

Wärtsilä Corporation

Interim Report

January – March 2017

Positive development in order intake

Highlights of the review period January-March 2017

- Order intake increased 11% to EUR 1,413 million (1,271)
- Net sales increased 4% to EUR 1,007 million (967)
- Book-to-bill 1.40 (1.31)
- Comparable operating result increased to EUR 86 million (84), which represents 8.5% of net sales (8.7)
- Earnings per share declined to 0.28 euro (0.30)
- Cash flow from operating activities increased to EUR 2 million (-13)
- Order book at the end of the period was stable at EUR 5,096 million (5,103)

Wärtsilä's prospects for 2017

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

- Solid in Services with growth opportunities in selected regions and segments.
- Good in Energy Solutions (previously solid), 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.
- Soft in Marine Solutions. Although the outlook for the cruise and ferry segment is positive, the merchant, gas carrier, and offshore segments continue to suffer from overcapacity, slow trade growth, and the financial constraints of customers.

Wärtsilä's current order book for 2017 deliveries is EUR 2,744 million (2,681), which mainly comprises Marine Solutions' and Energy Solutions' deliveries. Wärtsilä will continue to focus on improving efficiency, which is expected to partially offset lower volumes in the marine markets. The pricing environment in Energy Solutions' markets has stabilised, but the order book is still impacted by the competitive pressure seen in previous years. The good performance in Services is expected to continue.

Jaakko Eskola, President & CEO

"Wärtsilä's order intake development was clearly the highlight of the first quarter. Services' order intake was boosted by growing interest in long-term service agreements, while customers in the energy markets continued to invest in new power generation, in both the emerging markets and industrialised countries. Orders received in the Marine Solutions business were also at a reasonable level, thanks to continued activity in the cruise and FSRU markets. Although vessel contracting has remained low, signs of improving sentiment indicate a gradual recovery in demand towards the latter part of the year.

The higher level of power plant deliveries supported both net sales development and our underlying performance in the first quarter. Looking ahead, we expect service activity to improve thanks to customers'

maintenance schedules and the increased demand for long-term agreements in both of our end markets. This, together with the stabilised pricing environment in Energy Solutions, provides a good basis for the second half of 2017."

Key figures

MEUR	1-3/2017	1-3/2016	Change	2016
Order intake	1 413	1 271	11%	4 927
Order book at the end of the period	5 096	5 103	0%	4 696
Net sales	1 007	967	4%	4 801
Operating result ¹	80	83	-4%	532
% of net sales	7.9	8.6		11.1
Comparable operating result	86	84	2%	583
% of net sales	8.5	8.7		12.1
Comparable adjusted EBITA	94	93	1%	618
% of net sales	9.4	9.6		12.9
Profit before taxes	74	80		479
Earnings/share, EUR	0.28	0.30		1.79
Cash flow from operating activities	2	-13		613
Net interest-bearing debt at the end of the period	260	639		150
Gross capital expenditure	9	11		146
Gearing	0.13	0.32		0.07

¹Items affecting comparability in the first quarter of 2017 included costs related to restructuring programmes of EUR 6 million (1).

Market development

SERVICES

Steady development in the service markets

Service market development was stable during the first quarter of the year. The strong demand for long-term service agreements supported activity in the marine markets, despite continued challenges in the offshore and merchant segments. The demand for power plant related services was steady, with positive developments in the Middle East and Asia.

ENERGY SOLUTIONS

Positive activity in the power generation market

The demand for Wärtsilä's power generation solutions was healthy in the first quarter of 2017. The growing need for electricity in the emerging markets, and the requirement to balance intermittent renewable sources in certain industrialised countries, drove investments in new generation capacity. While these trends are expected to continue to support market activity this year, geopolitical and macroeconomic uncertainty remains a risk.

Energy Solutions' market share

In 2016, global orders for natural gas and liquid fuel power plants of up to 500 MW was stable at 26.1 GW (26.2). Wärtsilä's market share increased to 13% (8). Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size.

