Wärtsilä Corporation

Q2 Interim report

January–June 2016

WÄRTSILÄ

Stable volume development in a challenging market

Second quarter highlights

- Order intake increased 3% to EUR 1,194 million (1,159)
- Net sales decreased 3% to EUR 1,196 million (1,230)
- Book-to-bill 1.00 (0.94)
- Comparable operating result EUR 122 million, or 10.2% of net sales (EUR 137 million or 11.1%)
- Earnings per share 0.19 euro (0.54)
- Cash flow from operating activities EUR 202 million (47)

Highlights of the review period January-June 2016

- Order intake increased 1% to EUR 2,465 million (2,443)
- Net sales decreased 2% to EUR 2,163 million (2,218)
- Book-to-bill 1.14 (1.10)
- Comparable operating result EUR 206 million, or 9.5% of net sales (EUR 237 million or 10.7%)
- Earnings per share 0.49 euro (0.97)
- Cash flow from operating activities EUR 189 million (84)
- Order book at the end of the period decreased 5% to EUR 5,083 million (5,325)

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

“The development of the first half of 2016 was satisfactory, given the prevailing challenges in our operating environment. Net sales remained broadly in line with the previous year, while the lower level of power plant deliveries and tight competition in the energy markets burdened our operating result. Going forward, we expect equipment deliveries to be concentrated towards the end of the year. Order intake development was solid, largely thanks to the somewhat improved sentiment in the power generation industry, which supported growth in Energy Solutions’ ordering activity. Marine Solutions’ orders have also held up fairly well considering the low level of vessel contracting, benefitting from announced fleet renewal activity in the cruise and ferry markets. Services' net sales have grown at a slower pace; however, we expect improved activity levels to support a pick-up in volumes in the coming quarters. Based on the current trends in our end markets and the increased uncertainty in the global economy, our outlook for demand development remains cautious.

Pursuing growth through innovative solutions is one of the key cornerstones of Wärtsilä’s strategy, which is why I am pleased to highlight the acquisition of Eniram, a company specialised in energy management and data analytics solutions. Eniram complements our existing digital offering and enhances our expertise in data analytics, modelling, and performance optimisation. It is an important investment for our digital future. During the second quarter, we also announced the acquisition of American Hydro. This investment is aimed at strengthening our presence and competences in the industrial and hydro power service markets."

Key figures

MEUR	4-6/2016	4-6/2015	Change	1-6/2016	1-6/2015	Change	2015
Order intake	1 194	1 159	3%	2 465	2 443	1%	4 932
Order book at the end of the period				5 083	5 325	-5%	4 882
Net sales	1 196	1 230	-3%	2 163	2 218	-2%	5 029
Operating result[1]	96	137	-30%	179	237	-24%	587
% of net sales	8.0	11.1		8.3	10.7		11.7
Comparable operating result	122	137	-11%	206	237	-13%	612
% of net sales	10.2	11.1		9.5	10.7		12.2
Comparable adjusted EBITA	131	144	-9%	224	250	-11%	643
% of net sales	10.9	11.7		10.3	11.3		12.8
Profit before taxes[2]	58	140	-59%	138	222	-38%	553
Earnings/share, EUR[2]	0.19	0.54		0.49	0.97		2.25
Cash flow from operating activities	202	47		189	84		255
Net interest-bearing debt at the end of the period				517	495		372
Gross capital expenditure				71	297		346
Gearing				0.25	0.25		0.17

[1]Items affecting comparability included restructuring costs of EUR 26 million in the second quarter of 2016, of which EUR 17 million were non-cash write-downs. During the review period January-June 2016 restructuring costs amounted to EUR 27 million.

[2]Write-downs of approx. EUR 42 million related to the divestment of the Winterthur Gas & Diesel joint venture, realised exchange rate losses from Brazilian projects, and other receivables were recognised in the results for the second quarter of 2016.

Market development

Energy Solutions

Power generation market activity slowly improving despite the challenging environment

The demand for new power generation capacity improved slightly during the first half of 2016, especially for larger installations. Wärtsilä's position developed well in its addressable market, both in terms of orders received and quotation activity. Growth in electricity demand supported power plant investments in the emerging markets, while demand continued to be more limited in the industrialised world. Despite the somewhat improved sentiment, the market for liquid and gas fuelled power generation remains challenging as a result of macroeconomic uncertainty and tight competition for projects.

