Max Yates: You've evolved that message today with what you wrote in the fourth quarter. You're trying to tell us something, I'm just not entirely sure what it is you're trying to tell us.

 **00:27:25 - 00:27:27**
Arjen Berends: I'm not sure if I get your question. Sorry.

 **00:27:29 - 00:27:47**
Max Yates: In the text, you've made a comment about Q4 seasonality. You've deliberately put it in there. Is it what you're trying to tell us that we should look at three Q margins, and you're trying to tell us that the fourth quarter should be worse? Is that what that deliberate comment in the outlook statement is trying to tell us?

 **00:27:47 - 00:27:47**
Arjen Berends: No.

 **00:27:47 - 00:27:52**
Max Yates: I'm just trying to interpret what that message is trying to get at.

 **00:27:52 - 00:28:03**
Arjen Berends: The message has been that Q4, traditionally or historically in Wärtsilä has for many years been the highest percentage. That's not likely to happen this year. That's the message.

 **00:28:03 - 00:28:24**
Håkan Agnevall: If you look at the specific wording, it's the same as from the previous quarter. I think we added the text there about that in Q4 and on newbuild deliveries. We always know that things can slide a little bit, but otherwise, the text is exactly the same as in Q2.

 **00:28:26 - 00:28:28**
Max Yates: Understood. Thank you.

 **00:28:31 - 00:28:35**
Operator: The next question comes from Sebastian Kuehne from RBC. Please go ahead.

 **00:28:38 - 00:29:19**
Sebastian Kuehne: Hi, thank you for taking my question. My question relates to e-storage. You mentioned that in the US, because of regulation, there is a big focus on local content. Maybe you can elaborate a little bit on how this affects you, whether you are getting squeezed out of tenders there, and what your strategy is for the North American market, especially given that data centers are such a big or important business currently for the US. I just want to get a bit of an idea of what your strategy is for North America and whether you're impacted by that local content regulation. Thank you.

 **00:29:19 - 00:30:56**
Håkan Agnevall: If we look at storage and then data centers. Energy storage, yes, local content requirements and import duties will certainly go up in 2026. Considering that you need to have a diversified supply chain and this is something that we are working on. It is not holding us back. It doesn't have any immediate impact on our order intake just to clarify that. However, it's something that we are working on and a structured base. You need to have a diversified supply chain, including having suppliers in the US. This is an ongoing process. On the data center, I don't see any immediate impact from localization requirements. I think we see a lot of interest as the data center market is transforming. If you go a couple of years back, data centers had a power requirement of around 10, 20, or 30 megawatts. It was easier to get access to the grid through a utility. However, now as we talk about data centers requiring 50, 60, 100, to 300 megawatts the grid cannot support this additional load. Then you move the whole business into type of a baseload industry. This is where we see potential. We talked about it before. In Europe, we have our first orders. We see a market evolving in the US as well. However, it's still in the early stages.

 **00:31:02 - 00:31:05**
Sebastian Kuehne: Thank you very much. I will go back in line with my second question. Thank you.

 **00:31:08 - 00:31:12**
Operator: The next question comes from Vlad Sergievskiy from Barclays. Please go ahead.

 **00:31:14 - 00:31:55**
Vlad Sergievskiy : Thank you very much for taking my question. I will also ask about storage. Today is a year since you started the strategic review. Now, 12 months later, would you be able to share with us at least the interim findings of this review? The business as you show on slide 16 started to decline tactically, but operating margins on my calculations are in the high single digits over the past two quarters, despite relatively limited operating leverage compared to history. Do you think those high single-digit margins in storage are sustainable over the medium term with the volumes that you have today? Thank you very much.

