Wärtsilä Corporation

Financial Statements Bulletin

January – December 2018

Growth in order intake and net sales

Fourth quarter highlights

- Order intake increased 24% to EUR 1,874 million (1,514)
- Net sales increased 6% to EUR 1,532 million (1,441)
- Book-to-bill reached 1.22 (1.05)
- Comparable operating result decreased to EUR 226 million (241), which represents 14.7% of net sales (16.7)
  The comparable operating result includes a provision amounting to approximately EUR 70 million to cover cost overruns and project delays in two nuclear power plant back-up genset projects, as well as a capital gain of EUR 27 million from the divestment of the pumps business and the release of an EUR 21 million provision related to ongoing long-term incentive schemes.
- Earnings per share amounted to 0.25 euro (0.28)
- Cash flow from operating activities increased to EUR 349 million (276)

Highlights of the review period January–December 2018

- Order intake increased 12% to EUR 6,307 million (5,644)
- Order book at the end of the period increased 21% to EUR 6,166 million (5,100)
- Net sales increased 5% to EUR 5,174 million (4,911)
- Book-to-bill reached 1.22 (1.15)
- Comparable operating result was stable at EUR 577 million (576), which represents 11.2% of net sales (11.7)
- Earnings per share increased to 0.65 euro (0.63)
- Cash flow from operating activities increased to EUR 470 million (430)
- Dividend proposal 0.48 euro per share (0.46)

Wärtsilä's prospects

The demand for Wärtsilä’s services and solutions in 2019 is expected to be in line with the previous year. Demand by business area is anticipated to be as follows:

- Solid in Wärtsilä Energy Business. The global shift towards renewable energy sources and increasing electricity demand in the emerging markets create a need for distributed and flexible power capacity.
- Solid in Wärtsilä Marine Business. Wärtsilä’s demand outlook is supported by its extensive product and service offering and broad segment exposure, which compensates for the slow pace of recovery in vessel contracting.

Wärtsilä’s current order book for 2019 deliveries is EUR 3,696 million (3,207). Deliveries are expected to be concentrated to the latter part of the year.

Jaakko Eskola, President & CEO

“2018 was marked by positive order intake development resulting from improved demand in the marine newbuild and service markets. Environmental considerations emerged as a key theme in the marine markets, as customers sought to prepare themselves for compliance with the IMO 2020 global sulphur cap. For Wärtsilä, this trend was reflected in a significant growth in demand for exhaust gas cleaning systems. Another contributor to the increase in order intake was the high level of activity in the cruise and ferry markets, as well as our customers’ interest in long-term service agreements. Energy Solutions' order intake was, on the other hand, lower than for the previous year, mainly due to slower decision-making among our customers. However, the long-term trends of growth in the emerging markets, and the shift towards flexible capacity to accommodate renewables, remain supportive of demand going forward.

Net sales for the year developed well, thanks to higher volumes in both Marine and Energy Solutions. Despite the pick-up in Services' net sales toward the end of the year, the group sales mix favoured equipment deliveries, which, together with increased costs related to research, development and digitalisation, burdened profitability. To stay competitive in the current market environment, we must initiate actions to increase customer value and secure profitable growth. This includes increasing the focus on targeted sales activities, developing the agreements-based business, reviewing our cost structure, as well as optimising the business portfolio.

The marine and energy industries are being transformed through increasing connectivity, new business models, and the shift to a sustainable, low emissions economy. We are committed to supporting our customers by taking a leading role in this transition. Among the key milestones for the year was the introduction of new solutions for the integration of renewables and energy storage, as well as the successful testing of our automated dock-to-dock concept, and a project to develop an autonomously navigated harbour tug. The acquisition of Transas further strengthened our offering of smart solutions for the marine industry, and was important in this development work. Furthermore, our investment to build a Smart Technology Hub in Vaasa will speed up the time to market of new customer solutions.

We enter the year with a new organisation formed around two business areas that incorporate both newbuild activities and services. With this structure our primary focus is to better meet customer needs throughout the full lifecycle, and thus enhance the value we deliver. In so doing, we are supporting the progression towards our long-term target of profitable growth. In 2019, we expect market conditions to remain similar to those seen in the previous year. The pace of recovery in the marine markets is anticipated to remain slow, while the need for flexible power capacity supports the demand outlook in the energy markets. The competitive environment and geopolitical tension remain a concern. Our order book for this year's deliveries is healthy, with deliveries again expected to be concentrated to the latter part of the year. The successful implementation of planned actions to ensure sustainable savings and increased customer value will be central to the development of our profitability in 2019."

Key figures

MEUR	10-12/2018	Restated 10-12/2017	Change	1-12/2018	Restated 1-12/2017	Change
Order intake	1 874	1 514	24%	6 307	5 644	12%
Order book at the end of the period				6 166	5 100	21%
Net sales	1 532	1 441	6%	5 174	4 911	5%
Operating result[1]	206	222	-7%	543	538	1%
% of net sales	13.4	15.4		10.5	11.0	
Comparable operating result	226	241	-6%	577	576	0%
% of net sales	14.7	16.7		11.2	11.7	
Comparable adjusted EBITA	237	250	-5%	621	612	1%
% of net sales	15.4	17.4		12.0	12.5	
Profit before taxes	194	211	-8%	502	491	2%
Earnings/share, EUR	0.25	0.28		0.65	0.63	
Cash flow from operating activities	349	276		470	430	
Net interest-bearing debt at the end of the period				333	234	
Gross capital expenditure				306	255	
Gearing				0.14	0.10	

[1]Items affecting comparability in the fourth quarter of 2018 included costs related to restructuring programmes and acquisitions of EUR 20 million (19). During the review period January-December 2018 restructuring and acquisition related costs amounted to EUR 35 million (37).

As of 1 January 2018, Wärtsilä has adopted the IFRS 15 Revenue from Contracts with Customers standard by using the full retrospective method. This Financial Statements Bulletin is published according to the new standard and comparison periods for 2017, including the opening balance sheet, have been restated accordingly. Wärtsilä has also restated the 2017 figures for Marine Solutions and Services, due to an internal transfer of certain service activities. This transfer has no impact on Group totals.

The share issue without payment approved by Wärtsilä's Annual General Meeting on 8 March 2018 increased the total number of Wärtsilä shares to 591,723,390. The share related figures in the comparison periods have been adjusted to reflect the increased number of shares.

Market development

Steady development in the service markets

Service market activity improved somewhat during 2018, supported by a seasonal pick-up in demand towards the end of the year. In the marine markets, the cruise and ferry segment developed positively and the high level of interest in environmental retrofit projects, combined with improved service volume in the gas carrier segment, supported activity in the merchant segment. The demand for services in the oil & gas industry improved, while conditions in the offshore markets remained challenging. Power plant related service activities were steady across all geographical areas.

Power generation markets stable with continued interest in flexible capacity

The interest in flexible power capacity in the form of generation and storage solutions is growing. Costs of solar and wind energy continue to decrease, and it has become more economical to replace traditional baseload capacity with renewables and flexibility. Utilities are assessing how to integrate such energy sources into their generation portfolios, and are updating their long-term investment plans accordingly. Currency volatility in the emerging markets, which has resulted in slower decision-making in certain countries, eased towards the end of the year. At the same time, the continued need for reliable capacity to support economic growth and alleviate power shortages supported power plant investments.

Energy Solutions' market share

For the twelve months period ending in September, Wärtsilä's market share in the <500 MW market segment decreased to 13% (17). Global orders for natural gas and liquid fuel power plants remained stable at 20.8 GW (20.7). Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size. The data is gathered from the McCoy Power Report.

Gradual recovery in marine markets with strong demand for environmental solutions

During the year 2018, 1.237 contracts for new vessels were registered (1.037 excluding late contracting). Market conditions in the LNG carrier segment improved, with vessel contracting being driven by increasing spot rates and the trend towards more environmentally friendly fuels. Investments in containerships and bulkers were partly limited by high fuel costs and global tariff concerns. Contracting activity was solid in the cruise segment, being supported by the need for modern capacity to match the expected growth in cruise passenger numbers. Investments in the ferry segment were mainly related to fleet replacements. Fluctuating oil prices created uncertainty in the offshore industry, and overcapacity continued to limit newbuild investments. Environmental compliance emerged as a key theme in shipping during the year, and the IMO 2020 sulphur regulations led to an uptake in orders for exhaust gas cleaning systems.

In terms of compensated gross tonnage, South Korea and China remained the largest shipbuilding nations with 43% and 32% of all confirmed contracts respectively. Japan and Italy accounted for 13% and 3% of the global total.

Order intake

Fourth quarter order intake

Wärtsilä's fourth quarter order intake totalled EUR 1,874 million (1,514), an increase of 24% over the corresponding period last year. The book-to-bill ratio was 1.22 (1.05).

The order intake for the Services business increased by 24% to EUR 865 million (696). In addition to continued demand for exhaust gas cleaning retrofit projects, orders received in the marine markets included the first ever Wärtsilä 31 engine retrofit project for a fishing vessel delivering the owner, Gardar AS in Norway, major NOx and fuel savings. Wärtsilä also signed a three-year operation and maintenance agreement for a 130 MW power plant delivered to Mexico during the quarter.

