

Wärtsilä Corporation
Half year
financial report

January – June 2017

Growth in orders and net sales in the first half of 2017

Second quarter highlights

- Order intake increased 14% to EUR 1,363 million (1,194)
- Net sales increased 8% to EUR 1,292 million (1,196)
- Book-to-bill 1.05 (1.00)
- Comparable operating result increased to EUR 126 million (122), which represents 9.7% of net sales (10.2)
- Earnings per share increased to 0.38 euro (0.19)
- Cash flow from operating activities decreased to EUR 2 million (202)

Highlights of the review period January-June 2017

- Order intake increased 13% to EUR 2,776 million (2,465)
- Net sales increased 6% to EUR 2,299 million (2,163)
- Book-to-bill 1.21 (1.14)
- Comparable operating result increased to EUR 211 million (206), which represents 9.2% of net sales (9.5)
- Earnings per share increased to 0.66 euro (0.49)
- Cash flow from operating activities decreased to EUR 3 million (189)
- Order book at the end of the period amounted to EUR 5,065 million (5,083)

Wärtsilä's prospects for 2017

Wärtsilä's overall development in 2017 is expected to be relatively unchanged from the previous year. Demand by business area is anticipated to be as follows:

- Solid in Services with growth opportunities in selected regions and segments.
- Good in Energy Solutions, thanks to increasing electricity demand in the emerging markets and the global shift towards renewable energy sources, which will support the need for distributed, flexible, gas-fired power generation.
- Solid in Marine Solutions (raised from soft), thanks to a favourable vessel contracting mix. The general marine market environment remains challenging, as the merchant, gas carrier, and offshore segments continue to suffer from overcapacity, slow trade growth, and the financial constraints of customers.

Wärtsilä's current order book for 2017 deliveries is EUR 2,087 million (2,061). Wärtsilä will continue to focus on improving efficiency, which is expected to partially offset lower volumes in the marine markets. The pricing environment in Energy Solutions' markets has stabilised, but the order book is still impacted by the competitive pressure seen in previous years. The good performance in Services is expected to continue.

Jaakko Eskola, President & CEO

“The first half of 2017 was characterised by good development in net sales, largely due to an increase in the number of power plant deliveries, as well as by solid earnings. Order intake developed well in all business areas. The power plant project pipeline has continued to materialise into orders at a healthy pace, thanks to the growing interest in flexible, gas-fired technologies. Furthermore, although the marine markets remain challenging, a favourable vessel contracting mix supported the development of Marine Solutions’ orders received, particularly in the second quarter. Activity in the service markets was broadly stable, with healthy demand for long-term agreements. I am pleased that our customers continue to see the value of entering into service partnerships with Wärtsilä, which provides a good basis for future development.

Wärtsilä’s ambition is to become an agile technology company dedicated to improving customers’ operations by being a leader in smart marine and smart energy ecosystems. The recent acquisitions of Eniram and Greensmith, as well as our cleantech innovations, demonstrate our active role in enabling sustainable societies and in helping customers to benefit from smart technologies. To support the development of our digital services and products, we are launching digital acceleration centres where promising ideas are developed and co-created into service concepts and products together with customers and partners. I am confident that the investments into our company-wide digital transformation will drive new business opportunities, ultimately strengthening our competitive positioning, and supporting our long-term target of profitable growth.”

Key figures

MEUR	4-6/2017	4-6/2016	Change	1-6/2017	1-6/2016	Change	2016
Order intake	1 363	1 194	14%	2 776	2 465	13%	4 927
Order book at the end of the period				5 065	5 083	0%	4 696
Net sales	1 292	1 196	8%	2 299	2 163	6%	4 801
Operating result ¹	117	96	22%	197	179	10%	532
% of net sales	9.1	8.0		8.6	8.3		11.1
Comparable operating result	126	122	3%	211	206	2%	583
% of net sales	9.7	10.2		9.2	9.5		12.1
Comparable adjusted EBITA	134	131	3%	228	224	2%	618
% of net sales	10.4	10.9		9.9	10.3		12.9
Profit before taxes	103	58	77%	177	138	28%	479
Earnings/share, EUR	0.38	0.19		0.66	0.49		1.79
Cash flow from operating activities	2	202		3	189		613
Net interest-bearing debt at the end of the period				299	517		150
Gross capital expenditure				20	71		146
Gearing				0.14	0.25		0.07

¹Items affecting comparability in the second quarter of 2017 included costs related to restructuring programmes of EUR 8 million (26). During the review period January-June 2017 restructuring costs amounted to EUR 14 million (27).

Market development

SERVICES

Steady development in the service markets

Service markets were stable during the first half of the year. Activity in the cruise and gas carrier segments was on a healthy level, which compensated for continued challenges in the offshore and conventional merchant markets. Demand for power plant related services was steady. Customers in both end markets continued to show interest in long-term service agreements.