 **00:31:56 - 00:33:33**
Håkan Agnevall: First of all, the strategic review has not been ongoing for a year. We started in October last year. It's still the same narrative. We are looking at the best way to create value for customers and shareholders. We are looking into different ownership alternatives and we want to do a thorough job. The job is still ongoing. We clearly understand that there is a lot of interest from external stakeholders. However, I would also say from internal stakeholders, what are the results? We will come back when we are ready with the analysis. We are putting a lot of time and effort into it, but we are not ready to come back with our decision yet. The study is still ongoing. When we see the continued development of the storage business, as we said before, we continue to invest and build it. We do see significant growth opportunities. We do see a journey to continued improved profit margin. We have not provided guidance on where we think we can take this, but we are now at around four percent of a 12-month rolling. We do think that the journey of improved profitability can continue. [silence 00:33:21-00:33:33]

 **00:33:33 - 00:33:38**
Operator: The next question comes from Antti Kansanen from SEB. Please go ahead.

 **00:33:41 - 00:34:28**
Antti Kansanen: Hi guys. I wanted to follow up on the previous question on the marine segment's profitability. To be fair, I had expected a bit more in terms of earnings leverage year-over-year despite a bit of a weaker sales mix. My question is why are the margins on the marine side similar to energy, despite quite the big difference in sales mix and size of the service business? What is driving that equipment margin volatility that you were referring to? Is it a different product group, or is it the timing of the projects? There is a meaningful difference in how you allocate the shared manufacturing fixed costs between the two segments. I'm trying to understand the different margin trends in the two segments.

 **00:34:29 - 00:35:32**
Arjen Berends: I can answer that. As you know, the manufacturing as we are organized in Wärtsilä, is owned by Marine and the same goes for the R&D. Then they provide services to energy on both ends. It's always challenging to exactly say that this much is for energy and that much is for marine when it comes to absorption differences or the like. However, I do believe that we do it good and as accurately as we possibly can. A lot of improvements have been made here over the past as well, simplifying the whole structure. Having only one location now in Vaasa supports that as well. I would say that's a fair split. It's not doing anything special to benefit one versus the other. It's a fair split. We also want to know it ourselves because the better you know the profitability of each business, the more accurately you know it, and the better you can steer it also to better levels. It's a fair split.

 **00:35:33 - 00:35:55**
Håkan Agnevall: About how we should interpret the margin variations, I think it's coming back. I think Arjen touched upon it. It's really about mixing the newbuild segments and the service segments. I think this is as detailed as we will go. Also complimenting the overall trend is positive.

 **00:35:55 - 00:35:56**
Arjen Berends: Correct.

 **00:36:00 - 00:36:01**
Antti Kansanen: Thank you.

 **00:36:04 - 00:36:07**
Operator: The next question comes from Sven Weier from UBS. Please go ahead.

 **00:36:11 - 00:36:48**
Sven Weier: Good morning. Just a follow-up on storage. Again, I'm sorry for that, but I still want to understand what has been delaying the customer's decisions in terms of the order intake. Is it the US elections that make them wait, or have you received some of the orders in the meantime in Q4 corresponding to that because of the review you do for the storage business? One side of the equation could be to find a buyer for this. Is this US election uncertainty may be also delaying the whole process? Thank you.

 **00:36:48 - 00:37:14**
Håkan Agnevall: Thank you, Sven. I can't say it's not related to the elections or uncertainties around strategic review. It's the good old kind of negotiations that you have in any type of commercial relations. You have a lot of terms and conditions to settle, et cetera. I would say it is the ordinary pace of the business. It's not related to elections or anything else.

 **00:37:18 - 00:37:24**
Sven Weier: Is that also true for the strategic review that this has no impact?

 **00:37:24 - 00:37:32**
Håkan Agnevall: Yes, there is no strong connection between the outcome of the US election and the strategic review.

 **00:37:36 - 00:37:46**
Sven Weier: Could you confirm, because you sounded very confident about getting the orders in Q4? Does it mean you have already received some by now or it's still pending?

 **00:37:47 - 00:37:58**
Håkan Agnevall: We can only announce orders when we have them signed et cetera, so we will not make any order announcement. However, as I said, we have a solid pipeline and we are confident that we will get there.