Order intake for Energy Solutions increased by 18% to EUR 589 million (501). The most active markets were Asia and the Americas. Received orders included a 378 MW plant running on liquefied natural gas in El Salvador, as well as several projects in Bangladesh and Indonesia. Wärtsilä also received a strategically important order in Germany for a 90 MW combined heat and power plant featuring Wärtsilä 31SG engines.

Marine Solutions' order intake totalled EUR 419 million (316), an increase of 33% compared to the corresponding period last year. Ordering momentum continued in the cruise and ferry segment, which represented 31% of the fourth quarter order intake. The gas carrier segment accounted for 18%, while the conventional merchant segment's share was 16%. Special vessels represented 19%, the offshore segment 9% and navy 6% of the total. Other orders accounted for 1%.

Review period order intake

Wärtsilä's order intake for the review period January-December 2018 increased by 12% to EUR 6,307 million (5,644). The book-to-bill ratio was 1.22 (1.15).

Services' order intake increased by 16% to EUR 3,086 million (2,670), thanks to the strong demand for exhaust gas cleaning retrofit projects and continued demand for long-term service agreements. In the marine markets, highlights of the year included a EUR 170 million order for hybrid scrubber systems and retrofit services from a major European container shipping company, as well as the extension of Wärtsilä's service agreement with Royal Caribbean to the year 2028. Important agreements signed in the energy markets included a 10-year asset management agreement for a power station in Papua New Guinea, as well as a 10-year maintenance and operational advisory agreement with Hawaiian Electric Co.

Energy Solutions' order intake amounted to EUR 1,511 million (1,685), which represents a 10% decrease from the corresponding period last year. Asia was the most active region in terms of ordering activity, followed by the Americas. Demand was good in Bangladesh, where the government continues its efforts to increase the number of households with access to electricity, as well as in growing economies such as Indonesia. In the developed markets, Wärtsilä received major contracts in Australia and the USA to support the expansion of renewable energy. Wärtsilä also received several energy storage and grid management software orders during the year.

Marine Solutions' order intake increased by 33% to EUR 1,710 million (1,288). Several orders were received from major cruise companies, contributing to strong order activity in the cruise and ferry segment, which represented 30% of the order intake. The demand for environmental solutions continued throughout the year, largely as a result of the approaching IMO 2020 regulations. A considerable number of scrubber systems were ordered for newbuild vessels, particularly in the merchant segment, which amounted to 28% of the order intake. Other significant orders received in this segment included the supply of volatile organic compounds (VOC) recovery technology, LNG fuel gas handling systems, and the auxiliary engines for two new shuttle tankers being built for Singapore based AET Tankers, as well as solutions for shuttle tankers being built for TEEKAY. The gas carrier's share of the order intake was 14%, while special vessels represented 8%, navy 8%, and offshore 7% of the total. Other orders accounted for 5%.

Order intake by business

MEUR	10-12/2018	Restated 10-12/2017	Change	1-12/2018	Restated 1-12/2017	Change
Services	865	696	24%	3 086	2 670	16%
Energy Solutions	589	501	18%	1 511	1 685	-10%
Marine Solutions	419	316	33%	1 710	1 288	33%
Order intake, total	1 874	1 514	24%	6 307	5 644	12%

Due to the internal reorganisation of service activities, EUR 50 million was transferred from Marine Solutions to Services in the figures for the fourth quarter of 2017 and EUR 190 million for the full year.

Order intake Energy Solutions

MW	10-12/2018	10-12/2017	Change	1-12/2018	1-12/2017	Change
Oil	178	393	-55%	877	1 838	-52%
Gas	813	526	55%	1 941	1 938	0%
Renewables	-	-	-	87	-	100%
Order intake, total	992	920	8%	2 905	3 775	-23%

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea, and in the Wärtsilä Qiyao Diesel Company Ltd, CSSC Wärtsilä Engine Company Ltd. and CSSC Wärtsilä Electrical & Automation Company Ltd. joint venture companies in China totalled EUR 156 million (70) during the review period January-December 2018. The results of these companies are reported as a share of the result of associates and joint ventures.

Order book

The total order book at the end of the review period amounted to EUR 6,166 million (5,100), an increase of 21%. The Services order book totalled EUR 1,878 million (1,220), which is 54% higher than at the same time last year thanks to the increased demand for exhaust gas cleaning retrofit projects and continued interest in long-term service agreements. For service agreements, only the expected net sales for the next 24 months are included in the Services order book. The Energy Solutions order book was stable at EUR 1,871 million (1,871), while the Marine Solutions order book increased by 20% to EUR 2,417 million (2,009).

Order book by business

MEUR	31.12.2018	Restated 31.12.2017	Change
Services	1 878	1 220	54%
Energy Solutions	1 871	1 871	0%
Marine Solutions	2 417	2 009	20%
Order book, total	6 166	5 100	21%

Due to the internal reorganisation of service activities, EUR 49 million was transferred from Marine Solutions to Services in the figures at the end of December 2017.

Net sales

Wärtsilä's net sales for the fourth quarter increased by 6% to EUR 1,532 million (1,441), supported by improved volumes in Services and Marine Solutions. Net sales for the Services business increased by 4% to EUR 737 million (710). Adjusting for the effects of currency translation, Services' net sales increased by 5%. Net sales for Energy Solutions was stable at EUR 431 million (425). Marine Solutions' net sales totalled EUR 364 million (305), which is 19% higher than in the corresponding quarter last year.

Wärtsilä's net sales for January-December 2018 amounted to EUR 5,174 million (4,911), an increase of 5% over the corresponding period last year thanks largely to higher delivery volumes in the equipment businesses. Net sales from the Services business was solid at EUR 2,426 million (2,407). Adjusting for the effects of currency translation, Services' net sales increased by 4%. Net sales for Energy Solutions totalled EUR 1,517 million (1,401), an increase of 8%. Marine Solutions' net sales increased by 12% to EUR 1,232 million (1,104). Of the total net sales, Services accounted for 47%, Energy Solutions for 29%, and Marine Solutions for 24%.

Of Wärtsilä's net sales for January-December 2018, approximately 67% was EUR denominated, 21% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	10-12/2018	Restated 10-12/2017	Change	1-12/2018	Restated 1-12/2017	Change
Services	737	710	4%	2 426	2 407	1%
Energy Solutions	431	425	1%	1 517	1 401	8%
Marine Solutions	364	305	19%	1 232	1 104	12%
Net sales, total	1 532	1 441	6%	5 174	4 911	5%

Due to the internal reorganisation of service activities, EUR 55 million was transferred from Marine Solutions to Services in the figures for the fourth quarter of 2017 and EUR 177 million for the full year.

Operating result and profitability

The fourth quarter operating result was EUR 206 million (222), which represents 13.4% of net sales (15.4). The comparable operating result was EUR 226 million (241), or 14.7% of net sales (16.7). Items affecting comparability included costs related to restructuring programs of EUR 20 million (18). In addition, items affecting comparability in the comparison period included EUR 1 million of acquisition related costs. The comparable adjusted EBITA was EUR 237 million (250), or 15.4% of net sales (17.4). Purchase price allocation amortisation amounted to EUR 11 million (10).

The operating result for the review period January-December 2018 was EUR 543 million (538), which represents 10.5% of net sales (11.0). The group sales mix favoured equipment deliveries, which, together with increased costs related to research, development and digitalisation, burdened profitability. The comparable operating result was EUR 577 million (576), or 11.2% of net sales (11.7). Items affecting comparability amounted to EUR 35 million (37), of which EUR 29 million (36) was related to restructuring programmes and EUR 6 million (2) to acquisitions and other costs. The comparable adjusted EBITA was EUR 621 million (612), or 12.0% of net sales (12.5). Purchase price allocation amortisation amounted to EUR 43 million (36).

Profit figures for the review period include a provision amounting to approximately EUR 70 million to cover cost overruns and project delays in two nuclear power plant back-up genset projects. The need for additional provisions was identified during a detailed review of the company's nuclear power plant projects, following Wärtsilä's decision to cease providing new equipment to this segment. The negative impact to the result was partially offset by a capital gain of EUR 27 million from the divestment of the pumps business and the release of an EUR 21 million provision related to ongoing long-term incentive schemes. Wärtsilä's three-year long-term incentive schemes are tied to the development of the company's share price, and they apply to approximately 100 company executives.

Financial items for the review period January-December 2018 amounted to EUR -40 million (-47). Net interest totalled EUR -7 million (-8). Profit before taxes amounted to EUR 502 million (491). Taxes amounted to EUR 116 million (117), implying an effective tax rate of 23.1% (23.7). The profit for the financial period amounted to EUR 386 million (375). Earnings per share were 0.65 euro (0.63) and the equity per share was 4.09 euro (3.97). The return on investments (ROI) was 18.1% (18.5), while return on equity (ROE) was 16.1% (16.0).

