



WÄRTSILÄ



Wärtsilä Corporation

Interim Report

January – March 2018

Order intake and net sales developed well in the equipment businesses

Highlights of the review period January-March 2018

- Order intake increased 7% to EUR 1,507 million (1,413)
- Net sales increased 6% to EUR 1,066 million (1,005)
- Book-to-bill 1.41 (1.41)
- Comparable operating result increased to EUR 88 million (82), which represents 8.3% of net sales (8.1)
- Earnings per share increased to 0.10 euro (0.09)
- Cash flow from operating activities decreased to EUR -42 million (2)
- Order book at the end of the period increased 7% to EUR 5,490 million (5,114)

Wärtsilä's prospects for 2018

The demand for Wärtsilä's services and solutions in 2018 is expected to improve somewhat from the previous year. Demand by business area is anticipated to be as follows:

- Good in Services thanks to growth opportunities in selected regions and segments.
- Good in Energy Solutions. The global shift towards renewable energy sources and increasing electricity demand in the emerging markets are supporting the need for distributed and flexible power capacity, including gas-fired generation, energy storage, and smart integration technology.
- Solid in Marine Solutions. Despite improving sentiment, the marine market environment remains challenging due to overcapacity and lack of financing.

Wärtsilä's current order book for 2018 deliveries is EUR 2,951 million (2,744), which mainly comprises equipment deliveries. Services' business is largely transactional, with only around 30% of annual net sales coming from the order book.

Jaakko Eskola, President & CEO

"The beginning of 2018 was characterised by a favourable operating environment in the equipment businesses. Ordering activity was healthy in Energy Solutions, thanks to the growing need for flexible, smart solutions in developed countries, and energy infrastructure investments in the emerging markets. For Marine Solutions, improved demand in the merchant segment and sustained activity in the cruise and ferry markets contributed to growth in orders received. While the economic outlook continues to support a gradual recovery in the marine industry, the impact of increased geopolitical uncertainty on customer decision-making is a concern. Services' net sales development was slower than expected during the first quarter, as customers in the merchant and offshore segments continued to limit spending to essential repairs and maintenance. As a result, the group sales mix favoured equipment deliveries, which burdened profitability.

Strengthening our digital offering, for instance through the projects developed in our acceleration centres, is central to securing our competitive position in industries being transformed by increasing connectivity and new business models. The acquisition of Transas, a leader in marine navigation solutions, training and simulation services, as well as ship traffic control is also important in this context. It builds on our investments in software engineering capabilities and artificial intelligence and will play a key role in the development of smart solutions and a digital platform. With this acquisition, we take a considerable step forward towards our Smart Marine vision, which, alongside our Smart Energy vision, strongly positions Wärtsilä to enable a sustainable, low emission economy."

Key figures

MEUR	1-3/2018	Restated 1-3/2017	Change	Restated 2017
Order intake	1 507	1 413	7%	5 644
Order book at the end of the period	5 490	5 114	7%	5 100
Net sales	1 066	1 005	6%	4 911
Operating result ¹	85	76	12%	538
% of net sales	8.0	7.5		11.0
Comparable operating result	88	82	8%	576
% of net sales	8.3	8.1		11.7
Comparable adjusted EBITA	98	90	9%	612
% of net sales	9.2	9.0		12.5
Profit before taxes	76	70		491
Earnings/share, EUR	0.10	0.09		0.63
Cash flow from operating activities	-42	2		430
Net interest-bearing debt at the end of the period	438	260		234
Gross capital expenditure	37	9		255
Gearing	0.21	0.13		0.10

¹Items affecting comparability in the first quarter of 2018 included costs related to restructuring programmes of EUR 3 million (6).

As of 1 January 2018, Wärtsilä has adopted the *IFRS 15 Revenue from Contracts with Customers* standard by using the full retrospective method. This interim report 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 during the first quarter of 2018 was in line with the previous year. In the marine markets, continued momentum in the cruise segment compensated for lower service demand from merchant customers and steady activity in offshore. The demand for scrubber retrofit projects improved, as customers prepare themselves for compliance with the approaching global sulphur regulations. In the energy markets, service activity remained on last year's level.

Power generation markets shifting towards smart and flexible technologies

The demand for Wärtsilä's energy solutions was solid in the first quarter of 2018. The need for flexible power capacity and smart solutions is growing, as solar and wind become increasingly cost competitive and utilities assess how to integrate such energy sources into their asset base. These trends are particularly noticeable in the USA and Australia. In the emerging markets, countries continue to invest in new power generation capacity to support economic growth and to alleviate power shortages.