 **00:38:00 - 00:38:03**
Sven Weier: Okay, thanks. I'll get back with another one later. Thank you.

 **00:38:07 - 00:38:11**
Operator: The next question comes from John Kim from Deutsche Bank. Please go ahead.

 **00:38:14 - 00:38:32**
John Kim: Hi, good morning. I'm wondering if we could go back to marine for a second. When we think about the backlog, particularly what you're going to deliver in the next 12 months, are there noticeable mix effects on the equipment and or the service side that we should think about when we think about margins on a go-forward basis? Thanks.

 **00:38:36 - 00:38:50**
Arjen Berends: There is always a mix effect when you compare quarters to quarters or year to year. It's never the same. In that respect, I can say that the answer is yes. I will not open up about what the mix effect is going to be.

 **00:38:52 - 00:38:55**
Håkan Agnevall: More than that we are saying that the underlying trend is positive.

 **00:38:55 - 00:38:55**
Arjen Berends: Yes, exactly.

 **00:39:00 - 00:39:05**
John Kim: Operational leverage should offset potentially any negative mix. Is that a fair read-through?

 **00:39:07 - 00:40:10**
Håkan Agnevall: No, it's your interpretation. Do also consider what we are talking about when we talk about our growth in marine is fueled by two major streams. One is the growth of our core segments. Cruise is extremely strong now. Offshore, there are still a lot of service activities. The newbuild is yet to pick up, but it's expected to pick up. LNG carriers are a little bit slower right now. Let's see how it evolves. Containers are coming back. If you look at some of our core segments and then you know the segments, and I'm sure you have your hypothesis around the profitability of those segments, I will not go into those details. Think about that. Then the second driver is the decarbonization transformation where we have said that with new technology like in all industries, you have a better price realization, at least as a technology leader.

 **00:40:11 - 00:40:24**
Arjen Berends: To answer John's question, with growing volumes, you have operating leverage that's clear and that we also expect to see in our businesses if volume grows clearly.

 **00:40:27 - 00:40:27**
John Kim: Thank you.

 **00:40:31 - 00:40:35**
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

 **00:40:38 - 00:40:52**
Panu Laitinmäki: Hi, thank you. I just wanted to ask about storage margins. Can you confirm our calculations that it was high single digits or around eight percent in Q3, and what has driven the improvement in the margins in that business?

 **00:40:52 - 00:41:31**
Håkan Agnevall: You've seen the outcome. We don't give any guidance for where we expect the margin to be. We only say that we will continue the improvement. Where is the improved profitability coming from? I would say the major source is the discipline both around what type of orders we take in and also in the project execution. We have a good team. We are executing the project to the benefit of our customers on time, and also keeping our costs under control. It's solid execution excellence.

 **00:41:33 - 00:41:57**
Arjen Berends: Our focused approach in the past on order intake, looking at the orders that we want to take and we are also feeling very confident that we can deliver them according to technical specifications and at the right times as the customer requires them. I think that pays back now and we can see that in the margins clearly.

 **00:42:01 - 00:42:09**
Panu Laitinmäki: If I may ask, do you see the Q3 run rate as a sustainable level or was there something exceptional in Q3 that everything went very well?

 **00:42:10 - 00:42:15**
Håkan Agnevall: As we see it we have a positive outlook and we do see a continuous improvement.

 **00:42:18 - 00:42:19**
Panu Laitinmäki: Okay, thanks.

 **00:42:22 - 00:42:27**
Operator: The next question comes from Erkki Vesola from Inderes. Please go ahead.

 **00:42:29 - 00:42:52**
Erkki Vesola: Hi, Håka, Arjen, and Hannah. Regarding the lead times in marine engines and lack of shipyard capacity, if a customer orders an engine now, when will it be delivered? Linked to that and as a reminder, on average, how much before the ship is delivered from the shipyard to a customer do you usually get the engine order? Just timing dynamics.

 **00:42:53 - 00:43:41**
Arjen Berends: If you order an engine now, how fast can you get it? I think you can get it pretty fast. I think the production capacity and our supply chain are not the bottleneck. However, for the vessels that are in the shipyard order books, as Håkan mentioned and showed on the slide as well, the shipyard capacity is limited. Engine orders are longer contracted to us than what we used to see. Earlier, we saw typically, 12 months in advance, and now we see 12 to 18 months in advance. It's moving a little bit longer forward.