Measures of profit and items affecting comparability

MEUR	10-12/2018	Restated 10-12/2017	1-12/2018	Restated 1-12/2017
Comparable adjusted EBITA	237	250	621	612
Purchase price allocation amortisation	-11	-10	-43	-36
Comparable operating result	226	241	577	576
Items affecting comparability	-20	-19	-35	-37
Operating result	206	222	543	538

Balance sheet, financing and cash flow

Wärtsilä's fourth quarter cash flow from operating activities amounted to EUR 349 million (276). For January-December 2018, the operating cash flow totalled EUR 470 million (430). At the end of the review period, working capital totalled EUR 581 million (563), a decrease of EUR 201 million from the end of the previous quarter. Advances received at the end of the period totalled EUR 584 million (522). At the end of the previous quarter, advances totalled EUR 557 million. Cash and cash equivalents at the end of the period amounted to EUR 487 million (379). Unutilised Committed Credit Facilities totalled EUR 640 million (765).

Wärtsilä had interest-bearing debt totalling EUR 823 million (619) at the end of December 2018. The total amount of short-term debt maturing within the next 12 months was EUR 74 million. Long-term loans amounted to EUR 748 million. Net interest-bearing debt totalled EUR 333 million (234) and gearing was 0.14 (0.10).

Liquidity preparedness

MEUR	31.12.2018	31.12.2017
Cash and cash equivalents	487	379
Unutilised committed credit facilities	640	765
Liquidity preparedness	1 127	1 144
% of net sales (rolling 12 months)	22	23
Less Commercial Papers	-	-
Liquidity preparedness excluding Commercial Papers	1 127	1 144
% of net sales (rolling 12 months)	22	23

On 31 December 2018, the average maturity of the total loan portfolio was 48 months and the average maturity of the long-term debt was 49 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant, and equipment amounted to EUR 110 million (64) during the review period January-December 2018. Capital expenditure related to acquisitions and investments in joint ventures totalled EUR 196 million (191). Depreciation, amortisation, and impairment for the review period amounted to EUR 130 million (134).

In 2019, capital expenditure related to intangible assets and property, plant, and equipment is expected to be below depreciation and amortisation.

Strategy

Wärtsilä's purpose is to enable sustainable societies with smart technology. The demand for clean and flexible energy, and the need for efficient and safe transportation are increasingly affecting the way that customers operate. This forms the basis for Wärtsilä's Smart Marine and Smart Energy visions. With an integrated portfolio of services, systems and products that covers customer needs across the full lifecycle, Wärtsilä is well positioned to respond to the demand for energy efficient and innovative solutions. Strong emphasis is given to optimising installation performance, using data analytics and artificial intelligence to support customer business decisions. Wärtsilä's digital transformation will provide enhanced customer value through an increased focus on collaboration and knowledge sharing. A strong presence in key markets and a superior global service network support the company's profitable growth ambitions.

With its flexible production and supply chain management, Wärtsilä constantly seeks new ways to maintain high quality and cost efficiency - often in co-operation with customers and leading industrial partners. The investments in R&D and the focus on digitalisation create a strong foundation for securing and strengthening the company's position at the forefront of market innovation. This innovative culture, together with a constant emphasis on safety, diversity, and high ethical standards, attracts skilled and committed people and creates the basis for a high performing organisation. The implementation of operational excellence ensures that Wärtsilä is easy to do business with, and drives increased productivity and efficiencies for its customers.

Acquisitions and divestments

In February, Wärtsilä announced the expansion of its QuantiServ service offering with the acquisition of Lock-n-Stitch Inc., an American engineering company specialised in cast iron repairs. The acquisition strengthens Wärtsilä's service portfolio for customers operating multiple brands. Wärtsilä also completed the acquisition of Trident BV, a Netherlands based company specialised in underwater ship maintenance, inspection, and repair services. This acquisition enables Wärtsilä to become a leading global operator in the underwater services market. Further supporting the growth of Wärtsilä's underwater services was the acquisition in October of Burriel Navarro, S.L, a company operating in underwater services in the main ports of Spain.

In March, Wärtsilä announced the acquisition of Transas, a global market leader in marine navigation solutions, professional training and simulation services, ship traffic control, as well as in monitoring and support. The acquisition represents a considerable step forward towards the realisation of Wärtsilä's Smart Marine vision, whereby smart vessels connect with smart ports and beyond to deliver three fundamental industry benefits: maximising the use of resources and operational efficiency, minimising environmental impact and risk, and achieving the highest levels of safety and security. Valued at EUR 210 million (enterprise value), the transaction closed in May 2018.

In October, Wärtsilä divested its pumps business to Solix Group, a Scandinavian investment company with offices in Copenhagen, Denmark and Malmö, Sweden. Wärtsilä Pumps has belonged to the Wärtsilä Marine Solutions organisation and became part of the company along with the acquisition of Hamworthy in 2012. The divestment enables Wärtsilä to devote greater focus to its Smart Marine vision.

Strategic projects, partnerships, and joint ventures

In January, Wärtsilä and Schneider Electric signed an agreement to collaborate on data centre projects. The objective of the agreement is to work together to open markets for innovative data centre energy optimisation solutions, focusing on hyperscale projects having an electrical load of at least a 10 MW. Wärtsilä will provide the power generation plants, whereas Schneider Electric will focus on energy distribution optimisation.

In April, Wärtsilä announced a partnership with the cyber security company Templar Executives to establish a world-class cyber academy in Singapore. The academy will offer courses designed to support and enhance the collective cyber maturity of the wider shipping community, notably operators and owners. Wärtsilä has also partnered with the Maritime and Port Authority of Singapore to promote maritime innovation and R&D. The partnership covers four different streams: digital acceleration, cyber-physical security, intelligent vessels, and port operations.

In June, Wärtsilä and Hyundai Motor Group signed a technology and commercial partnership contract designed to utilise second-life electric vehicle (EV) batteries for the growing energy storage market. The partnership will target advanced energy storage products and platforms that maximise Hyundai's second-life EV batteries to be commercialised via Wärtsilä's existing customer and channel networks throughout 178 countries globally.

In August, Wärtsilä announced that it will build a new centre of research, product development and production, the Smart Technology Hub, in Vaasa, Finland. The hub will be unique in its field, enabling more agile, more efficient testing and product development of solutions for the maritime, oil and gas industries, as well as new energy systems. As a part of the project, Wärtsilä will invest EUR 83 million in modern testing and production technology for the hub. The majority of these costs will materialise in 2020. The total investment in the Smart Technology Hub will be in the region of EUR 200 million, consisting of office and factory buildings, logistics and infrastructure.

In November, Wärtsilä, Finland's Lappeenranta University of Technology (LUT), and Nebraska Public Power District (NPPD), the largest electricity utility in the state of Nebraska, signed a Memorandum of Understanding (MoU) for the study of the development of a business case for the use of alternative fuels with Wärtsilä generating sets. The aim of the business case is to achieve a technically and commercially viable solution, allowing to proceed with an industrial scale pilot project.

In December, Wärtsilä introduced its Innovation Community Initiative together with Tieto, St1, Fortum and Demos Helsinki, with the aim of accelerating the global energy sector's transition towards more sustainable energy generation. The community will provide an arena to study, improve, experiment, validate and bring to market new innovations that challenge current energy system paradigms.

Research and development, product launches

Research and development expenses totalled EUR 165 million (141) during the review period January-December 2018, which represents 3.2% of net sales (2.9). The key focus areas included digitalisation, efficiency improvement, fuel flexibility, and the reduction of environmental impact.

In the marine markets, Wärtsilä completed a series of test procedures related to its automated dock-to-dock solution during the year. The auto-docking tests culminated in autonomous operation being utilised uninterrupted for the entire route of the Norwegian operator Norled's 83-metre long ferry 'Folgefonn'. Developments in the area of environmental solutions included type approval being received for the Aquarius EC ballast water management system by the United States Coastguard (USCG), as well as the completion of all testing processes required for USCG approval for the Aquarius UV ballast water management system. In October, Wärtsilä inaugurated its new Hybrid Centre. The facility represents an innovative concept that will enable further development and deployment of the Wärtsilä HY hybrid power module, while at the same time providing customers with the possibility to experience the benefits of the Wärtsilä HY. It will also be used to train crews and provide hands-on experience for technicians. Products launched during the year included the new Nacos Platinum solid state S-Band radar system, as well as the first Wärtsilä-branded high-speed engine. The Wärtsilä 14 is a compact engine designed to fit requirements for limited space and weight, lower capital expense, compliance with current and future global emission regulations, and to provide customers with improved efficiency, safety, and environmental sustainability.

