

# Wärtsilä Corporation

## Financial Statements Bulletin

January-December 2016



# Satisfactory performance supported by good fourth quarter

## Fourth quarter highlights

- Order intake declined 6% to EUR 1,324 million (1,403)
- Net sales declined 2% to EUR 1,559 million (1,590)
- Book-to-bill 0.85 (0.88)
- Comparable operating result improved to EUR 253 million, or 16.3% of net sales (EUR 215 million or 13.5%)
- Earnings per share increased to 0.87 euro (0.79)
- Cash flow from operating activities increased to EUR 235 million (176)

## Highlights of the review period January-December 2016

- Order intake was stable at EUR 4,927 million (4,932)
- Net sales declined 5% to EUR 4,801 million (5,029)
- Book-to-bill 1.03 (0.98)
- Comparable operating result declined to EUR 583 million, or 12.1% of net sales (EUR 612 million or 12.2%)
- Earnings per share declined to 1.79 euro (2.25)
- Cash flow from operating activities increased to EUR 613 million (255)
- Order book at the end of the period decreased 4% to EUR 4,696 million (4,882)
- The dividend is proposed to increase by 8% to 1.30 (1.20) euro per share. In line with growing practice, the dividend will be paid in two equal instalments in March and September.

## Wärtsilä's prospects for 2017

As of 2017, Wärtsilä has changed its guidance policy to be consistent with general industry practice. Wärtsilä has discontinued providing numerical financial guidance on net sales and operating result developments. Instead, Wärtsilä's prospects statement is based on expectations regarding demand development in its markets. Wärtsilä will continue to provide certain financial information, including the order book for current year deliveries, as well as information on key matters that may affect profitability.

The overall demand for Wärtsilä's services and solutions in 2017 is expected to be relatively unchanged from the previous year. Demand by business area is anticipated to develop as follows:

- Solid in Services with growth opportunities in selected regions and segments.
- Solid in Energy Solutions, thanks to growth in electricity demand in the emerging markets and the global shift towards renewable energy sources, which will support the need for distributed, flexible, gas fired power generation.
- Soft in Marine Solutions. Although the outlook for the cruise and ferry segment is positive, the merchant, gas carrier, and offshore segments continue to suffer from overcapacity, slow trade growth and customers' financial constraints.

Wärtsilä's current order book for 2017 deliveries is EUR 3,143 million (3,097), which mainly comprises Marine Solutions and Energy Solutions' deliveries. Wärtsilä will continue to focus on improving efficiency, which is expected to partially offset lower volumes in the marine markets. The pricing environment in Energy Solutions' markets has stabilised, but the

order book is still impacted by the competitive pressure seen in previous years. The good performance in Services is expected to continue.

## **Jaakko Eskola, President & CEO**

“Thanks to solid delivery execution, growth in Services’ revenues, and an improved project mix in the fourth quarter, we were able to meet our revised net sales and profitability targets for the year 2016. I am pleased with our cash flow development, which improved primarily due to our focus on working capital management.

The weak growth in seaborne trade, low oil and gas prices, as well as customers’ financial constraints burdened the marine industry throughout the year, which resulted in exceptionally low contracting activity. Considering these headwinds, Wärtsilä’s order intake developed well. This was largely due to the improved sentiment in the energy markets, where growth in electricity demand and energy policy changes supported the demand for Wärtsilä’s power generation solutions in both the emerging markets and the industrialised world. The development of our Services business was solid, despite challenges related primarily to the offshore service market.

Wärtsilä is in the midst of a major digital transformation. I am excited about this journey, which will enhance our customer offering as well as our own operations. During the year, we strengthened our digital foundation with the appointment of a Chief Digital Officer to the Board of Management, as well as with the acquisition of Eniram. Going forward we expect to shape our markets with efficient use of data.

Looking into 2017, we expect our business environment to remain largely unchanged. We continue to be well positioned to benefit from the trends of increasing demand for efficiency and changing energy needs, and will continue to work towards reaching our long-term target for profitable growth.”

## Key figures

MEUR	10-12/2016	10-12/2015	Change	1-12/2016	1-12/2015	Change
Order intake	1 324	1 403	-6%	4 927	4 932	0%
Order book at the end of the period				4 696	4 882	-4%
Net sales	1 559	1 590	-2%	4 801	5 029	-5%
Operating result <sup>1</sup>	231	202	15%	532	587	-9%
% of net sales	14.8	12.7		11.1	11.7	
Comparable operating result	253	215	18%	583	612	-5%
% of net sales	16.3	13.5		12.1	12.2	
Comparable adjusted EBITA	262	224	17%	618	643	-4%
% of net sales	16.8	14.1		12.9	12.8	
Profit before taxes	226	199	14%	479	553	-13%
Earnings/share, EUR	0.87	0.79		1.79	2.25	
Cash flow from operating activities	235	176		613	255	
Net interest-bearing debt at the end of the period				150	372	
Gross capital expenditure				146	346	
Gearing				0.07	0.17	

<sup>1</sup>Items affecting comparability in the fourth quarter of 2016 included costs related to restructuring programmes of EUR 22 million (11). In the comparison period, items affecting comparability also included EUR 3 million of acquisition related and other costs. During the review period January-December 2016 restructuring costs amounted to EUR 48 million (19), and other costs to EUR 3 million (6).

## Market development

### Energy Solutions

#### Improved activity in the power generation markets

Sentiment in the power generation markets improved during 2016. The emerging markets were active and their growing demand for electricity drove interest in Wärtsilä's solutions. New energy policies and increasing power generation from renewable sources provided further support for power plant investments, both in the emerging markets and the industrialised world. Despite the positive developments in many regions, competition remained tight globally.

#### Energy Solutions market share

In the first nine months of 2016, global orders for natural gas and liquid fuel power plants of up to 500 MW totalled 17.4 GW (17.0), an increase of 2% from the previous year. Wärtsilä's market share increased to 15% (10). Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size.

## Marine Solutions

### Weak marine market environment

Newbuild vessel orders fell to an exceptionally low level in 2016, with merely 537 vessels contracted during the year compared to 1,836 in 2015. The challenges related mainly to overcapacity, low oil & gas prices, and weak freight rates in the traditional merchant, offshore and gas carrier segments.

While the general marine market sentiment was weak throughout the year, activity remained resilient in selected niche segments. Demand was particularly strong in the cruise segment due to fleet expansion programmes. An ageing fleet, planned regulatory developments, and attractive newbuilding prices supported contracting in the ferry segment. In the ro-ro segment, healthy earnings also supported the demand for new vessels.

The shift in vessel contracting mix has benefitted European shipyards. In terms of compensated gross tonnage, Italy and Germany's share of confirmed contracts was above average at 11% and 10% respectively. China remained the largest shipbuilding nation with 36% of the confirmed contracts, while South Korea's share declined to 16% and Japan's share was 11%. The low vessel contracting volumes has led to some consolidation of yards in the major shipbuilding countries during the year.

### Marine Solutions market shares

Wärtsilä's share of the medium-speed main engine market was 51% (50% at the end of the previous quarter). The market share in auxiliary engines was 18% (16% at the end of the previous quarter). Wärtsilä also has a strong position in other key products and solutions, such as electrical & automation systems and gas systems.

## Services

### Solid activity in the service markets

Service market activity was solid during 2016. In the marine market, low oil prices affected the demand for offshore services throughout the year, while low freight rates caused the demand for services in the merchant segment to slow down in the second half. The cruise segment developed positively, especially during the latter part of the year. In power plant related services, the interest in long-term agreements continued to be impacted by global economic uncertainty. However, the demand for maintenance services was healthy throughout the year.