ENERGY SOLUTIONS

Power generation markets shifting towards flexible technologies

The demand for Wärtsilä's power generation solutions was good in the first half of 2017. Electricity demand in the emerging markets continued to increase, and the growing share of intermittent renewable sources in several developed markets drove investments in flexible generation capacity. These encouraging developments are counterbalanced with strong competition in the liquid and gas fuelled power generation markets, as well as by the potential impacts of geopolitical and macroeconomic uncertainties.

Energy Solutions' market share

For the twelve months ending in March, global orders for natural gas and liquid fuel power plants of up to 500 MW increased by 9% to 28.4 GW (26.1 GW at the end of the previous quarter). Wärtsilä's market share was 12% (13). Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size.

MARINE SOLUTIONS

Marine market environment remains challenging

During the first half of 2017, 376 contracts for new vessels were registered (378). Despite some signs of a gradual recovery in demand, the marine industry continues to be burdened by weak utilisation levels, overcapacity, low freight rates, and low oil and gas prices. LNG carrier contracting improved somewhat thanks to the positive sentiment in the FSRU market and project driven investments. Contracting activity remained on a good level in niche vessel segments, such as cruise, ferry, special vessels and Ro-Ro, where newbuild investments were supported by higher earnings, ageing fleets, planned regulatory developments, and attractive newbuilding prices.

In terms of compensated gross tonnage, China and South Korea remained the largest shipbuilding nations with 32% and 31% of all confirmed contracts respectively. Italy and Finland accounted for 8% and 7% of the global total, thanks to the continued healthy activity in the cruise market.

Marine Solutions' market shares

Wärtsilä's share of the medium-speed main engine market was 40% (45% at the end of the previous quarter). The market share in auxiliary engines decreased to 8% (20% at the end of the previous quarter). In the comparison period, Wärtsilä's auxiliary engine market share was boosted by large orders placed in the containership and LNG carrier segments. Wärtsilä is well positioned in other key product and solution areas, such as electrical and automation systems and gas systems.

Order intake

Wärtsilä's second quarter order intake totalled EUR 1,363 million (1,194), an increase of 14% over the corresponding period last year. The second quarter book-to-bill ratio was 1.05 (1.00).

Order intake for the Services business increased by 14% to EUR 599 million (527) in the second quarter, thanks to higher demand for long-term service agreements. Orders received included the renewal of a performance-based service agreement with Norwegian Cruise Line Holdings, several operations & management agreements for power plants in Asia, as well as an agreement with Eidesvik Offshore to install a hybrid system with batteries on board the company's Viking Princess vessel. Wärtsilä also signed its first asset management agreement for a photovoltaic power plant, in which Wärtsilä will assume full responsibility for the operation and maintenance of the Essakane solar plant in Burkina Faso.

Order intake for Energy Solutions totalled EUR 361 million (304) in the second quarter, which represents an increase of 19% from the corresponding period last year. Ordering activity was strongest in Asia, where significant orders included a 240 MW equipment delivery from Indonesia. In the developed markets, received orders included equipment deliveries for two natural gas based power plants with a total gross capacity of 188 MW from the USA.

Marine Solutions' second quarter order intake totalled EUR 403 million (362), an increase of 11% compared to the corresponding period last year. Orders received included a contract to supply a recently launched Wärtsilä HY hybrid power system, combining engines, an energy storage system, and power electronics, to the Italian tug owner and operator Rimorchiatori Riuniti. Wärtsilä was also selected to provide its 31 main engine, the propulsion machinery, and the auxiliary engines for Research Fishing Co's new fuel-efficient fishing vessel; as well as the waterjets, hydraulics and control system for a high-speed RoPax ferry being built for Molslinjen A/S. The cruise and ferry segment represented 39% of order intake and the gas carrier segment 25%. The conventional merchant segment's share was 17%. The navy segment represented 9%, special vessels 6% and offshore 2%. Other orders accounted for 2% of the total.

The total order intake for the review period January-June 2017 increased by 13% to EUR 2,776 million (2,465). The book-to-bill ratio for the review period was 1.21 (1.14). Services' order intake totalled EUR 1,285 million (1,107), an increase of 16%. Energy Solutions' order intake increased by 24% to EUR 766 million (616). Marine Solutions' order intake decreased by 2% to EUR 725 million (741).

Order intake by business

MEUR	4-6/2017	4-6/2016	Change	1-6/2017	1-6/2016	Change	2016
Services	599	527	14%	1 285	1 107	16%	2 194
Energy Solutions	361	304	19%	766	616	24%	1 448
Marine Solutions	403	362	11%	725	741	-2%	1 285
Order intake, total	1 363	1 194	14%	2 776	2 465	13%	4 927

Order intake Energy Solutions

MW	4-6/2017	4-6/2016	Change	1-6/2017	1-6/2016	Change	2016
Oil	478	734	-35%	679	1 298	-48%	1 929
Gas	505	284	78%	1 127	587	92%	1 584
Order intake, total	984	1 018	-3%	1 806	1 886	-4%	3 513

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea, and in the Wärtsilä Qiyao Diesel Company Ltd and CSSC Wärtsilä Engine Company Ltd. joint venture companies in China totalled EUR 26 million (54) during the review period January-June 2017. These companies' results are reported as a share of the result of associates and joint ventures.