MARINE SOLUTIONS

Marine market environment continues to be soft

During the first quarter of 2017, 145 contracts for new vessels were registered (77). Despite a gradual improvement in freight rates in the conventional merchant markets, overcapacity and low oil and gas prices continue to burden the marine industry. Nevertheless, activity remained on a good level in the cruise segment, thanks to the growing interest in cruise travel in the USA and Asia. Contracting developed well also in the ferry and Ro-Ro segments, supported by healthy earnings, ageing fleets, planned regulatory developments, and attractive newbuilding prices.

In terms of compensated gross tonnage, China remained the largest shipbuilding nation in the first quarter with 29% of all confirmed contracts. South Korea's share was 23% and Italy's 16%. Low vessel contracting volumes are likely to continue to result in the consolidation of yards in the major shipbuilding countries.

Marine Solutions' market shares

Wärtsilä's share of the medium-speed main engine market was 45% (51% at the end of the previous quarter). The market share in auxiliary engines increased to 20% (18% at the end of the previous quarter), thanks to Wärtsilä's focus on this product area. Wärtsilä is also well positioned in other key product and solution areas, such as electrical and automation systems and gas systems.

Order intake

Wärtsilä's first quarter order intake totalled EUR 1,413 million (1,271), an increase of 11% over the corresponding period last year. The first quarter book-to-bill ratio was 1.40 (1.31).

Order intake for the Services business increased by 18% to EUR 686 million (580), thanks to strong demand for long-term service agreements. Orders received included a 5-year maintenance agreement with AS Tallink Grupp and a 12-year performance-based service agreement with Carnival Corporation. The full value of the agreement with Carnival is approximately EUR 900 million, of which the expected revenues for 24 months, approximately EUR 150 million, are included in the first quarter order intake.

Order intake for Energy Solutions totalled EUR 405 million (312), which was 30% more than for the corresponding period last year. Asia was the most active region, with orders received for equipment deliveries totalling 255 MW in capacity from Indonesia and a 150 MW equipment delivery to Bangladesh. In the developed markets, Wärtsilä received orders for two 50 MW power plants from the UK, as well as for two power plants totalling 94 MW from the USA. Wärtsilä also received its first order for a solar photovoltaic plant to Burkina Faso. The 15 MWp solar plant will be controlled and operated in synchronization with an existing engine plant, forming an integrated hybrid solution.

Marine Solutions' order intake totalled EUR 322 million (379), a decrease of 15% compared to the corresponding period last year. Significant orders included the supply of dual-fuel main engines and regasification technology to two new LNG carrier vessels being built for Höegh LNG at the Samsung Heavy Industries and Hyundai Heavy Industries shipyards in Korea. Wärtsilä also received an order to provide a new fishing trawler with a propulsion system centred on the next generation Wärtsilä 31 engine. The gas carrier segment represented 33% of the first quarter order intake and cruise & ferry accounted for 27%. The conventional merchant segment's share was 19%. The navy segment represented 8% of orders received, special vessels 6% and the offshore segment 3%. Other orders accounted for 4% of the total.

Order intake by business

MEUR	1-3/2017	1-3/2016	Change	2016
Services	686	580	18%	2 194
Energy Solutions	405	312	30%	1 448
Marine Solutions	322	379	-15%	1 285
Order intake, total	1 413	1 271	11%	4 927

Order intake Energy Solutions

MW	1-3/2017	1-3/2016	Change	2016
Oil	200	564	-64%	1 929
Gas	621	303	105%	1 584
Order intake, total	822	868	-5%	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 24 million (30) during the review period January-March 2017. The results of these companies are reported as a share of the result of associates and joint ventures.

Order book

The total order book at the end of the review period amounted to EUR 5,096 million (5,103). The Services order book totalled EUR 1,187 million (1,017), which is 17% higher than at the same time last year thanks to an increase in long-term service agreements. The Energy Solutions order book increased by 24%, totalling EUR 1,847 million (1,491), while the Marine Solutions order book decreased by 21% to EUR 2,062 million (2,595).