Energy Solutions' market share

The strong demand for Wärtsilä's energy solutions in 2017 supported market share growth, despite declining global power plant investments in the up to 500 MW market segment. Wärtsilä's market share increased to 19% (15), while global orders for natural gas and liquid fuel power plants of up to 500 MW decreased by 20% to 20.1 GW for the twelve months ending in December (25.2 at the end of September). Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size.

Solid activity in the marine markets

During the first quarter of 2018, 192 contracts for new vessels were registered (231, including late contracting). Market conditions in the merchant segment have improved along with economic growth and growth in seaborne trade. The contracting of LNG carriers was healthy, thanks to growing demand for LNG in the emerging markets and increasing exports from the USA and Australia. High earnings supported continued activity in the cruise and ferry segment. Cruise customers are showing increased interest in expedition vessels, while ageing fleets are creating replacement demand in the ferry segment. Despite some signs of improving sentiment in offshore production, the investment appetite in the overall offshore industry remains limited. Planned regulatory developments are driving demand for environmental solutions in the newbuild markets.

In terms of compensated gross tonnage, South Korea and China remain the largest shipbuilding nations with 42% and 31% of all confirmed contracts respectively. Japan and Germany accounted for 13% and 6% of the global total.

Order intake

Wärtsilä's first quarter order intake totalled EUR 1,507 million (1,413), an increase of 7% over the corresponding period last year. The first quarter book-to-bill ratio was 1.41 (1.41).

Order intake for the Services business was stable at EUR 737 million (735). During the quarter, Wärtsilä signed a 5-year optimised maintenance agreement with Hidrovias do Brasil for a fleet of eight pusher tugs operating in the challenging rivers of South America. Wärtsilä also received a sizeable order to equip a fleet of 30 container vessels with Wärtsilä open loop scrubber systems.

Order intake for Energy Solutions increased by 2% to EUR 414 million (405). The most active markets were Asia and the Americas. Significant orders received from these regions included a 211 MW smart power generation plant in South Australia, a 128 MW gas plant in New Orleans, and two new liquid fuel projects in Bangladesh of 100 and 105 MW. In addition to power generation solutions, energy storage and grid management software orders were received for projects in Hungary and Portugal.

Marine Solutions' order intake totalled EUR 357 million (273), an increase of 31% compared to the corresponding period last year. Among the orders received was 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. The ships will operate primarily on liquefied natural gas (LNG), enabling a significant reduction in CO₂ emissions. VOC – the gas evaporating from the oil cargo tanks – will also be utilised as fuel by mixing it with the LNG, thereby reducing the vessels' bunkering needs. The first quarter order intake also included solutions for the remaining two shuttle tankers from an order received in December 2017 to supply four such vessels to TEEKAY. The vessels will feature a wide range of Wärtsilä's latest technology innovations, which enables them to reach a new level of economic and ecological performance. The conventional merchant segment accounted for 43% of the first quarter order intake, while cruise and ferry represented 40%. The navy segment's share was 6%. The gas carrier segment's share represented 5%, special vessels 5%, and offshore 2% of the total.

Order intake by business

MEUR	1-3/2018	Restated 1-3/2017	Change	Restated 2017
Services	737	735	0%	2 670
Energy Solutions	414	405	2%	1 685
Marine Solutions	357	273	31%	1 288
Order intake, total	1 507	1 413	7%	5 644

Due to the internal reorganisation of service activities, EUR 49 million was transferred from Marine Solutions to Services in the figures for the first quarter of 2017 and EUR 190 million for the full year.

Order intake Energy Solutions

MW	1-3/2018	1-3/2017	Change	2017
Oil	399	210	90%	1 838
Gas	429	622	-31%	1 938
Order intake, total	828	832	0%	3 775

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture in South Korea, and in the Wärtsilä Qiyao Diesel Company Ltd and CSSC Wärtsilä Engine Company Ltd joint ventures in China totalled EUR 49 million (24) during the review period January-March 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 5,490 million (5,114). The Services order book totalled EUR 1,401 million (1,234), which is 14% higher than at the same time last year thanks to the increased demand for long-term service agreements. The Energy Solutions order book increased by 9%, totalling EUR 2,012 million (1,847), while the Marine Solutions order book increased by 2% to EUR 2,077 million (2,033).

Order book by business

MEUR	31.3.2018	Restated 31.3.2017	Change	Restated 31.12.2017
Services	1 401	1 234	14%	1 220
Energy Solutions	2 012	1 847	9%	1 871
Marine Solutions	2 077	2 033	2%	2 009
Order book, total	5 490	5 114	7%	5 100

Due to the internal reorganisation of service activities, EUR 47 million was transferred from Marine Solutions to Services in the figures for the first quarter of 2017 and EUR 49 million for the full year.