In the energy markets, June saw the launch of Wärtsilä's new solar PV and storage hybrid solution. The Wärtsilä Hybrid Solar integrates engines, solar PV generation and storage to deliver a solution that is climate-friendly, with increased resilience and efficiencies, and that can be supported by a power producer's existing grid infrastructure. A critical component in maximising the value of this hybrid solution is the GEMS software and controls platform developed by Greensmith Energy, a Wärtsilä company. In September, GridSolv, an advanced, modularised storage solution designed to offer maximum flexibility and speed of deployment, was introduced. The solution architecture supports both standalone deployments, as well as hybrid solutions with thermal or renewable generation assets. The latest generation of Wärtsilä's advanced energy management software platform, the GEMS 6, was released in December. GEMS is deployed across more than 70 grid-scale systems in nine countries, and is integrated with a multitude of thermal and renewable generation assets, as well as load and weather forecasting data.

During the year, Wärtsilä, together with Templar Executive, introduced MCERT, an international cyber intelligence and incident support platform enhancing cyber resilience for the entire maritime ecosystem. It provides international intelligence feeds, advice and support, including real-time assistance to members on cyber attacks and incidents, and a cyber security reporting portal for its members. The MCERT operates from the Wärtsilä Acceleration Centre facilities in Singapore, which was launched during the year.

Personnel

Wärtsilä had 19,294 (18,065) employees at the end of December 2018. On average, the number of personnel for January-December 2018 totalled 18,899 (17,866). The increase in the number of employees relates mainly to the acquisition of Transas. Services employed 11,322 (11,234) people, Energy Solutions 1,171 (1,038), and Marine Solutions 5,995 (5,235).

Of Wärtsilä's total number of employees, 20% (20) were located in Finland and 40% (38) elsewhere in Europe. Personnel employed in Asia represented 24% (27) of the total, personnel in the Americas 11% (11), and personnel in other countries 4% (4).

Changes in management

The following appointments have been made to the Board of Management of Wärtsilä Corporation during the review period January-December 2018:

Mr Marco Wirén (52), M.Sc. (Econ.), was appointed President of Energy Solutions, Executive Vice President, and a member of the Board of Management of Wärtsilä Corporation, effective from 1 October 2018. In this position, he is responsible for Wärtsilä's Energy Solutions business globally, and will report to President & CEO Jaakko Eskola. He succeeds Mr Javier Cavada Camino, who left Wärtsilä to become President & CEO of the London-based energy storage company, Highview Power.

Mr Arjen Berends (50), MBA, was appointed Chief Financial Officer, Executive Vice President and a member of the Board of Management of Wärtsilä Corporation, effective from 1 October 2018. He reports to President & CEO Jaakko Eskola.

Wärtsilä's new organisational structure, formed around two business areas that incorporate both newbuild activities and services, became operational on 1 January 2019. Roger Holm, previously President of Marine Solutions, was appointed to lead Wärtsilä Marine Business and President of Energy Solutions Marco Wirén was appointed to lead Wärtsilä Energy Business. Mr Pierpaolo Barbone (61), President of Services, EVP and Deputy to the CEO, left Wärtsilä at the end of 2018 to pursue opportunities outside the company.

Sustainable development

Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce exhaust emissions and the use of natural resources, and to support its customers in preparing for new regulatory requirements. Wärtsilä's R&D efforts continue to focus on the development of advanced environmental technologies and solutions. The company is committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment, and anti-corruption.

Personnel health and safety is a priority for Wärtsilä. Wärtsilä's fourth global safety day was arranged in March under the theme 'On the Road'. The aim was to raise awareness of risks and to support employees in making safer choices when travelling.

In June, Wärtsilä launched a new vision for the energy market – a 100% renewable energy future. Maximising renewable generation enables the development of a more sustainable and modern energy system for future generations. As an energy system integrator, and through its offering of flexible power generation and storage solutions and lifecycle services, Wärtsilä is leading this transition.

In September, Wärtsilä announced 'An Oceanic Awakening' – a global initiative focused on the radical transformation of the world's marine and energy industries into one supremely efficient, ecologically sound, and digitally connected ecosystem.

Wärtsilä's share is included in several sustainability indices, including Dow Jones Sustainability Indices (DJSI), FTSE4Good Index Series, Ethibel Sustainability Index (ESI) Excellence Europe, MSCI ACWI ESG Leaders Index, OMX GES Sustainability Nordic Index and STOXX Global ESG Leaders Index.

Shares and shareholders

During January-December 2018, the volume of trades on Nasdaq Helsinki was 278,938,159 shares, equivalent to a turnover of EUR 4,754 million. Wärtsilä's shares are also traded on alternative exchanges, such as Turquoise, BATS CXE, and BATS BXE. The total trading volume on these alternative exchanges was 226,474,065 shares.

Shares on Nasdaq Helsinki

31.12.2018	Number of shares and votes	Number of shares traded 1-12/2018
WRT1V	591 723 390	278 938 159

1.1. - 31.12.2018	High	Low	Average [1]	Close
Share price	19.88	12.75	17.04	13.90

[1] Trade-weighted average price

	31.12.2018	31.12.2017
Market capitalisation, EUR million	8 222	10 375
Foreign shareholders, %	54.5	55.9

Flagging notifications

During the review period January-December 2018 Wärtsilä was informed of the following changes in ownership:

Release date	Transaction date	Shareholder	Threshold	Direct holding, %	Total holding, %
26.2.2018	23.2.2018	BlackRock, Inc.	Above 10%	9.88	10.04
28.2.2018	27.2.2018	BlackRock Investment Management (UK) Limited	Below 5%	4.85	6.10
2.3.2018	1.3.2018	BlackRock, Inc.	Below 10%	7.13	9.98
8.3.2018	6.3.2018	BlackRock, Inc.	Above 10%	6.64	10.01
9.3.2018	8.3.2018	BlackRock, Inc.	Below 10%	6.60	9.97
14.3.2018	13.3.2018	BlackRock, Inc.	Above 10%	6.69	10.04
19.3.2018	16.3.2018	BlackRock, Inc.	Below 10%	8.22	9.66
22.3.2018	21.3.2018	BlackRock Investment Management (UK) Limited	Above 5%	5.07	6.03
6.9.2018	5.9.2018	BlackRock Investment Management (UK) Limited	Below 5%	4.75	5.78
28.9.2018	27.9.2018	BlackRock Investment Management (UK) Limited	Above 5%	5.03	5.14
2.10.2018	1.10.2018	BlackRock Investment Management (UK) Limited	Below 5%	4.9999	5.11
3.10.2018	2.10.2018	BlackRock Investment Management (UK) Limited	Above 5%	5.04	5.16
5.10.2018	4.10.2018	BlackRock Investment Management (UK) Limited	Below 5%	4.99	5.11
8.10.2018	5.10.2018	BlackRock Investment Management (UK) Limited	Above 5%	5.04	5.11
16.10.2018	12.10.2018	BlackRock Investment Management (UK) Limited	Below 5%	4.98	5.04
18.10.2018	16.10.2018	BlackRock Investment Management (UK) Limited	Below 5%	-	-

23.10.2018	19.10.2018	BlackRock Investment Management (UK) Limited	Above 5%	4.98	5.01
24.10.2018	22.10.2018	BlackRock Investment Management (UK) Limited	Above 5%	5.005	5.029
25.10.2018	23.10.2018	BlackRock Investment Management (UK) Limited	Below 5%	-	-

Decisions taken by the Annual General Meeting

Wärtsilä Corporation's Annual General Meeting, held on 8 March 2018, approved the financial statements and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year 2017.

The Annual General Meeting decided that the Board of Directors shall have eight members. The following were elected to the Board: Maarit Aarni-Sirviö, Kaj-Gustaf Bergh, Karin Falk, Johan Forssell, Tom Johnstone, Mikael Lilius, Risto Murto and Markus Rauramo.

The audit firm PricewaterhouseCoopers Oy was elected as the company's auditor for the year 2018.

Dividend distribution

The Annual General Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.38 per share in two instalments. The first instalment of EUR 0.69 per share was paid on 19 March 2018. In accordance with the approved share issue without payment (share split), the second instalment was divided between one old and two new shares so that EUR 0.23 was paid on each share. The second instalment was paid on 27 September 2018. Adjusted to reflect the increased number of shares resulting from the share issue, the dividend amounted to EUR 0.46 per share.

Share issue without payment (share split)

The Annual General Meeting approved the Board of Directors' proposal to issue new shares to the shareholders without payment in proportion to their holdings so that two new shares are issued for each share. Thereby, a total of 394,482,260 new shares were issued. The new shares were registered in the trade register on 12 March 2018.

Authorisation to repurchase and distribute the Company's own shares

The Board of Directors was authorised to resolve to repurchase a maximum of 57,000,000 of the Company's own shares. The authorisation to repurchase the Company's own shares shall be valid until the close of the next Annual General Meeting, however no longer than for 18 months from the authorisation of the shareholders' meeting.

The Board of Directors was authorised to resolve to distribute a maximum of 57,000,000 of the Company's own shares. The authorisation for the Board of Directors to distribute the Company's own shares shall be valid for three years from the authorisation of the shareholders' meeting and it cancels the authorisation given by the General Meeting on 2 March 2017. The Board of Directors was authorised to resolve to whom and in which order the shares will be distributed. The Board of Directors was authorised to decide on the repurchase or distribution of the Company's own shares otherwise than in proportion to the existing pre-emptive right of the shareholders to purchase the Company's own shares.