Order book

The total order book at the end of the review period was stable at EUR 5,065 million (5,083). The Services order book totalled EUR 1,193 million (1,048), which is 14% higher than at the same time last year. The Energy Solutions order book increased by 14%, totalling EUR 1,764 million (1,547), while the Marine Solutions order book decreased by 15% to EUR 2,108 million (2,488).

Order book by business

MEUR	30.6.2017	30.6.2016	Change	31.12.2016
Services	1 193	1 048	14%	999
Energy Solutions	1 764	1 547	14%	1 680
Marine Solutions	2 108	2 488	-15%	2 017
Order book, total	5 065	5 083	0%	4 696

Net sales

Wärtsilä's net sales for the second quarter totalled EUR 1,292 million (1,196), an increase of 8% compared to the corresponding period last year. Net sales from the Services business was stable at EUR 546 million (542). The growth in net sales from long-term service agreements compensated for a slight decline in spare parts and service projects. Net sales for Energy Solutions increased by 87% to EUR 412 million (220). Marine Solutions' net sales totalled EUR 334 million (433), which is 23% lower than in the corresponding quarter last year.

Wärtsilä's net sales for January-June 2017 were EUR 2,299 million (2,163), an increase of 6% over the corresponding period last year. Net sales from the Services business was stable at EUR 1,035 million (1,042). Net sales for Energy Solutions totalled EUR 651 million (353), an increase of 85%. Marine Solutions' net sales decreased by 20% to EUR 613 million (768). Of the total net sales, Services accounted for 45%, Energy Solutions for 28%, and Marine Solutions for 27%.

Of Wärtsilä's net sales for January-June 2017, approximately 68% was EUR denominated, 21% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	4-6/2017	4-6/2016	Change	1-6/2017	1-6/2016	Change	2016
Services	546	542	1%	1 035	1 042	-1%	2 190
Energy Solutions	412	220	87%	651	353	85%	943
Marine Solutions	334	433	-23%	613	768	-20%	1 667
Net sales, total	1 292	1 196	8%	2 299	2 163	6%	4 801

Operating result and profitability

The second quarter operating result was EUR 117 million (96), or 9.1% of net sales (8.0). The comparable operating result was EUR 126 million (122), or 9.7% of net sales (10.2). Items affecting comparability included restructuring costs of EUR 8 million (26). The comparable adjusted EBITA was EUR 134 million (131), or 10.4% of net sales (10.9). Purchase price allocation amortisation amounted to EUR 9 million (9).

The operating result for the review period January-June 2017 was EUR 197 million (179), which represents 8.6% of net sales (8.3). The comparable operating result was EUR 211 million (206), or 9.2% of net sales (9.5). Items affecting comparability included costs related to restructuring programmes of EUR 14 million (27). The comparable adjusted EBITA was EUR 228 million (224), or 9.9% of net sales (10.3). Purchase price allocation amortisation amounted to EUR 17 million (17).

Wärtsilä's operating result was negatively affected by a provision related to long-term incentive schemes, which amounted to EUR 16 million in the second quarter and EUR 27 million in the review period January-June 2017. The provision covers all three ongoing programmes. Wärtsilä's three-year long-term incentive schemes are tied to the development of the company's share price, and they apply to approximately 100 directors.

Financial items for the review period January-June 2017 amounted to EUR -20 million (-41). Net interest totalled EUR -4 million (-6). Profit before taxes amounted to EUR 177 million (138). Taxes amounted to EUR 45 million (37), implying an effective tax rate of 25.3% (26.9). Earnings per share were 0.66 euro (0.49) and the equity per share was 10.79 euro (10.30). Return on investments (ROI) was 19.5% (17.5). Return on equity (ROE) was 18.4% (17.4).

Measures of profit and items affecting comparability

MEUR	4-6/2017	4-6/2016	1-6/2017	1-6/2016	2016
Comparable adjusted EBITA	134	131	228	224	618
Purchase price allocation amortisation	-9	-9	-17	-17	-35
Comparable operating result	126	122	211	206	583
Items affecting comparability	-8	-26	-14	-27	-51
Operating result	117	96	197	179	532

Balance sheet, financing and cash flow

Wärtsilä's second quarter cash flow from operating activities amounted to EUR 2 million (202). Cash flow was negatively impacted by the increase in receivables. For January-June 2017, the operating cash flow totalled EUR 3 million (189). At the end of the review period, working capital totalled EUR 680 million (602), an increase of EUR 100 million from the end of the previous quarter. Advances received at the end of the period totalled EUR 525 million (610). At the end of the previous quarter, advances totalled EUR 554 million. Cash and cash equivalents at the end of the period amounted to EUR 332 million (357) and unutilised Committed Credit Facilities totalled EUR 640 million (629).