Order book by business

MEUR	31.3.2017	31.3.2016	Change	31.12.2016
Services	1 187	1 017	17%	999
Energy Solutions	1 847	1 491	24%	1 680
Marine Solutions	2 062	2 595	-21%	2 017
Order book, total	5 096	5 103	0%	4 696

Net sales

Wärtsilä's net sales for the review period January-March 2017 increased by 4% to EUR 1,007 million (967) compared to the corresponding period last year. Net sales from the Services business decreased by 2% to

EUR 490 million (500). Net sales for Energy Solutions increased by 80% to EUR 239 million (132). Marine Solutions' net sales totalled EUR 279 million (335), which is 17% lower than in the corresponding period last year. Of the total net sales, Services accounted for 49%, Energy Solutions for 24%, Marine Solutions for 28%.

Of Wärtsilä's net sales for the period January-March 2017, approximately 69% was EUR denominated, 21% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	1-3/2017	1-3/2016	Change	2016
Services	490	500	-2%	2 190
Energy Solutions	239	132	80%	943
Marine Solutions	279	335	-17%	1 667
Net sales, total	1 007	967	4%	4 801

Operating result and profitability

The operating result for the review period January-March 2017 was EUR 80 million (83), which represents 7.9% of net sales (8.6). The comparable operating result was EUR 86 million (84), or 8.5% of net sales (8.7). Items affecting comparability in the first quarter of 2017 included costs related to ongoing restructuring programmes of EUR 6 million (1). The comparable adjusted EBITA was EUR 94 million (93), or 9.4% of net sales (9.6). Purchase price allocation amortisation amounted to EUR 9 million (9). Wärtsilä's operating result was negatively affected by a provision of EUR 11 million related to long-term incentive schemes, which covers all three ongoing programmes. Wärtsilä's long-term incentive schemes are tied to the development of the company's share price over a three-year period, and they apply to approximately 100 directors.

Financial items amounted to EUR -5 million (-3). Net interest totalled EUR -2 million (-3). Profit before taxes amounted to EUR 74 million (80). Taxes amounted to EUR 17 million (20), implying an effective tax rate of 23.5% (24.9). Earnings per share were 0.28 euro (0.30) and the equity per share was 10.62 euro (10.18). Return on investments (ROI) was 16.9% (20.5). Return on equity (ROE) was 16.9% (21.5).

Measures of profit and items affecting comparability

MEUR	1-3/2017	1-3/2016	2016
Comparable adjusted EBITA	94	93	618
Purchase price allocation amortisation	-9	-9	-35
Comparable operating result	86	84	583
Items affecting comparability	-6	-1	-51
Operating result	80	83	532

Balance sheet, financing and cash flow

Wärtsilä's cash flow from operating activities amounted to EUR 2 million (-13) during the review period January-March 2017. Working capital totalled EUR 580 million (709) at the end of the review period, an increase of EUR 90 million from the end of the previous quarter. Advances received at the end of the period totalled EUR 554 million (618). At the end of December 2016, advances totalled EUR 516 million. Cash and cash equivalents at the end of the period amounted to EUR 403 million (428) and unutilised Committed Credit Facilities totalled EUR 640 million (519). A dividend of EUR 0.65 per share (1.20) corresponding to a total of EUR 128 million (237) was paid during the first quarter. The second dividend instalment of equal size will be paid in September.

Wärtsilä had interest-bearing debt totalling EUR 670 million (1,088) at the end of March 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 78 million. Long-term loans amounted to EUR 592 million. Net interest-bearing debt totalled EUR 260 million (639) and gearing was 0.13 (0.32).

Liquidity preparedness

MEUR	31.3.2017	31.12.2016
Cash and cash equivalents	403	472
Unutilised committed credit facilities	640	640
Liquidity preparedness	1 043	1 112
% of net sales (rolling 12 months)	22	23
Less Commercial Papers	-	-
Liquidity preparedness excluding Commercial Papers	1 043	1 112
% of net sales (rolling 12 months)	22	23

On 31 March 2017, the average maturity of the total loan portfolio was 43 months and the average maturity of the long-term debt was 48 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant and equipment amounted to EUR 8 million (11) during the review period January-March 2017. Capital expenditure related to acquisitions and investments in joint ventures totalled EUR 1 million. Depreciation, amortisation, and impairment for the review period amounted to EUR 33 million (31).