Energy Solutions market share

In the first quarter of 2016, global orders for natural gas and liquid fuel power plants of up to 500 MW totalled 4.3 GW (4.7), a decrease of 9% from the previous year. Wärtsilä’s market share increased to 20% (15). Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size.

Marine Solutions

Limited demand for new vessels

Contracting activity clearly weakened during the first half of 2016, with only 228 contracts for new vessels registered, compared to 806 in the corresponding period of the previous year. The decline in vessel orders primarily affected the traditional merchant, gas carrier and offshore segments, which continue to be burdened by low freight rates, depressed oil and gas prices, and overcapacity. The demand for cruise ships, ferries and RoRo vessels remained at a good level, supported by fleet renewals, low newbuilding prices, and healthy earnings in the RoRo segment.

In terms of compensated gross tonnage, contracting activity was more evenly distributed outside the traditional top three shipbuilding countries. This was largely driven by the increase of cruise vessels within the contracting mix. Of the confirmed contracts, China secured 38%, Italy 14%, and South Korea 13%, while Germany and Japan secured 11% and 9% respectively.

Marine Solutions market shares

Wärtsilä’s share of the medium-speed main engine market was 58% (60% at the end of the previous quarter). The market share in auxiliary engines was 13% (13% at the end of the previous quarter).

Services

Stable development in the service markets

Service market activity was stable during the first half of the year in both end markets. In the marine market, the low demand for offshore services is affecting selected regions. Service activity in the other vessel segments was steady. The demand for power plant related services developed well in Africa, while the utilisation of power plants under service agreements continued to be limited in Brazil.

Order intake

Wärtsilä’s second quarter order intake totalled EUR 1,194 million (1,159), an increase of 3% over the corresponding period last year. The second quarter book-to-bill ratio was 1.00 (0.94).

The order intake for Energy Solutions totalled EUR 304 million (188) in the second quarter, which was 62% more than for the corresponding period last year. Asia and the Americas were the most active regions in terms of ordering activity. Significant orders received included equipment deliveries to three power plants in Argentina with a total output of 192 MW, and to a 310 MW power plant in Bangladesh.

Marine Solutions’ second quarter order intake totalled EUR 362 million (392), a decrease of 8% compared to the corresponding period last year. The demand for electrical and automation solutions remained sound. Included in the orders received was a contract to supply integrated turnkey electrical solutions for four new RoRo ferries being built at the Flensburger Schiffbau-Gesellschaft yard in Germany for SIEM RoRo Carriers Ltd. The cruise and ferry segment represented 37% of the second quarter order intake and the conventional merchant segment’s share was 28%. Gas carriers accounted for 13% of the order intake and the navy segment for 7%, while special vessels represented 6%, offshore 4%, and other orders 5% of the total.

The second quarter order intake for the Services business totalled EUR 527 million (579). The 9% decline over the corresponding period last year was due to fewer orders related to maintenance work and long-term service agreements. Larger orders received during the second quarter included lifecycle upgrade projects, as well as an operations and management agreement for a power plant in Africa.

The total order intake for the review period January-June 2016 was stable at EUR 2,465 million (2,443). The book-to-bill ratio for the review period was 1.14 (1.10). Energy Solutions’ order intake increased by 30% to EUR 616 million (475). Marine Solutions’ order intake increased by 2% to EUR 741 million (728). Services’ order intake totalled EUR 1,107 million (1,240), a decrease of 11%.

Order intake by business

MEUR	4-6/2016	4-6/2015	Change	1-6/2016	1-6/2015	Change	2015
Energy Solutions	304	188	62%	616	475	30%	1 009
Marine Solutions[1]	362	392	-8%	741	728	2%	1 599
Services	527	579	-9%	1 107	1 240	-11%	2 324
Order intake, total	1 194	1 159	3%	2 465	2 443	1%	4 932

[1] Marine Systems International's contribution to order intake was EUR 114 million (41) in the second quarter of 2016 and EUR 251 million (41) in the review period January-June 2016.

