Wärtsilä Interim report January-September 2018

This interim 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 2017, except for the IFRS amendments stated below. 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 2018, the Group has adopted the following new standards and interpretation issued by the IASB.

As of 1 January 2018, Wärtsilä has adopted the **IFRS 15 Revenue from Contracts with Customers** standard by using the full retrospective method. This interim report is published according to the new standard, and comparison periods for 2017, including the opening balance sheet, have been restated accordingly.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. It replaces IAS 18 Revenue, and IAS 11 Construction Contracts, and related interpretations, providing a new basis for revenue recognition. IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 has an impact on the timing of recognition of revenue in two business lines: long-term service and maintenance agreements, and gas solutions related construction contracts. The changes and impact caused by the standard are described below.

In long-term service and maintenance agreements, customer value is created over time during the contract period. The revenue recognition method changes from an output method (percentage of completion based on the proportion of the contracted services performed) to an input method (percentage of completion based on costs incurred). Due to standard maintenance schedules, this typically delays the revenue recognition in a contract. In construction contracts related to gas solutions, the key value drivers are engineering, procurement, and project management, and the manufacturing is usually outsourced. The revenue recognition method changes from an output method (percentage of completion based on the progress measured by surveys of work performed) to an input method (percentage of completion based on costs incurred).

In the project business, contracts usually have clauses for liquidated damages which were previously accounted as provisions for cost when their probability was more likely than not to occur. Liquidated damages are treated as a variable consideration according to IFRS 15 and are required to be estimated at contract inception. According to IFRS 15, the net sales will be reduced by late delivery penalties and liquidated damages, which have been expensed under IAS 18 and IAS 11. The restatement impact of reclassification of penalties is insignificant.

Arising from the change of revenue recognition in long-term service and maintenance agreements, and gas solutions related construction contracts from output method to input method, an adjustment of EUR -13 million has been made to the Group's retained earnings as at 1 January 2017.

The restatement of financials 2017 result in a decrease in net sales of EUR 11 million, an increase in material and services expenses of EUR 3 million, a decrease in income taxes of EUR 5 million, and a decrease in profit for the financial period of EUR 9 million. From the consolidated statement of financial position perspective, the application of the new principles impact the deferred tax assets, other receivables, and other liabilities. Deferred tax assets increased by EUR 8 million and other receivables increased by EUR 33 million. Other liabilities increased by EUR 60 million mainly due to changes in accrued expenses and deferred income. These changes do not have an impact on cash flows.

Amendments to **IFRS 2 Share-based Payment** - Clarification and Measurement of Share-based Payment Transactions (effective for financial periods beginning on or after 1 January 2018). The amendments are intended to eliminate the diversity in the classification and measurement of particular share-based payment transactions (accounting for cash-settled share-based payment transactions that include a performance condition, share-based payments in which the manner of settlement is contingent on future events, share-based payments settled net of tax withholdings, and modification of share-based payment transactions from cash-settled to equity-settled). The amendments have no impact on consolidated financial statements.

Amendments to **IFRS 4 Insurance Contracts** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial periods beginning on or after 1 January 2018): Applying IFRS 9 Financial Instruments with IFRS 4. The amendments bring certainty to insurers on whether, and how, they should apply IFRS 9 before they apply the forthcoming insurance contracts standard. The amendments have no impact on consolidated financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration (effective for financial periods beginning on or after 1 January 2018). The interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions IAS 21. The guidance aims to reduce diversity in practice. The interpretation has no impact on consolidated financial statements.

Internal transfer of service activities

Wärtsilä has decided to transfer certain service activities from Marine Solutions to Services as of 1 January 2018. The aim is to strengthen the focus on the development of these activities. The comparison periods for 2017 have been restated, resulting in EUR 177 million in net sales, EUR 190 million in order intake, and EUR 49 million in the order book being transferred from Marine Solutions to Services for the financial period 2017. This transfer has no impact on Group totals.

This interim report is unaudited.