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

During the first quarter, Wärtsilä and China State Shipbuilding Corporation (CSSC) signed a new joint venture company agreement. The new joint venture, to be known as CSSC Wärtsilä Electrical & Automation Co Ltd (CWE&A), will focus on the growing Chinese electrical & automation market, especially for high-tech ship applications. The joint venture company is expected to be fully operational before the middle of 2017.

Research and development, product launches

In March, Wärtsilä launched its latest innovation, SmartPredict, designed to provide safer and more efficient operations for all vessel types by reducing the risks associated with manoeuvring. The system displays the vessel's predicted future position and heading, and uses proven dynamic positioning analysis algorithms to evaluate forces affecting the vessel, thereby providing advanced motion prediction.

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 were 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 in 2017.

For the full year 2017, additional savings are estimated to be EUR 50-55 million and related restructuring costs EUR 30-35 million. During January-March 2017 Wärtsilä recognised savings of approximately EUR 15 million and costs of EUR 6 million related to all of the above restructuring measures.

Personnel

Wärtsilä had 17,832 (18,427) employees at the end of March 2017. On average, the number of personnel for January-March 2017 totalled 17,802 (18,472). Services employed 10,464 (10,331) people, Energy Solutions 913 (958), and Marine Solutions 5,920 (6,681).

Of Wärtsilä's total number of employees, 19% (19) were located in Finland and 38% (39) elsewhere in Europe. Personnel employed in Asia represented 28% (28) of the total, personnel in the Americas 10% (9), 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 first quarter of 2017, Wärtsilä was reconfirmed as a constituent of the Ethibel Sustainability Index (ESI) Excellence Europe.

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. During the first quarter, Wärtsilä announced an agreement to supply globally operating tanker vessels managed by Minerva Marine Inc. with Aquarius ballast water management systems. Wärtsilä also announced that it is in the process of signing agreements with a number of major shipyards, with the shared goal of providing ship owners and operators with all necessary information and assistance concerning ballast water management systems.

Personnel health and safety is a priority for Wärtsilä. During the first quarter, Wärtsilä arranged its third global safety day under the theme 'Stop and Care' addressing the importance of intervening when unsafe acts are seen. Wärtsilä also launched a Zero Mindset training program, with the aim of strengthening safety leadership within the company.

Shares and shareholders

During January-March 2017, the volume of trades on Nasdaq Helsinki was 20,611,809 shares, equivalent to a turnover of EUR 970 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 19,608,531 shares.

Shares on Nasdaq Helsinki

			Number of shares and votes	Number of shares traded 1-3/2017
31.3.2017				
WRT1V			197 241 130	20 611 809
1.1. - 31.3.2017	High	Low	Average ¹	Close
Share price	50.30	46.67	48.34	50.15
¹ Trade-weighted average price				
			31.3.2017	31.3.2016
Market capitalisation, EUR million			9 892	7 844
Foreign shareholders, %			55.1	52.5

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

In the marine market, the weak short-term global economic outlook, overcapacity, and the low demand for cargo tonnage continue to delay recovery in the conventional shipping segment. Economic and political uncertainty, as well as new emerging technologies and innovations, will challenge current business models and trade patterns. Despite the recent increase in oil prices, 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. 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.

The Group is a defendant in a number of legal cases that have arisen out of, or are incidental to, the ordinary course of its business. These lawsuits mainly concern issues such as contractual and other liability, labour relations, property damage, and regulatory matters. The Group receives from time to time claims of different amounts and with varying degrees of substantiation. There is currently one unusually sizeable claim. It is the Group's policy to provide for amounts related to the claims, as well as for litigation and arbitration matters, when an unfavourable outcome is probable and the amount of the loss can be reasonably estimated.

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

Wärtsilä Interim report January-March 2017

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 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**. The standard 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 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 the 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-March 2017.