Order intake Energy Solutions

MW	4-6/2016	4-6/2015	Change	1-6/2016	1-6/2015	Change	2015
Oil	734	237	210%	1 298	688	89%	1 303
Gas	284	283	0%	587	534	10%	1 132
Order intake, total	1 018	520	96%	1 886	1 222	54%	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 54 million (140) during the review period January-June 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 5,083 million (5,325), a decrease of 5%. The Energy Solutions order book increased by 6%, totalling EUR 1,547 million (1,459). The Marine Solutions order book decreased by 11% to EUR 2,488 million (2,785). The Services order book totalled EUR 1,048 million (1,081), a decrease of 3%.

Order book by business

MEUR	30.6.2016	30.6.2015	Change	31.12.2015
Energy Solutions	1 547	1 459	6%	1 366
Marine Solutions[1]	2 488	2 785	-11%	2 558
Services	1 048	1 081	-3%	958
Order book, total	5 083	5 325	-5%	4 882

[1] Marine Systems International's order book at the end of June 2016 amounted to EUR 554 million (519).

Net sales

Wärtsilä's net sales for the second quarter totalled EUR 1,196 million (1,230), a decrease of 3% compared to the corresponding period last year. Net sales for Energy Solutions decreased by 33% to EUR 220 million (327). Marine Solutions' net sales totalled EUR 433 million (354), which is 23% higher than in the corresponding quarter last year. Net sales from the Services business remained stable at EUR 542 million (548). The good development in service project sales was outweighed by slower demand for long-term service agreements.

Wärtsilä's net sales for January-June 2016 were EUR 2,163 million (2,218), a decrease of 2% over the corresponding period last year. Net sales for Energy Solutions totalled EUR 353 million (509), a decrease of 31%. Marine Solutions' net sales increased by 14% to EUR 768 million (674). Net sales from the Services business were stable at EUR 1,042 million (1,034). Of the total net sales, Energy Solutions accounted for 16%, Marine Solutions for 36%, and Services for 48%.

Of Wärtsilä's net sales for January-June 2016, approximately 65% was EUR denominated, 19% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	4-6/2016	4-6/2015	Change	1-6/2016	1-6/2015	Change	2015
Energy Solutions	220	327	-33%	353	509	-31%	1 126
Marine Solutions[1]	433	354	23%	768	674	14%	1 720
Services	542	548	-1%	1 042	1 034	1%	2 184
Net sales, total	1 196	1 230	-3%	2 163	2 218	-2%	5 029

[1] Marine Systems International's contribution to net sales was EUR 106 million (30) in the second quarter of 2016 and EUR 208 million (30) in the review period January-June 2016.

Operating result and profitability

The second quarter operating result was EUR 96 million (137), or 8.0% of net sales (11.1). The decrease from the previous year was primarily due to restructuring costs, fewer power plant deliveries and tight competition in the energy markets. The comparable operating result was EUR 122 million (137), or 10.2% of net sales (11.1). Items affecting comparability included restructuring costs of EUR 26 million, of which EUR 17 million were non-cash write-downs. The comparable adjusted EBITA was EUR 131 million (144), or 10.9% of net sales (11.7). Purchase price allocation amortisation amounted to EUR 9 million (7).

For the review period January-June 2016, the operating result was 179 million (237), or 8.3% of net sales (10.7). The comparable operating result was EUR 206 million (237), or 9.5% of net sales (10.7). Items affecting comparability included restructuring costs of EUR 27 million. The comparable adjusted EBITA was EUR 224 million (250), or 10.3% of net sales (11.3). Purchase price allocation amortisation amounted to EUR 17 million (13).

During the review period January-June 2016, financial items amounted to EUR -41 million (-15). Financial items were negatively affected by realised exchange rate losses from Brazilian projects, as well as by write-downs related to the divestment of the two-stroke joint venture Winterthur Gas & Diesel and to other receivables. Net interest totalled EUR -6 million (-5). Profit before taxes amounted to EUR 138 million (222). Taxes amounted to EUR 37 million (49), implying an effective tax rate of 26.9% (22.0). Earnings per share were 0.49 euro (0.97) and equity per share was 10.30 euro (10.08). Return on investments (ROI) was 17.5% (20.8). Return on equity (ROE) was 17.4% (20.7).