Wärtsilä had interest-bearing debt totalling EUR 637 million (881) at the end of June 2017. At the end of December 2016, the interest-bearing debt totalled EUR 629 million. The total amount of short-term debt maturing within the next 12 months was EUR 90 million. Long-term loans amounted to EUR 547 million. Net interest-bearing debt totalled EUR 299 million (517) and gearing was 0.14 (0.25).

Liquidity preparedness

MEUR	30.6.2017	31.12.2016
Cash and cash equivalents	332	472
Unutilised committed credit facilities	640	640
Liquidity preparedness	972	1 112
% of net sales (rolling 12 months)	20	23
Less Commercial Papers	-	-
Liquidity preparedness excluding Commercial Papers	972	1 112
% of net sales (rolling 12 months)	20	23

On 30 June 2017, the average maturity of the total loan portfolio was 48 months and the average maturity of the long-term debt was 49 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant, and equipment amounted to EUR 19 million (22) during the review period January-June 2017. Capital expenditure related to acquisitions and investments in joint ventures totalled EUR 1 million (49). Depreciation, amortisation, and impairment for the review period amounted to EUR 62 million (73).

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

Strategic projects, acquisitions and joint ventures

In May, Wärtsilä announced the acquisition of Greensmith Energy Management Systems Inc., a US-based leader in intelligent energy storage technology and solutions. The acquisition of Greensmith will enable Wärtsilä to expand its footprint in the energy storage market and position itself as a leading global energy systems integrator. In 2016, Greensmith's revenues were USD 32 million with over 40 employees. The transaction is valued at USD 170 million (enterprise value). Ownership of the company was transferred to Wärtsilä with effect from 3 July 2017.

The set-up of CSSC Wärtsilä Electrical & Automation Co Ltd, a joint venture between Wärtsilä and China State Shipbuilding Corporation (CSSC) focusing on the growing Chinese electrical and automation market, is proceeding. The business license is expected to be received during the fourth quarter of 2017.

Research and development, product launches

In May, Wärtsilä introduced a unique hybrid product, the Wärtsilä HY. By leveraging its technical strengths in both engine design and electrical & automation systems, Wärtsilä's fully integrated hybrid power module combines engines, an energy storage system, and power electronics optimised to work together through a newly developed energy management system.

Also in May, Eniram, a Wärtsilä company, introduced an update to its performance monitoring system targeted at commercial shipping operators. The Eniram SkyLight 2.0 adds nautical maps, weather layers, and route importation to make predictive analysis and proactive planning more available. The updated system can visualise a vessel's route from economic, environmental, and safety perspectives.

Restructuring programmes

Wärtsilä initiated restructuring measures in 2015 and 2016 to adapt to prevailing market conditions. These measures target annual savings of approximately EUR 90 million, of which approximately EUR 60 million had materialised by the end 2016. The total costs related to the restructuring programmes are estimated to be approximately EUR 75-80 million, of which EUR 67 million had been recognised by the end of 2016.

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

For the full year 2017, incremental savings are estimated to be EUR 50-55 million and related restructuring

costs approximately EUR 40 million. During January-June 2017, Wärtsilä recognised savings of approximately EUR 25 million and costs of EUR 14 million related to all of the above restructuring measures.

Personnel

Wärtsilä had 17,783 (18,428) employees at the end of June 2017. On average, the number of personnel for January-June 2017 totalled 17,806 (18,378). Services employed 10,455 (10,575) people, Energy Solutions 928 (945), and Marine Solutions 5,861 (6,443).

Of Wärtsilä's total number of employees, 20% (19) were located in Finland and 38% (39) elsewhere in Europe. Personnel employed in Asia represented 27% (28) of the total, personnel in the Americas 10% (11), and personnel in other countries 4% (4).

Sustainable development

Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce exhaust emissions and the use of natural resources, and to support its customers in preparing for new regulatory requirements. Wärtsilä's R&D efforts continue to focus on the development of advanced environmental technologies and solutions. The company is committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment and anti-corruption. Wärtsilä's share is included in several sustainability indices. During the second quarter, Wärtsilä was informed that it would continue to be included in the Euronext Vigeo index Eurozone 120 (the 120 most advanced companies in the Eurozone region).

In June, Wärtsilä and a group of environmentally conscious maritime industry players signed up to a new Global Industry Alliance (GIA) to support transitioning shipping and its related industries towards a low carbon future. Together, the thirteen GIA partners will collectively identify and develop innovative solutions to address common barriers to the uptake and implementation of energy efficiency technologies and operational measures.