Wärtsilä's installed equipment base consists of propellers, engines and other products. At the end of 2016, Wärtsilä's installed engine base totalled approximately 180,000 MWs, of which four-stroke engines accounted for approximately 65% and two-stroke engines for approximately 35%.

## Order intake

### Fourth quarter order intake

Wärtsilä's fourth quarter order intake totalled EUR 1,324 million (1,403), a decrease of 6% over the corresponding period last year. The fourth quarter book-to-bill ratio was 0.85 (0.88).

Order intake for Energy Solutions totalled EUR 501 million (366) in the fourth quarter, which was 37% more than for the corresponding period last year. Among the more significant orders received were a 100 MW combined heat and power plant for Germany and a 135 MW plant for Indonesia, the first combined cycle power plant ever in the country.

Marine Solutions' fourth quarter order intake totalled EUR 258 million (465), a decrease of 45% compared to the corresponding period last year. Activity favoured the cruise & ferry and conventional merchant segments, which represented 25% and 24% respectively of the fourth quarter order intake. The navy segment represented 18% of orders received, the gas carrier segment 10%, special vessels 8%, and the offshore segment 3%. Others accounted for 12% of the total.

The fourth quarter order intake for the Services business was stable at EUR 565 million (572), supported by improved demand for power plant related services. Long-term service agreements signed in the quarter included a 5-year operations and maintenance contract for two power plants ordered by PT PLN, the Indonesian state utility, in December.

## Review period order intake

Wärtsilä's order intake for the review period January-December 2016 was stable at EUR 4,927 million (4,932). The book-to-bill ratio for the review period was 1.03 (0.98).

Energy Solutions' order intake for the review period was EUR 1,448 million (1,009), which represents an increase of 43% compared to the previous year. Asia and the Americas were the most active regions in terms of ordering activity. Demand was especially strong in Argentina, where Wärtsilä received orders for seven projects comprising in excess of 500 MW of new power generation capacity. Other strategically important orders included a 225 MW power plant, which will provide balancing power to the City of Denton in Texas, USA.

Marine Solutions' review period order intake declined by 20% to EUR 1,285 million (1,599). The upcoming implementation of emission regulations in the marine industry supported the demand for gas-fuelled vessels particularly in the ferry segment. Orders received during the year included the design and supply of the LNG power and propulsion machinery for the Mediterranean's first LNG fuelled passenger ferry, as well as fully integrated Wärtsilä propulsion machinery packages for the first ever UK domestic dual-fuelled ro-ro passenger ferries. Other significant orders received included a contract to supply the re-gasification system for an FSRU conversion project that Höegh LNG plans to carry out on a modern LNG vessel. Orders for electrical & automation systems developed well throughout the year. Cruise & ferry accounted for 38% of the order intake for the review period. The conventional merchant segment represented 20%, while the gas carrier segment's share was 13%. Navy represented 10%, special vessels 9%, and offshore 3% of the total. Other orders accounted for 7%.

Services' order intake for the review period totalled EUR 2,194 million (2,324). The 6% decline related primarily to challenges in certain offshore markets, slower activity in the merchant segment, as well as postponements in signing new long-term agreements.

## Order intake by business

MEUR	10-12/2016	10-12/2015	Change	1-12/2016	1-12/2015	Change
Energy Solutions	501	366	37%	1 448	1 009	43%
Marine Solutions	258	465	-45%	1 285	1 599	-20%
Services	565	572	-1%	2 194	2 324	-6%
Order intake, total	1 324	1 403	-6%	4 927	4 932	0%

## Order intake Energy Solutions

MW	10-12/2016	10-12/2015	Change	1-12/2016	1-12/2015	Change
Oil	427	221	93%	1 929	1 303	48%
Gas	531	528	1%	1 584	1 132	40%
Order intake, total	958	749	28%	3 513	2 436	44%

## 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 and CSSC Wärtsilä Engine Company Ltd. joint venture companies in China totalled EUR 62 million (182) during the review period January-December 2016. 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 4,696 million (4,882), a decrease of 4%. The Energy Solutions order book increased by 23%, totalling EUR 1,680 million (1,366). The Marine Solutions order book decreased by 21% to EUR 2,017 million (2,558). The Services order book totalled EUR 999 million (958), an increase of 4%.

## Order book by business

MEUR	31.12.2016	31.12.2015	Change
Energy Solutions	1 680	1 366	23%
Marine Solutions	2 017	2 558	-21%
Services	999	958	4%
Order book, total	4 696	4 882	-4%

## Net sales

Wärtsilä's net sales for the fourth quarter decreased by 2% to EUR 1,559 million (1,590) compared to the corresponding period last year. Net sales for Energy Solutions increased by 11% to EUR 414 million (374). Marine Solutions' net sales totalled EUR 509 million (598), which is 15% lower than in the corresponding quarter last year. Net sales from the Services business increased by 3% to EUR 636 million (619).

Net sales for January-December 2016 developed in line with guidance, decreasing by 5% to EUR 4,801 million (5,029) primarily due to fewer power plant deliveries than in the previous year. Net sales for Energy Solutions totalled EUR 943 million (1,126), a decrease of 16%. Marine Solutions' net sales decreased by 3% to EUR 1,667 million (1,720). Net sales from the Services business was stable, totalling EUR 2,190 million (2,184), thanks to the growth in revenues from service

projects. Of the total net sales, Energy Solutions accounted for 20%, Marine Solutions for 35% and Services for 46%.

Of Wärtsilä's net sales for January–December 2016, approximately 67% was EUR denominated, 20% USD denominated, with the remainder being split between several currencies.

## Net sales by business

MEUR	10-12/2016	10-12/2015	Change	1-12/2016	1-12/2015	Change
Energy Solutions	414	374	11%	943	1 126	-16%
Marine Solutions	509	598	-15%	1 667	1 720	-3%
Services	636	619	3%	2 190	2 184	0%
Net sales, total	1 559	1 590	-2%	4 801	5 029	-5%

## Operating result and profitability

The fourth quarter operating result was EUR 231 million (202). This represents 14.8% of net sales (12.7). The comparable operating result was EUR 253 million (215), or 16.3% of net sales (13.5). Items affecting comparability included costs related to restructuring programmes of EUR 22 million (11). In the comparison period, items affecting comparability also included EUR 3 million of acquisition related and other costs. The comparable adjusted EBITA was EUR 262 million (224), or 16.8% of net sales (14.1). Purchase price allocation amortisation amounted to EUR 9 million (9).

For the review period January–December 2016, the operating result was EUR 532 million (587). This represents 11.1% of net sales (11.7). The decrease from the previous year was primarily due to restructuring costs and fewer power plant deliveries. The comparable operating result was EUR 583 million (612), or 12.1% of net sales (12.2), which is in line with the guidance of around 12% profitability. Items affecting comparability amounted to EUR 51 million (25), of which EUR 48 million (19) related to restructuring programmes and EUR 3 million (6) to acquisitions and other costs. The comparable adjusted EBITA was EUR 618 million (643), or 12.9% of net sales (12.8). Purchase price allocation amortisation amounted to EUR 35 million (32).

During the review period January–December 2016, financial items amounted to EUR -53 million (-34). The financial items were negatively affected by write-downs related to the divestment of the two-stroke joint venture Winterthur Gas & Diesel and to other receivables, which were booked in the second quarter. Net interest totalled EUR -11 million (-12). Profit before taxes amounted to EUR 479 million (553). Taxes amounted to EUR 123 million (124), implying an effective tax rate of 25.6% (22.5). The profit for the financial period amounted to EUR 357 million (451). Earnings per share were 1.79 euro (2.25, including 0.11 from discontinued operations) and the equity per share was 11.60 euro (11.16). Return on investments (ROI) was 17.1% (21.0). Return on equity (ROE) was 15.6% (20.2).