Measures of profit and items affecting comparability

MEUR	4-6/2016	4-6/2015	1-6/2016	1-6/2015	2015
Comparable adjusted EBITA	131	144	224	250	643
Purchase price allocation amortisation	-9	-7	-17	-13	-32
Comparable operating result	122	137	206	237	612
Restructuring costs	-26		-27		-25
Operating result	96	137	179	237	587

Balance sheet, financing and cash flow

Wärtsilä's second quarter cash flow from operating activities amounted to EUR 202 million (47). For January-June 2016, the operating cash flow totalled EUR 189 million (84). Working capital totalled EUR 602 million (404) at the end of the review period, a decrease of EUR 107 million from the end of the previous quarter. Advances received at the end of the period totalled EUR 610 million (761). At the end of the previous quarter, advances totalled EUR 618 million. Cash and cash equivalents at the end of the period amounted to EUR 357 million (269) and unutilised Committed Revolving Credit Facilities totalled EUR 629 million (629).

Wärtsilä had interest-bearing debt totalling EUR 881 million (779) at the end of June 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 336 million. Long-term loans amounted to EUR 545 million. Net interest-bearing debt totalled EUR 517 million (495) and gearing was 0.25 (0.25).

Liquidity preparedness

MEUR	30.6.2016	31.12.2015
Cash and cash equivalents	357	334
Unutilised committed credit facilities	629	679
Liquidity preparedness	986	1 013
% of net sales (rolling 12 months)	20	20
Less Commercial Papers	223	130
Liquidity preparedness excluding Commercial Papers	763	883
% of net sales (rolling 12 months)	15	18

On 30 June 2016, the average maturity of the total loan portfolio was 36 months and the average maturity of the long-term debt was 47 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant and equipment amounted to EUR 22 million (35) during the review period January-June 2016. Capital expenditure related to acquisitions and investments in securities totalled EUR 49 million (262). The comparison figure includes the acquisition of Marine Systems International. Depreciation, amortisation, and impairment for the review period amounted to EUR 73 million (59).

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

Strategic projects, acquisitions, joint ventures and expansion of the network

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 (EPC) capability. Wärtsilä has signed a memorandum of understanding for its first solar project, a 46 MW retrofit hybrid plant to be built in Jordan.

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 was 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 was 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.

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 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 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 the savings approximately EUR 65 million are estimated to materialise by the end 2016 and the remainder 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-June 2016, restructuring costs amounted to EUR 27 million, of which EUR 17 million were non-cash write-downs.

Personnel

Wärtsilä had 18,428 (19,427) employees at the end of June 2016. On average, the number of personnel for January-June 2016 totalled 18,378 (17,987). Marine Solutions employed 6,443 (7,217) people, Energy Solutions 945 (974) and Services 10,575 (10,785).

Of Wärtsilä's total number of employees, 19% (19) were located in Finland and 39% (38) elsewhere in Europe. Personnel employed in Asia represented 28% (29) of the total, personnel in the Americas 11% (10), and personnel in other countries 4% (4).

Sustainable development

Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce exhaust emissions and the use of natural resources. 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-June 2016, the volume of trades on Nasdaq Helsinki was 52,830,018 shares, equivalent to a turnover of EUR 2,017 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 47,986,733 shares.

Shares on Nasdaq Helsinki

30.6.2016	Number of shares and votes	Number of shares traded 1-6/2016
WRT1V	197 241 130	52 830 018

1.1. - 30.6.2016	High	Low	Average [1]	Close
Share price	41.88	33.90	38.18	36.55

[1] Trade-weighted average price

	30.6.2016	30.6.2015
Market capitalisation, EUR million	7 209	8 228
Foreign shareholders, %	53.7	50.6

Flagging notifications

BlackRock, Inc. informed Wärtsilä Corporation that BlackRock Investment Management (UK) Limited had purchased Wärtsilä shares on 27 April 2016, crossing above the 5% disclosure limit on total holdings. Following the transaction, BlackRock Investment Management (UK) Limited owned 5.01% of Wärtsilä's share capital and total votes through existing proportions of holdings and voting rights and financial instruments. The total number of shares held by BlackRock, Inc. remained above 5% of Wärtsilä's share capital and total votes.