 **00:43:42 - 00:43:52**
Håkan Agnevall: However, that is not related to our capacity. This is how our engine fits into the overall time schedule of the build of the whole vessel.

 **00:43:52 - 00:43:53**
Arjen Berends: Correct.

 **00:43:56 - 00:44:05**
Erkki Vesola: Would you say anything about how large a chunk of your marine engine backlog will be delivered in 26 and after that?

 **00:44:06 - 00:44:07**
Arjen Berends: No, we are not opening up.

 **00:44:09 - 00:44:18**
Håkan Agnevall: In the slides, you can see the overall for the whole company, but we are not going into the respective business for competitive reasons.

 **00:44:18 - 00:44:21**
Arjen Berends: The order book this year, next year, and the years after, yes.

 **00:44:23 - 00:44:25**
Erkki Vesola: I get the point. I'll get back to you in the line. Thanks.

 **00:44:28 - 00:44:39**
Operator: The next question comes from Tomi Railo from DNB. Please go ahead. [silence 00:44:32-00:44:38]

 **00:44:39 - 00:44:56**
Tomi Railo: Hi, Håkan, Arjen, and Hanna. It's Tomi here from DNB. A question on the thermal orders which were pretty solid, around 200 million in the quarter. Would you have a similar confidence to say that you would expect also those orders to improve in the fourth quarter compared to the third quarter?

 **00:44:57 - 00:45:13**
Håkan Agnevall: Tomi, you know as well we don't provide guidance per quarter. I only say that the underlying trend is positive. This is a lumpy project business so it can vary. I don't make any statements about Q4, but I can just say that the underlying trend is positive.

 **00:45:13 - 00:45:15**
Arjen Berends: We have a solid pipeline as well.

 **00:45:15 - 00:45:19**
Håkan Agnevall: Yes.

 **00:45:19 - 00:45:19**
Tomi Railo: Thank you.

 **00:45:25 - 00:45:29**
Operator: The next question comes from Akash Gupta from J.P. Morgan. Please go ahead.

 **00:45:32 - 00:46:16**
Akash Gupta: Good morning everyone. I have a question regarding your order book delivery schedule. When I look at your deliveries in the current year, we have only a slight uptake in the backlog you have for this year. However, when I look at the consensus revenue expectations, we have like 20 percent increase in revenue expectations. Maybe you can help us reconcile, is there anything that consensus is missing on the revenue side, or has there been any difference from this year to next year in the delivery schedule? Because when we look at your next year's delivery schedule, you have quite a large gap there versus what backlog you had last year. Any commentary on your Q4 order book? Thank you.

 **00:46:17 - 00:46:58**
Arjen Berends: No, we are not commenting on consensus. We are providing guidance on order intake with the assumption that analysts make converts to sales in a certain year. The order book is a fixed one. That's given. That part we have. However, how much will come in addition that converts into deliveries next year? I think that I'll leave it to your assumptions to identify that. We guide positively. We have an outlook for better in both end markets. We see a growing trend in book-to-bill ratio all the time. We are very confident that we'll see growth also in the future.

 **00:47:02 - 00:47:18**
Akash Gupta: Maybe I can phrase my questions differently. If you look at the last couple of years, when we look at your backlog in this slide and actual revenues in Q4, we had a delta of a couple of hundred million euros. Are there any reasons to be different this time around? Thank you.

 **00:47:20 - 00:47:28**
Arjen Berends: I don't have in my head now what happened in all the previous years in quarter four compared to that particular statistic. Honestly, I cannot answer that one.

 **00:47:30 - 00:47:55**
Håkan Agnevall: I think what we have said it's nothing new. The second quarter will be a high level of equipment deliveries. This is what we have said. We are not guiding for Q4. Once again and this clearly we understand it's a challenge, but we are a product business and we are a bit lumpy. Therefore, it's very hard to guide on specifics on the quarter.