## Measures of profit and items affecting comparability

MEUR	10-12/2016	10-12/2015	1-12/2016	1-12/2015
Comparable adjusted EBITA	262	224	618	643
Purchase price allocation amortisation	-9	-9	-35	-32
Comparable operating result	253	215	583	612
Items affecting comparability	-22	-13	-51	-25
Operating result	231	202	532	587



## Cash flow, balance sheet, and financing

Wärtsilä's fourth quarter cash flow from operating activities amounted to EUR 235 million (176). For the period January-December 2016, the operating cash flow totalled EUR 613 million (255). Working capital totalled EUR 490 million (543) at the end of the review period, a decrease of EUR 50 million from the end of the previous quarter. Advances received at the end of the period totalled EUR 516 million (564). At the end of the previous quarter, advances totalled EUR 626 million. Cash and cash equivalents at the end of the period amounted to EUR 472 million (334) and unutilised Committed Credit Facilities totalled EUR 640 million (679).

Wärtsilä had interest-bearing debt totalling EUR 629 million (724) at the end of December 2016. The total amount of short-term debt maturing within the next 12 months was EUR 108 million. Long-term loans amounted to EUR 520 million. Net interest-bearing debt totalled EUR 150 million (372) and gearing was 0.07 (0.17).

### Liquidity preparedness

MEUR	31.12.2016	31.12.2015
Cash and cash equivalents	472	334
Unutilised committed credit facilities	640	679
Liquidity preparedness	1 112	1 013
% of net sales (rolling 12 months)	23	20
Less Commercial Papers	-	130
Liquidity preparedness excluding Commercial Papers	1 112	883
% of net sales (rolling 12 months)	23	18

On 31 December 2016, the average maturity of the total loan portfolio was 42 months and the average maturity of the long-term debt was 43 months.

## Capital expenditure

Capital expenditure related to intangible assets and property, plant and equipment amounted to EUR 55 million (79) during the review period January-December 2016. Capital expenditure related to acquisitions and investments in joint ventures totalled EUR 91 million (267). These figures include the acquisitions of Eniram and American Hydro in 2016 and the acquisition of Marine Systems International in 2015. Depreciation, amortisation, and impairment for the review period amounted to EUR 138 million (124).

In 2017, capital expenditure related to intangible assets and property, plant and equipment is expected to be below depreciation and amortisation.

## Strategy

Wärtsilä aims at profitable growth by providing advanced technologies and lifecycle solutions to its marine and energy market customers.

Increasing environmental awareness and changing energy needs are affecting the way that our customers operate. With our integrated offering of services and products, we are well positioned today to respond to the need for energy efficient, innovative, and flexible solutions. We will meet the increasing demand for gas-based technologies with our industry leading multiple fuel products and LNG solutions. Our objective is to leverage our project management and engineering competences to achieve growth by offering our customers new and innovative solutions. Our digital transformation will provide increased customer value and optimised performance. Our growth ambitions are supported by our superior global service network.

With our production and supply chain management, we constantly seek new ways to maintain high quality and cost efficiency – often in co-operation with leading industrial partners in our key growth markets. Our market driven investments in R&D and our focus on digitalisation create a strong foundation for securing and strengthening our position at the forefront of market innovation. This innovative culture, together with our constant emphasis on safety, diversity, and high ethical standards, attract skilled and committed people and provides the basis for a high performing organisation. Our entrepreneurial drive, customer focus, and passion for doing right not only create new opportunities and environmentally sustainable solutions, but also bring value to all our stakeholders.

## **Strategic projects, acquisitions, joint ventures, and manufacturing footprint**

In March, Wärtsilä and China State Shipbuilding Corporation signed a letter of intent to establish a new joint venture company, which will focus on China's growing market for marine electrical & automation solutions.

In March, Wärtsilä also announced that it had conducted an internal audit of test processes, which brought forward limited deviations in fuel consumption measurement tests conducted for certain marine engines before customer dispatches. Wärtsilä has reached out to customers on an individual basis, as well as reviewed all test procedures, using both internal and external resources, to secure new, more transparent processes and controls. The financial impact of this issue has not been material.

In April, Wärtsilä announced that it would enter the solar energy business by offering utility-scale solar photo-voltaic (PV) solutions. The new solutions include solar PV power plants of 10 MW and above, and hybrid power plants comprising solar PV plants and internal combustion engines. Both solutions are offered with full engineering, procurement and construction capability.

In June, Wärtsilä announced the acquisition of Eniram, a Finland-based technology company providing the marine industry with energy management and analytics solutions. Eniram will enable Wärtsilä to enhance its digital offering and in-house capabilities, specifically in data analytics, modelling and performance optimisation. Ownership of the company transferred to Wärtsilä with effect from 1 July 2016. Wärtsilä also announced the acquisition of American Hydro, a US-based supplier and installer of large equipment upgrades and servicing for the hydroelectric and water distribution industries. Ownership of the company transferred to Wärtsilä with effect from 30 June 2016.

During the second quarter, Wärtsilä transferred its 30% minority stake in the two-stroke joint venture Winterthur Gas & Diesel (WinGD) to China State Shipbuilding Corporation (CSSC). Following the transaction, CSSC owns 100% of WinGD. Wärtsilä recognised write-downs of EUR 21 million related to the divestment of shares in its financial items for the second quarter of 2016.

In July, Wärtsilä announced that it had entered into a cooperation agreement with U.S.-based Greensmith Energy to further strengthen its energy system integration capabilities. Greensmith Energy, a leading provider of energy storage software and integration services, will provide the full optimisation software needed for hybrid energy systems.

In December, Wärtsilä signed a manufacturing license agreement with Jiujiang Precision Measuring Technology Research Institute, a subsidiary of China State Shipbuilding Corporation (CSSC), based in Jiujiang, China. The two-way agreement provides CSSC with access to technology and the rights to manufacture the Wärtsilä Aquarius EC Ballast Water Management System under license for CSSC customer applications. In return, Wärtsilä gains access to CSSC's new manufacturing facility, thereby further supporting the supply and demand needs of Wärtsilä customers for the company's ballast water management systems.

Construction of the CSSC Wärtsilä Engine (Shanghai) Co. Ltd factory in Lingang, Shanghai was finalised in the fourth quarter and the official inauguration took place on 9 January 2017.

Wärtsilä is committed to promoting the widespread adoption of liquefied natural gas (LNG) as a fuel in the marine and energy industries. In July, Wärtsilä and other leading marine industry players formed a coalition, known as SEA/LNG, with the aim of helping to break down the barriers hindering the global development of LNG in marine applications, thereby improving the environmental performance of the shipping industry. In August, Wärtsilä and Finland based Gasum signed a cooperation agreement aimed at developing the use and distribution, as well as service solutions for natural gas in marine and onshore applications. Wärtsilä will provide the gas value chain technology know-how, while Gasum's expertise relates to distributing and selling natural gas and biogas. The development work regarding LNG for marine applications will also utilise the expertise of Skangas, a subsidiary of Gasum and the leading LNG player in the Nordic market. In November, Wärtsilä and the French multinational energy company ENGIE signed an agreement to develop solutions and services within the small-scale LNG business sector. This cooperation combines ENGIE's vast experience in LNG distribution with Wärtsilä's technical expertise, engineering and construction capabilities, supporting the shift towards a low-carbon economy through joint solutions and services.