Subsequently, BlackRock, Inc. informed Wärtsilä Corporation that BlackRock Investment Management (UK) Limited had again purchased Wärtsilä shares on 3 May 2016, crossing above the 5% disclosure limit on shares and voting rights and remaining above 5% on total holdings. Following the transaction, BlackRock Investment Management (UK) Limited owned 5.01% of Wärtsilä's shares and voting rights and 0.12% of shares and voting rights through financial instruments, corresponding to a total of 5.13%. The total number of shares held by BlackRock, Inc. remained above 5% of Wärtsilä's share capital and total votes.

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 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 are affecting national infrastructure development in the oil and gas producing economies, especially in the Middle East and Russia. The challenging competitive environment continues to create pressure on prices.

In the marine markets, the weak short-term global economic outlook, overcapacity, and low demand for cargo tonnage are limiting 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. 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, the slow economic growth and political instability in specific regions are the main risks for demand development, along with the challenging conditions in specific marine market segments.

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 2015 annual report contains a more detailed description of Wärtsilä's risks and risk management.

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 North America where the market situation is more positive for gas-fired power plants. The megatrend towards renewable energy sources 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 promote 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 impact investments in offshore exploration and development. In the gas carrier markets, the demand for both LNG and LPG carriers is under pressure due to low oil and gas prices and supply-demand imbalances. The outlook for the cruise and ferry segment remains positive. The demand for cruise vessels is supported by increasing passenger volumes, particularly in Asia, while the contracting of ferries is supported by fleet renewals in Europe, the potential implementation of new emission regulations, and favourable newbuilding prices.

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 specific 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 contracts, as evidenced by the growth in the installed engine base covered by agreements.

Wärtsilä Interim report January-June 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	1–6/2016	1–6/2015	4–6/2016	4–6/2015	2015
Continuing operations					
Net sales	2 163	2 218	1 196	1 230	5 029
Other operating income	24	20	13	13	51
Expenses	-1 942	-1 949	-1 075	-1 081	-4 387
Depreciation, amortisation and impairment	-73	-59	-42	-30	-124
Share of result of associates and joint ventures	7	7	4	5	17
Operating result	179	237	96	137	587
Financial income and expenses	-41	-15	-38	3	-34
Profit before taxes	138	222	58	140	553
Income taxes	-37	-49	-17	-31	-124
Profit for the reporting period from the continuing operations	101	173	41	109	429
Profit/loss for the reporting period from the discontinued operations		22			22
Net profit for the reporting period	101	195	41	109	451
Attributable to:					
Equity holders of the parent company	97	192	38	107	444
Non-controlling interests	4	3	2	2	7
	101	195	41	109	451
Earnings per share attributable to equity holders of the parent company (basic and diluted):					
Earnings per share, continuing operations, EUR	0.49	0.86	0.19	0.54	2.14
Earnings per share, discontinued operations, EUR		0.11			0.11
Earnings per share (EPS), basic and diluted, EUR	0.49	0.97	0.19	0.54	2.25

Statement of other comprehensive income

MEUR	1–6/2016	1–6/2015	4–6/2016	4–6/2015	2015
Net profit for the reporting period	101	195	41	109	451
Other comprehensive income, net of taxes:					
Items that will not be reclassified to the statement of income					
Remeasurements of defined benefit liabilities	-13	-4	-14	-1	7
Tax on items that will not be reclassified to the statement of income	3	1	4		-2
Total items that will not be reclassified to the statement of income	-9	-3	-10		5
Items that may be reclassified subsequently to the statement of income					
Exchange rate differences on translating foreign operations	-53	62	-6	-14	23
Exchange rate differences on translating foreign operations for non-controlling interests	-1	3		-2	2

Cash flow hedges	44	5	2	46	-2
Tax on items that may be reclassified to the statement of income	-11	-1	-1	-10	-1
Total items that may be reclassified to the statement of income	-21	69	-5	20	21
Other comprehensive income for the reporting period, net of taxes	-30	65	-15	19	26
Total comprehensive income for the reporting period	71	261	26	128	477
Total comprehensive income attributable to:					
Equity holders of the parent company	68	255	23	128	468
Non-controlling interests	3	6	3		9
	71	261	26	128	477