Organisation of the Board of Directors

The Board of Directors of Wärtsilä elected Mikael Lilius as its chairman and Tom Johnstone as the deputy chairman. The Board decided to establish an Audit Committee, a Nomination Committee and a Remuneration Committee. The Board appointed from among its members the following members to the Committees:

Audit Committee: Chairman Markus Rauramo, Maarit Aarni-Sirviö, Risto Murto.

Nomination Committee: Chairman Mikael Lilius, Kaj-Gustaf Bergh, Johan Forssell, Risto Murto.

Remuneration Committee: Chairman Mikael Lilius, Maarit Aarni-Sirviö, Tom Johnstone.

Board of Director's dividend proposal

The Board of Directors proposes that a dividend of 0.48 euro per share be paid for the financial year 2018. The parent company's distributable funds total 1,037,972,039.58 euro, which includes 308,072,530.42 euro in net profit for the year. There are 591,723,390 shares with dividend rights. The dividend will be paid in two instalments.

The first instalment of 0.24 euro per share will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date 11 March 2019. The payment date proposed by the Board for this instalment is 18 March 2019.

The second instalment of 0.24 euro per share will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the dividend record date, which, together with the payment date, shall be decided by the Board of Directors in its meeting scheduled for 18 September 2019. The dividend record date for the second instalment as per the current rules of the Finnish book-entry system would be 20 September 2019 and the dividend payment date 27 September 2019.

The Annual Report 2018, including the financial review and the review by the Board of Directors, will be available on the company website www.wartsila.com and at www.wartsilareports.com during week 7.

Risks and business uncertainties

In the Services business, slow economic growth and political instability in specific regions are the main risks for demand development. Weakening currencies in certain countries may affect customers' purchasing power. The challenging conditions in the traditional merchant and offshore markets continue to create uncertainty.

In the power generation markets, fragile economic growth and slow decision-making continue to be the primary risks for demand development. Geopolitical tensions and trade barriers implications, as well as significant currency fluctuations, can result in investment decisions being postponed in certain countries. Price pressure resulting from the prevailing competitive environment remains a risk.

Global trade tensions and macro-economic uncertainty continues to be a concern in the marine industry. The offshore segment remains challenging due to overcapacity and volatile oil price development. Climate change requires increasing efforts to reduce emissions within the shipping industry. However, the enforcement of environmental regulations and potential new regulations are a source of uncertainty. Effective cyber risk management is increasingly important as cyber security has become vital to the operation and management of many safety, security, and protection systems in the shipping environment.

Wärtsilä emphasises a holistic approach to the management of cyber and physical security risks in its internal operations and customer offerings. The company's cyber security team carries out its operational, governance and compliance activities in line with the IEC62443 and ISO 27k protocols. Such activities include cyber assurance, risk management, detection, a secure software development lifecycle, training, endpoint protection, network security, and cyber advisory services. Wärtsilä has implemented new procedures for storing, processing, and using data in the company's systems so as to comply with the General Data Protection Regulation. Cyber security was taken into consideration in this implementation.

The Group is a defendant in a number of legal cases that have arisen out of, or are incidental to, the ordinary course of its business. These lawsuits mainly concern issues such as contractual and other liability, labour relations, property damage, and regulatory matters. The Group receives from time to time claims of different amounts and with varying degrees of substantiation. There is currently one unusually sizeable claim. It is the Group's policy to provide for amounts related to the claims, as well as for litigation and arbitration matters, when an unfavourable outcome is probable, and the amount of the loss can be reasonably estimated.

The annual report contains a more detailed description of Wärtsilä's risks and risk management.

Events after the review period

On 30 January 2019, Wärtsilä announced plans to realign its operations and resources to secure future profitability and competitiveness. The Group-wide programme emphasises sustainable savings and actions that increase customer value. The planned actions include an increased focus on targeted sales activities, developing the agreements-based and "as-a-service" business, reviewing the cost structure, as well as optimising the business portfolio and organisation. The program is expected to lead to a reduction of approximately 1,200 employees globally. The reductions will impact all businesses and support functions. With these actions Wärtsilä seeks annual savings of EUR 100 million. Savings are expected to materialise gradually during the second half of 2019, with full effect by the end of 2020. The costs related to the restructuring measures are expected to be EUR 75 million.

Wärtsilä Financial Statements Bulletin 2018

This financial statements bulletin is prepared in accordance with IAS 34 (Interim Financial Reporting) using the same accounting policies and methods of computation as in the annual financial statements for 2017, except for the IFRS amendments stated below. All figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

Use of estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent liabilities and the recognition of income and expenses in the statement of income. Although the estimates are based on the management's best knowledge of current events and actions, actual results may differ from the estimates.

IFRS amendments

In 2018, the Group adopted the following new and amended standards issued by the IASB.

IFRS 15 Revenue from Contracts with Customers and related amendments to the standard. The standard establishes a new five-step model that will apply to revenue arising from contracts with customers. IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. In accordance with the standard, revenue is recognised as control is passed either over time or at a point in time. The Group has adopted the new standard on the required effective date using the full retrospective method. The disclosures related to revenue are presented according to the new standard.

Adoption of IFRS 15 led to changes in revenue recognition in long-term service and maintenance agreements and oil and gas business related construction contracts. In long-term service and maintenance agreements the revenue changed from an output method (percentage of completion based on the proportion of the contracted services performed) to input method (percentage of completion based on cost incurred). In construction contracts related to gas solutions, the revenue recognition method changed from an output method (percentage of completion based on the progress measured by surveys of work performed) to an input method (percentage of completion based on cost incurred). The combined restatement impact in equity was EUR -13 million. The restatement impact on 2017 earnings per share was -0.04 EUR.

As IFRS 15 was adopted using the full retrospective method, the impact of the restatement is presented in the below table also for the opening balance of financial period 2017:

Condensed statement of financial position

MEUR	Restated 1.1.2017	Restated 31.12.2017	31.12.2018
Non-current assets			
Intangible assets	1 434	1 577	1 747
Property, plant and equipment	405	349	324
Investments in associates and joint ventures	84	83	66
Other investments	15	13	16
Deferred tax assets	144	131	129
Other receivables	38	132	86
Total non-current assets	2 119	2 285	2 369
Current assets			
Inventories	1 042	1 051	1 165
Other receivables	1 775	1 933	2 038

Cash and cash equivalents	472	379	487
Total current assets	3 289	3 363	3 690
Total assets	5 408	5 648	6 059
Equity			
Share capital	336	336	336
Other equity	1 936	2 016	2 082
Total equity attributable to equity holders of the parent company	2 272	2 352	2 418
Non-controlling interests	34	24	14
Total equity	2 305	2 376	2 432
Non-current liabilities			
Interest-bearing debt	520	517	748
Deferred tax liabilities	93	102	99
Other liabilities	270	270	245
Total non-current liabilities	884	889	1 092
Current liabilities			
Interest-bearing debt	108	102	74
Other liabilities	2 111	2 281	2 461
Total current liabilities	2 219	2 383	2 535
Total liabilities	3 103	3 272	3 627
Total equity and liabilities	5 408	5 648	6 059

Amendments to **IFRS 2 Share-based Payment** - Clarification and Measurement of Share-based Payment Transactions (effective for financial periods beginning on or after 1 January 2018). These amendments are intended to eliminate the diversity in the classification and measurement of particular share-based payment transactions (accounting for cash-settled share-based payment transactions that include a performance condition, share-based payments in which the manner of settlement is contingent on future events, share-based payments settled net of tax withholdings and modification of share-based payment transactions from cash-settled to equity-settled). The amendments had no impact on the consolidated financial statements.

Amendments to **IFRS 4 Insurance Contracts** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial periods beginning on or after 1 January 2018): Applying IFRS 9 Financial Instruments with IFRS 4. The amendments bring certainty to insurers on whether, and how, they should apply IFRS 9 before they apply the forthcoming insurance contracts standard. The amendments had no impact on the consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for financial periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions IAS 21. The guidance aims to reduce diversity in practice. The interpretation had no impact on the consolidated financial statements.

Adoption of new and updated IFRS standards

In 2019, the Group will adopt the following new standard issued by the IASB.

New **IFRS 16 Leases** (effective for financial periods beginning on or after 1 January 2019): IFRS 16 addresses the definition, recognition and measurement of lease agreements and notes related to leases. The standard replaces IAS 17 Leases.