## Research and development, product launches

Wärtsilä has placed a strong emphasis on both product and solution innovation during 2016, particularly in the areas of efficiency improvement, fuel flexibility, and the reduction of environmental impact. The R&D related expenditure totalled EUR 131 million, which represents 2.7% of net sales.

In January, Wärtsilä and Cavotec signed an agreement to jointly develop the world's first combined induction charging and automatic mooring concept. Wärtsilä has developed a wireless charging system based on inductive power transfer. Cavotec in turn provides automated mooring systems for various types of vessels, as well as shore power and reel systems. By combining the expertise of the two companies, an integrated wireless charging/mooring concept will be developed for use in Wärtsilä's ship designs.

In March, Wärtsilä launched a complete concept for a series of innovative and cost effective shuttle ferries, featuring zero or low exhaust emissions. The design characteristic focuses on high energy efficiency with low resistance, both above and below the water line. The ferries are designed to run entirely on batteries or in a battery-engine hybrid configuration where the fuel options are liquefied natural gas or biofuel.

The updated Wärtsilä Nacos Platinum series of navigation, automation and control systems was launched in September. Among the most interesting of the new features is Intelligent Route Planning, which takes into account weather and sea conditions to provide route and power optimisation and, therefore, notable fuel savings. Also in September, Eniram

introduced a fleet performance monitoring service called SkyLight, which allows ship operators to monitor the performance of their vessels and fleet, and enables reporting, planning and cost optimisation.

During the third quarter, Wärtsilä launched QuantiServ, which offers reconditioning services, in-situ services, as well as onboard repair and overhaul services to customers operating multiple brand equipment in the marine and energy markets.

Within the Services business, Wärtsilä broadened its range of marine agreement concepts with the launch of Lifecycle solutions. This new concept is an innovative, comprehensive offering that optimises the efficiency and performance of customer assets in the marine and offshore industries. It includes the digital service portfolio Wärtsilä Genius services, which was launched towards the end of 2015. The Lifecycle solutions offering was broadened in November through the introduction of the Wärtsilä Guaranteed Asset Performance solution for power plant operators, in which Wärtsilä guarantees the reliability and availability of the power plant with fixed costs while the customer operates the power plant.

## Restructuring programmes

The measures related to the organisational adjustments in Marine Solutions announced in July 2015 have been implemented. The aim of the programme was to reduce 600 jobs globally in response to the sluggish global marine market situation.

In April 2016, Wärtsilä announced further measures to adapt the organisation to the weakened newbuild market situation and to the tough competitive environment in both the marine and energy markets. The organisational adjustments, which will mean the reduction of approximately 550 jobs and the concentration of engine related R&D activities to Finland, are progressing according to plan.

When fully implemented, these restructuring programmes are expected to result in annual savings of approximately EUR 90 million. Of these savings, approximately EUR 60 million materialised by the end 2016, of which EUR 7 million were in 2015. The remainder is estimated to materialise by the end of 2017. The total non-recurring costs related to the restructuring programmes will be approximately EUR 75-80 million, of which EUR 19 million were recognised in 2015. In January-December 2016, restructuring costs amounted to EUR 48 million.

Wärtsilä's aim is to continuously pursue more cost efficient ways of operating and align its operation to market conditions. In this context, local actions in the Marine Solutions business are expected to result in additional savings of approximately EUR 45 million. The savings will start to materialise during 2017, and will take full effect by the end of 2018. The related non-recurring costs are estimated to be approximately EUR 35 million, of which the majority is expected to be recognised in 2017.

## Personnel

Wärtsilä had 18,011 (18,856) employees at the end of December 2016. On average, the number of personnel for January-December 2016 totalled 18,332 (18,565). Marine Solutions employed 6,074 (6,847) people, Energy Solutions 903 (959), and Services 10,567 (10,592).

Of Wärtsilä's total number of employees, 19% (19) were located in Finland and 39% (39) elsewhere in Europe. Personnel employed in Asia represented 28% (28) of the total, personnel in the Americas 11% (10), and personnel in other countries 4% (4).

## Changes in management

Wärtsilä appointed Mr Marco Ryan (50) as Chief Digital Officer & Executive Vice President, and a member of the Board of Management, effective from 26 September 2016.

## 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. Wärtsilä's share is included in several sustainability indices.

The International Convention for the Control and Management of ships' ballast water and sediments was ratified in September 2016, and will enter into force on 8 September 2017. Wärtsilä has proactively developed its Aquarius range of Ballast Water Management System solutions, which comprises two treatment technologies. Aquarius-UV provides disinfection using ultra-violet light, while Aquarius-EC provides disinfection using sodium hypochlorite generated through side stream electro-chlorination. Both systems are IMO Type Approved, and are available for installations in both safe and hazardous areas. They also have USCG Alternate Management System (AMS) status.

In October, the IMO's Marine Environmental Protection Committee (MEPC) agreed to implement the global cap on the sulphur content of marine fuels effective from January 2020. The global cap will limit the sulphur content of marine fuels to 0.5%, requiring vessels to run on a cleaner fuel such as LNG, or install abatement systems. Wärtsilä's exhaust gas cleaning systems have in excess of 200,000 running hours of operation, and this, together with its broad offering in gas and dual-fuel engine technologies, positions Wärtsilä well to assist fleet owners around the world to implement plans for compliance.

During 2016, Wärtsilä was selected as an index component of the Dow Jones Sustainability Indices (DJSI), both in the DJSI World and DJSI Europe indices. Inclusion in the DJSI is based on an analysis of corporate economic, environmental and social performance, assessing issues such as corporate governance, risk management, branding, climate change mitigation, supply chain standards and labour practices. Wärtsilä was also reconfirmed for inclusion in the Ethibel EXCELLENCE Investment Register, and selected for inclusion in the Ethibel PIONEER register.

## Shares and shareholders

During January-December 2016, the volume of trades on Nasdaq Helsinki was 98,870,222 shares, equivalent to a turnover of EUR 3,826 million. Wärtsilä's shares are also traded on alternative exchanges, such as Chi-X, Turquoise and BATS. The total trading volume on these alternative exchanges was 91,947,606 shares.

### Shares on Nasdaq Helsinki

31.12.2016	Number of shares and votes			Number of shares traded 1-12/2016
WRT1V	197 241 130			98 870 222
1.1. - 31.12.2016	High	Low	Average <sup>1</sup>	Close
Share price	43.44	33.90	38.68	42.68
<sup>1</sup> Trade-weighted average price				
			31.12.2016	31.12.2015
Market capitalisation, EUR million			8 418	8 314
Foreign shareholders, %			55.0	51.9

### Flagging notifications

During the review period January-December 2016, BlackRock Inc. informed Wärtsilä of the following changes in ownership. The total number of shares held by BlackRock, Inc. remained above 5% of Wärtsilä's share capital and total votes throughout the review period.

Release date	Transaction date	Shareholder	Threshold	Direct holding, %	Total holding, %
29.4.2016	27.4.2016	BlackRock Investment Management (UK)	Above 5%	4.88	5.01
6.5.2016	3.5.2016	BlackRock Investment Management (UK)	Above 5%	5.01	5.13
26.8.2016	25.8.2016	BlackRock Investment Management (UK)	Below 5%	-	-
19.9.2016	16.9.2016	BlackRock Investment Management (UK)	Above 5%	5.00	5.01
22.9.2016	21.9.2016	BlackRock Investment Management (UK)	Below 5%	-	-
26.9.2016	23.9.2016	BlackRock Investment Management (UK)	Above 5%	5.05	5.06
15.12.2016	14.12.2016	BlackRock Investment Management (UK)	Below 5%	-	-

## Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 3 March 2016 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 2015. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.20 per share. The dividend was paid on 14 March 2016.