Condensed statement of financial position

MEUR	30.6.2016	30.6.2015	31.12.2015
Non-current assets			
Intangible assets	1 418	1 504	1 464
Property, plant and equipment	424	442	431
Investments in associates and joint ventures	76	74	89
Available-for-sale financial assets	14	16	15
Deferred tax assets	167	172	157
Other receivables	27	56	59
Total non-current assets	2 125	2 266	2 215
Current assets			
Inventories	1 255	1 539	1 200
Other receivables	1 707	1 549	1 840
Cash and cash equivalents	357	269	334
Total current assets	3 319	3 357	3 374
Total assets	5 444	5 622	5 589
Equity			
Share capital	336	336	336
Other equity	1 696	1 651	1 865
Total equity attributable to equity holders of the parent company	2 032	1 987	2 201
Non-controlling interests	33	42	41
Total equity	2 065	2 030	2 242
Non-current liabilities			
Interest-bearing debt	545	464	492
Deferred tax liabilities	114	113	102
Other liabilities	289	350	286
Total non-current liabilities	948	927	880

Current liabilities			
Interest-bearing debt	336	315	232
Other liabilities	2 095	2 351	2 235
Total current liabilities	2 431	2 666	2 467
Total liabilities	3 379	3 593	3 347
Total equity and liabilities	5 444	5 622	5 589

Condensed statement of cash flows

MEUR	1–6/2016	1–6/2015	4–6/2016	4–6/2015	2015
Cash flow from operating activities:					
Net profit for the reporting period	101	195	41	109	451
Adjustments for:					
Depreciation, amortisation and impairment	73	59	42	30	124
Financial income and expenses	41	15	38	-3	34
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-2	-25	-1		-27
Share of result of associates and joint ventures	-7	-7	-4	-5	-17
Income taxes	37	49	17	31	124
Cash flow before changes in working capital	243	286	134	162	688
Changes in working capital	-10	-164	95	-93	-343
Cash flow from operating activities before financial items and taxes	233	122	229	69	346
Financial items and paid taxes	-44	-38	-27	-22	-91
Cash flow from operating activities	189	84	202	47	255
Cash flow from investing activities:					
Investments in shares and acquisitions	-47	-262	-47	-261	-267
Net investments in property, plant and equipment and intangible assets	-17	-32	-8	-16	-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	-63	-250	-55	-276	-288
Cash flow from financing activities:					
Proceeds from non-current debt	131		-29		50
Repayments and other changes in non-current debt	-77	-81	-37	-49	-112
Changes in current loans and other changes	103	171	-137	181	94
Dividends paid	-250	-237	-11	-7	-242
Cash flow from financing activities	-93	-148	-214	124	-210
Change in cash and cash equivalents, increase (+)/decrease (-)	33	-314	-68	-105	-243
Cash and cash equivalents at the beginning of the reporting period	334	571	428	382	571
Exchange rate changes	-9	11	-3	-7	5
Cash and cash equivalents at the end of the reporting period	357	269	357	269	334

Consolidated statement of changes in equity

MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Non-controlling interests	Total equity
	Total equity attributable to equity holders of the parent company							
Equity on 1 January 2016	336	61	-6	-70	-36	1 916	41	2 242
Dividends paid						-237	-11	-247
Total comprehensive income for the reporting period			-53	33	-9	97	3	71
Equity on 30 June 2016	336	61	-59	-36	-46	1 776	33	2 065

MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Non-controlling interests	Total equity
	Total equity attributable to equity holders of the parent company							
Equity on 1 January 2015	336	61	-30	-66	-65	1 723	45	2 005
Dividends paid						-227	-9	-236
Total comprehensive income for the reporting period			62	4	21	168	6	261
Equity on 30 June 2015	336	61	32	-62	-44	1 664	42	2 030

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	49
Total consideration transferred	49

Preliminary cash flow from the acquisition	MEUR
Consideration paid in cash	47
Contingent consideration	2
Cash and cash equivalents of the acquired companies	-4
Total cash flow from the acquisition	44

Provisional values of the assets and liabilities arising from the acquisition	MEUR
Intangible assets	5
Property, plant and equipment	20
Inventories	1
Trade and other receivables	8
Cash and cash equivalents	4
Total assets	**38**
Trade payables and other liabilities	5
Deferred tax liabilities	1
Total liabilities	**6**
Total net assets	32
Preliminary goodwill	17

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 17 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 condensed statement of income.

