

Wärtsilä Corporation

Q1 Interim report

January–March 2016



Stable orders and sales in challenging markets

Highlights of the review period January-March 2016

- Order intake decreased 1% to EUR 1,271 million (1,285)
- Net sales decreased 2% to EUR 967 million (988)
- Book-to-bill 1.31 (1.30)
- Comparable operating result EUR 84 million, or 8.7% of net sales (EUR 100 million or 10.1%)
- Earnings per share 0.30 euro (0.43)
- Cash flow from operating activities EUR -13 million (37)
- Order book at the end of the period increased 3% to EUR 5,103 million (4,931)

Events after the reporting period

- Plans to realign the Marine Solutions and Energy Solutions businesses announced on 21 April 2016

Wärtsilä has revised the terminology used for alternative performance measures due to new guidelines by the European Securities and Market Authority. 'Operating result before non-recurring items' has been replaced with 'comparable operating result', and 'operating result before non-recurring items and purchase price allocation amortisation' has been replaced with 'comparable adjusted EBITA'. Definitions of these performance measures and of items affecting comparability can be found in the tables of this interim report on page 22. Wärtsilä presents alternative performance measures to show the underlying business performance and to enhance comparability between reporting periods.

Wärtsilä's prospects for 2016 unchanged

Wärtsilä expects its net sales for 2016 to grow by 0-5% and its profitability (comparable operating result as a percent of net sales) to be 12.5-13.0%.

Jaakko Eskola, President and CEO

"In terms of Wärtsilä's operations, 2016 has started in line with our expectations. We continued to advance steadily in our maintenance markets, as reflected by an increase of 3% in Services' net sales during the first quarter. I am satisfied with this development given the strong volumes in the corresponding period last year. Order intake was on a good level in Marine Solutions, largely due to healthy demand for electrical & automation systems and positive activity in the cruise and ferry segment. Ordering activity was solid also in the Energy Solutions business, but the reduction in power plant deliveries and price pressure in the power generation markets affected Wärtsilä's overall financial performance. Group net sales declined slightly to EUR 967 million in the first quarter and profitability ended up at 8.7%. Nevertheless, we remain committed to our guidance of modest growth in sales based upon our broad customer offering, our current order

book and the demand outlook in the Services business. Furthermore, we expect our continuous focus on cost control and increased efficiency to support an improvement in profitability this year.

We have seen market conditions weakening in our equipment businesses. Despite the somewhat improved sentiment in the power generation markets, the competitive environment remains tough. Furthermore, the combined effect of overcapacity of merchant ships, and a continued lack of demand in the offshore segment, caused vessel contracting to decline in the first quarter. We continue to strive for success despite the prevailing market challenges. Consequently, we have today announced plans to realign our Marine Solutions and Energy Solutions businesses. These adjustments, although unfortunate, are necessary for securing our future competitiveness and performance. In addition, we plan to concentrate more of the engine related R&D activities to Finland with the aim of reducing development cycles.”

Key figures

MEUR	1-3/2016	1-3/2015	Change	2015
Order intake	1 271	1 285	-1%	4 932
Order book at the end of the period	5 103	4 931	3%	4 882
Net sales	967	988	-2%	5 029
Operating result	83	100	-17%	587
% of net sales	8.6	10.1		11.7
Comparable operating result ¹	84	100	-16%	612
% of net sales	8.7	10.1		12.2
Comparable adjusted EBITA ¹	93	106	-12%	643
% of net sales	9.6	10.7		12.8
Profit before taxes	80	82		553
Earnings/share, EUR	0.30	0.43		2.25
Cash flow from operating activities	-13	37		255
Net interest-bearing debt at the end of the period	639	251		372
Gross capital expenditure	11	18		346
Gearing	0.32	0.14		0.17

¹Items affecting comparability in the first quarter of 2016 included costs of EUR 1 million related to the ongoing restructuring measures in the Marine Solutions business.