Under IFRS 9, financial assets are classified according to their cash flow characteristics and the business model they are managed in. 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 percentage of completion method, 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 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 maximum 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 that, trade receivables 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 per 1 January 2017. Figures in the comparison periods have not been restated.

This interim report is unaudited.

Condensed statement of income

MEUR	1-3/2017	1-3/2016	2016
Net sales	1 007	967	4 801
Other operating income	13	11	55
Expenses	-909	-868	-4 200
Depreciation, amortisation and impairment	-33	-31	-138
Share of result of associates and joint ventures	1	3	14
Operating result	80	83	532
Financial income and expenses	-5	-3	-53
Profit before taxes	74	80	479
Income taxes	-17	-20	-123
Profit for the reporting period	57	60	357
Attributable to:			
Equity holders of the parent company	55	58	352
Non-controlling interests	1	2	4
	57	60	357
Earnings per share attributable to equity holders of the parent company (basic and diluted):			
Earnings per share (EPS), basic and diluted, EUR	0.28	0.30	1.79

Statement of other comprehensive income

MEUR	1-3/2017	1-3/2016	2016
Profit for the reporting period	57	60	357
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income			
Remeasurements of defined benefit liabilities		1	-12
Tax on items that will not be reclassified to the statement of income			3
Total items that will not be reclassified to the statement of income		1	-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	1	-45	-52
for non-controlling interests		-1	-1
Associates and joint ventures, share of other comprehensive income	3	-2	1
Cash flow hedges	9	42	41
Tax on items that may be reclassified to the statement of income	-2	-10	-10
Total items that may be reclassified to the statement of income	11	-16	-21
Other comprehensive income for the reporting period, net of taxes	11	-15	-30
Total comprehensive income for the reporting period	68	45	327

Total comprehensive income attributable to:			
Equity holders of the parent company	67	44	323
Non-controlling interests	1		3
	68	45	327

Condensed statement of financial position

MEUR	31.3.2017	31.3.2016	31.12.2016
Non-current assets			
Intangible assets	1 421	1 421	1 434
Property, plant and equipment	393	420	405
Investments in associates and joint ventures	76	64	84
Other investments	14	15	15
Deferred tax assets	142	151	141
Other receivables	46	55	38
Total non-current assets	2 092	2 126	2 116
Current assets			
Inventories	1 184	1 303	1 042
Other receivables	1 703	1 800	1 760
Cash and cash equivalents	403	428	472
Total current assets	3 290	3 531	3 275
Total assets	5 382	5 657	5 391
Equity			
Share capital	336	336	336
Other equity	1 759	1 673	1 952
Total equity attributable to equity holders of the parent company	2 095	2 009	2 288
Non-controlling interests	34	40	34
Total equity	2 129	2 049	2 321
Non-current liabilities			
Interest-bearing debt	592	585	520
Deferred tax liabilities	90	109	93
Other liabilities	276	285	270
Total non-current liabilities	958	979	884
Current liabilities			
Interest-bearing debt	78	503	108
Other liabilities	2 217	2 126	2 078
Total current liabilities	2 295	2 629	2 186
Total liabilities	3 252	3 608	3 070
Total equity and liabilities	5 382	5 657	5 391

Condensed statement of cash flows

MEUR	1-3/2017	1-3/2016	2016
Cash flow from operating activities:			
Profit for the reporting period	57	60	357
Adjustments for:			
Depreciation, amortisation and impairment	33	31	138
Financial income and expenses	5	3	53
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-3	-1	-6
Share of result of associates and joint ventures	-1	-3	-14
Income taxes	17	20	123
Cash flow before changes in working capital	108	109	650
Changes in working capital	-95	-105	84
Cash flow from operating activities before financial items and taxes	13	4	734
Financial items and paid taxes	-12	-17	-121
Cash flow from operating activities	2	-13	613
Cash flow from investing activities:			
Investments in shares and acquisitions	-1		-90
Net investments in property, plant and equipment and intangible assets	-4	-8	-38
Proceeds from sale of shares in associated companies and other investments			1
Cash flow from investing activities	-5	-8	-126
Cash flow from financing activities:			
Proceeds from non-current debt	90	160	131
Repayments and other changes in non-current debt	-45	-40	-91
Changes in current loans and other changes	1	240	-129
Dividends paid	-114	-238	-250
Cash flow from financing activities	-67	121	-339
Change in cash and cash equivalents, increase (+)/decrease (-)	-70	100	148
Cash and cash equivalents at the beginning of the reporting period	472	334	334
Exchange rate changes	1	-6	-9
Cash and cash equivalents at the end of the reporting period	403	428	472