Due to the acquisition happening on 30 June 2016, American Hydro did not contribute to the condensed statement of income. If the acquisition had occurred on 1 January 2016, management estimates that consolidated net sales would have been EUR 2,183 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 profit for the reporting period are not significant.

Net sales by geographical areas

MEUR	1–6/2016	1–6/2015	2015
Europe	752	657	1 566
Asia	813	876	2 051
The Americas	416	464	1 006
Other	182	220	407
Total	2 163	2 218	5 029

Measures of profit and items affecting comparability

MEUR	1–6/2016	1–6/2015	2015
Comparable adjusted EBITA	224	250	643
Purchase price allocation amortisation	-17	-13	-32
Comparable operating result	206	237	612
Items affecting comparability:			
Social plan costs	-6		-16
Impairment and write-downs	-17		-1
Other restructuring costs	-4		-8
Items affecting comparability, total	-27		-25
Operating result	179	237	587

Intangible assets and property, plant & equipment

MEUR	1–6/2016	1–6/2015	2015
Intangible assets			
Carrying amount on 1 January	1 464	1 180	1 180
Changes in exchange rates	-44	52	28
Acquisitions	23	293	304
Additions	5	8	14
Amortisation and impairment	-30	-27	-60
Disposals and reclassifications	-1		-1
Carrying amount at the end of the reporting period	1 418	1 504	1 464
Property, plant and equipment			
Carrying amount on 1 January	431	434	434
Changes in exchange rates	3	8	-1
Acquisitions	20	8	8
Additions	17	27	65
Depreciation and impairment	-43	-32	-63
Disposals and reclassifications	-3	-3	-12
Carrying amount at the end of the reporting period	424	442	431

Gross capital expenditure

MEUR	1–6/2016	1–6/2015	2015
Investments in securities and acquisitions	49	262	267
Intangible assets and property, plant and equipment	22	35	79
Total	71	297	346

Net interest-bearing debt

MEUR	1–6/2016	1–6/2015	2015
Non-current liabilities	545	464	492
Current liabilities	336	315	232
Loan receivables	-6	-15	-18
Cash and cash equivalents	-357	-269	-334
Total	517	495	372

Financial ratios

	1–6/2016	1–6/2015	2015
Earnings per share (EPS), basic and diluted, EUR	0.49	0.97	2.25
Equity per share, EUR	10.30	10.08	11.16
Solvency ratio, %	42.7	41.8	44.6
Gearing	0.25	0.25	0.17
Return on investment (ROI), continuing operations, %	17.5	20.8	21.0
Return on equity (ROE), continuing operations, %	17.4	20.7	20.2

Personnel

	1–6/2016	1–6/2015	2015
On average	18 378	17 987	18 565
At the end of the reporting period	18 428	19 427	18 856

Contingent liabilities

MEUR	1–6/2016	1–6/2015	2015
Mortgages	10	10	10
Chattel mortgages and other pledges and securities	26	26	27
Total	36	36	37
Guarantees and contingent liabilities			
on behalf of Group companies	772	774	743
on behalf of associated companies		4	
Nominal amount of rents according to leasing contracts			
payable within one year	28	23	29
payable between one and five years	73	64	76
payable later	27	20	29
Total	900	884	876

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	185	
Cross currency swaps	88	
Inflation hedges	1	
Foreign exchange forward contracts	1 810	790
Total	2 084	790

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)	14	14
Interest-bearing investments, non-current (level 2)	6	6
Other receivables, non-current (level 2)	-16	-16
Other receivables, non-current (level 3)	21	21
Derivatives (level 2)	23	23
Financial liabilities		
Interest-bearing debt, non-current (level 2)	545	553
Derivatives (level 2)	18	18

Events after the balance sheet date

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. The acquisition of Eniram will enable Wärtsilä to grow and strengthen its digital offering and in-house capabilities, specifically in data analytics, modelling and performance optimisation.