IFRS 16 changes the accounting for operating leases by requiring companies to recognise lease assets and lease liabilities in the balance sheet, initially measured at the present value of unavoidable future lease payments, and to depreciate those assets and interest on lease liabilities in the statement of income over the lease term. Whether a contract contains a lease is determined on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

When adapting IFRS 16, the portion of the lease payments currently included in other operating expenses in the consolidated statement of income will be transferred to depreciations and amortisations and the interest portion to financial expenses. The standard will affect primarily the accounting for the Group´s operating leases increasing the balance sheet totals and some changes in key figures. At the reporting date, the Group has operating lease commitments of EUR 284 million. Based on the Group´s estimation, the net present value of the capitalised lease liability amounts to EUR 212 million according to the following bridge calculation:

MEUR	
Nominal amount of rents according to leasing contracts on 31 December 2018	284
Variable lease payments	-23
Residual value	-3
Expenses relating to short-term leases and leases of low-value assets	-15
Leases not yet commenced to which Wärtsilä is committed	-3
Nominal amount of lease liability on 1 January 2019	240
Present value	212

The Group will apply the two available exceptions, which relate to either short-term contracts in which the lease term is less than 12 months or less, or low-value assets, which are expensed to other operating expenses. The Group will apply the modified approach in transition.

Amendments to **IAS 28 Long-term Interests in Associates and Joint Ventures*** (effective for financial periods beginning on or after 1 January 2019). The amendments clarify that IFRS 9 Financial Instruments is applied to the accounting for long-term interest in an associate or joint venture to which the equity method is not applied. The amendments will have no impact on the consolidated financial statements.

Amendment to **IAS 19 Plan Amendment, Curtailment or Settlement*** (effective for financial periods beginning on or after 1 January 2019). This amendment clarifies the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment specifies that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to use updated assumptions to determine the current service cost and net interest. The interpretation would have an impact on the consolidated financial statements in the case of curtailments or settlements.

Amendments to **IFRS 9 Prepayment Features with Negative Compensation** (effective for financial periods beginning on or after 1 January 2019). Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Without the amendment these financial assets would have had to be measured at FVPL. The amendments will have no impact on the consolidated financial statements.

IFRIC 23 Uncertainty over income tax treatment (effective for financial periods beginning on or after 1 January 2019). This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The key matter is whether the tax authority will accept the chosen tax treatment. When considering this, the assumption is that tax authorities will have full knowledge of all relevant information in assessing the proposed tax treatment. The interpretation will not have any significant impact on the consolidated financial statements.

Annual improvements to IFRSs 2015-2017 cycle*: Annual improvements include smaller amendments to four standards. The improvements are not expected to have an impact on the consolidated financial statement.

The Group expects to adopt later than 2019 the following new standard to the existing standards already issued by the IASB.

IFRS 17 Insurance contracts* (effective from financial periods beginning on or after 1 January 2021). IFRS 17 applies to all types of insurance contracts (direct insurance and re-insurance) regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective is to provide a consistent accounting model for insurance contracts. The impact is under review within the Group.

* Not yet endorsed for use by the European Union as of 31 December 2018.

Internal transfer of service activities

Wärtsilä has decided to transfer certain service activities from Marine Solutions to Services as of 1 January 2018. The aim is to strengthen the focus on the development of these activities. The comparison periods for 2017 have been restated, resulting in EUR 177 million in net sales, EUR 190 million in order intake, and EUR 49 million in the order book being transferred from Marine Solutions to Services for the financial period 2017. This transfer has no impact on Group totals.

The annual figures in this financial statements bulletin are audited.

Consolidated statement of income

MEUR	2018	Restated 2017	10–12 /2018	Restated 10–12 /2017
Net sales	5 174	4 911	1 532	1 441
Change in inventories of finished goods & work in progress	64	28	-111	-66
Work performed by the Group and capitalised	14	12	5	10
Other operating income	80	60	53	22
Material and services	-2 852	-2 561	-776	-684
Employee benefit expenses	-1 175	-1 214	-273	-309
Depreciation, amortisation and impairment	-130	-134	-37	-42
Other operating expenses	-648	-577	-190	-156
Share of result of associates and joint ventures	13	13	3	6
Operating result	543	538	206	222
Financial income	24	12	12	3
Financial expenses	-65	-59	-24	-13
Profit before taxes	502	491	194	211
Income taxes	-116	-117	-41	-47
Profit for the financial period	386	375	153	165
Attributable to:				
equity holders of the parent company	386	375	152	166
non-controlling interests	1	-1	1	-2
	386	375	153	165
Earnings per share attributable to equity holders of the parent company (basic and diluted):				
Earnings per share (EPS), basic and diluted, EUR	0.65	0.63	0.25	0.28

Earnings per share for comparison periods have been restated to reflect the increased number of shares.

Consolidated statement of comprehensive income

MEUR	2018	Restated 2017	10–12 /2018	Restated 10–12 /2017
Profit for the financial period	386	375	153	165
Other comprehensive income, net of taxes:				
Items that will not be reclassified to the statement of income				
Remeasurements of defined benefit liabilities	-3	7	-4	5
Total items that will not be reclassified to the statement of income	-4	7	-4	5
Items that may be reclassified subsequently to the statement of income				
Exchange rate differences on translating foreign operations				
for equity holders of the parent company	-23	-73	-22	-15
for non-controlling interests	-1	-2		
Associates and joint ventures, share of other comprehensive income	-1	-1		3
Cash flow hedges			-21	-1
measured at fair value	-17	1		
transferred to the statement of income	-8	36		
Tax on items that may be reclassified to the statement of income				
Cash flow hedges			6	-2
measured at fair value	3	-1		
transferred to the statement of income	2	-8		
Total items that may be reclassified to the statement of income	-45	-48	-37	-15
Other comprehensive income for the financial period, net of taxes	-48	-41	-41	-9
Total comprehensive income for the financial period	338	334	112	156
Total comprehensive income attributable to:				
equity holders of the parent company	338	337	111	158
non-controlling interests		-3	1	-1
	338	334	112	156

Consolidated statement of financial position

MEUR	31.12.2018	Restated 31.12.2017
Assets		
Non-current assets		
Goodwill	1 355	1 237
Intangible assets	392	339
Property, plant and equipment	324	349
Investments in associates and joint ventures	66	83
Other investments	16	13
Interest-bearing investments	3	5
Deferred tax assets	129	131
Trade receivables	49	109
Other receivables	34	18
Total non-current assets	2 369	2 285
Current assets		
Inventories	1 165	1 051
Trade receivables	1 222	1 307
Current tax receivables	31	53
Contract assets	557	351
Other receivables	228	221
Cash and cash equivalents	487	379
Total current assets	3 690	3 363
Total assets	6 059	5 648
Equity and liabilities		
Equity		
Share capital	336	336
Share premium	61	61
Translation differences	-155	-132
Fair value reserve	-31	-10
Remeasurements of defined benefit liabilities	-39	-38
Retained earnings	2 245	2 135
Total equity attributable to equity holders of the parent company	2 418	2 352
Non-controlling interests	14	24
Total equity	2 432	2 376

Liabilities		
Non-current liabilities		
Interest-bearing debt	748	517
Deferred tax liabilities	99	102
Pension obligations	149	154
Provisions	54	52
Contract liabilities	41	64
Other liabilities	1	1
Total non-current liabilities	1 092	889
Current liabilities		
Interest-bearing debt	74	102
Provisions	251	209
Trade payables	596	539
Current tax liabilities	81	83
Contract liabilities	888	724
Other liabilities	645	726
Total current liabilities	2 535	2 383
Total liabilities	3 627	3 272
Total equity and liabilities	6 059	5 648

Consolidated statement of cash flows

MEUR	2018	2017	10–12 /2018	10–12 /2017
Cash flow from operating activities:				
Profit for the financial period	386	375	153	165
Adjustments for:				
Depreciation, amortisation and impairment	130	134	37	42
Financial income and expenses	39	47	12	10
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-26	-17	-22	-7
Share of result of associates and joint ventures	-13	-13	-3	-6
Income taxes	116	117	41	47
Other non-cash flow adjustment	-7		-7	
Cash flow before changes in working capital	625	643	211	251
Changes in working capital:				
Receivables, non-interest-bearing, increase (-) / decrease (+)	-22	-284	-103	-217
Inventories, increase (-) / decrease (+)	-130	-27	91	72
Liabilities, non-interest-bearing, increase (+) / decrease (-)	117	223	167	207
Changes in working capital	-35	-87	155	62

Cash flow from operating activities before financial items and taxes	589	555	366	312
Financial items and taxes:				
Interest income	6	1	2	2
Interest expenses	-14	-6	-4	1
Other financial income and expenses	-7	-2	-10	-3
Income taxes paid	-104	-119	-5	-37
Financial items and paid taxes	-119	-126	-17	-36
Cash flow from operating activities	470	430	349	276
Cash flow from investing activities:				
Acquisitions	-191	-191	1	-45
Investments in associates and joint ventures	-1			
Other investments	-3			
Investments in property, plant and equipment and intangible assets	-110	-64	-49	-34
Reduction of share capital in associates and joint ventures	13			
Proceeds from sale of property, plant and equipment and intangible assets	11	17	2	13
Proceeds from sale of shares in subsidiaries	41		41	
Proceeds from sale of other investments		2		
Loan receivables, increase (-) / decrease (+), and other changes	1	1		1
Cash flow from investing activities	-240	-235	-5	-66
Cash flow after investing activities	230	195	344	211
Cash flow from financing activities:				
Proceeds from non-current debt	279	90		
Repayments and other changes in non-current debt	-84	-101	-26	-1
Loan receivables, increase (-) / decrease (+)	-4	2	-4	
Current loans, increase (+) / decrease (-)	-35	-5	-34	-109
Dividends paid	-274	-264	-13	-14
Cash flow from financing activities	-118	-278	-77	-125
Change in cash and cash equivalents, increase (+) / decrease (-)	112	-83	267	86
Cash and cash equivalents at the beginning of the financial period	379	472	221	292
Exchange rate changes	-5	-10	-2	2
Cash and cash equivalents at the end of the financial period	487	379	487	379