Market development

Energy Solutions

Slightly improved sentiment in challenging power generation markets

Power generation market activity was stable in the first quarter of 2016. In the emerging markets, growth in electricity demand supported power plant investments, while demand continued to be more limited in the industrialised world. The competitive environment remained challenging, as excess manufacturing capacity has caused engine manufacturers to

focus more on the power plant sector. Wärtsilä's power plant quotation activity was satisfactory in the first quarter of 2016, and remained concentrated on multi-fuel and natural gas based installations.

Energy Solutions market share

In 2015, global orders for natural gas and liquid fuel power plants of up to 500 MW totalled 29.5 GW (23.4), an increase of 26% from the previous year. Wärtsilä's market share was 8.3% (10.7). The growth in market volumes came primarily from a handful of large orders from China and Iraq, with combined project sizes of over 500 MW. Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size.

Marine Solutions

Limited demand for new vessels

During the first quarter of 2016, 77 contracts for new vessels were registered (222). The slowdown in contracting activity related mainly to the merchant markets, where weak freight rates and overcapacity adversely affected the ordering of containerships, bulkers, and gas carriers. Furthermore, the demand for new units in the offshore market remained sluggish, as depressed oil prices continued to limit investments in exploration and development. The level of contracting of cruise ships, ferries and RoRo vessels was, however, good.

In terms of compensated gross tonnage, contracting activity was more evenly distributed outside the traditional top three shipbuilding countries. China secured 49%, and South Korea 7% of the confirmed contracts, while France and Italy secured 14% and 9% respectively, mainly resulting from the increased number of cruise vessels within the contracting mix.

Marine Solutions market shares

Wärtsilä's share of the medium-speed main engine market was 60% (59% at the end of the previous quarter). The market share in auxiliary engines was 13% (12% at the end of the previous quarter).

Services

Steady development in the service markets

The service markets developed steadily during the first quarter. Service demand from marine customers was healthy, with a particularly favourable development in the merchant and cruise segments. However, low oil prices continued to create challenges in certain offshore markets. Demand for power plant related services was stable. The most positive development was seen in West Africa, while lower utilisation of plants under long-term agreements affected service activity in Brazil.

Order intake

Wärtsilä's first quarter order intake was stable at EUR 1,271 million (1,285). The first quarter book-to-bill ratio was 1.31 (1.30).

Order intake for Energy Solutions totalled EUR 312 million (287), which was 9% more than for the corresponding period last year. Europe and the Middle East were the most active regions in terms of order intake.

Marine Solutions' order intake totalled EUR 379 million (336), an increase of 13% over the corresponding period last year. The growth in orders received was partly supported by good demand in the Electrical and Automation business. Ordering activity was also strong in the cruise and ferry segment, which represented 48% of the first quarter's order intake. The gas carrier segment and the conventional merchant segment each accounted for 11% of order intake. The special vessels segment's share was 11%, while navy represented 10%, offshore 3%, and other orders 6% of the total.

Order intake for the Services business totalled EUR 580 million (662). The 12% decline over the corresponding period last year was primarily due to lower demand for larger service projects. During the first quarter, Services signed a five-year maintenance agreement with Bonny Gas Transport Limited, a subsidiary of Nigeria LNG Limited.

Order intake by business

MEUR	1-3/2016	1-3/2015	Change	2015
Energy Solutions	312	287	9%	1 009
Marine Solutions ¹	379	336	13%	1 599
Services	580	662	-12%	2 324
Order intake, total	1 271	1 285	-1%	4 932

¹ Marine Systems International's contribution to order intake was EUR 137 million in the first quarter of 2016.

Order intake Energy Solutions

MW	1-3/2016	1-3/2015	Change	2015
Oil	564	452	25%	1 303
Gas	303	251	21%	1 132
Order intake, total	868	702	24%	2 436

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea, and the Wärtsilä Qiyao Diesel Company Ltd and CSSC Wärtsilä Engine Company Ltd joint venture companies in China totalled EUR 30 million (138) during the review period January-March 2016. The results of these companies are reported as a share of result of associates and joint ventures.

Order book

The total order book at the end of the review period amounted to EUR 5,103 million (4,931), an increase of 3%. The Energy Solutions order book decreased by 8%, totalling EUR 1,491 million (1,619). The Marine Solutions order book increased by 16% to EUR 2,595 million (2,239). The Services order book totalled EUR 1,017 million (1,073), which is 5% lower than at the same time last year due to a small decrease in all areas other than service projects.