Consolidated statement of changes in equity

	Total equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
MEUR	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		-257
Total comprehensive income for the reporting period			4	8		55	1	68
Equity on 31 March 2017	336	61	-53	-31	-45	1 827	34	2 129

	Total equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings		
Equity on 1 January 2016	336	61	-6	-70	-36	1 916	41	2 242
Dividends paid						-237	-1	-238
Total comprehensive income for the reporting period			-47	32	1	58		45
Equity on 31 March 2016	336	61	-53	-38	-36	1 738	40	2 049

Net sales by geographical areas

MEUR	1-3/2017	1-3/2016	2016
Europe	320	370	1 581
Asia	369	303	1 774
The Americas	248	216	1 039
Other	71	78	407
Total	1 007	967	4 801

Measures of profit and items affecting comparability

MEUR	1-3/2017	1-3/2016	2016
Comparable adjusted EBITA	94	93	618
Purchase price allocation amortisation	-9	-9	-35
Comparable operating result	86	84	583
Items affecting comparability:			
Social plan costs	-1		-22
Impairment and write-downs	-2		-22
Other restructuring costs	-3	-1	-7
Items affecting comparability, total	-6	-1	-51
Operating result	80	83	532

Intangible assets and property, plant & equipment

MEUR	1-3/2017	1-3/2016	2016
Intangible assets			
Carrying amount on 1 January	1 434	1 464	1 464
Changes in exchange rates	-1	-31	-52
Acquisitions	1		71
Additions	2	3	16
Amortisation and impairment	-15	-15	-62
Disposals and reclassifications			-3
Carrying amount at the end of the reporting period	1 421	1 421	1 434
Property, plant and equipment			
Carrying amount on 1 January	405	431	431
Changes in exchange rates		-2	5
Acquisitions			14
Additions	6	8	38
Depreciation and impairment	-18	-16	-76
Disposals and reclassifications		-2	-7
Carrying amount at the end of the reporting period	393	420	405

Gross capital expenditure

MEUR	1-3/2017	1-3/2016	2016
Investments in securities and acquisitions	1		91
Intangible assets and property, plant and equipment	8	11	55
Total	9	11	146

Net interest-bearing debt

MEUR	1-3/2017	1-3/2016	2016
Non-current liabilities	592	585	520
Current liabilities	78	503	108
Loan receivables	-7	-21	-7
Cash and cash equivalents	-403	-428	-472
Total	260	639	150

Financial ratios

	1-3/2017	1-3/2016	2016
Earnings per share (EPS), basic and diluted, EUR	0.28	0.30	1.79
Equity per share, EUR	10.62	10.18	11.60
Solvency ratio, %	44.1	40.7	47.6
Gearing	0.13	0.32	0.07
Return on investment (ROI), %	16.9	20.5	17.1
Return on equity (ROE), %	16.9	21.5	15.6

Personnel

	1-3/2017	1-3/2016	2016
On average	17 802	18 472	18 332
At the end of the reporting period	17 832	18 427	18 011

Contingent liabilities

MEUR	1-3/2017	1-3/2016	2016
Mortgages	10	10	10
Chattel mortgages and other pledges and securities	25	26	26
Total	35	36	36
Guarantees and contingent liabilities			
on behalf of Group companies	975	703	921
Nominal amount of rents according to leasing contracts			
payable within one year	31	29	34
payable between one and five years	80	74	84
payable later	26	28	30
Total	1 112	833	1 069

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	165	
Cross currency swaps	84	
Foreign exchange forward contracts	3 203	792
Total	3 451	792

