Profitable growth supported by solid financials

Marco Wirén
CFO & Executive Vice President
## WE ARE COMMITTED TO ACHIEVING OUR LONG-TERM FINANCIAL TARGETS

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<tr>
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<th>REACH 14% PROFITABILITY</th>
<th>MAINTAIN GEARING BELOW 50%</th>
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Net sales development in line with targets

Wärtsilä’s sales growth

GDP growth

Source: IMF World Economic Outlook Database: GDP, current prices, U.S. dollars
Global reach with balanced customer exposure

Top 10 countries 1-6/2016

- USA: 9%
- United Kingdom: 4%
- Germany: 5%
- Turkey: 5%
- Norway: 4%
- Italy: 4%
- South Korea: 8%
- China and Hong Kong: 5%
- Africa: 7%

Net sales 1-6/2016

- Utilities: 14%
- IPPs: 11%
- Other power: 1%
- Gas carriers: 11%
- Offshore: 14%
- Cruise and Ferry: 14%
- Traditional merchant: 15%
- Special vessels: 7%
- Navy: 7%
- Industrial: 8%
- Other marine: 3%
Our order book provides visibility


TOTAL EUR 5,083 MILLION

- Services: 20%
- Industrial: 9%
- Utilities: 11%
- IPPs: 10%
- Other power: 1%
- Gas carriers: 12%
- Offshore: 7%
- Cruise and Ferry: 12%
- Special vessels: 3%
- Other marine: 2%
- Navy: 5%
- Traditional merchant: 8%
- Other: 1%

Order book rotation

- NEW EQUIPMENT BUSINESS
  - MARINE SOLUTIONS: 6 months - 2.5 years
  - ENERGY SOLUTIONS: 6 months-2 years

- SERVICES
  - TRANSACTIONAL: ≤ 3 months
  - LONG-TERM BUSINESS: ≤ 24 months

Our order book provides visibility.
Services is largely a transactional business

Net sales

Order book

- Transactional Business
- Long-term Business
Order book delivery times lengthening

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<th>June 2015</th>
<th>June 2016</th>
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<tr>
<td>As of June 2015</td>
<td>44%</td>
<td>41%</td>
</tr>
<tr>
<td>To be delivered in 2015</td>
<td>38%</td>
<td>36%</td>
</tr>
<tr>
<td>To be delivered in 2016</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>To be delivered in 2017 &amp; beyond</td>
<td>0%</td>
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MEUR

As of June 2015
To be delivered in 2015
To be delivered in 2016
To be delivered in 2017 & beyond
As of June 2016
To be delivered in 2016
To be delivered in 2017
To be delivered in 2018 & beyond

Capital Markets Day 2016
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Maintaining competitiveness through the cycle

Cumulative effects of announced savings

- Headcount reductions of 2,150
- 12 facilities closed
- Operational excellence
- Divestment of loss-making 2-stroke license management business
- Indirect Purchasing transformation program
- Capacity costs in manufacturing decreased

Note *) Excluding acquisitions
Increasing flexibility in the cost base

Cost structure

2014 | 2015 | 2017 Illustrative
--- | --- | ---
21% | 18% | 14%
65% | 68% | 14%

2014 cost composition
- Input materials: 12%
- Energy: 33%
- External services: 27%
- Employee benefit expenses: 3%
- Depreciation and amortisation: 25%
- Other operating expenses: 1%

2015 cost composition
- Input materials: 12%
- Energy: 32%
- External services: 26%
- Employee benefit expenses: 1%
- Depreciation and amortisation: 27%
- Other operating expenses: 1%

2017 illustration excludes acquisitions. It includes assumptions on volumes, restructuring actions and operational excellence improvements.
Solid profitability over the cycle

- Comparable operating result, MEUR
- Comparable operating result, %

2014 figures include continuing operations. Figures for 2010-2013 include both discontinued and continuing operations.
KEY OBJECTIVES FOR REACHING OUR LONG-TERM PROFITABILITY TARGET

Streamlining
Adapting the cost structure to market environment

Decentralised accountability
Driving the benefits of a business line based organisation

Operational excellence
Optimising lead times and focusing on continuous process improvement

Ensuring competitiveness
Investing into technological leadership

12.2% 14.0%
Achieving operational excellence

- Recognise customers’ needs and focus on delivery reliability
- Relentlessly improve processes and set new standards of performance
- Eliminate waste and improve productivity and efficiency
Increased assembly efficiency & improved production flow
Reduced delivery lead times
Increased delivery reliability & service level

Improved material availability & reduced inventory levels
Optimising processes throughout the organisation

- Improvement efforts implemented in all core processes
- Wave approach enables quick impact and guarantees sustainability
- Objective to establish a clear, repeatable process for rolling out the transformation

~16 weeks
Area 1 – Transformation wave
Area 1 – Continuous improvement

~16 weeks
Area 2 – Transformation wave
Area 2 – Continuous improvement

~16 weeks
Area 3 – Transformation wave
Area 3 – Continuous improvement

~16 weeks
Area 4 – Transformation wave
Area 4 – Continuous improvement

~16 weeks
Area 5 – Transformation wave
Area 5 – Continuous improvement

~16 weeks
Area 6 etc. – Mini-transformation wave
Area 6 etc. – Cont. improvement
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Cash flow affected by working capital build-up

Cash flow development

Cash flow composition 2015

- EBITDA 2015
- Changes in working capital
- Net interest
- Income taxes
- Other non-cash items
- Cash flow from operating activities, 2015
Focus on working capital management

Initiated actions

- Operational excellence:
  - Production flow optimisation
  - Improved inventory management
  - Just-in-time concept and consignment stocks
- Cash flow training for project management
- Improved receivables collection process

Rolling 12 months sales used in 2016 June
Unleveraged balance sheet

Net debt/equity

Net debt/EBITDA

Rolling 12 months EBITDA used in 06/2015 and 06/2016
Low capital expenditure requirements

- Capex, excl. acquisitions
- Depreciations, excl. acquisition related

Year:
- 2011
- 2012
- 2013
- 2014
- 2015

MEUR:
- 0
- 20
- 40
- 60
- 80
- 100
- 120
- 140
- 160

- Low capital expenditure requirements
Key figures of the current loan portfolio Q2/2016

1.1% AVERAGE INTEREST RATE

517 M€ NET DEBT

Long-term loans of Wärtsilä Corporation (parent)

Revolving credit facilities of Wärtsilä Corporation (parent)

AVERAGE MATURITIES

36 MONTHS TOTAL LOAN PORTFOLIO

47 MONTHS LONG-TERM LOANS (incl. current)
Priorities going forward

Operational and development focus
• Total cost of ownership
• Fuel flexibility and versatility
• Digitalisation of products and services
• Electrification and hybrids
• Modularised offering
• Reliability

Acquisitions
• Asset light, high service content
• Geographic positions and technological capabilities
• Monitoring consolidation opportunities
Creating shareholder value

- Clear strategic growth areas based on global megatrends
- Services business secures recurring revenues and stable earnings
- Strong focus on increasing cost base flexibility and improving the efficiency of global processes
- Solid cash flow generation and unleveraged balance sheet support in strengthening our offering through acquisitions
- Committed to maintaining a healthy dividend payout ratio

Note: Peers include GE, Caterpillar, MAN, Siemens, Rolls-Royce
Source: Bloomberg, TOT_RETURN_INDEX_GROSS_DVDS
THANK YOU