Order book by business

MEUR	31.3.2016	31.3.2015	Change	31.12.2015
Energy Solutions	1 491	1 619	-8%	1 366
Marine Solutions ¹	2 595	2 239	16%	2 558
Services	1 017	1 073	-5%	958
Order book, total	5 103	4 931	3%	4 882

¹ Marine Systems International's order book at the end of March 2016 amounted to EUR 542 million.

Net sales

Wärtsilä's net sales for the review period January-March 2016 decreased by 2% to EUR 967 million (988) compared to the corresponding period last year. Net sales for Energy Solutions decreased by 27% to EUR 132 million (182). Marine Solutions' net sales totalled EUR 335 million (321), 4% higher than in the corresponding quarter last year. Net sales from the Services business amounted to EUR 500 million (485), an increase of 3% over the corresponding period last year thanks to steady development in all areas. Of the total net sales, Energy Solutions accounted for 14%, Marine Solutions for 35% and Services for 52%.

Of Wärtsilä's net sales for January-March 2016, approximately 61% was EUR denominated, 23% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	1-3/2016	1-3/2015	Change	2015
Energy Solutions	132	182	-27%	1 126
Marine Solutions ¹	335	321	4%	1 720
Services	500	485	3%	2 184
Net sales, total	967	988	-2%	5 029

¹ Marine Systems International's contribution to net sales was EUR 102 million in the first quarter of 2016.

Operating result and profitability

The operating result for the review period January-March 2016 was EUR 83 million (100), or 8.6% of net sales (10.1). The decrease compared to the same period in 2015 related primarily to the reduction in power plant deliveries, as well as increased price pressure in the power generation markets. The comparable operating result was EUR 84 million (100), or 8.7% of net sales (10.1). Items affecting comparability in the first quarter of 2016 included costs of EUR 1 million related to the ongoing restructuring measures in the Marine Solutions business. The comparable adjusted EBITA was EUR 93 million (106), or 9.6% of net sales (10.7). Purchase price allocation amortisation amounted to EUR 9 million (6).

Financial items amounted to EUR -3 million (-18). Net interest totalled EUR -3 million (-4). Profit before taxes amounted to EUR 80 million (82). Taxes amounted to EUR 20 million (18), implying an effective tax rate of 24.9% (21.9). Earnings per share were 0.30 euro (0.43) and the equity per share was 10.18 euro (9.43). Return on investments (ROI) was 20.5% (22.0). Return on equity (ROE) was 21.5% (21.0).

Measures of profit and items affecting comparability

MEUR	1-3/2016	1-3/2015	2015
Comparable adjusted EBITA	93	106	643
Purchase price allocation amortisation	-9	-6	-32
Comparable operating result	84	100	612
Restructuring costs	-1		-25
Operating result	83	100	587

Balance sheet, financing and cash flow

Wärtsilä's cash flow from operating activities amounted to EUR -13 million (37) during the review period January-March 2016. Working capital totalled EUR 709 million (296) at the end of the review period, increasing by EUR 166 million from the end of December mainly due to inventory build-up. Advances received at the end of the period totalled EUR 618 million (743). At the end of December 2015, advances received totalled EUR 564 million. Cash and cash equivalents at the end of the period amounted to EUR 428 million (382) and unutilised committed credit facilities totalled EUR 519 million (629). A dividend of EUR 1.20 per share (1.15) corresponding to a total of EUR 237 million (227) was paid during the first quarter.

Wärtsilä had interest-bearing debt totalling EUR 1,088 million at the end of March 2016. At the end of December 2015, interest bearing debt totalled EUR 724 million. The total amount of short-term debt maturing within the next 12 months was EUR 503 million. Long-term loans amounted to EUR 585 million. Net interest-bearing debt totalled EUR 639 million (251) and gearing was 0.32 (0.14).