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)	14	14
Interest-bearing investments, non-current (level 2)	6	6
Other receivables, non-current (level 2)	5	5
Derivatives (level 2)	9	9
Financial liabilities		
Interest-bearing debt, non-current (level 2)	592	602
Derivatives (level 2)	39	39

Quarterly figures

MEUR	1-3/ 2017	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016	10-12/ 2015	7-9/ 2015	4-6/ 2015	1-3/ 2015
Order intake									
Services	686	565	522	527	580	572	511	579	662
Energy Solutions	405	501	330	304	312	366	167	188	287
Marine Solutions	322	258	287	362	379	465	407	392	336
Total	1 413	1 324	1 139	1 194	1 271	1 403	1 086	1 159	1 285
Order book at the end of the reporting period									
Services	1 187	999	1 031	1 048	1 017	958	1 026	1 081	1 073
Energy Solutions	1 847	1 680	1 676	1 547	1 491	1 366	1 388	1 459	1 619
Marine Solutions	2 062	2 017	2 317	2 488	2 595	2 558	2 699	2 785	2 239
Total	5 096	4 696	5 024	5 083	5 103	4 882	5 112	5 325	4 931
Net sales									
Services	490	636	512	542	500	619	531	548	485
Energy Solutions	239	414	177	220	132	374	243	327	182
Marine Solutions	279	509	390	433	335	598	448	354	321
Total	1 007	1 559	1 079	1 196	967	1 590	1 222	1 230	988
Share of result of associates and joint ventures	1	5	2	4	3	6	5	5	2
Comparable adjusted EBITA	94	262	132	131	93	224	170	144	106
as a percentage of net sales	9.4	16.8	12.3	10.9	9.6	14.1	13.9	11.7	10.7
Depreciation, amortisation and impairment	-33	-34	-31	-42	-31	-33	-32	-30	-29
Purchase price allocation amortisation	-9	-9	-9	-9	-9	-9	-9	-7	-6
Comparable operating result	86	253	123	122	84	215	160	137	100
as a percentage of net sales	8.5	16.3	11.4	10.2	8.7	13.5	13.1	11.1	10.1
Items affecting comparability, total	-6	-22	-2	-26	-1	-13	-11		
Operating result	80	231	122	96	83	202	149	137	100
as a percentage of net sales	7.9	14.8	11.3	8.0	8.6	12.7	12.2	11.1	10.1
Financial income and expenses	-5	-5	-7	-38	-3	-2	-17	3	-18
Profit before taxes	74	226	115	58	80	199	132	140	82
Income taxes	-17	-55	-31	-17	-20	-41	-35	-31	-18
Profit for the reporting period from the continuing operations	57	172	84	41	60	159	97	109	64
Profit for the reporting period from the discontinued operations									22
Net profit for the reporting period	57	172	84	41	60	159	97	109	86

Earnings per share, continuing operations, EUR	0.28	0.87	0.43	0.19	0.30	0.79	0.49	0.54	0.32
Earnings per share, discontinued operations, EUR									0.11
Earnings per share (EPS), basic and diluted, EUR	0.28	0.87	0.43	0.19	0.30	0.79	0.49	0.54	0.43
Gross capital expenditure	9	20	55	60	11	32	17	279	18
Investments in securities and acquisitions	1		42	49		5		262	
Cash flow from operating activities	2	235	189	202	-13	176	-5	47	37
Working capital (WCAP) at the end of the reporting period	580	490	540	602	709	543	522	404	296
Personnel at the end of the reporting period									
Services	10 464	10 567	10 648	10 575	10 331	10 592	10 714	10 785	10 711
Energy Solutions	913	903	920	945	958	959	966	974	975
Marine Solutions	5 920	6 074	6 305	6 443	6 681	6 847	7 101	7 217	5 587
Other	533	467	464	465	457	459	456	451	433
Total	17 832	18 011	18 337	18 428	18 427	18 856	19 237	19 427	17 707

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

25 April 2017

Wärtsilä Corporation

Board of Directors