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, Sune Carlsson, Tom Johnstone, Mikael Lilius, Risto Murto, Gunilla Nordström and Markus Rauramo.

The audit firm KPMG Oy Ab was appointed as the company's auditor for the year 2016.

### Authorisation to repurchase and distribute the Company's own shares

The Board of Directors was authorised to resolve to repurchase a maximum of 19,000,000 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 19,000,000 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 5 March 2015. The Board of Directors is authorised to resolve to whom and in which order the own shares will be distributed. The Board of Directors is authorised to decide on the 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.

### Changes to the Articles of Association

The Annual General Meeting decided upon updating Article 2 of the Articles to read as follows:

"The company shall develop, manufacture and sell mechanical and electrical products, plants and systems, sell spare parts and provide operation and maintenance services in the marine and energy markets either directly or through its subsidiaries and associated companies. The company can also provide financing, design and consulting services, as well as engage in other industrial and commercial activities. The company may deal in securities and engage in other investment activities."

It was decided to change Article 8 of the Articles so that the notice to the general meeting can be given by publishing it on the Company's website or in not less than two (2) daily newspapers, which are commonly distributed in Finland, as determined by the Board.

### Donations to universities

The Board of Directors was authorised to resolve on donations of EUR 1,300,000 at the maximum to be made to universities during 2016 and 2017. The most significant recipient of the donations would be Aalto University.

## Organisation of the Board of Directors

The Board of Directors of Wärtsilä Corporation elected Mikael Lilius as its chairman and Sune Carlsson 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, Tom Johnstone, Risto Murto

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

## Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 1.30 euro per share be paid for the financial year 2016. The parent company's distributable funds total 1,097,420,182.01 euro, which includes 281,705,697.79 euro in net profit for the year. There are 197,241,130 shares with dividend rights. The dividend will be paid in two instalments. The first instalment of 0.65 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 6 March 2017. The dividend payment date proposed by the Board for this instalment is 13 March 2017. The second instalment of 0.65 euro per share will be paid in September 2017. The second instalment 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 12 September 2017 in accordance with the rules of the Finnish book-entry system. The dividend record date for the second instalment as per the current rules of the Finnish book-entry system would be 14 September 2017 and the dividend payment date 21 September 2017, unless the renewal of the securities processing infrastructure by Euroclear Finland Ltd brings the dividend payment date a few days earlier.

The Annual Report 2016, including the financial review and the review by the Board of Directors, will be available on the company website [www.wartsila.com](http://www.wartsila.com) and at [www.wartsilareports.com](http://www.wartsilareports.com) during week 6.

## Risks and business uncertainties

In the power generation markets, slow economic growth represents the primary risk for demand development. Delays in customer investment decisions can occur also in regions with geopolitical tension or significant currency fluctuations. Low oil prices are affecting national infrastructure development in the oil and gas producing economies, especially in the Middle East and Russia. Price pressure remains a risk due to the challenging competitive environment.

In the marine markets, the weak short-term global economic outlook, overcapacity, and the low demand for cargo tonnage continue to delay recovery in the conventional shipping segment. Economic and political uncertainty, as well as emerging technologies and innovations, will continue to challenge current business models and trade patterns. Offshore investments will remain limited due to an oversupply of oil and gas and reduced capital expenditure from oil companies, despite the recent increase in oil prices. Offshore production continues to face increasing competition from low cost onshore and shale production. In addition, increasing energy efficiency and the introduction of other energy sources, is



expected to challenge crude oil demand growth. The decline in newbuilding prices may push shipyards to pressure suppliers on prices. While the risk of cancellations exists, negotiations to extend existing delivery contracts appear to be a larger risk for shipyard order books.

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

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 Financial Statements Bulletin 2016**

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 2015. 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 2016, the Group has applied the amendment to **IAS 1 Presentation of Financial Statements** - Disclosure Initiative. The amendments clarify the application of the materiality concept and judgement when determining where and in what order information is presented in the financial disclosures. This has some effect on the notes of the financial statements.

### **Adoption of new and updated IFRS standards**

In 2017, the Group will adopt the following new and amended standards issued by the IASB.

New **IFRS 9 Financial Instruments** replaces the existing guidance in IAS 39 Financial Instruments - Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including new general hedge accounting requirements and a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Group has assessed the impact of IFRS 9 and foresees some changes in the hedging processes and presentation. The new model aligns the accounting treatment with risk management activities and allows net hedging, from which the gains or losses will be presented on a separate line in the consolidated statement of income. Regarding impairment of financial assets, the change mainly concerns trade receivables where the credit losses will be recognized based on the expected lifetime credit losses. The Group estimates the restatement impact to equity and trade receivables to remain insignificant. Other figures on the comparative period will not be restated.

Amendments to **IAS 7 Statement of Cash Flows\*** - Disclosure Initiative clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities (separately from changes in other assets and liabilities). The amendments will have an impact on the notes of the consolidated financial statements.

Amendments to **IAS 12 Income Taxes\*** - Recognition of Deferred Tax Assets for Unrealised Losses clarify the requirements on recognition of deferred tax assets for debt instruments measured at fair value. The amendments will have no significant impact on consolidated financial statements.

The following new and amended standards and interpretations already issued by the IASB will be adopted in 2018 or later, depending on the effective date.

New **IFRS 15 Revenue from Contracts with Customers** (effective for financial periods beginning on or after 1 January 2018): IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue guidance, including IAS 18 Revenue, and IAS 11 Construction Contracts. Under IFRS 15 an entity shall recognise revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has assessed the impacts of IFRS 15 and foresees provisional changes in the revenue recognition method in two business lines. These are long-term service and maintenance agreements and oil and gas business related construction contracts.

In long-term service and maintenance agreements, the customer value is created over time during the contract period. Currently, the percentage of completion is calculated on the basis of the proportion of the contracted services performed. In accordance with IFRS 15, the revenue will be recognised over time based on costs incurred. Due to the standard maintenance schedules this typically delays the revenue recognition in a contract. However, the impact on Group net sales is in large extent mitigated with wide portfolio of agreements in different stages of lifetime.

The key value drivers in oil and gas business construction contracts are engineering, procurement and project management and the manufacturing is usually outsourced. The revenue will be recognised over time based on project progress, measured with costs incurred. Typically this delays the revenue recognition of a project significantly compared to current method, which is measuring the progress based on surveys of work performed. Also in oil and gas business construction contracts the wide portfolio of projects in different stages should mitigate the impact on Group net sales.

The two business lines together represent, depending on the year, approximately 10-15% of the group's net sales. The estimated combined restatement impact in equity is approximately EUR -10 million.

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 will 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 will have no impact on consolidated financial statements.

New **IFRS 16 Leases**\* (effective for financial periods beginning on or after 1 January 2019): 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 income statement 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 operating expenses in the consolidated statement of income will be transferred to amortisations and depreciations and the interest portion to financial expenses. Also balance sheet totals will change, leading to some changes in key figures. The Group is assessing the impact of IFRS 16.

\* Not yet endorsed for use by the European Union as of 31 December 2016.

The annual figures in this financial statements bulletin are audited.