Net sales

Wärtsilä's net sales for the review period January-March 2018 increased by 6% to EUR 1,066 million (1,005) compared to the corresponding period last year. Net sales from the Services business was stable at EUR 535 million (534). Net sales for Energy Solutions increased by 12% to EUR 267 million (239). Strategically important deliveries included the world's largest solar hybrid power plant in Burkina Faso. The hybridisation of an existing 57 MW diesel power plant with a 15 MWp solar PV plant will enhance plant performance, reduce fuel consumption, and lower CO₂ emissions. Marine Solutions' net sales totalled EUR 264 million (233), which is 13% higher than in the corresponding period last year. Of the total net sales, Services accounted for 50%, Energy Solutions for 25%, and Marine Solutions for 25%.

Of Wärtsilä's net sales for the period January-March 2018, approximately 67% was EUR denominated, 20% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	1-3/2018	Restated 1-3/2017	Change	Restated 2017
Services	535	534	0%	2 407
Energy Solutions	267	239	12%	1 401
Marine Solutions	264	233	13%	1 104
Net sales, total	1 066	1 005	6%	4 911

Due to the internal reorganisation of service activities, EUR 39 million was transferred from Marine Solutions to Services in the figures for the first quarter of 2017 and EUR 177 million for the full year.

Operating result and profitability

The operating result for the review period January-March 2018 was EUR 85 million (76), which represents 8.0% of net sales (7.5). The comparable operating result was EUR 88 million (82), or 8.3% of net sales (8.1). Items affecting comparability in the first

quarter of 2018 included costs related to restructuring programmes of EUR 3 million (6). The comparable adjusted EBITA was EUR 98 million (90), or 9.2% of net sales (9.0). Purchase price allocation amortisation amounted to EUR 10 million (9).

Wärtsilä's operating result was affected by a provision of EUR 3 million (11) related to long-term incentive schemes. The provision covers all three ongoing programmes. 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 amounted to EUR -9 million (-5). Net interest totalled EUR -2 million (-2). Profit before taxes amounted to EUR 76 million (70). Taxes amounted to EUR 19 million (16), implying an effective tax rate of 24.5% (22.7). Earnings per share were 0.10 euro (0.09) and the equity per share was 3.62 euro (3.52). Return on investments (ROI) was 19.7% (16.8). Return on equity (ROE) was 17.6% (16.9).

Measures of profit and items affecting comparability

MEUR	1-3/2018	Restated 1-3/2017	Restated 2017
Comparable adjusted EBITA	98	90	612
Purchase price allocation amortisation	-10	-9	-36
Comparable operating result	88	82	576
Items affecting comparability	-3	-6	-37
Operating result	85	76	538

Balance sheet, financing and cash flow

Wärtsilä's cash flow from operating activities amounted to EUR -42 million (2) during the review period January-March 2018. Cash flow was negatively affected by the timing of tax payments and the increase in working capital. Working capital totalled EUR 726 million (561) at the end of the review period, an increase of EUR 163 million from the end of the previous quarter in preparation for deliveries later this year. Advances received at the end of the period totalled EUR 582 million (554). At the end of December 2017, advances totalled EUR 522 million. Cash and cash equivalents at the end of the period amounted to EUR 282 million (403) and unutilised Committed Credit Facilities totalled EUR 792 million (640), which includes a EUR 152 million long-term loan that remains undrawn. A dividend of EUR 0.69 per share (0.65) corresponding to a total of EUR 136 million (128) was paid during the first quarter. The second dividend instalment of equal size will be paid in September.

Wärtsilä had interest-bearing debt totalling EUR 726 million (670) at the end of March 2018. At the end of December 2017, the interest-bearing debt totalled EUR 619 million. The total amount of short-term debt maturing within the next 12 months was EUR 103 million. Long-term loans amounted to EUR 623 million. Net interest-bearing debt totalled EUR 438 million (260) and gearing was 0.21 (0.13).

Liquidity preparedness

MEUR	31.3.2018	31.12.2017
Cash and cash equivalents	282	379
Unutilised committed credit facilities	792	765
Liquidity preparedness	1 074	1 144
% of net sales (rolling 12 months)	22	23
Less Commercial Papers	-	-
Liquidity preparedness excluding Commercial Papers	1 074	1 144
% of net sales (rolling 12 months)	22	23

On 31 March 2018, the average maturity of the total loan portfolio was 49 months and the average maturity of the long-term debt was 50 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant and equipment amounted to EUR 17 million (8) during the review period January-March 2018. Capital expenditure related to acquisitions and investments in joint ventures totalled EUR 20 million (1). Depreciation, amortisation, and impairment for the review period amounted to EUR 30 million (33).

In 2018, capital expenditure related to intangible assets and property, plant and equipment is expected to be below depreciation and amortisation.