Consolidated statement of changes in equity

								Non-controlling interests	Total equity
	Total equity attributable to equity holders of the parent company								
MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total		
Equity on 31 December 2016	336	61	-57	-39	-45	2 032	2 288	34	2 321
Restatement due to IFRS 9						-3	-3		-3
Restatement due to IFRS 15						-13	-13		-13
Equity on 1 January 2017	336	61	-57	-39	-45	2 016	2 272	34	2 305
Translation differences			-74				-74	-2	-76
Cash flow hedges									
transferred to the statement of income, net of taxes				28			28		28
Defined benefit plans					7		7		7
Other comprehensive income			-74	28	7		-39	-2	-41
Profit for the financial period						375	375	-1	374
Restated total comprehensive income for the financial period			-74	28	7	376	336	-3	333
Total transactions with the owners of the company									
dividends paid						-256	-256	-6	-263
Equity on 31 December 2017	336	61	-132	-10	-38	2 135	2 352	24	2 376

								Non-controlling interests	Total equity
	Total equity attributable to equity holders of the parent company								
MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total		
Equity on 1 January 2018	336	61	-132	-10	-38	2 135	2 352	24	2 376
Translation differences			-24				-24	-1	-25
Cash flow hedges									
net change in fair value, net of taxes				-14			-14		-14
transferred to the statement of income, net of taxes				-6			-6		-6
Defined benefit plans					-3		-3		-3
Other changes					3	-3			
Other comprehensive income			-24	-20	-1	-3	-47	-1	-48
Profit for the financial period						386	386	1	386
Total comprehensive income for the financial period			-24	-20	-1	383	338		338
Total transactions with the owners of the company									

dividends paid						-272	-272	-3	-275
non-controlling interests in disposed subsidiaries								-7	-7
Equity on 31 December 2018	336	61	-155	-31	-39	2 245	2 418	14	2 432

Acquisitions

Transas Group

In May, Wärtsilä acquired 100% of Transas, a global company headquartered in the U.K. Transas is a global market leader in marine navigation solutions that include complete bridge systems, digital products and electronic charts. The company is also a leader in professional training and simulation services, ship traffic control, as well as monitoring, and support.

The following tables summarise the preliminary amounts for the consideration paid for Transas, the cash flow from the acquisition, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

Preliminary consideration	MEUR
Consideration transferred	183
Total consideration transferred	183

Preliminary cash flow from the acquisition	MEUR
Consideration paid in cash	183
Cash and cash equivalents of the acquired company	-12
Total cash flow from the acquisition	171

Provisional values of the assets and liabilities arising from the acquisition	MEUR
Intangible assets	66
Property, plant and equipment	2
Inventories	8
Trade and other receivables	50
Deferred tax assets	2
Cash and cash equivalents	12
Total assets	140
Provisions	3
Interest-bearing debt	29
Trade payables and other liabilities	39
Deferred tax liabilities	13
Total liabilities	83
Total net assets	57

Preliminary goodwill	113

The preliminary fair values of the acquired identifiable intangible assets at the date of the acquisition (including technology, customer relations, and trade marks) amounted to EUR 55 million. The fair value of the current trade receivables and other receivables is approximately EUR 50 million. The fair value of the trade receivables does not include any significant risk.

The preliminary goodwill of EUR 113 million reflects the value of know-how and expertise in digital marine solutions and services. The acquisition takes Wärtsilä a significant step closer to achieving its mission of enabling sustainable societies with smart technologies. It will also speed delivery on the company's promise to disrupt the industry by establishing an ecosystem that is digitally connected across the entire supply chain, through applications that are secure, smart and cloud-based.

During 2018 the Group incurred acquisition-related costs of EUR 3 million related to external legal fees and due diligence costs. The costs have been included in the other operating expenses in the consolidated statement of income.

Pro forma

If the acquisition had occurred on 1 January 2018, management estimates that the consolidated net sales would have been EUR 5,213 million. The impact in the consolidated operating result would not have been significant. In determining these amounts, management has assumed that the fair value adjustments, which arose on the date of the acquisition would have been the same if the acquisition had occurred on 1 January 2018.

Other acquisitions

In February, Wärtsilä acquired 100% of Trident B.V. and LOCK-N-STITCH Inc. In October, Wärtsilä acquired 100% of Burriel Navarro, S.L.

Trident B.V. is a Netherland based company specialised in underwater ship maintenance, inspection, and repair services. With this acquisition, Wärtsilä builds in-house competence, captures the full potential of services' product synergies, and strengthens its position in the market.

LOCK-N-STITCH Inc. is an American engineering company serving customers within the marine and energy sectors as well as other industries. It specialises in cast iron repairs. The acquisition strengthens Wärtsilä's service portfolio for customers operating multiple brands.

Burriel Navarro, S.L is a company operating in underwater services in the main ports of Spain. The acquisition supports the growth of Wärtsilä's underwater services and expands the company's local presence in the European market.

The following tables summarise the preliminary amounts for the consideration paid, the cash flow from the acquisitions and the amounts of the assets acquired and liabilities assumed recognised at the acquisition dates.

Preliminary consideration	MEUR
Consideration transferred	27
Total consideration transferred	27

Preliminary cash flow from the acquisitions	MEUR
Consideration paid in cash	23
Contingent consideration	4
Cash and cash equivalents of the acquired companies	-1
Total cash flow from the acquisitions	26

Provisional values of the assets and liabilities arising from the acquisitions	MEUR
Intangible assets	10

Property, plant and equipment	2
Inventories	1
Trade and other receivables	6
Cash and cash equivalents	1
Total assets	19
Trade payables and other liabilities	4
Deferred tax liabilities	3
Total liabilities	6
Total net assets	13
Preliminary goodwill	13

The preliminary fair values of acquired identifiable intangible assets at the dates of the acquisitions (including technology, customer relations, and trade marks) amounted to EUR 10 million. The fair value of current trade receivables and other receivables is approximately EUR 6 million. The fair value of the trade receivables does not include any significant risk.

The preliminary goodwill of EUR 13 million reflects the value of know-how and expertise in advanced underwater services.

During 2018, the acquisition-related costs the Group incurred related to external legal fees and due diligence costs were insignificant. The costs have been included in the other operating expenses in the consolidated statement of income.

Pro forma

If the acquisitions had occurred on 1 January 2018, management estimates that the consolidated net sales would have been EUR 5,176 million. The impact in the consolidated operating result would not have been significant. In determining these amounts, management has assumed that the fair value adjustments, which arose on the dates of the acquisitions would have been the same if the acquisitions had occurred on 1 January 2018.

Disposals

Disposal of pumps business

On 31 October 2018, Wärtsilä divested its pumps business to Solix Group, a Scandinavian investment company. Wärtsilä Pumps has belonged to the Wärtsilä Marine Solutions organisation and became part of the Group along with the acquisition of Hamworthy in 2012. The Wärtsilä Pumps business recorded sales of approximately EUR 50 million in 2017. The cash consideration of the transaction was EUR 45 million, and in addition EUR 20 million of the transaction price is reported as a receivable in the non-current other receivables in the consolidated statement of financial position. Wärtsilä reported a gain of EUR 27 million in other operating income from the transaction according to the preliminary sales profit calculation.

Other disposals

On 20 October 2018, Wärtsilä sold its majority interest in Wärtsilä Yuchai Engine Co. Ltd. The consideration received and the impact on profit for the financial period were not significant.

Net sales by geographical areas

MEUR	2018	Restated 2017
Europe	1 485	1 526
Asia	1 867	1 933
The Americas	1 245	1 132
Other	577	321
Total	5 174	4 911

Disaggregation of revenue

Revenue from the contracts with customers is derived over time and at a point in time in the following revenue types.

Net sales by revenue type

MEUR	2018	2017
Products	1 145	1 149
Goods and services	557	567
Projects	2 992	2 785
Long-term agreements	480	410
Total	5 174	4 911

Timing of satisfying performance obligations

MEUR	2018	2017
At a point in time	3 740	3 555
Over time	1 434	1 356
Total	5 174	4 911

Product sales consist of sales of spare parts and standard equipment for which the revenue is recognised at a point in time when the control of the products has transferred to customer, in general at the delivery of the goods.

Goods and services -type of revenue involves short-term field service jobs, which includes the delivery of a combination of service and equipment. The revenue is recognised at a point in time when service is rendered.

Projects contain short-term and long-term projects. Depending on the contract terms and the duration of the project, the revenue is recognised at a point in time or over time. Revenue related to long-term projects, such as construction contracts, integrated solutions projects, ship design, and energy solutions contracts, is recognised over time. Revenue for tailor-made equipment delivery projects is recognised at a point in time.