The International Convention for the Control and Management of ships' ballast water and sediments will enter into force on 8 September 2017, with the intention of addressing the issue of invasive aquatic species being carried in the ballast water of ships and then discharged into the sea where they can harm local species. Wärtsilä is well placed to support its customers as they prepare to meet the upcoming regulatory requirements. In July, the International Maritime Organisation's MEPC Committee approved a revised implementation schedule for the installation of ballast water management systems based on an evaluation of the vessels' International Oil Pollution Prevention Certificate (IOPP) renewal, whereby in certain cases the deadline is postponed by up to two years. During the second quarter, Wärtsilä announced it is in the process of signing agreements with a number of major shipyards to establish cooperation and communication between the parties in relation to the Convention for Ballast Water Management. The shared goal of the parties is to provide ship owners and operators with all necessary information and assistance concerning ballast water management systems.

Shares and shareholders

During January-June 2017, the volume of trades on Nasdaq Helsinki was 43,318,709 shares, equivalent to a turnover of EUR 2,185 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 35,455,711 shares.

Shares on Nasdaq Helsinki

30.6.2017		Number of shares and votes	Number of shares traded 1-6/2017		
WRT1V		197 241 130	43 318 709		
1.1. - 30.6.2017		High	Low	Average ¹	Close
Share price		56.90	41.90	50.45	51.75
¹ Trade-weighted average price					
		30.6.2017	30.6.2016		
Market capitalisation, EUR million		10 207	7 209		
Foreign shareholders, %		55.5	53.7		

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 2 March 2017 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 2016. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.30 per share in two instalments. The first instalment of EUR 0.65 per share was paid on 13 March 2017. The second instalment of EUR 0.65 per share shall be paid in September 2017.

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

The audit firm PricewaterhouseCoopers Oy was elected as the auditor of the Company for the year 2017.

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 3 March 2016. The Board of Directors was authorised to resolve to whom and in which order the own shares will be distributed. The Board of Directors was 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.

Organisation of the Board of Directors

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

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

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

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

Risks and business uncertainties

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

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

In the marine market, overcapacity in many vessel segments, and the low demand for cargo tonnage continue to delay recovery in the conventional shipping segment. Economic and political uncertainty, as well as new emerging technologies and innovations, will challenge current business models and trade patterns. Reduced capital expenditure from oil companies continues to limit offshore investments, and offshore production is facing increasing competition from low cost onshore and shale production. In addition, increasing energy efficiency and the substitution of other energy sources, will challenge crude oil demand growth. While the risk of cancellations exists, negotiations to extend existing delivery contracts appear to be a larger risk for shipyard order books.

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 2016 annual report contains a more detailed description of Wärtsilä's risks and risk management.

Wärtsilä Half year financial report 2017

This half year 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 2016. All figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

Use of estimates

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

IFRS amendments

In 2017, the Group has adopted the following new standard issued by the IASB.

The Group has early adopted **IFRS 9 Financial Instruments**, which replaces IAS 39 Financial Instruments - Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial assets, new general hedge accounting requirements and a new expected credit loss model for calculating impairment on financial assets. In its main aspects, it also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The impacts of IFRS 9 adoption are described below.

The new hedge accounting guidance in IFRS 9 aligns the hedge accounting treatment better with risk management activities and, among others, allows net position hedging. The Group applies the new hedge accounting requirements prospectively. Usually the Group hedges received orders separately from the committed purchases but in some projects or long term agreements the Group might apply cash flow hedging also against the expected net cash flows, consisting of related sales proceeds and purchases in the same currency. The result from net position hedges is presented on a separate line in the statement of income. The adoption of the new hedge accounting requirements did not have any material impact on the reporting period January-June 2017.

Under IFRS 9, financial assets are classified according to their cash flow characteristics and the business model in which they are managed. The Group has categorised its financial assets to financial assets measured at amortised cost, at fair value through the statement of income and at fair value through other comprehensive income. The reclassification has not had any impact on equity.

Financial assets are classified under IFRS 9 as presented in the table below.

	Classification under IAS 39	Classification under IFRS 9
Trade and other receivables, investments in commercial papers	Loans and receivables	Amortised cost
Interest-bearing investments	Loans and receivables	Fair value through the statement of income
Other investments	Available-for-sale financial assets	Fair value through the statement of income (or other comprehensive income)
Derivatives included in hedge accounting	Cash flow hedges (at fair value through other comprehensive income)	Fair value through other comprehensive income

Derivatives, no hedge accounting	Financial assets at fair value through the statement of income	Fair value through the statement of income
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Applying IFRS 9 also changes the measurement of the loss allowance for financial assets by introducing an expected credit loss model. At the adoption of IFRS 9, the Group has revised its impairment methodology. The methodology applied depends on whether there has been a significant increase in credit risk. The Group assesses possible increase in the credit risk for financial assets measured at amortised cost at the end of each reporting period. The loss allowance is estimated at an amount equal to 12-month expected credit losses at the current reporting date if there has not been a significant increase in credit risk.