Strategic projects, acquisitions 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 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. The acquisition enables Wärtsilä to become a leading global operator in the underwater services market.

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 monitoring and support. Transas leverages the latest in machine learning and artificial intelligence to create a unified cloud-based platform for managing operations across the entire marine ecosystem. The company's large base of software engineers will play a key role in assisting Wärtsilä with the development of smart products and a digital platform. The acquisition will also speed delivery on Wärtsilä'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. It 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. The transaction is valued at EUR 210 million (enterprise value) and is expected to be closed during the second quarter of 2018.

Research and development, product launches

During the first quarter Eniram, a Wärtsilä company, launched Eniram SkyLight 3.0 for fleet performance monitoring, and Eniram Mobile to offer real-time decision-making support via mobile notifications. The latter solution was created to support situational awareness based on collected historical and real-time data coupled with predictive analytics. Mobile technology makes these insights transparent, giving captains, fleet managers, and senior executives instant access to the information needed for effective and timely decision-making.

Personnel

Wärtsilä had 18,182 (17,832) employees at the end of March 2018. On average, the number of personnel for January-March 2018 totalled 18,125 (17,802). Services employed 11,328 (11,067) people, Energy Solutions 1,084 (913), and Marine Solutions 5,197 (5,317).

Of Wärtsilä's total number of employees, 20% (19) were located in Finland and 38% (38) elsewhere in Europe. Personnel employed in Asia represented 26% (28) of the total, personnel in the Americas 11% (10), and personnel in other countries 4% (4).

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.

During the first quarter, Wärtsilä submitted its Aquarius Electro-Chlorination Ballast Water Management System for US Coast Guard (USCG) type approval after successfully completing all the testing procedures required. Wärtsilä received type approval from the International Maritime Organization (IMO) in 2013 for the Electro-Chlorination system and the same design was used for the USCG application. This current testing has again proven the consistent performance of the Wärtsilä solution, and demonstrates the high reliability, robustness and effectiveness of the system.

In March, Wärtsilä's Seals & Bearings business and the Green Award Foundation announced their co-operation efforts in environmental protection. Wärtsilä Seals & Bearings has joined the Green Award scheme as an incentive provider to further encourage the reduction of emissions and a clean, sustainable future.

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.

Wärtsilä's share is included in several sustainability indices. During the first quarter, Wärtsilä was reconfirmed as a constituent of the Ethibel Sustainability Index (ESI) Excellence Europe. Wärtsilä was also included in the annual Global 100 list of the most sustainable large corporations in the world compiled by Corporate Knights.

Shares and shareholders

During January-March 2018, the volume of trades on Nasdaq Helsinki was 72,818,201 shares, equivalent to a turnover of EUR 1,354 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 71,375,280 shares.

Shares on Nasdaq Helsinki

31.3.2018			Number of shares and votes	Number of shares traded 1-3/2018
WRT1V			591 723 390	72 818 201
1.1. - 31.3.2018	High	Low	Average ¹	Close
Share price	19.88	17.48	18.60	17.95
¹ Trade-weighted average price				
			31.3.2018	31.3.2017
Market capitalisation, EUR million			10 621	9 892
Foreign shareholders, %			55.1	55.1

Flagging notifications

During the review period January-March 2018, BlackRock Inc. informed Wärtsilä of the following changes in ownership.

Release date	Transaction date	Shareholder	Threshold	Direct holding, %	Total holding, %
22.3.2018	21.3.2018	BlackRock Investment Management (UK) Limited	Above 5%	5.07	6.03
19.3.2018	16.3.2018	BlackRock, Inc.	Below 10%	8.22	9.66
14.3.2018	13.3.2018	BlackRock, Inc.	Above 10%	6.69	10.04
9.3.2018	8.3.2018	BlackRock, Inc.	Below 10%	6.60	9.97
8.3.2018	6.3.2018	BlackRock, Inc.	Above 10%	6.64	10.01
2.3.2018	1.3.2018	BlackRock, Inc.	Below 10%	7.13	9.98
28.2.2018	27.2.2018	BlackRock Investment Management (UK) Limited	Below 5% on shares and voting rights	4.85	6.10
26.2.2018	23.2.2018	BlackRock, Inc.	Above 10%	9.88	10.04

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 will be divided between one old and two new shares so that EUR 0.23 will be paid on each share. The second instalment shall be paid in September 2018.

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.

Risks and business uncertainties

In the Services business, slow economic growth and political instability in specific regions are the main risks for demand development. The challenging conditions in the merchant and offshore markets are also seen as a potential risk.

In the power generation markets, fragile economic growth and slow decision-making continue to be the primary risks for demand development. Geopolitical tensions and significant currency fluctuations can result in investment decisions being postponed in certain countries. Low oil prices have a similar impact in the oil and gas producing countries. Price pressure resulting from the prevailing competitive environment remains a risk.