Liquidity preparedness

MEUR	31.3.2016	31.12.2015
Cash and cash equivalents	428	334
Unutilised committed credit facilities	519	679
Liquidity preparedness	947	1 013
% of net sales (rolling 12 months)	19	20
Less Commercial Papers	363	130
Liquidity preparedness excluding Commercial Papers	584	883
% of net sales (rolling 12 months)	12	18

On 31 March 2016, the average maturity of the total loan portfolio was 29 months and the average maturity of the long-term debt was 45 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant and equipment amounted to EUR 11 million (18) during the review period January-March 2016. There was no capital expenditure related to acquisitions and investments in securities. Depreciation, amortisation, and impairment for the review period amounted to EUR 31 million (29).

In 2016, capital expenditure related to intangible assets and property, plant and equipment is expected to be below depreciation and amortisation.

Manufacturing

In March, Wärtsilä announced that it had, on its own initiative, conducted an internal audit of test processes globally to secure compliance and to ensure operational excellence within the company. The investigation brought forward deviations in certain fuel consumption measurement tests conducted for marine engines in Wärtsilä Delivery Centre Trieste in Italy before customer dispatches. The deviations represented on average 1% of fuel consumption. According to Wärtsilä's evaluation, the customer impact of the deviations is marginal. Of all Wärtsilä engine deliveries, a total of 2% may have been affected. Engines for power plant customers have not been impacted, and no evidence of deviations in other operations has been found. The financial impact of this issue is not estimated to be material.

Research and development, product launches

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.

The 100th Wärtsilä 20DF dual-fuel engine was delivered in January, just 4.5 years after the first customer dispatch. When operating in gas mode, the Wärtsilä 20DF engine is compliant with IMO Tier III regulations without any secondary exhaust gas purification systems. Also, when fuelled by gas, the SO_x and CO₂ emissions are notably reduced and smokeless operation is attained.

In March, the Wärtsilä WTT-40 transverse thruster was launched as a part of Wärtsilä's new transverse thruster series. The salient features include a 4,000 kW power level and a 3,400 mm diameter controllable pitch propeller. Wärtsilä also launched a complete concept for a series of innovative and cost effective shuttle ferries, featuring zero or low 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.

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 marine and offshore customers' assets. It includes the digital service portfolio Wärtsilä Genius services, which was launched towards the end of 2015.

Strategic projects, joint ventures and expansion of the network

In March, Wärtsilä and China State Shipbuilding Corporation signed a letter of intent to establish a new joint venture company. The new joint venture will focus on China's growing market for electrical & automation solutions for marine applications. The joint venture company is expected to be operational at the beginning of 2017.

Construction of the CSSC Wärtsilä Engine (Shanghai) Co. Ltd factory in Lingang, Shanghai is proceeding according to plan. The first engines are expected to be ready for delivery by the end of 2016.

Restructuring programmes

The organisational adjustments in Marine Solutions announced in July 2015, for the planned reduction of approximately 600 jobs globally, is progressing according to plan. In taking these measures, Wärtsilä seeks annual savings in the region of EUR 40 million, which are expected to materialise fully by the end of 2016. At the end of March 2016, savings of approximately EUR 7 million have materialised. The costs related to the restructuring measures will be approximately EUR 25-30 million, of which EUR 1 million was booked during the review period January-March 2016 and EUR 19 million in 2015.

Personnel

Wärtsilä had 18,427 (17,707) employees at the end of March 2016. On average, the number of personnel for January-March 2016 totalled 18,472 (17,678). Marine Solutions employed 6,681 (5,587) people, Energy Solutions 958 (975) and Services 10,331 (10,711). The increase in the number of Marine Solutions employees is related to the acquisition of L-3 Marine Systems International during 2015.

Of Wärtsilä's total number of employees, 19% (20) were located in Finland and 39% (34) elsewhere in Europe. Personnel employed in Asia represented 28% (31) of the total, personnel in the Americas 9% (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. 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.

Shares and shareholders

During January-March 2016, the volume of trades on Nasdaq Helsinki was 26,799,345 shares, equivalent to a turnover of EUR 1,037 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 25,679,328 shares.