## Consolidated statement of income

MEUR	2016	2015	10-12/ 2016	10-12/ 2015
<b>Continuing operations</b>				
Net sales	4 801	5 029	1 559	1 590
Change in inventories of finished goods & work in progress	-134	-77	-172	-343
Work performed by the Group and capitalised	2	6	-2	1
Other operating income	55	51	15	18
Material and services	-2 353	-2 603	-675	-572
Employee benefit expenses	-1 159	-1 159	-317	-313
Depreciation, amortisation and impairment	-138	-124	-34	-33
Other operating expenses	-556	-553	-148	-153
Share of result of associates and joint ventures	14	17	5	6
<b>Operating result</b>	<b>532</b>	<b>587</b>	<b>231</b>	<b>202</b>
Financial income	19	11	2	7
Financial expenses	-72	-45	-7	-10
<b>Profit before taxes</b>	<b>479</b>	<b>553</b>	<b>226</b>	<b>199</b>
Income taxes	-123	-124	-55	-41
<b>Profit for the financial period from the continuing operations</b>	<b>357</b>	<b>429</b>	<b>172</b>	<b>159</b>
<b>Profit/loss for the financial period from the discontinued operations</b>		<b>22</b>		
<b>Net profit for the financial period</b>	<b>357</b>	<b>451</b>	<b>172</b>	<b>159</b>
Attributable to:				
equity holders of the parent company	352	444	172	157
non-controlling interests	4	7		2
	357	451	172	159
Earnings per share attributable to equity holders of the parent company (basic and diluted):				
Earnings per share, continuing operations, EUR	1.79	2.14	0.87	0.79
Earnings per share, discontinued operations, EUR		0.11		
<b>Earnings per share (EPS), basic and diluted, EUR</b>	<b>1.79</b>	<b>2.25</b>	<b>0.87</b>	<b>0.79</b>

## Consolidated statement of comprehensive income

MEUR	2016	2015	10-12/ 2016	10-12/ 2015
<b>Net profit for the financial period</b>	<b>357</b>	<b>451</b>	<b>172</b>	<b>159</b>
<b>Other comprehensive income, net of taxes:</b>				
<b>Items that will not be reclassified to the statement of income</b>				
Remeasurements of defined benefit liabilities	-12	7	1	9

Tax on items that will not be reclassified to the statement of income	3	-2		-2
<b>Total items that will not be reclassified to the statement of income</b>	<b>-9</b>	<b>5</b>		<b>7</b>
<b>Items that may be reclassified subsequently to the statement of income</b>				
Exchange rate differences on translating foreign operations				
for equity holders of the parent company	-52	20	14	12
for non-controlling interests	-1	2		
Associates and joint ventures, share of other comprehensive income	1	3	-1	3
Cash flow hedges			-20	2
measured at fair value	-16	-23		
transferred to the statement of income	58	21		
<b>Tax on items that may be reclassified to the statement of income</b>				
Cash flow hedges			5	-2
measured at fair value	4	4		
transferred to the statement of income	-14	-5		
<b>Total items that may be reclassified to the statement of income</b>	<b>-21</b>	<b>21</b>	<b>-2</b>	<b>15</b>
<b>Other comprehensive income for the financial period, net of taxes</b>	<b>-30</b>	<b>26</b>	<b>-1</b>	<b>22</b>
<b>Total comprehensive income for the financial period</b>	<b>327</b>	<b>477</b>	<b>170</b>	<b>181</b>
Total comprehensive income attributable to:				
equity holders of the parent company	323	468	170	178
non-controlling interests	3	9		3
	327	477	170	181

## Consolidated statement of financial position, assets

MEUR	31.12.2016	31.12.2015
<b>Non-current assets</b>		
Goodwill	1 112	1 103
Intangible assets	322	361
Property, plant and equipment	394	418
Investment properties	12	13
Investments in associates and joint ventures	84	89
Available-for-sale financial assets	15	15
Interest-bearing investments	6	17
Deferred tax assets	141	157
Trade receivables	13	14
Other receivables	18	28
<b>Total non-current assets</b>	<b>2 116</b>	<b>2 215</b>
<b>Current assets</b>		
Inventories	1 042	1 200
Trade receivables	1 220	1 394
Current tax receivables	46	51
Other receivables	494	396
Cash and cash equivalents	472	334
<b>Total current assets</b>	<b>3 275</b>	<b>3 374</b>
<b>Total assets</b>	<b>5 391</b>	<b>5 589</b>

## Consolidated statement of financial position, equity and liabilities

	31.12.2016	31.12.2015
<b>Equity</b>		
Share capital	336	336
Share premium	61	61
Translation differences	-57	-6
Fair value reserve	-39	-70
Remeasurements of defined benefit liabilities	-45	-36
Retained earnings	2 032	1 916
<b>Total equity attributable to equity holders of the parent company</b>	<b>2 288</b>	<b>2 201</b>
Non-controlling interests	34	41
<b>Total equity</b>	<b>2 321</b>	<b>2 242</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Interest-bearing debt	520	492
Deferred tax liabilities	93	102
Pension obligations	168	161
Provisions	44	46
Advances received	58	77
Other liabilities	1	2
<b>Total non-current liabilities</b>	<b>884</b>	<b>880</b>
<b>Current liabilities</b>		
Interest-bearing debt	108	232
Provisions	206	223
Advances received	458	487
Trade payables	502	510
Current tax liabilities	78	82
Other liabilities	833	933
<b>Total current liabilities</b>	<b>2 186</b>	<b>2 467</b>
<b>Total liabilities</b>	<b>3 070</b>	<b>3 347</b>
<b>Total equity and liabilities</b>	<b>5 391</b>	<b>5 589</b>

## Consolidated statement of cash flows

MEUR	2016	2015	10-12/ 2016	10-12/ 2015
<b>Cash flow from operating activities:</b>				
Net profit for the financial period	357	451	172	159
Adjustments for:				
Depreciation, amortisation and impairment	138	124	34	33
Financial income and expenses	53	34	5	2
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-6	-27	-1	-2

Share of result of associates and joint ventures	-14	-17	-5	-6
Income taxes	123	124	55	41
Cash flow before changes in working capital	650	688	260	227
<b>Changes in working capital:</b>				
Receivables, non-interest-bearing, increase (-) / decrease (+)	89	-193	-171	-248
Inventories, increase (-) / decrease (+)	162	79	210	341
Liabilities, non-interest-bearing, increase (+) / decrease (-)	-167	-229	-28	-136
Changes in working capital	84	-343	11	-43
<b>Cash flow from operating activities before financial items and taxes</b>	<b>734</b>	<b>346</b>	<b>271</b>	<b>184</b>
<b>Financial items and taxes:</b>				
Interest and other financial income	36	45	4	3
Interest and other financial expenses	-31	-29	-6	2
Income taxes paid	-127	-108	-34	-14
Financial items and paid taxes	-121	-91	-36	-8
<b>Cash flow from operating activities</b>	<b>613</b>	<b>255</b>	<b>235</b>	<b>176</b>
<b>Cash flow from investing activities:</b>				
Acquisitions	-81	-258		
Investments in associates and joint ventures	-9	-9		-5
Investments in property, plant and equipment and intangible assets	-55	-79	-20	-27
Proceeds from sale of property, plant and equipment and intangible assets	18	13	8	6
Proceeds from sale of available-for-sale financial assets	1	1	1	1
Disposal of discontinued operations, net of cash		44		
<b>Cash flow from investing activities</b>	<b>-126</b>	<b>-288</b>	<b>-11</b>	<b>-25</b>
<b>Cash flow after investing activities</b>	<b>487</b>	<b>-33</b>	<b>224</b>	<b>152</b>
<b>Cash flow from financing activities:</b>				
Proceeds from non-current debt	131	50		
Repayments and other changes in non-current debt	-91	-112	-1	-15
Loan receivables, increase (-) / decrease (+)	-4	-16		-3
Current loans, increase (+) / decrease (-)	-125	110	-98	-46
Dividends paid	-250	-242		-5
<b>Cash flow from financing activities</b>	<b>-339</b>	<b>-210</b>	<b>-100</b>	<b>-68</b>
<b>Change in cash and cash equivalents, increase (+) / decrease (-)</b>	<b>148</b>	<b>-243</b>	<b>125</b>	<b>83</b>
Cash and cash equivalents at the beginning of the financial period	334	571	345	250
Exchange rate changes	-9	5	3	
Cash and cash equivalents at the end of the financial period	472	334	472	334