Economic and political uncertainty, as well as emerging technologies and innovations, will challenge current business models and trade patterns. The recently announced trade sanctions by the US and China are a concern for global trade. Low capital expenditure from oil companies continues to limit offshore investments, and offshore production is facing increasing competition from low cost onshore and shale production. In addition, increasing energy efficiency and the substitution of other energy sources, will challenge growth in crude oil demand. Enforcement of environmental regulations and potential new regulations remain as a source of uncertainty. Climate change continues to create pressure for reduced GHG emissions within the shipping industry.

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 is implementing new procedures for storing, processing and using data in the company's systems so as to comply with the upcoming General Data Protection Regulation. Cyber security is 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.

Wärtsilä Interim Report January-March 2018

This interim financial report 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 has adopted the following new standards and interpretation issued by the IASB.

As of 1 January 2018, Wärtsilä has adopted the **IFRS 15 Revenue from Contracts with Customers** standard by using the full retrospective method. This Interim Report for January-March 2018 is published according to the new standard, and comparison periods for 2017, including opening balance sheet, have been restated accordingly.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. It replaces IAS 18 Revenue, and IAS 11 Construction Contracts, and related interpretations, providing a new basis for revenue recognition. IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS15 has an impact on the timing of recognition of revenue in two business lines: long-term service and maintenance agreements, and gas solutions related construction contracts. The changes and impact caused by the standard are described below.

In long-term service and maintenance agreements, customer value is created over time during the contract period. The revenue recognition method changes from an output method (percentage of completion based on the proportion of the contracted services performed) to an input method (percentage of completion based on costs incurred). Due to standard maintenance schedules, this typically delays the revenue recognition in a contract. In construction contracts related to gas solutions, the key value drivers are engineering, procurement, and project management, and the manufacturing is usually outsourced. The revenue recognition method changes 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 costs incurred).

In the project business, contracts usually have clauses for liquidated damages which were previously accounted as provisions for cost when their probability was more likely than not to occur. Liquidated damages are treated as a variable consideration according to IFRS 15 and are required to be estimated at contract inception. According to IFRS 15, the net sales will be reduced by late delivery penalties and liquidated damages, which have been expensed under IAS 18 and IAS 11. The restatement impact of reclassification of penalties is insignificant.

Arising from the change of revenue recognition in long-term service and maintenance agreements, and gas solutions related construction contracts from output method to input method, an adjustment of EUR -13 million has been made to Group's retained earnings as at 1 January 2017.

The restatement of financials 2017 result in a decrease in net sales of EUR 11 million, an increase in material and services expenses of EUR 3 million, a decrease in income taxes of EUR 5 million, and a decrease in profit for the financial period of EUR 9 million. From the consolidated statement of financial position perspective, the application of the new principles impact the deferred tax assets, other receivables, and other liabilities. Deferred tax assets increased by EUR 8 million and other receivables increased by EUR 33 million. Other liabilities increased by EUR 60 million mainly due to changes in accrued expenses and deferred income. These changes do not have an impact on cash flows.

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). The 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 have no impact on 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 have no impact on consolidated financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration (effective for financial periods beginning on or after 1 January 2018). The 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 has no impact on consolidated financial statements.

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 order book being transferred from Marine Solutions to Services for the financial period 2017. This transfer has no impact on Group totals.

This interim report is unaudited.

Condensed statement of income

MEUR	1-3/2018	Restated 1-3/2017	Restated 2017
Net sales	1 066	1 005	4 911
Other operating income	7	13	60
Expenses	-960	-911	-4 312
Depreciation, amortisation and impairment	-30	-33	-134
Share of result of associates and joint ventures	3	1	13
Operating result	85	76	538
Financial income and expenses	-9	-5	-47
Profit before taxes	76	70	491
Income taxes	-19	-16	-117
Profit for the reporting period	57	54	375
Attributable to:			
Equity holders of the parent company	58	53	375
Non-controlling interests	-1	1	-1
	57	54	375
Earnings per share attributable to equity holders of the parent company (basic and diluted):			
Earnings per share (EPS), basic and diluted, EUR	0.10	0.09	0.63

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

Statement of other comprehensive income

MEUR	1-3/2018	Restated 1-3/2017	Restated 2017
Profit for the reporting period	57	54	375
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income			
Remeasurements of defined benefit liabilities			7
Total items that will not be reclassified to the statement of income			7