Shares on Nasdaq Helsinki

31.3.2016				Number of shares and votes	Number of shares traded 1-3/2016
WRT1V				197 241 130	26 799 345
1.1. - 31.3.2016	High	Low	Average ¹	Close	
Share price	41.88	36.12	38.69	39.77	
¹ Trade-weighted average price					
				31.3.2016	31.3.2015
Market capitalisation, EUR million				7 844	8 130
Foreign shareholders, %				52.5	49.4

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 firm of public auditors 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 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

Risks and business uncertainties

In the power generation markets, slow decision-making in areas with limited or no 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 continue to affect the national infrastructure development in oil and gas producing economies, especially in the Middle East and Russia. In oil importing countries with a gas infrastructure, gas fired power plants generally become more attractive when oil prices decline due to linkages and indexation between oil and gas prices. The challenging competitive environment continues to create pressure on prices.

In the marine markets, the weak short-term global economic outlook, overcapacity, and the low demand for cargo tonnage limit recovery in the conventional shipping segment. Low oil prices, an oversupply of oil and gas, and reduced capital expenditure from oil companies continue to limit offshore investments. The decline in newbuilding prices may push yards to pressure suppliers on prices. The risk of cancellations exists, however negotiations to extend existing delivery contracts appears to be a larger risk for shipyard order books.

In the Services business, the 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 2015 contains a more detailed description of Wärtsilä's risks and risk management.

Events after the reporting period

On 21 April 2016, Wärtsilä announced plans to adjust its Marine Solutions and Energy Solutions businesses to the weakened newbuild market situation and the tough competitive environment. In addition, Wärtsilä plans to concentrate more of the engine related R&D activities to Finland with the aim of reducing development cycles. The realignment will mean the reduction of approximately 550 jobs, of which some 270 will be in Finland. In taking these measures, Wärtsilä

seeks annual savings in the region of EUR 50 million. The effect of the savings will materialise gradually beginning from the second quarter of 2016, and will take full effect by the end of 2017. The costs related to the restructuring measures will be approximately EUR 50 million.

Market outlook

The market for liquid and gas fuelled power generation is expected to remain challenging as economic uncertainty continues. Despite slower economic growth in the emerging markets, growth in electricity demand and the availability of international funding for infrastructure projects will continue to support power plant investments. In the industrialised countries, the low economic growth continues to limit demand for new power plants, except for in North America where the market situation is more positive for gas-fired power plants. The megatrend towards renewables is evident, with investments expected to favour utility scale solar PV installations. Furthermore, distributed, flexible, gas-fired power generation continues to gain ground globally. Electricity markets are being developed to reward the necessary flexibility, thereby enabling new profitable investments. Wärtsilä's systematic market development work in these markets will continue to bring forward the benefits of Smart Power Generation.

The outlook for the shipping and shipbuilding markets remains challenging. Overcapacity continues to limit demand for new vessels in the merchant segment, while low oil prices are impacting investments in offshore exploration and development. In the gas carrier markets, the demand for LNG carriers is under pressure due to supply-demand imbalances and low gas prices. The high number of scheduled deliveries is also creating pressure for LPG carrier contracting, despite the strong growth in LPG demand in Asia. Fleet renewal, potential implementation of new emission regulations, and favourable newbuilding prices are expected to support contracting for passenger ferries. The outlook for cruise vessels remains positive due to an anticipated increase in Asian passenger traffic. The importance of fuel efficiency and environmental regulations are clearly visible, driving interest in environmental solutions, gas as a marine fuel, as well as electric/hybrid solutions.

The service market outlook is positive with growth opportunities in selected regions and segments. An increase in the installed base of medium-speed engines and propulsion equipment, as well as the shift to gas based technology, offsets the slower service demand for older installations and the uncertainty regarding short-term demand development in the merchant marine segment. In the offshore segment, the growth in the installed base during recent years is expected to partially compensate for the challenging outlook in certain regions. The service outlook for gas fuelled vessels remains favourable. Service demand in the power plant segment continues to be good with an especially positive outlook in the Middle East and Africa. Customers in both the marine and power plant markets continue to show healthy interest in long-term service agreements.

Wärtsilä Interim report January-March 2016

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 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

No new or updated IFRS standards have been adopted in 2016.

This interim report is unaudited.