For trade receivables and receivables from revenue recognition in accordance with the percentage of completion method, a simplified approach is used and the loss allowance is measured at the estimate of the lifetime expected credit losses. Receivables from revenue recognition in accordance with the percentage of completion method are usually covered with advance payments collected from customers. Thus, recognising credit losses based on the lifetime expected loss amounts mainly concerns trade receivables. For trade receivables not due or a maximum of 359 days overdue, an impairment of 0.1% - 2.0% is made, depending on the aging category and the origin of the receivable. In calculating the expected credit loss rates, the Group considers historical loss rates for each category, and adjusts for forward looking macroeconomic data. In addition to this, trade receivables that are more than 360 days old are assessed for impairment individually. Considering this, the Group has made an adjustment of EUR -3 million in retained earnings and trade receivables as of 1 January 2017. Figures in the comparison periods have not been restated.

This half year financial report is unaudited.

Condensed statement of income

MEUR	1-6/2017	1-6/2016	4-6/2017	4-6/2016	2016
Net sales	2 299	2 163	1 292	1 196	4 801
Other operating income	22	24	9	13	55
Expenses	-2 066	-1 942	-1 157	-1 075	-4 200
Depreciation, amortisation and impairment	-62	-73	-30	-42	-138
Share of result of associates and joint ventures	4	7	3	4	14
Operating result	197	179	117	96	532
Financial income and expenses	-20	-41	-14	-38	-53
Profit before taxes	177	138	103	58	479
Income taxes	-45	-37	-27	-17	-123
Profit for the reporting period	132	101	76	41	357
Attributable to:					
Equity holders of the parent company	131	97	76	38	352
Non-controlling interests	1	4		2	4
	132	101	76	41	357
Earnings per share attributable to equity holders of the parent company (basic and diluted):					
Earnings per share (EPS), basic and diluted, EUR	0.66	0.49	0.38	0.19	1.79

Statement of other comprehensive income

MEUR	1-6/2017	1-6/2016	4-6/2017	4-6/2016	2016
Profit for the reporting period	132	101	76	41	357
Other comprehensive income, net of taxes:					
Items that will not be reclassified to the statement of income					
Remeasurements of defined benefit liabilities	1	-13	1	-14	-12
Tax on items that will not be reclassified to the statement of income		3		4	3
Total items that will not be reclassified to the statement of income	1	-9	1	-10	-9
Items that may be reclassified subsequently to the statement of income					
Exchange rate differences on translating foreign operations					
for equity holders of the parent company	-47	-54	-48	-9	-52
for non-controlling interests	-2	-1	-1		-1
Associates and joint ventures, share of other comprehensive income	-2	1	-6	3	1
Cash flow hedges	19	44	10	2	41
Tax on items that may be reclassified to the statement of income	-2	-11	-1	-1	-10
Total items that may be reclassified to the statement of income	-34	-21	-45	-5	-21
Other comprehensive income for the reporting period, net of taxes	-33	-30	-45	-15	-30
Total comprehensive income for the reporting period	99	71	31	26	327

Total comprehensive income attributable to:					
Equity holders of the parent company	99	68	33	23	323
Non-controlling interests		3	-1	3	3
	99	71	31	26	327

Condensed statement of financial position

MEUR	30.6.2017	30.6.2016	31.12.2016
Non-current assets			
Intangible assets	1 389	1 418	1 434
Property, plant and equipment	377	424	405
Investments in associates and joint ventures	74	76	84
Other investments	13	14	15
Deferred tax assets	143	167	141
Other receivables	102	27	38
Total non-current assets	2 096	2 125	2 116
Current assets			
Inventories	1 168	1 255	1 042
Other receivables	1 669	1 707	1 760
Cash and cash equivalents	332	357	472
Total current assets	3 168	3 319	3 275
Total assets	5 264	5 444	5 391
Equity			
Share capital	336	336	336
Other equity	1 791	1 696	1 952
Total equity attributable to equity holders of the parent company	2 127	2 032	2 288
Non-controlling interests	27	33	34
Total equity	2 154	2 065	2 321
Non-current liabilities			
Interest-bearing debt	547	545	520
Deferred tax liabilities	89	114	93
Other liabilities	262	289	270
Total non-current liabilities	897	948	884
Current liabilities			
Interest-bearing debt	90	336	108
Other liabilities	2 123	2 095	2 078
Total current liabilities	2 213	2 431	2 186
Total liabilities	3 110	3 379	3 070
Total equity and liabilities	5 264	5 444	5 391