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	-4	1	-73
for non-controlling interests		-1	-2
Associates and joint ventures, share of other comprehensive income	-1	3	-1
Cash flow hedges	15	9	37
Tax on items that may be reclassified to the statement of income	-2	-2	-9
Total items that may be reclassified to the statement of income	7	12	-48
Other comprehensive income for the reporting period, net of taxes	7	11	-41
Total comprehensive income for the reporting period	64	66	334
Total comprehensive income attributable to:			
Equity holders of the parent company	65	65	337
Non-controlling interests	-1	1	-3
	64	66	334

Condensed statement of financial position

MEUR	31.3.2018	Restated 31.3.2017	Restated 31.12.2017
Non-current assets			
Intangible assets	1 586	1 421	1 577
Property, plant and equipment	346	393	349
Investments in associates and joint ventures	68	76	83
Other investments	13	14	13
Deferred tax assets	120	147	131
Other receivables	109	46	132
Total non-current assets	2 242	2 096	2 285
Current assets			
Inventories	1 168	1 184	1 051
Other receivables	1 941	1 723	1 933
Cash and cash equivalents	282	403	379
Total current assets	3 391	3 310	3 363
Total assets	5 632	5 406	5 648

Equity			
Share capital	336	336	336
Other equity	1 809	1 744	2 016
Total equity attributable to equity holders of the parent company	2 145	2 080	2 352
Non-controlling interests	22	34	24
Total equity	2 167	2 114	2 376
Non-current liabilities			
Interest-bearing debt	623	592	517
Deferred tax liabilities	104	90	102
Other liabilities	270	276	270
Total non-current liabilities	997	958	889
Current liabilities			
Interest-bearing debt	103	78	102
Other liabilities	2 365	2 256	2 281
Total current liabilities	2 468	2 334	2 383
Total liabilities	3 465	3 292	3 272
Total equity and liabilities	5 632	5 406	5 648

Condensed statement of cash flows

MEUR	1-3/2018	1-3/2017	2017
Cash flow from operating activities:			
Profit for the reporting period	57	54	375
Adjustments for:			
Depreciation, amortisation and impairment	30	33	134
Financial income and expenses	9	5	47
Gains and losses on sale of intangible assets and property, plant and equipment and other changes		-3	-17
Share of result of associates and joint ventures	-3	-1	-13
Income taxes	19	16	117
Cash flow before changes in working capital	112	104	643
Changes in working capital	-108	-91	-87
Cash flow from operating activities before financial items and taxes	4	13	555
Financial items and paid taxes	-46	-12	-126
Cash flow from operating activities	-42	2	430
Cash flow from investing activities:			
Investments in shares and acquisitions	-20	-1	-191
Net investments in property, plant and equipment and intangible assets	-17	-4	-47

Proceeds from sale of shares in associated companies and other investments			2
Cash flow from other investing activities			1
Cash flow from investing activities	-37	-5	-235
Cash flow from financing activities:			
Proceeds from non-current debt	125	90	90
Repayments and other changes in non-current debt	-15	-45	-101
Changes in current loans and other changes	-2	1	-2
Dividends paid	-126	-114	-264
Cash flow from financing activities	-17	-67	-278
Change in cash and cash equivalents, increase (+)/decrease (-)	-96	-70	-83
Cash and cash equivalents at the beginning of the reporting period	379	472	472
Exchange rate changes	-3	1	-10
Cash and cash equivalents at the end of the reporting period	282	403	379

Consolidated statement of changes in equity

	Total equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings		
MEUR								
Equity on 31 December 2016	336	61	-57	-39	-45	2 032	34	2 321
Restatement due to IFRS 9						-3		-3
Restatement due to IFRS 15						-13		-13
Equity on 1 January 2017	336	61	-57	-39	-45	2 016	34	2 305
Restated total comprehensive income for the financial period			-74	28	7	376	-3	333
Dividends paid						-256	-6	-263
Equity on 1 January 2018	336	61	-132	-10	-38	2 135	24	2 376
Total comprehensive income for the reporting period			-5	12		58	-1	64
Dividends paid						-272		-273
Equity on 31 March 2018	336	61	-136	2	-39	1 921	22	2 167

MEUR	Total equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings		
Equity on 31 December 2016	336	61	-57	-39	-45	2 032	34	2 321
Restatement due to IFRS 9						-3		-3
Restatement due to IFRS 15						-13		-13
Equity on 1 January 2017	336	61	-57	-39	-45	2 016	34	2 305
Restated total comprehensive income for the reporting period			5	8		53	1	66
Dividends paid						-256		-257
Equity on 31 March 2017	336	61	-52	-31	-45	1 812	34	2 114

Acquisitions

Trident Group and LOCK-N-STITCH Inc.

In February, Wärtsilä acquired 100% of Trident B.V. and LOCK-N-STITCH Inc.

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.