## Consolidated statement of changes in equity

MEUR	Total equity attributable to equity holders of the parent company							Non-	Total
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total	controlling interests	equity
Equity on 1 January 2015	336	61	-30	-66	-65	1 723	1 960	45	2 005
Translation differences			23				23	2	25
Cash flow hedges									
net change in fair value, net of taxes				-20			-20		-20
transferred to the statement of income, net of taxes				16			16		16
Defined benefit plans					29	-24	5		5
Other comprehensive income			23	-4	29	-24	24	2	26
Profit for the financial period						444	444	7	451
Total comprehensive income for the financial period			23	-4	29	420	468	9	477
Total transactions with the owners of the company									
dividends paid						-227	-227	-13	-240
Equity on 31 December 2015	336	61	-6	-70	-36	1 916	2 201	41	2 242

MEUR	Total equity attributable to equity holders of the parent company							Non-	Total
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total	controlling interests	equity
Equity on 1 January 2016	336	61	-6	-70	-36	1 916	2 201	41	2 242
Translation differences			-51				-51	-1	-52
Cash flow hedges									
net change in fair value, net of taxes				-13			-13		-13
transferred to the statement of income, net of taxes				44			44		44
Defined benefit plans					-9		-9		-9
Other comprehensive income			-51	31	-9		-29	-1	-30
Profit for the financial period						352	352	4	357
Total comprehensive income for the financial period			-51	31	-9	352	323	3	327
Total transactions with the owners of the company									
dividends paid						-237	-237	-11	-247
Equity on 31 December 2016	336	61	-57	-39	-45	2 032	2 288	34	2 321

## Acquisitions

### American Hydro Corporation

On 30 June 2016, Wärtsilä acquired a USA and Canada based company American Hydro Corporation from the Weir Group plc.



American Hydro is a leading supplier and installer of large equipment upgrades and servicing for the hydroelectric and water distribution industries, specializing in consultancy, design and precision performance enhancements for hydro-turbines and pumps. This acquisition will enable Wärtsilä to grow and expand its existing global Hydro and Industrial service offering.

The following tables summarise the preliminary amounts for the consideration paid for American Hydro, 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	46
<b>Total consideration transferred</b>	<b>46</b>

Preliminary cash flow from the acquisition	MEUR
Consideration paid in cash	45
Contingent consideration	1
Cash and cash equivalents of the acquired companies	-4
<b>Total cash flow from the acquisition</b>	<b>42</b>

Provisional values of the assets and liabilities arising from the acquisition	MEUR
Intangible assets	5
Property, plant and equipment	14
Inventories	1
Trade and other receivables	8
Cash and cash equivalents	4
<b>Total assets</b>	<b>33</b>
Provisions	1
Trade payables and other liabilities	7
<b>Total liabilities</b>	<b>8</b>
<b>Total net assets</b>	<b>24</b>
<b>Preliminary goodwill</b>	<b>22</b>

The preliminary fair values of acquired identifiable intangible assets at the date of acquisition (including customer relationships and order book) amounted to EUR 5 million. The fair value of current trade receivables and other receivables is approximately EUR 8 million. The fair value of trade receivables does not include any significant risk.

The preliminary goodwill of EUR 22 million reflects the value of know-how and expertise in hydroelectric and water distribution industries. Wärtsilä foresees that the acquisition will strengthen its presence in hydro and industrial services as well as support growth strategy and expansion in renewables, improving Wärtsilä's offering and services towards customers. The goodwill recognised for American Hydro is expected to be mainly tax deductible.

During 2016 the Group incurred acquisition-related costs of EUR 1 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.

#### Eniram Group

On 30 June, Wärtsilä signed an agreement to acquire Eniram, a Finland-based technology company providing the marine industry with energy management and analytics solutions. Ownership of the company transferred to Wärtsilä with effect from 1 July 2016.

Eniram provides the maritime industry with energy management technology to reduce fuel consumption and emissions. Eniram's solutions range from single onboard applications for trim, speed and engine optimisation to comprehensive fleet analysis. The company's solutions are

installed in over 270 vessels; saving fuel, increasing profitability and reducing harmful emissions. Eniram is headquartered in Helsinki, Finland and has subsidiaries in the UK, the USA, Germany and Singapore. In 2015, Eniram's turnover exceeded EUR 10 million with 89 employees worldwide. The acquisition of Eniram will enable Wärtsilä to grow and strengthen its existing digital offering and in-house capabilities, specifically in data analytics, modelling and performance optimisation.

The following tables summarise the preliminary amounts for the consideration paid for Eniram, 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	41
<b>Total consideration transferred</b>	<b>41</b>

Preliminary cash flow from the acquisition	MEUR
Consideration paid in cash	41
Cash and cash equivalents of the acquired companies	-1
<b>Total cash flow from the acquisition</b>	<b>40</b>

Provisional values of the assets and liabilities arising from the acquisition	MEUR
Intangible assets	11
Trade and other receivables	3
Cash and cash equivalents	1
<b>Total assets</b>	<b>14</b>
Interest-bearing debt	2
Trade payables and other liabilities	4
Deferred tax liabilities	2
<b>Total liabilities</b>	<b>8</b>
<b>Total net assets</b>	<b>7</b>
<b>Preliminary goodwill</b>	<b>34</b>

The preliminary fair values of acquired identifiable intangible assets at the date of acquisition (including technology) amounted to EUR 11 million. The fair value of current trade receivables and other receivables is approximately EUR 3 million. The fair value of trade receivables does not include any significant risk.

The preliminary goodwill of EUR 34 million reflects the value of know-how and expertise in energy management technology. Wärtsilä foresees that the acquisition will enable customers to optimise their assets and improve predictability, as well as support them with real-time analytics. Through this acquisition Wärtsilä takes a solid lead in marine digitalisation.

During 2016 the Group incurred acquisition-related costs of EUR 1 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 acquisitions had occurred on 1 January 2016, management estimates that consolidated net sales would have been EUR 4,826 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 acquisition would have been the same if the acquisition had occurred on 1 January 2016.

## Disposals

On 30 June 2016 Wärtsilä sold its majority interest in Wärtsilä Ship Design Serbia doo to the operative management of the company. The consideration paid and the impact on net profit for the financial period are not significant.

On 31 October 2016 Wärtsilä divested its power drives business to Finland based The Switch. The consideration paid and the impact on net profit for the financial period are not significant.