Condensed statement of cash flows

MEUR	1-6/2017	1-6/2016	4-6/2017	4-6/2016	2016
Cash flow from operating activities:					
Profit for the reporting period	132	101	76	41	357
Adjustments for:					
Depreciation, amortisation and impairment	62	73	30	42	138
Financial income and expenses	20	41	14	38	53
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-4	-2	-1	-1	-6
Share of result of associates and joint ventures	-4	-7	-3	-4	-14
Income taxes	45	37	27	17	123
Cash flow before changes in working capital	251	243	143	134	650
Changes in working capital	-182	-10	-87	95	84
Cash flow from operating activities before financial items and taxes	70	233	56	229	734
Financial items and paid taxes	-67	-44	-55	-27	-121
Cash flow from operating activities	3	189	2	202	613
Cash flow from investing activities:					
Investments in shares and acquisitions	-1	-47		-47	-90
Net investments in property, plant and equipment and intangible assets	-15	-17	-11	-8	-38
Proceeds from sale of shares in associated companies and other investments	2		2		1
Cash flow from investing activities	-14	-63	-10	-55	-126
Cash flow from financing activities:					
Proceeds from non-current debt	90	131		-29	131
Repayments and other changes in non-current debt	-75	-77	-30	-37	-91
Changes in current loans and other changes	-2	103	-3	-137	-129
Dividends paid	-135	-250	-22	-11	-250
Cash flow from financing activities	-123	-93	-55	-214	-339
Change in cash and cash equivalents, increase (+)/decrease (-)	-133	33	-63	-68	148
Cash and cash equivalents at the beginning of the reporting period	472	334	403	428	334
Exchange rate changes	-7	-9	-8	-3	-9
Cash and cash equivalents at the end of the reporting period	332	357	332	357	472

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 31 December 2016	336	61	-57	-39	-45	2 032	34	2 321
Restatement due to IFRS 9						-3		-3
Equity on 1 January 2017	336	61	-57	-39	-45	2 028	34	2 318
Dividends paid						-256	-6	-263
Total comprehensive income for the reporting period			-49	17	1	131		99
Equity on 30 June 2017	336	61	-106	-22	-44	1 903	27	2 154

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	-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

Net sales by geographical areas

MEUR	1-6/2017	1-6/2016	2016
Europe	679	752	1 581
Asia	940	813	1 774
The Americas	528	416	1 039
Other	152	182	407
Total	2 299	2 163	4 801

Measures of profit and items affecting comparability

MEUR	1-6/2017	1-6/2016	2016
Comparable adjusted EBITA	228	224	618
Purchase price allocation amortisation	-17	-17	-35
Comparable operating result	211	206	583
Items affecting comparability:			
Social plan costs	-4	-6	-22
Impairment and write-downs	-6	-17	-22
Other restructuring costs	-4	-4	-7
Items affecting comparability, total	-14	-27	-51
Operating result	197	179	532

Intangible assets and property, plant & equipment

MEUR	1-6/2017	1-6/2016	2016
Intangible assets			
Carrying amount on 1 January	1 434	1 464	1 464
Changes in exchange rates	-24	-44	-52
Acquisitions	1	23	71
Additions	6	5	16
Amortisation and impairment	-29	-30	-62
Disposals and reclassifications		-1	-3
Carrying amount at the end of the reporting period	1 389	1 418	1 434
Property, plant and equipment			
Carrying amount on 1 January	405	431	431
Changes in exchange rates	-8	3	5
Acquisitions		20	14
Additions	13	17	38
Depreciation and impairment	-33	-43	-76
Disposals and reclassifications		-3	-7
Carrying amount at the end of the reporting period	377	424	405

Gross capital expenditure

MEUR	1-6/2017	1-6/2016	2016
Investments in securities and acquisitions	1	49	91
Intangible assets and property, plant and equipment	19	22	55
Total	20	71	146

Net interest-bearing debt

MEUR	1-6/2017	1-6/2016	2016
Non-current liabilities	547	545	520
Current liabilities	90	336	108
Loan receivables	-6	-6	-7
Cash and cash equivalents	-332	-357	-472
Total	299	517	150

Financial ratios

	1-6/2017	1-6/2016	2016
Earnings per share (EPS), basic and diluted, EUR	0.66	0.49	1.79
Equity per share, EUR	10.79	10.30	11.60
Solvency ratio, %	45.5	42.7	47.6
Gearing	0.14	0.25	0.07
Return on investment (ROI), %	19.5	17.5	17.1
Return on equity (ROE), %	18.4	17.4	15.6

Personnel

	1-6/2017	1-6/2016	2016
On average	17 806	18 378	18 332
At the end of the reporting period	17 783	18 428	18 011

Contingent liabilities

MEUR	1-6/2017	1-6/2016	2016
Mortgages	10	10	10
Chattel mortgages and other pledges and securities	24	26	26
Total	34	36	36
Guarantees and contingent liabilities			
on behalf of Group companies	791	772	921
Nominal amount of rents according to leasing contracts			
payable within one year	31	28	34
payable between one and five years	78	73	84
payable later	25	27	30
Total	926	900	1 069

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	165	
Cross currency swaps	78	
Foreign exchange forward contracts	2 995	932
Total	3 238	932

In addition, the Group had copper futures and swaps amounting to 394 tons.

Fair values

Fair value measurements at the end of the reporting period:

MEUR	Carrying amounts of the statement of financial position items	Fair value
Financial assets		
Other investments (level 3)	13	13
Interest-bearing investments, non-current (level 2)	6	6
Other receivables, non-current (level 2)	4	4
Derivatives (level 2)	27	27
Financial liabilities		
Interest-bearing debt, non-current (level 2)	547	555
Derivatives (level 2)	38	38

Events after the balance sheet date

Control of Greensmith Energy Management Systems Inc., a market leader in grid-scale energy storage software and integrated solutions, has been transferred to Wärtsilä with effect from 3 July 2017. The companies announced the acquisition in May following a year-long global cooperation on stand-alone energy storage and hybrid energy solutions. The acquisition of Greensmith enables Wärtsilä to rapidly expand its footprint in the energy storage market globally and position as a premier energy system integrator. Growth in the energy storage market is expanding from the United States to new regions including the United Kingdom, Asia and Australia.