 **00:47:55 - 00:48:23**
Arjen Berends: Looking at the existing order book, that is always in for our part, that even happens within the quarter, in particular on sales. In all my 30 years plus in Wärtsilä, we see every year at the year's end, order slipping to next year. However, we also see it the other way around. All that was planned to be delivered in January, are delivered earlier. It's never exact, but it's ballpark close I would say.

 **00:48:23 - 00:48:26**
Akash Gupta: Thank you. I'll go back in the queue now.

 **00:48:29 - 00:48:33**
Operator: The next question comes from Sean McLoughlin from HSBC. Please go ahead.

 **00:48:36 - 00:49:05**
Sean McLoughlin: Good morning. A question on your portfolio business. You've seen strength here both on demand and on margins. Firstly, is this sustainable? You talk about gas solutions and marine electrical. What are you seeing across other segments, automation, navigation, voyage, and so forth? How is better demand and profitability changing your thinking on how you structure and whether you keep these businesses going forward? Thank you.

 **00:49:05 - 00:49:52**
Håkan Agnevall: The direction is still clear. We're going to divest these businesses. We are not reconsidering. We will divest. As we said before, we want to do this sensibly, we want to find the right owners, and we want to have the right value opportunity for us as Wartsila. To create value we have several of these. Like gas solutions have not been profitable and we are turning it around. We are in different stages of our divestment process for each of these four assets. They are clearly for sale. It will take a couple of years to execute this, but it's clear what we are going to do going forward.

 **00:49:53 - 00:50:11**
Arjen Berends: We are very happy with the profit improvement because that clearly supports us in the divestment process as well. It can vary a lot from one quarter to the other. This quarter, for example, we had very good service business in the portfolio businesses. [silence 00:50:05-00:50:10]

 **00:50:11 - 00:50:19**
Sean McLoughlin: Very clear. Thank you. [silence 00:50:12-00:50:18]

 **00:50:19 - 00:50:24**
Operator: The next question comes from Tom Skogman from Carnegie. Please unmute your microphone.

 **00:50:25 - 00:51:08**
Tom Skogman: Hello, this is Tom from Carnegie. I would like to understand your margins a bit better, not just for this quarter. For instance, is the order book margin now, after several years of great demand, clearly better than what you have delivered here to date? Then when I look at your margin, compared to other engineering companies, I don't see any reason why your service margin should be worse. Most have at least around 20 percent, but that would give you really low margins in the equipment business. Is the service margin weak because of a lot of modernization projects with volatility or is it still that the equipment margin is really low?

 **00:51:09 - 00:51:26**
Arjen Berends: We are not going to comment on the margins in the order book. We are not guiding like that. We are all the time aiming to improve margins going forward, and I think we are doing quite well in that respect. However, to open it up in detail level, we will not do.

 **00:51:26 - 00:52:07**
Håkan Agnevall: No, we don't guide on margin, service, and respective newbuilds. We have said for sure that the margin on services is better. I think you can see this in the waterfalls here. I think you can see clear evidence of that. We are improving our execution skills. We have the volume leverage, but we are also, both in marine, improving the way we operate. We have also made structural changes like in Trieste closing the manufacturing and centralizing the European footprint to Vaasa. We are taking many steps to improve our competitiveness.

 **00:52:09 - 00:52:39**
Tom Skogman: Perhaps rephrasing it a bit. Other companies now report their service models, basically all of them. Signal has already disclosed 20 percent or so. Is there something that means that you could not have a 20-plus margin in service? Is it so competitive in pirate ports and so many modernization projects where the competition is tougher, or is it a thing that you can fix basically?

 **00:52:39 - 00:53:25**
Håkan Agnevall: I would say we don't break out the modules and we don't want to do that for competitive reasons and a number of reasons. To your specific questions on pirates. Yes, there are pirates, but I think coming out of COVID-19 and going forward, we have strengthened our position in the spare parts market because through COVID-19 and also after we have been showing that we are reliable, we are there, and also our strategy of moving up the service value ladder means that customers before might have only transacted with us on spare parts business, they are now starting to move into their first agreements, et cetera. Moving up the service value ladder and that supports our service business going forward.