Condensed statement of income

MEUR	1-3/2016	1-3/2015	2015
Continuing operations			
Net sales	967	988	5 029
Other operating income	11	7	51
Expenses	-868	-868	-4 387
Depreciation, amortisation and impairment	-31	-29	-124
Share of result of associates and joint ventures	3	2	17
Operating result	83	100	587
Financial income and expenses	-3	-18	-34
Profit before taxes	80	82	553
Income taxes	-20	-18	-124
Profit for the reporting period from the continuing operations	60	64	429
Profit/loss for the reporting period from the discontinued operations		22	22
Net profit for the reporting period	60	86	451
Attributable to:			
Equity holders of the parent company	58	85	444
Non-controlling interests	2	1	7
	60	86	451
Earnings per share attributable to equity holders of the parent company (basic and diluted):			
Earnings per share, continuing operations, EUR	0.30	0.32	2.14
Earnings per share, discontinued operations, EUR		0.11	0.11
Earnings per share (EPS), basic and diluted, EUR	0.30	0.43	2.25

Statement of other comprehensive income

MEUR	1-3/2016	1-3/2015	2015
Net profit for the reporting period	60	86	451
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income			
Remeasurements of defined benefit liabilities	1	-3	7
Tax on items that will not be reclassified to the statement of income		1	-2
Total items that will not be reclassified to the statement of income	1	-3	5
Items that may be reclassified subsequently to the statement of income			
Exchange rate differences on translating foreign operations	-47	76	23
Exchange rate differences on translating foreign operations for non-controlling interests	-1	5	2
Cash flow hedges	42	-41	-2
Tax on items that may be reclassified to the statement of income	-10	9	-1
Total items that may be reclassified to the statement of income	-16	49	21
Other comprehensive income for the reporting period, net of taxes	-15	46	26

Total comprehensive income for the reporting period	45	132	477
Total comprehensive income attributable to:			
Equity holders of the parent company	44	126	468
Non-controlling interests		6	9
	45	132	477

Condensed statement of financial position

MEUR	31.3.2016	31.3.2015	31.12.2015
Non-current assets			
Intangible assets	1 421	1 213	1 464
Property, plant and equipment	420	444	431
Investments in associates and joint ventures	64	73	89
Available-for-sale financial assets	15	16	15
Deferred tax assets	151	163	157
Other receivables	55	45	59
Total non-current assets	2 126	1 954	2 215
Current assets			
Inventories	1 303	1 330	1 200
Other receivables	1 800	1 605	1 840
Cash and cash equivalents	428	382	334
Total current assets	3 531	3 317	3 374
Total assets	5 657	5 271	5 589
Equity			
Share capital	336	336	336
Other equity	1 673	1 523	1 865
Total equity attributable to equity holders of the parent company	2 009	1 859	2 201
Non-controlling interests	40	47	41
Total equity	2 049	1 907	2 242
Non-current liabilities			
Interest-bearing debt	585	502	492
Deferred tax liabilities	109	69	102
Other liabilities	285	247	286
Total non-current liabilities	979	818	880
Current liabilities			
Interest-bearing debt	503	145	232
Other liabilities	2 126	2 401	2 235
Total current liabilities	2 629	2 546	2 467
Total liabilities	3 608	3 365	3 347
Total equity and liabilities	5 657	5 271	5 589

Condensed statement of cash flows

MEUR	1-3/2016	1-3/2015	2015
Cash flow from operating activities:			
Net profit for the reporting period	60	86	451
Adjustments for:			
Depreciation, amortisation and impairment	31	29	124
Financial income and expenses	3	18	34
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-1	-25	-27
Share of result of associates and joint ventures	-3	-2	-17
Income taxes	20	18	124
Cash flow before changes in working capital	109	124	688
Changes in working capital	-105	-71	-343
Cash flow from operating activities before financial items and taxes	4	53	346
Financial items and paid taxes	-17	-16	-91
Cash flow from operating activities	-13	37	255
Cash flow from investing activities:			
Investments in shares and acquisitions			-267
Net investments in property, plant and equipment and intangible assets	-8	-17	-66
Proceeds from sale of available-for-sale financial assets and shares in associated companies			1
Disposal of discontinued operations, net of cash		44	44
Cash flow from investing activities	-8	28	-288
Cash flow from financing activities:			
Proceeds from non-current debt	160		50
Repayments and other changes in non-current debt	-40	-32	-112
Changes in current loans and other changes	240	-10	94
Dividends paid	-238	-231	-242
Cash flow from financing activities	121	-272	-210
Change in cash and cash equivalents, increase (+) / decrease (-)	100	-208	-243
Cash and cash equivalents at the beginning of the reporting period	334	571	571
Exchange rate changes	-6	17	5
Cash and cash equivalents at the end of the reporting period	428	382	334