Greensmith will operate as a business unit within Wärtsilä Energy Solutions providing both stand-alone energy storage as well as hybridized energy systems, control software, and integration expertise. In 2016, Greensmith's revenue was USD 32 million with over 40 employees. The transaction is valued at USD 170 million (enterprise value). Purchase price allocation has not been finished yet.

Quarterly figures

MEUR	4-6/ 2017	1-3/ 2017	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016	10-12/ 2015	7-9/ 2015	4-6/ 2015
Order intake									
Services	599	686	565	522	527	580	572	511	579
Energy Solutions	361	405	501	330	304	312	366	167	188
Marine Solutions	403	322	258	287	362	379	465	407	392
Total	1 363	1 413	1 324	1 139	1 194	1 271	1 403	1 086	1 159
Order book at the end of the reporting period									
Services	1 193	1 187	999	1 031	1 048	1 017	958	1 026	1 081
Energy Solutions	1 764	1 847	1 680	1 676	1 547	1 491	1 366	1 388	1 459
Marine Solutions	2 108	2 062	2 017	2 317	2 488	2 595	2 558	2 699	2 785
Total	5 065	5 096	4 696	5 024	5 083	5 103	4 882	5 112	5 325
Net sales									
Services	546	490	636	512	542	500	619	531	548
Energy Solutions	412	239	414	177	220	132	374	243	327
Marine Solutions	334	279	509	390	433	335	598	448	354
Total	1 292	1 007	1 559	1 079	1 196	967	1 590	1 222	1 230
Share of result of associates and joint ventures	3	1	5	2	4	3	6	5	5
Comparable adjusted EBITA	134	94	262	132	131	93	224	170	144
as a percentage of net sales	10.4	9.4	16.8	12.3	10.9	9.6	14.1	13.9	11.7
Depreciation, amortisation and impairment	-30	-33	-34	-31	-42	-31	-33	-32	-30
Purchase price allocation amortisation	-9	-9	-9	-9	-9	-9	-9	-9	-7
Comparable operating result	126	86	253	123	122	84	215	160	137
as a percentage of net sales	9.7	8.5	16.3	11.4	10.2	8.7	13.5	13.1	11.1
Items affecting comparability, total	-8	-6	-22	-2	-26	-1	-13	-11	
Operating result	117	80	231	122	96	83	202	149	137
as a percentage of net sales	9.1	7.9	14.8	11.3	8.0	8.6	12.7	12.2	11.1

Financial income and expenses	-14	-5	-5	-7	-38	-3	-2	-17	3
Profit before taxes	103	74	226	115	58	80	199	132	140
Income taxes	-27	-17	-55	-31	-17	-20	-41	-35	-31
Profit for the reporting period	76	57	172	84	41	60	159	97	109
Earnings per share (EPS), basic and diluted, EUR	0.38	0.28	0.87	0.43	0.19	0.30	0.79	0.49	0.54
Gross capital expenditure	11	9	20	55	60	11	32	17	279
Investments in securities and acquisitions		1		42	49		5		262
Cash flow from operating activities	2	2	235	189	202	-13	176	-5	47
Working capital (WCAP) at the end of the reporting period	680	580	490	540	602	709	543	522	404
Personnel at the end of the reporting period									
Services	10 455	10 464	10 567	10 648	10 575	10 331	10 592	10 714	10 785
Energy Solutions	928	913	903	920	945	958	959	966	974
Marine Solutions	5 861	5 920	6 074	6 305	6 443	6 681	6 847	7 101	7 217
Other	539	533	467	464	465	457	459	456	451
Total	17 783	17 832	18 011	18 337	18 428	18 427	18 856	19 237	19 427

Calculation of financial ratios

Earnings per share (EPS), basic and diluted

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

Adjusted number of shares over the reporting period

Equity per share

Equity attributable to equity holders of the parent company

Adjusted number of shares at the end of the reporting period

Solvency ratio

Equity

Total equity and liabilities – advances received

x 100

Gearing

Interest-bearing liabilities – cash and cash equivalents

Equity

Return on investment (ROI)

Profit before taxes + interest and other financial expenses

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

x 100

Return on equity (ROE)

Profit for the reporting period

Equity, average over the reporting period

x 100

Working capital (WCAP)

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

Comparable adjusted EBITA

Operating result – items affecting comparability – purchase price allocation amortisation

Comparable operating result

Operating result – items affecting comparability

Items affecting comparability

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

19 July 2017
Wärtsilä Corporation
Board of Directors