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. Eniram will initially continue as a strong independent business entity supported by Wärtsilä's global capabilities. The transaction is valued at EUR 43 million (enterprise value). Ownership of the company transferred to Wärtsilä with effect from 1 July 2016.

Purchase price allocation has not been finished yet.

Quarterly figures

MEUR	4–6/ 2016	1–3/ 2016	10–12/ 2015	7–9/ 2015	4–6/ 2015	1–3/ 2015	10–12/ 2014	7–9/ 2014	4–6/ 2014
Order intake									
Marine Solutions	362	379	465	407	392	336	460	463	383
Energy Solutions	304	312	366	167	188	287	501	383	244
Services	527	580	572	511	579	662	561	463	510
Total	1 194	1 271	1 403	1 086	1 159	1 285	1 522	1 309	1 138
Order book at the end of the reporting period									
Marine Solutions	2 488	2 595	2 558	2 699	2 785	2 239	2 213	2 369	2 233
Energy Solutions	1 547	1 491	1 366	1 388	1 459	1 619	1 475	1 426	1 322
Services	1 048	1 017	958	1 026	1 081	1 073	842	879	865
Total	5 083	5 103	4 882	5 112	5 325	4 931	4 530	4 674	4 420
Net sales									
Marine Solutions	433	335	598	448	354	321	552	363	415
Energy Solutions	220	132	374	243	327	182	433	282	233
Services	542	500	619	531	548	485	564	472	468
Total	1 196	967	1 590	1 222	1 230	988	1 549	1 117	1 116
Share of result of associates and joint ventures	4	3	6	5	5	2	4	7	5
Comparable adjusted EBITA	131	93	224	170	144	106	202	149	138
as a percentage of net sales	10.9	9.6	14.1	13.9	11.7	10.7	13.1	13.3	12.4
Depreciation, amortisation and impairment	-42	-31	-33	-32	-30	-29	-30	-29	-27
Purchase price allocation amortisation	-9	-9	-9	-9	-7	-6	-6	-6	-6
Comparable operating result	122	84	215	160	137	100	196	142	132
as a percentage of net sales	10.2	8.7	13.5	13.1	11.1	10.1	12.7	12.7	11.8
Items affecting comparability, total	-26	-1	-13	-11			-30	-1	-9
Operating result	96	83	202	149	137	100	166	141	123
as a percentage of net sales	8.0	8.6	12.7	12.2	11.1	10.1	10.7	12.6	11.0
Financial income and expenses	-38	-3	-2	-17	3	-18	-9	-12	-4
Profit before taxes	58	80	199	132	140	82	157	129	119
Income taxes	-17	-20	-41	-35	-31	-18	-27	-31	-28
Profit for the reporting period from the continuing operations	41	60	159	97	109	64	129	98	91
Profit/loss for the reporting period from the discontinued operations						22	-9	-13	-8
Net profit for the reporting period	41	60	159	97	109	86	121	85	83
Earnings per share (EPS), basic and diluted, EUR	0.19	0.30	0.79	0.49	0.54	0.43	0.60	0.43	0.42
Gross capital expenditure	60	11	32	17	279	18	25	28	22
Investments in securities and acquisitions	49		5		262			1	

Cash flow from operating activities	202	-13	176	-5	47	37	212	68	61
Working capital (WCAP) at the end of the reporting period	602	709	543	522	404	296	251	379	339
Personnel at the end of the reporting period									
Marine Solutions	6 443	6 681	6 847	7 101	7 217	5 587	5 603	5 651	5 695
Energy Solutions	945	958	959	966	974	975	978	990	1 000
Services	10 575	10 331	10 592	10 714	10 785	10 711	10 692	10 742	10 748
Other	465	457	459	456	451	433	444	434	433
Total	18 428	18 427	18 856	19 237	19 427	17 707	17 717	17 817	17 876

Calculation of financial ratios

Earnings per share (EPS), basic and diluted

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

Equity per share

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

Solvency ratio

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

Gearing

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

Return on investment (ROI)

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

Return on equity (ROE)

$$\frac{\text{Net profit for the reporting period}}{\text{Equity, average over the reporting period}} \times 100$$

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

19 July 2016
Wärtsilä Corporation
Board of Directors