Consolidated statement of changes in equity

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 1 January 2016	336	61	-6	-70	-36	1 916	41	2 242
Dividends paid						-237	-1	-238
Total comprehensive income for the reporting period			-47	32	1	58		45
Equity on 31 March 2016	336	61	-53	-38	-36	1 738	40	2 049

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 1 January 2015	336	61	-30	-66	-65	1 723	45	2 005
Dividends paid						-227	-4	-231
Total comprehensive income for the reporting period			76	-32	22	60	6	132
Equity on 31 March 2015	336	61	47	-98	-43	1 557	47	1 907

Net sales by geographical areas

MEUR	1-3/2016	1-3/2015	2015
Europe	370	292	1 566
Asia	303	403	2 051
The Americas	216	201	1 006
Other	78	92	407
Total	967	988	5 029

Measures of profit and items affecting comparability

MEUR	1-3/2016	1-3/2015	2015
Comparable adjusted EBITA	93	106	643
Purchase price allocation amortisation	-9	-6	-32
Comparable operating result	84	100	612
Items affecting comparability:			
Social plan costs			-16
Impairment and write-downs			-1
Other restructuring costs	-1		-8
Items affecting comparability, total	-1		-25
Operating result	83	100	587

Intangible assets and property, plant & equipment

MEUR	1-3/2016	1-3/2015	2015
Intangible assets			
Carrying amount on 1 January	1 464	1 180	1 180
Changes in exchange rates	-31	47	28
Acquisitions			304
Additions	3	3	14
Amortisation and impairment	-15	-13	-60
Disposals and reclassifications		-2	-1
Carrying amount at the end of the reporting period	1 421	1 213	1 464
Property, plant and equipment			
Carrying amount on 1 January	431	434	434
Changes in exchange rates	-2	12	-1
Acquisitions			8
Additions	8	15	65
Depreciation and impairment	-16	-16	-63
Disposals and reclassifications	-2	-2	-12
Carrying amount at the end of the reporting period	420	444	431

Gross capital expenditure

MEUR	1-3/2016	1-3/2015	2015
Investments in securities and acquisitions			267
Intangible assets and property, plant and equipment	11	18	79
Total	11	18	346

Net interest-bearing debt

MEUR	1-3/2016	1-3/2015	2015
Non-current liabilities	585	502	492
Current liabilities	503	145	232
Loan receivables	-21	-15	-18
Cash and cash equivalents	-428	-382	-334
Total	639	251	372

Financial ratios

	1-3/2016	1-3/2015	2015
Earnings per share (EPS), basic and diluted, EUR	0.30	0.43	2.25
Equity per share, EUR	10.18	9.43	11.16
Solvency ratio, %	40.7	42.1	44.6
Gearing	0.32	0.14	0.17
Return on investment (ROI), continuing operations, %	20.5	22.0	21.0
Return on equity (ROE), continuing operations, %	21.5	21.0	20.2

Personnel

	1-3/2016	1-3/2015	2015
On average	18 472	17 678	18 565
At the end of the reporting period	18 427	17 707	18 856

Contingent liabilities

MEUR	1-3/2016	1-3/2015	2015
Mortgages	10	10	10
Chattel mortgages and other pledges and securities	26	28	27
Total	36	38	37
Guarantees and contingent liabilities on behalf of Group companies	703	751	743
Nominal amount of rents according to leasing contracts			
payable within one year	29	24	29
payable between one and five years	74	69	76
payable later	28	21	29
Total	833	864	876

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	185	
Inflation hedges	1	
Foreign exchange forward contracts	1 900	475
Total	2 085	475

