WÄRTSILÄ CORPORATION
INTERIM REPORT JANUARY-SEPTEMBER 2019
25 October 2019
Jaakko Eskola, President & CEO
Third quarter burdened by project related challenges and low equipment demand – services activity remains sound
Order intake **EUR 979 million**, -29%
Order book at the end of the period **EUR 6,294 million**, +6%
Net sales **EUR 1,118 million**, -16%
Book-to-bill **0.88** (1.03)
Comparable operating result **EUR 39 million** (141), or **3.5% of net sales** (10.6)
Earnings per share **EUR -0.01** (0.17)
Cash flow from operating activities **EUR -61 million** (122)
Order intake weak in both equipment businesses – solid development in services

Third quarter development

Order intake by business area
- Wärtsilä Marine: 72% (74)
- Wärtsilä Energy: 28% (26)

Order intake by business type
- Services: 69% (47)
- Equipment: 31% (53)

Rolling 12m, MEUR

Q417-Q318 Q118-Q418 Q218-Q119 Q318-Q219 Q418-Q319

Q3 -29% 1,372 979

Third quarter 2019 and comparison 2018
Decline in net sales due to concentration of deliveries towards Q4

Third quarter development

- Net sales by business area:
  - Wärtsilä Marine: 31% (49)
  - Wärtsilä Energy: 69% (51)

- Net sales by business type:
  - Services: 48% (57)
  - Equipment: 52% (43)

Rolling 12m, MEUR

<table>
<thead>
<tr>
<th>Quarter</th>
<th>MEUR</th>
</tr>
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<tbody>
<tr>
<td>Q417-Q318</td>
<td>6,000</td>
</tr>
<tr>
<td>Q118-Q418</td>
<td>5,520</td>
</tr>
<tr>
<td>Q218-Q119</td>
<td>4,980</td>
</tr>
<tr>
<td>Q318-Q219</td>
<td>1,330</td>
</tr>
<tr>
<td>Q418-Q319</td>
<td>1,118</td>
</tr>
</tbody>
</table>

Third quarter 2019 and comparison 2018
Book-to-bill

Rolling 12m, MEUR

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Book-to-bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q416-Q317</td>
<td>1.08</td>
</tr>
<tr>
<td>Q117-Q417</td>
<td>1.15</td>
</tr>
<tr>
<td>Q217-Q118</td>
<td>1.15</td>
</tr>
<tr>
<td>Q317-Q218</td>
<td>1.20</td>
</tr>
<tr>
<td>Q417-Q318</td>
<td>1.17</td>
</tr>
<tr>
<td>Q118-Q418</td>
<td>1.22</td>
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<tr>
<td>Q218-Q119</td>
<td>1.18</td>
</tr>
<tr>
<td>Q318-Q219</td>
<td>1.15</td>
</tr>
<tr>
<td>Q418-Q319</td>
<td>1.13</td>
</tr>
</tbody>
</table>

Order intake, Net sales, Book-to-bill line chart.
Order book distribution

![Chart showing order book distribution between 30.9.2018 and 30.9.2019]

- **Delivery current year**
- **Delivery next year or later**

<table>
<thead>
<tr>
<th>30.9.2018</th>
<th>30.9.2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery current year</td>
<td>Delivery next year or later</td>
</tr>
<tr>
<td>1,500 MEUR</td>
<td>2,000 MEUR</td>
</tr>
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</table>
Comparable operating result burdened by project challenges

*The operating result for January-September 2019 includes a charge of EUR 84 million related to cost overruns in certain large and complex project deliveries in the Marine and Energy businesses, of which EUR 17 million was recognised in Wärtsilä Marine and EUR 67 million in Wärtsilä Energy.
Cost overruns in certain complex marine and energy projects

Projects affected:
• Twelve marine gas solutions projects for multiple gas tanker vessel series
• One LNG terminal construction project
• Two engine EPC projects in countries with strict local standards and requirements

Financial impact:
• EUR 150 million one-time charge in full year 2019 result, of which EUR 84 million recognised during January-September
Reasons identified and corrective actions taken

**Main issues behind cost overruns:**
- New technologies and applications
- Challenges related to new suppliers
- Local standards and codes not fully priced at sales phase
- Subcontracting and engineering costs underestimated

**Corrective actions to strengthen sales and project execution processes:**
- Changes to the organisational structure to strengthen project management
- Process changes to ensure better upfront risk identification
- Tighter controls on technical assessments and supplier approval
- Training and introduction of new tools to facilitate sales and project execution processes
Cash flow from operating activities

Review period development

MEUR

<table>
<thead>
<tr>
<th>Year</th>
<th>MEUR</th>
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</thead>
<tbody>
<tr>
<td>2015</td>
<td>200</td>
</tr>
<tr>
<td>2016</td>
<td>600</td>
</tr>
<tr>
<td>2017</td>
<td>400</td>
</tr>
<tr>
<td>2018</td>
<td>500</td>
</tr>
</tbody>
</table>

MEUR

<table>
<thead>
<tr>
<th>Period</th>
<th>MEUR</th>
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</thead>
<tbody>
<tr>
<td>1-9/2018</td>
<td>150</td>
</tr>
<tr>
<td>1-9/2019</td>
<td>100</td>
</tr>
</tbody>
</table>
Working capital