 **00:53:26 - 00:53:38**
Arjen Berends: With engines getting more complex and agreement coverage getting better, the impact of piracy is getting less and less. That's clearly in our favor.

 **00:53:41 - 00:53:51**
Tom Skogman: On the modernization side, would you say that your types of modernization projects are more complex with lower margins than in many other engineering companies, or is that a wrong understanding?

 **00:53:52 - 00:53:53**
Arjen Berends: We are not going to comment on that.

 **00:53:53 - 00:54:41**
Håkan Agnevall: We can't comment on that. I think we are growing services and we are growing profitably. When we talk about the digital toolbox, we see great application examples of applying digital in the service side. We have many examples of that, both externally, which enables us to do performance-based contracts. We are unique in the industry by providing some performance-based contracts. However, we also see this in our internal efficiencies. I think we are certainly not perfect, but we are step by step improving our efficiency also on the service side.

 **00:54:42 - 00:54:43**
Tom Skogman: Okay. Thank you.

 **00:54:45 - 00:55:06**
Hanna-Maria Heikkinen: Thank you, Tom. Then we have a couple of questions from the chat. We'll continue with the service theme. On energy service order intake, the growth has been slowing and been negative on a year-on-year basis in recent quarters, including Q3. Could you talk a bit about the market dynamics here and what you expect going forward? Should we assume continued declines ahead?

 **00:55:06 - 00:55:52**
Håkan Agnevall: On the energy services, first, if you do the Q on Q comparison, in Q3 last year there were a couple of big retrofit projects. These big retrofit projects come when they come. Comparing Q on Q, we look a bit flat. If you look at the megawatts that we have on the agreement, you see the curve was flattening out. However, that is also related to that we have ongoing negotiations with renewals. It's just that we didn't manage to get them into Q3. They will hopefully come in Q4. What I'm trying to say here, the underlying trend is positive.

 **00:55:53 - 00:56:19**
Arjen Berends: We are definitely positive. I think an even better parameter to look at is the book-to-bill ratio. If you look at the book-to-bill ratio for energy services, it has been over one for a long time already. That's the real proof in my view on continued growth. It can fluctuate quarter-on-quarter comparisons, but the underlying trend is positive. Moving up the service value ladder as Håkan was reflecting upon, is clearly working.

 **00:56:21 - 00:56:25**
Hanna-Maria Heikkinen: A product-specific question. What future do you see for scrubbers?

 **00:56:26 - 00:58:02**
Håkan Agnevall: We are very much looking at scrubber 2.0 where the next step is to go for the carbon capture. The basic technology enables customers to use heavy fuel. It's still there. There are still business cases. One way of looking forward to the decarbonization story of marine is to evolve the scrubbers to carbon capture and then still be able to use heavy fuel oils even in a regulatory context where your year-on-year needs to decrease your carbon emission footprint. We are investing in carbon capture. It's our extension of the scrubber business. We are selling and delivering scrubbers that are enabled for carbon capture and we are having our first pilot installations. We will have a commercial launch of carbon capture next year. The key thing is that it's a whole ecosystem that needs to evolve. We provide one part which is to scrub out the CO2, but then the ecosystem needs to evolve about storage. Are we going to pump it back into a well or are we going to use it for producing synthetic fuel? This whole ecosystem still needs to evolve, and it's at a very early stage I would say.

 **00:58:05 - 00:58:28**
Antti Kansanen: Thank you Håkan and Arjen. Thank you for all of the good questions. Before closing this call, I would like to remind you of a couple of upcoming Investor Relations events. We will host a CEO strategy call and also a theme call focusing on energy power plants in December. Then a pre-silent call together with Arjen in January. Thank you.

 **00:58:28 - 00:58:29**
Håkan Agnevall: Thank you very much.

 **00:58:29 - 00:58:30**
Arjen Berends: Thank you very much.