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	25
Total consideration transferred	25

Preliminary cash flow from the acquisitions	MEUR
Consideration paid in cash	20
Contingent consideration	4
Cash and cash equivalents of the acquired companies	-1
Total cash flow from the acquisitions	24

Provisional values of the assets and liabilities arising from the acquisition	MEUR
Intangible assets	11
Property, plant and equipment	2
Inventories	1
Trade and other receivables	5
Cash and cash equivalents	1
Total assets	19
Trade payables and other liabilities	3
Deferred tax liabilities	2
Total liabilities	6
Total net assets	14
Preliminary goodwill	11

The preliminary fair values of acquired identifiable intangible assets at the dates of acquisitions (including technology, customer relations, and trade marks) amounted to EUR 11 million. The fair value of current trade receivables and other receivables is approximately EUR 5 million. The fair value of trade receivables does not include any significant risk.

The preliminary goodwill of EUR 11 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 condensed statement of income.

Pro forma

If the acquisitions had occurred on 1 January 2018, management estimates that consolidated net sales would have been EUR 1,067 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 acquisitions would have been the same if the acquisitions had occurred on 1 January 2018.

Net sales by geographical areas

MEUR	1-3/2018	Restated 1-3/2017	Restated 2017
Europe	340	320	1 526
Asia	366	366	1 933
The Americas	246	253	1 132
Other	114	67	321
Total	1 066	1 005	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	1-3/2018	1-3/2017	2017
Products	261	289	1 149
Goods and services	111	117	567
Projects	569	516	2 785
Long-term agreements	125	84	410
Total	1 066	1 005	4 911

Timing of satisfying performance obligations

MEUR	1-3/2018	1-3/2017	2017
At a point in time	771	688	3 522
Over time	295	317	1 389
Total	1 066	1 005	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	1-3/2018	Restated 1-3/2017	Restated 2017
Comparable adjusted EBITA	98	90	612
Purchase price allocation amortisation	-10	-9	-36

Comparable operating result	88	82	576
Items affecting comparability:			
Social plan costs	-2	-1	-10
Impairment and write-downs		-2	-18
Transfer costs			-3
Other restructuring costs		-3	-7
Items affecting comparability, total	-3	-6	-37
Operating result	85	76	538

Intangible assets and property, plant & equipment

MEUR	1-3/2018	1-3/2017	2017
Intangible assets			
Carrying amount on 1 January	1 577	1 434	1 434
Changes in exchange rates	-4	-1	-39
Acquisitions	22	1	217
Additions	7	2	25
Amortisation and impairment	-16	-15	-60
Carrying amount at the end of the reporting period	1 586	1 421	1 577
Property, plant and equipment			
Carrying amount on 1 January	349	405	405
Changes in exchange rates	-1		-12
Acquisitions	2		
Additions	10	6	39
Depreciation and impairment	-14	-18	-75
Disposals and reclassifications			-10
Carrying amount at the end of the reporting period	346	393	349

Gross capital expenditure

MEUR	1-3/2018	1-3/2017	2017
Investments in securities and acquisitions	20	1	191
Intangible assets and property, plant and equipment	17	8	64
Total	37	9	255

Net interest-bearing debt

MEUR	1-3/2018	1-3/2017	2017
Non-current liabilities	623	592	517
Current liabilities	103	78	102
Loan receivables	-6	-7	-5
Cash and cash equivalents	-282	-403	-379
Total	438	260	234

Financial ratios

	1-3/2018	Restated 1-3/2017	Restated 2017
Earnings per share (EPS), basic and diluted, EUR	0.10	0.09	0.63
Equity per share, EUR	3.62	3.52	3.97
Solvency ratio, %	42.9	43.6	46.3
Gearing	0.21	0.13	0.10
Return on investment (ROI), %	19.7	16.8	18.5
Return on equity (ROE), %	17.6	16.9	16.0

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

Personnel

	1-3/2018	1-3/2017	2017
On average	18 125	17 802	17 866
At the end of the reporting period	18 182	17 832	18 065

Contingent liabilities

MEUR	1-3/2018	1-3/2017	2017
Mortgages	10	10	10
Chattel mortgages and other pledges and securities	18	25	19
Total	28	35	29
Guarantees and contingent liabilities			
on behalf of Group companies	750	975	737
Nominal amount of rents according to leasing contracts			
payable within one year	33	31	35
payable between one and five years	92	80	101
payable later	63	26	48
Total	938	1 112	922

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	285	
Cross currency swaps	76	
Foreign exchange forward contracts	2 430	1 014
Total	2 792	1 014

In addition, the Group had copper futures and swaps amounting to 213 tons.