## Net sales by geographical areas

MEUR	2016	2015
Europe	1 581	1 566
Asia	1 774	2 051
The Americas	1 039	1 006
Other	407	407
<b>Total</b>	<b>4 801</b>	<b>5 029</b>

## Measures of profit and items affecting comparability

MEUR	2016	2015
Comparable adjusted EBITA	618	643
Purchase price allocation amortisation	-35	-32
<b>Comparable operating result</b>	<b>583</b>	<b>612</b>
<b>Items affecting comparability:</b>		
Social plan costs	-22	-16
Impairment and write-downs	-22	-1
Other restructuring costs	-7	-8
<b>Items affecting comparability, total</b>	<b>-51</b>	<b>-25</b>
<b>Operating result</b>	<b>532</b>	<b>587</b>

## Intangible assets and property, plant & equipment

MEUR	2016	2015
<b>Intangible assets</b>		
Carrying amount on 1 January	1 464	1 180
Changes in exchange rates	-52	28
Acquisitions	71	304
Additions	16	14
Amortisation and impairment	-62	-60
Disposals and reclassifications	-3	-1
<b>Carrying amount at the end of the financial period</b>	<b>1 434</b>	<b>1 464</b>

Property, plant and equipment		
Carrying amount on 1 January	431	434
Changes in exchange rates	5	-1
Acquisitions	14	8
Additions	38	65
Depreciation and impairment	-76	-63
Disposals and reclassifications	-7	-12
Carrying amount at the end of the financial period	405	431

## Gross capital expenditure

MEUR	2016	2015
Investments in securities and acquisitions	91	267
Intangible assets and property, plant and equipment	55	79
Total	146	346

## Net interest-bearing debt

MEUR	2016	2015
Non-current liabilities	520	492
Current liabilities	108	232
Loan receivables	-7	-18
Cash and cash equivalents	-472	-334
Total	150	372

## Financial ratios

	2016	2015
Earnings per share (EPS), basic and diluted, EUR	1.79	2.25
Equity per share, EUR	11.60	11.16
Solvency ratio, %	47.6	44.6
Gearing	0.07	0.17
Return on investment (ROI), continuing operations, %	17.1	21.0
Return on equity (ROE), continuing operations, %	15.6	20.2

## Personnel

	2016	2015
On average	18 332	18 565
At the end of the financial period	18 011	18 856

## Contingent liabilities

MEUR	2016	2015
Mortgages	10	10
Chattel mortgages and other pledges and securities	26	27
<b>Total</b>	<b>36</b>	<b>37</b>
<b>Guarantees and contingent liabilities</b>		
on behalf of Group companies	921	743
<b>Nominal amount of rents according to leasing contracts</b>		
payable within one year	34	29
payable between one and five years	84	76
payable later	30	29
<b>Total</b>	<b>1 069</b>	<b>876</b>

## Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	165	
Cross currency swaps	81	
Foreign exchange forward contracts	2 788	478
<b>Total</b>	<b>3 034</b>	<b>478</b>

## Fair values

Fair value measurements at the end of the financial period:

MEUR	Carrying amounts of the statement of financial position items	Fair value
<b>Financial assets</b>		
Available-for-sale financial assets (level 3)	15	15
Interest-bearing investments, non-current (level 2)	6	6
Other receivables, non-current (level 2)	18	18
Derivatives (level 2)	9	9
<b>Financial liabilities</b>		
Interest-bearing debt, non-current (level 2)	520	531
Derivatives (level 2)	45	45

## Quarterly figures

MEUR	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016	10-12/ 2015	7-9/ 2015	4-6/ 2015	1-3/ 2015	10-12/ 2014
<b>Order intake</b>									
Marine Solutions	258	287	362	379	465	407	392	336	460
Energy Solutions	501	330	304	312	366	167	188	287	501
Services	565	522	527	580	572	511	579	662	561
<b>Total</b>	<b>1 324</b>	<b>1 139</b>	<b>1 194</b>	<b>1 271</b>	<b>1 403</b>	<b>1 086</b>	<b>1 159</b>	<b>1 285</b>	<b>1 522</b>
<b>Order book at the end of the financial period</b>									
Marine Solutions	2 017	2 317	2 488	2 595	2 558	2 699	2 785	2 239	2 213
Energy Solutions	1 680	1 676	1 547	1 491	1 366	1 388	1 459	1 619	1 475
Services	999	1 031	1 048	1 017	958	1 026	1 081	1 073	842
<b>Total</b>	<b>4 696</b>	<b>5 024</b>	<b>5 083</b>	<b>5 103</b>	<b>4 882</b>	<b>5 112</b>	<b>5 325</b>	<b>4 931</b>	<b>4 530</b>
<b>Net sales</b>									
Marine Solutions	509	390	433	335	598	448	354	321	552
Energy Solutions	414	177	220	132	374	243	327	182	433
Services	636	512	542	500	619	531	548	485	564
<b>Total</b>	<b>1 559</b>	<b>1 079</b>	<b>1 196</b>	<b>967</b>	<b>1 590</b>	<b>1 222</b>	<b>1 230</b>	<b>988</b>	<b>1 549</b>
Share of result of associates and joint ventures	5	2	4	3	6	5	5	2	4
Comparable adjusted EBITA	262	132	131	93	224	170	144	106	202
as a percentage of net sales	16.8	12.3	10.9	9.6	14.1	13.9	11.7	10.7	13.1
Depreciation, amortisation and impairment	-34	-31	-42	-31	-33	-32	-30	-29	-30
Purchase price allocation amortisation	-9	-9	-9	-9	-9	-9	-7	-6	-6
Comparable operating result	253	123	122	84	215	160	137	100	196
as a percentage of net sales	16.3	11.4	10.2	8.7	13.5	13.1	11.1	10.1	12.7
Items affecting comparability, total	-22	-2	-26	-1	-13	-11			-30
Operating result	231	122	96	83	202	149	137	100	166
as a percentage of net sales	14.8	11.3	8.0	8.6	12.7	12.2	11.1	10.1	10.7
Financial income and expenses	-5	-7	-38	-3	-2	-17	3	-18	-9
Profit before taxes	226	115	58	80	199	132	140	82	157
Income taxes	-55	-31	-17	-20	-41	-35	-31	-18	-27
Profit for the financial period from the continuing operations	172	84	41	60	159	97	109	64	129
Profit/loss for the financial period from the discontinued operations								22	-9
<b>Net profit for the financial period</b>	<b>172</b>	<b>84</b>	<b>41</b>	<b>60</b>	<b>159</b>	<b>97</b>	<b>109</b>	<b>86</b>	<b>121</b>
Earnings per share (EPS), basic and diluted, EUR	0.87	0.43	0.19	0.30	0.79	0.49	0.54	0.43	0.60
Gross capital expenditure	20	55	60	11	32	17	279	18	25
Investments in securities and acquisitions		42	49		5		262		

Cash flow from operating activities	235	189	202	-13	176	-5	47	37	212
Working capital (WCAP) at the end of the financial period	490	540	602	709	543	522	404	296	251
<b>Personnel at the end of the financial period</b>									
Marine Solutions	6 074	6 305	6 443	6 681	6 847	7 101	7 217	5 587	5 603
Energy Solutions	903	920	945	958	959	966	974	975	978
Services	10 567	10 648	10 575	10 331	10 592	10 714	10 785	10 711	10 692
Other	467	464	465	457	459	456	451	433	444
<b>Total</b>	<b>18 011</b>	<b>18 337</b>	<b>18 428</b>	<b>18 427</b>	<b>18 856</b>	<b>19 237</b>	<b>19 427</b>	<b>17 707</b>	<b>17 717</b>

## Calculation of financial ratios

### Earnings per share (EPS), basic and diluted

Net profit for the financial period attributable to equity holders of the parent company

Adjusted number of shares over the financial period

### Equity per share

Equity attributable to equity holders of the parent company

Adjusted number of shares at the end of the financial 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 financial period

x 100

### Return on equity (ROE)

Net profit for the financial period

Equity, average over the financial 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)

### 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

26 January 2017  
Wärtsilä Corporation  
Board of Directors

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