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		
Available-for-sale financial assets (level 3)	15	15
Interest-bearing investments, non-current (level 2)	20	20
Other receivables, non-current (level 2)	6	6
Other receivables, non-current (level 3)	21	21
Derivatives (level 2)	32	32
Financial liabilities		
Interest-bearing debt, non-current (level 2)	585	599
Derivatives (level 2)	12	12

Quarterly figures

MEUR	1-3/ 2016	10-12/ 2015	7-9/ 2015	4-6/ 2015	1-3/ 2015	10-12/ 2014	7-9/ 2014	4-6/ 2014	1-3/ 2014
Order intake									
Marine Solutions	379	465	407	392	336	460	463	383	440
Energy Solutions	312	366	167	188	287	501	383	244	165
Services	580	572	511	579	662	561	463	510	510
Total	1 271	1 403	1 086	1 159	1 285	1 522	1 309	1 138	1 115
Order book at the end of the reporting period									
Marine Solutions	2 595	2 558	2 699	2 785	2 239	2 213	2 369	2 233	2 216
Energy Solutions	1 491	1 366	1 388	1 459	1 619	1 475	1 426	1 322	1 343
Services	1 017	958	1 026	1 081	1 073	842	879	865	824
Total	5 103	4 882	5 112	5 325	4 931	4 530	4 674	4 420	4 384
Net sales									
Marine Solutions	335	598	448	354	321	552	363	415	371
Energy Solutions	132	374	243	327	182	433	282	233	190
Services	500	619	531	548	485	564	472	468	435
Total	967	1 590	1 222	1 230	988	1 549	1 117	1 116	997
Share of result of associates and joint ventures	3	6	5	5	2	4	7	5	10
Comparable adjusted EBITA	93	224	170	144	106	202	149	138	105
as a percentage of net sales	9.6	14.1	13.9	11.7	10.7	13.1	13.3	12.4	10.5
Depreciation, amortisation and impairment	-31	-33	-32	-30	-29	-30	-29	-27	-29
Purchase price allocation amortisation	-9	-9	-9	-7	-6	-6	-6	-6	-7
Comparable operating result	84	215	160	137	100	196	142	132	98
as a percentage of net sales	8.7	13.5	13.1	11.1	10.1	12.7	12.7	11.8	9.8
Items affecting comparability, total	-1	-13	-11			-30	-1	-9	-6
Operating result	83	202	149	137	100	166	141	123	92
as a percentage of net sales	8.6	12.7	12.2	11.1	10.1	10.7	12.6	11.0	9.3
Financial income and expenses	-3	-2	-17	3	-18	-9	-12	-4	-3
Profit before taxes	80	199	132	140	82	157	129	119	89
Income taxes	-20	-41	-35	-31	-18	-27	-31	-28	-20
Profit for the reporting period from the continuing operations	60	159	97	109	64	129	98	91	70
Profit/loss for the reporting period from the discontinued operations					22	-9	-13	-8	-7
Net profit for the reporting period	60	159	97	109	86	121	85	83	63
Earnings per share (EPS), basic and diluted, EUR	0.30	0.79	0.49	0.54	0.43	0.60	0.43	0.42	0.31
Gross capital expenditure	11	32	17	279	18	25	28	22	19
Investments in securities and acquisitions		5		262			1		1

Cash flow from operating activities	-13	176	-5	47	37	212	68	61	111
Working capital (WCAP) at the end of the reporting period	709	543	522	404	296	251	379	339	292
Personnel at the end of the reporting period									
Marine Solutions	6 681	6 847	7 101	7 217	5 587	5 603	5 651	5 695	5 785
Energy Solutions	958	959	966	974	975	978	990	1 000	1 056
Services	10 331	10 592	10 714	10 785	10 711	10 692	10 742	10 748	10 875
Other	457	459	456	451	433	444	434	433	443
Total	18 427	18 856	19 237	19 427	17 707	17 717	17 817	17 876	18 159

Calculation of financial ratios

Earnings per share (EPS), basic and diluted

Net 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)

Net 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)

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

20 April 2016
Wärtsilä Corporation
Board of Directors