Fair values

Fair value measurements at the end of the reporting period:

MEUR	Carrying amounts of the statement of financial position items	Fair value
Financial assets		
Other investments (level 3)	13	13
Interest-bearing investments, non-current (level 2)	6	6
Other receivables, non-current (level 2)	3	3

Derivatives (level 2)	40	40
Financial liabilities		
Interest-bearing debt, non-current (level 2)	623	630
Derivatives (level 2)	28	28

Events after the balance sheet date

On 19 March 2018, Wärtsilä signed an agreement to acquire 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.

Transas' current annual net sales are in the region of EUR 140 million. The company has 22 regional offices worldwide and a distribution network that spans 120 countries. It has a workforce of approximately 1,000 employees who will be integrated within Wärtsilä's market area Marine Solutions.

This 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.

The transaction is valued at EUR 210 million (enterprise value) and is expected to be closed during the second quarter of 2018.

Quarterly figures

MEUR	Restated								
	1-3/ 2018	10-12/ 2017	7-9/ 2017	4-6/ 2017	1-3/ 2017	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016
Order intake									
Services	737	696	598	641	735	565	522	527	580
Energy Solutions	414	501	418	361	405	501	330	304	312
Marine Solutions	357	316	339	361	273	258	287	362	379
Total	1 507	1 514	1 354	1 363	1 413	1 324	1 139	1 194	1 271
Order book at the end of the reporting period									
Services	1 401	1 220	1 249	1 239	1 234	999	1 031	1 048	1 017
Energy Solutions	2 012	1 871	1 839	1 764	1 847	1 680	1 676	1 547	1 491
Marine Solutions	2 077	2 009	2 018	2 087	2 033	2 017	2 317	2 488	2 595
Total	5 490	5 100	5 107	5 089	5 114	4 696	5 024	5 083	5 103

Net sales									
Services	535	710	569	594	534	636	512	542	500
Energy Solutions	267	425	324	412	239	414	177	220	132
Marine Solutions	264	305	282	284	233	509	390	433	335
Total	1 066	1 441	1 175	1 290	1 005	1 559	1 079	1 196	967
Share of result of associates and joint ventures	3	6	3	3	1	5	2	4	3
Comparable adjusted EBITA	98	250	141	130	90	262	132	131	93
as a percentage of net sales	9.2	17.4	12.0	10.1	9.0	16.8	12.3	10.9	9.6
Depreciation, amortisation and impairment	-30	-42	-30	-30	-33	-34	-31	-42	-31
Purchase price allocation amortisation	-10	-10	-9	-9	-9	-9	-9	-9	-9
Comparable operating result	88	241	131	122	82	253	123	122	84
as a percentage of net sales	8.3	16.7	11.2	9.5	8.1	16.3	11.4	10.2	8.7
Items affecting comparability, total	-3	-19	-4	-8	-6	-22	-2	-26	-1
Operating result	85	222	127	114	76	231	122	96	83
as a percentage of net sales	8.0	15.4	10.8	8.8	7.5	14.8	11.3	8.0	8.6
Financial income and expenses	-9	-10	-17	-14	-5	-5	-7	-38	-3
Profit before taxes	76	211	110	99	70	226	115	58	80
Income taxes	-19	-47	-28	-26	-16	-55	-31	-17	-20
Profit for the reporting period	57	165	82	73	54	172	84	41	60
Earnings per share (EPS), basic and diluted, EUR	0.10	0.28	0.14	0.12	0.09	0.29	0.14	0.06	0.10
Gross capital expenditure	37	79	156	11	9	20	55	60	11
Investments in securities and acquisitions	20	45	145		1		42	49	
Cash flow from operating activities	-42	276	150	2	2	235	189	202	-13
Working capital (WCAP) at the end of the reporting period	726	563	632	658	561	490	540	602	709
Personnel at the end of the reporting period									
Services	11 328	11 234	11 135	11 059	11 067	10 567	10 648	10 575	10 331
Energy Solutions	1 084	1 038	1 017	928	913	903	920	945	958
Marine Solutions	5 197	5 235	5 167	5 257	5 317	6 074	6 305	6 443	6 681
Other	573	559	540	539	533	467	464	465	457
Total	18 182	18 065	17 859	17 783	17 832	18 011	18 337	18 428	18 427

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

Profit for the reporting period attributable to equity holders of the parent company

Adjusted number of shares over the reporting period

Equity per share

Equity attributable to equity holders of the parent company

Adjusted number of shares at the end of the reporting period

Solvency ratio

Equity

Total equity and liabilities – advances received

x 100

Gearing

Interest-bearing liabilities – cash and cash equivalents

Equity

Return on investment (ROI)

Profit before taxes + interest and other financial expenses

Total equity and liabilities – non-interest-bearing liabilities – provisions, average over the reporting period

x 100

Return on equity (ROE)

Profit for the reporting period

Equity, average over the reporting period

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

23 April 2018

Wärtsilä Corporation

Board of Directors