**MEUR**

<table>
<thead>
<tr>
<th>Year</th>
<th>Working capital</th>
<th>Total inventories</th>
<th>Advances received</th>
<th>Working capital / Net sales*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>251</td>
<td>543</td>
<td>490</td>
<td>5.2%</td>
</tr>
<tr>
<td>2015</td>
<td>543</td>
<td>490</td>
<td>563</td>
<td>10.8%</td>
</tr>
<tr>
<td>2016</td>
<td>490</td>
<td>563</td>
<td>581</td>
<td>10.2%</td>
</tr>
<tr>
<td>2017</td>
<td>563</td>
<td></td>
<td></td>
<td>11.5%</td>
</tr>
<tr>
<td>2018</td>
<td>581</td>
<td></td>
<td></td>
<td>11.2%</td>
</tr>
</tbody>
</table>

*Working capital / 12 months rolling net sales

Review period development

**MEUR**

<table>
<thead>
<tr>
<th>Date</th>
<th>Working capital</th>
<th>Total inventories</th>
<th>Advances received</th>
<th>Working capital / Net sales*</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.9.2018</td>
<td>782</td>
<td></td>
<td></td>
<td>15.4%</td>
</tr>
<tr>
<td>30.9.2019</td>
<td>870</td>
<td></td>
<td></td>
<td>17.3%</td>
</tr>
</tbody>
</table>
Gearing

Review period development
Vessel contracting remains subdued

**Total vessel contracting**

- Blue: Merchant
- Black: Offshore
- Orange: Cruise and Ferry
- Gray: Special vessels
- 3 months moving average in CGT

**Specialised tonnage**

- Offshore
- Cruise and Ferry
- Special vessels
- LNG carriers
- LPG carriers

Source: Clarksons, Contracting as per October 7th, 2019

CGT = gross tonnage compensated with workload
Order intake development

Third quarter development

- Equipment order intake by segment:
  - Cruise & Ferry: 24%
  - Offshore: 7%
  - Navy: 5%
  - Special Vessels: 6%
  - Merchant: 31%
  - Gas carriers: 3%
  - Others: 11%

- Services order intake by segment:
  - Merchant: 21%
  - Cruise & Ferry: 21%
  - Offshore: 10%
  - Navy: 13%
  - Special Vessels: 21%
  - Gas carriers: 10%
Marine installed base covered by long-term service agreements
Net sales development

QTD, MEUR

Rolling 12m, MEUR

Third quarter development
EUR 776 million (680)

- Spare parts: 25% (26)
- Service agreements: 15% (17)
- Service projects: 5% (7)
- Field service: 4% (5)
- Wärtsilä Marine, equipment: 51% (45)

Wärtsilä Marine, equipment
Wärtsilä Marine, services
Wärtsilä Marine total, rolling 12 months
• The Wärtsilä 31SG pure gas engine was launched for marine market applications in September
• The new engine further reduces the total cost of ownership and the environmental footprint for vessels operating in regions where there is a developed gas infrastructure
The total market, including also power plants with prime movers above 500 MW, increased by 6% to 42.8 GW during the twelve-month period ending in June 2019 (40.5 at the end of March).

Market shares are calculated on a 12 months rolling basis. Market data includes all Wärtsilä power plants and other manufacturers’ gas and liquid fuelled gas turbine based power plants with prime movers below 500 MW, as well as the estimated output of steam turbines for combined cycles. The data is gathered from the McCoy Power Report. The main gas turbine competitors are GE, Siemens, Mitsubishi, and Ansaldo. Other combustion engines are not included.
Order intake development

Third quarter development

- Equipment order intake by segment:
  - Utilities: 18%
  - Independent Power Producers: 82%
- Services order intake by segment:
  - Others: 25%
  - Utilities: 16%
  - Independent Power Producers: 30%
  - Industrials: 28%
Orders received for power plants globally

Order intake 1-9/2019: 1,005 MW (1,868)
Energy installed base covered by long-term service agreements

A guaranteed asset performance agreement with a Hungarian power provider extended by five years

- The agreement covers a 27.65 MW combined heat and power plant
- Since first signing the agreement with CHP Erömű kft in 2005, the availability of the facility has been well above 95 percent
Net sales development

QTD, MEUR

Rolling 12m, MEUR

0 500 1,000 1,500 2,000 2,500

0 200 400 600 800


Wärtsilä Energy, equipment
Wärtsilä Energy, services
Wärtsilä Energy total, rolling 12 months

Third quarter development
EUR 342 million (650)

Spare parts
Field service
Service agreements
Service projects

22% (14)
7% (3)
20% (9)
10% (4)
41% (69)
Wärtsilä and Q Power Oy, a Finnish pioneer in biomethanisation, signed a cooperation agreement to accelerate the development and commercialisation of renewable fuels.

The companies will work closely together to further develop the market and to find business opportunities for biomethanisation and synthetic fuels globally.
The demand for Wärtsilä’s services and solutions in the coming twelve months is expected to be somewhat below that of the previous twelve months.

Demand by business area is anticipated to be as follows:

- Soft in Wärtsilä Marine Business
- Weak in Wärtsilä Energy Business (downgraded from soft)
Further information:

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