Long-term agreements contain long-term operating and maintenance agreements for which the revenue is recognised over time.

Measures of profit and items affecting comparability

MEUR	2018	Restated 2017
Comparable adjusted EBITA	621	612
Purchase price allocation amortisation	-43	-36
Comparable operating result	577	576
Items affecting comparability:		
Social plan costs	-8	-10
Impairment and write-downs	-19	-18
Other restructuring costs	-2	-9
Acquisition related costs	-6	-2
Items affecting comparability, total	-35	-37
Operating result	543	538

Intangible assets and property, plant & equipment

MEUR	2018	2017
Intangible assets		
Carrying amount on 1 January	1 577	1 434
Changes in exchange rates	3	-39
Acquisitions and disposals	190	217
Additions	45	25
Amortisation and impairment	-68	-60
Decreases and reclassifications	-1	
Carrying amount at the end of the financial period	1 747	1 577
Property, plant and equipment		
Carrying amount on 1 January	349	405
Changes in exchange rates	-1	-12
Acquisitions and disposals	-21	

Additions	64	39
Depreciation and impairment	-62	-75
Decreases and reclassifications	-7	-10
Carrying amount at the end of the financial period	324	349

Gross capital expenditure

MEUR	2018	2017
Investments in securities and acquisitions	196	191
Intangible assets and property, plant and equipment	110	64
Total	306	255

Net interest-bearing debt

MEUR	2018	2017
Interest-bearing debt, non-current	748	517
Interest-bearing debt, current	74	102
Total interest-bearing liabilities	823	619
Interest-bearing receivables	-3	-5
Cash and cash equivalents	-487	-379
Total interest-bearing assets	-490	-385
Total net interest-bearing debt	333	234

Financial ratios

	2018	Restated 2017
Earnings per share (EPS), basic and diluted, EUR	0.65	0.63
Equity per share, EUR	4.09	3.97
Solvency ratio, %	44.4	46.3
Gearing	0.14	0.10
Return on investment (ROI), %	18.1	18.5

Return on equity (ROE), %	16.1	16.0

Earnings per share and equity per share for comparison period have been restated to reflect the increased number of shares.

Personnel

	2018	2017
On average	18 899	17 866
At the end of the financial period	19 294	18 065

Contingent liabilities

MEUR	2018	2017
Mortgages	10	10
Chattel mortgages and other pledges and securities	19	19
Total	29	29
Guarantees and contingent liabilities		
on behalf of Group companies	775	737
Nominal amount of rents according to leasing contracts		
payable within one year	53	35
payable between one and five years	148	101
payable later	83	48
Total	1 060	922

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	270	
Cross currency swaps	238	
Foreign exchange forward contracts	2 827	1 035
Total	3 335	1 035

In addition, the Group had copper futures and swaps amounting to 264 tons.

Fair values

Fair value measurements at the end of the financial period:

MEUR	Carrying amounts of the statement of financial position items	Fair value
Financial assets		
Other investments (level 3)	16	16
Interest-bearing investments, non-current (level 2)	3	3
Other receivables, non-current (level 2)	3	3
Derivatives (level 2)	12	12
Financial liabilities		
Interest-bearing debt, non-current (level 2)	748	754
Derivatives (level 2)	79	79

Events after the balance sheet date

On 30 January 2019, Wärtsilä announced plans to realign its operations and resources to secure future profitability and competitiveness. The Group-wide programme emphasises sustainable savings and actions that increase customer value. The planned actions include an increased focus on targeted sales activities, developing the agreements-based and “as-a-service” business, reviewing the cost structure, as well as optimising the business portfolio and organisation. The program is expected to lead to a reduction of approximately 1,200 employees globally. The reductions will impact all businesses and support functions. With these actions Wärtsilä seeks annual savings of EUR 100 million. Savings are expected to materialise gradually during the second half of 2019, with full effect by the end of 2020. The costs related to the restructuring measures are expected to be EUR 75 million.

Quarterly figures

MEUR	10–12/ 2018	7–9/ 2018	4–6/ 2018	1–3/ 2018	Restated 10–12/ 2017	Restated 7–9/ 2017	Restated 4–6/ 2017	Restated 1–3/ 2017	10–12/ 2016
Order intake									
Services	865	699	785	737	696	598	641	735	565
Energy Solutions	589	148	360	414	501	418	361	405	501
Marine Solutions	419	525	409	357	316	339	361	273	258
Total	1 874	1 372	1 553	1 507	1 514	1 354	1 363	1 413	1 324

Order book at the end of the financial period									
Services	1 878	1 742	1 622	1 401	1 220	1 249	1 239	1 234	999
Energy Solutions	1 871	1 725	2 013	2 012	1 871	1 839	1 764	1 847	1 680
Marine Solutions	2 417	2 451	2 269	2 077	2 009	2 018	2 087	2 033	2 017
Total	6 166	5 918	5 904	5 490	5 100	5 107	5 089	5 114	4 696
Net sales									
Services	737	572	582	535	710	569	594	534	636
Energy Solutions	431	451	368	267	425	324	412	239	414
Marine Solutions	364	307	296	264	305	282	284	233	509
Total	1 532	1 330	1 246	1 066	1 441	1 175	1 290	1 005	1 559
Share of result of associates and joint ventures	3	3	4	3	6	3	3	1	5
Comparable adjusted EBITA	237	152	134	98	250	141	130	90	262
as a percentage of net sales	15.4	11.5	10.7	9.2	17.4	12.0	10.1	9.0	16.8
Depreciation, amortisation and impairment	-37	-31	-31	-30	-42	-30	-30	-33	-34
Purchase price allocation amortisation	-11	-11	-11	-10	-10	-9	-9	-9	-9
Comparable operating result	226	141	123	88	241	131	122	82	253
as a percentage of net sales	14.7	10.6	9.8	8.3	16.7	11.2	9.5	8.1	16.3
Items affecting comparability, total	-20		-12	-3	-19	-4	-8	-6	-22
Operating result	206	141	111	85	222	127	114	76	231
as a percentage of net sales	13.4	10.6	8.9	8.0	15.4	10.8	8.8	7.5	14.8
Financial income and expenses	-12	-11	-8	-9	-10	-17	-14	-5	-5
Profit before taxes	194	130	102	76	211	110	99	70	226
Income taxes	-41	-29	-28	-19	-47	-28	-26	-16	-55
Profit for the financial period	153	101	75	57	165	82	73	54	172
Earnings per share (EPS), basic and diluted, EUR	0.25	0.17	0.13	0.10	0.28	0.14	0.12	0.09	0.29
Gross capital expenditure	48	26	194	37	79	156	11	9	20
Investments in securities and acquisitions	-1		177	20	45	145		1	
Cash flow from operating activities	349	122	41	-42	276	150	2	2	235
Working capital (WCAP) at the end of the financial period	581	782	790	726	563	632	658	561	490
Personnel at the end of the financial period									
Services	11 322	11 426	11 345	11 328	11 234	11 135	11 059	11 067	10 567
Energy Solutions	1 171	1 165	1 135	1 084	1 038	1 017	928	913	903
Marine Solutions	5 995	6 195	6 151	5 197	5 235	5 167	5 257	5 317	6 074

Other	805	634	601	573	559	540	539	533	467
Total	19 294	19 420	19 231	18 182	18 065	17 859	17 783	17 832	18 011

Earnings per share for comparison periods have been restated to reflect the increased number of shares.

Comparison periods for 2017 have been restated due to the internal transfer of service activities.

Calculation of financial ratios

Earnings per share (EPS), basic and diluted

$$\frac{\text{Profit for the financial period attributable to equity holders of the parent company}}{\text{Adjusted number of shares over the financial period}}$$

Equity per share

$$\frac{\text{Equity attributable to equity holders of the parent company}}{\text{Adjusted number of shares at the end of the financial period}}$$

Solvency ratio

$$\frac{\text{Equity}}{\text{Total equity and liabilities – advances received}} \text{ x 100}$$

Gearing

$$\frac{\text{Interest-bearing liabilities – cash and cash equivalents}}{\text{Equity}}$$

Return on investment (ROI)

$$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Total equity and liabilities – non-interest-bearing liabilities – provisions, average over the financial period}} \text{ x 100}$$

Return on equity (ROE)

$$\frac{\text{Profit for the financial period}}{\text{Equity, average over the financial period}} \text{ x 100}$$

Working capital (WCAP)

(Inventories + trade receivables + income tax receivables + other non-interest-bearing receivables)
– (trade payables + advances received + pension obligations + provisions + income tax liabilities + other non-interest-bearing liabilities – dividend payable)

Comparable adjusted EBITA

Operating result – items affecting comparability – purchase price allocation amortisation

Comparable operating result

Operating result – items affecting comparability

Items affecting comparability

Items affecting comparability are related to restructuring measures and one-time charges for events or activities, which are not part of the normal business operations

29 January 2019
Wärtsilä Corporation
Board of Directors