Wärtsilä Svanehøj A/S
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Svanehoj@wartsila.com

Wärtsilä Svanehøj A/S

Annual report 2016

The annual report was presented and approved at the Company's annual general meeting

on 31 MAY 20 17

chairman

CVR no. 25 89 50 10

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Wärtsilä Svanehøj A/S for the financial year 1 January – 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Svenstrup, 18 May 2017
Executive Board:

Henrik Sørensen

Ole Styrbæk

Board of Directors:

Timo Ensio Koponen
Chairman

Bernd Bertram

Henrik Sørensen

Jens Dam Christensen

Hans Jørgen Larsen

Independent auditor's report

To the shareholders of Wärtsilä Svanehøj A/S

Opinion

We have audited the financial statements of Wärtsilä Svanehøj A/S for the financial year 1 January – 31 December 2016, comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view

KPMG

Independent auditor's report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aalborg, 18 May 2017
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Steffen S. Hansen
State Authorised
Public Accountant

Management's review

Company details

Wärtsilä Svanehøj A/S
Fabriksparken 6
9230 Svenstrup J

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Fax:	+45 98 38 31 56
E-mail:	Svanehoj@wartsila.com
CVR no.:	25 89 50 10
Established:	13 November 1969
Registered office:	Aalborg
Financial year:	1 January – 31 December

Board of Directors

Timo Ensio Koponen, Chairman
Bernd Bertram
Henrik Sørensen
Jens Dam Christensen
Hans Jørgen Larsen

Executive Board

Henrik Sørensen

Ole Styrbæk

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Østre Havnegade 18
9000 Aalborg

Annual general meeting

The annual general meeting will be held on 18 May 2017.

Management's review

Financial highlights

DKK'000	2016 (12 mos)	2015 (12 mos)	2014 (12 mos)	2013 (12 mos)	2012 (9 mos)
Revenue	328,867	527,737	402,792	248,479	175,464
Gross profit	112,925	184,600	137,586	86,016	55,389
Operating profit	70,247	128,927	87,947	44,238	29,062
Profit/loss from financial income and expenses	-1,264	-861	-1,619	220	102
Profit for the year	53,531	97,735	66,892	35,482	21,889
Total assets	202,228	286,534	339,237	224,108	198,801
Investment in property, plant and equipment	2,894	3,547	4,590	3,070	2,800
Equity	83,923	130,447	102,661	95,509	82,377
Gross margin	34,4%	35.0%	34.2%	34.6%	31.6%
Return on invested capital	53.0%	88.9%	68.9%	49.7%	40.8%
Return on equity	49,9%	83.9%	67.5%	39.9%	30.7%
Average number of full-time employees	145	171	147	122	104

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Gross margin $$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$$

Return on invested capital $$\frac{\text{Operating profit/loss x 100}}{\text{Average invested capital}}$$

Invested capital: Operating intangible assets and property, plant and equipment plus net working capital

Return on equity $$\frac{\text{Profit/loss from ordinary activities after tax x 100}}{\text{Average equity}}$$

Management's review

Operating review

Principal activities of the Company

The Company designs, constructs, markets, sells and produces pumping systems and related products to the marine and offshore sectors.

The products are mainly sold on export markets. The Company is highly focused on increasing its market penetration within the offshore sector.

Development in activities and financial position

Profit for the year amounted to DKK 53.5 million, which is considered satisfactory.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date that may influence the evaluation of this annual report.

Outlook

Profit for 2017 is expected to be down on 2016 due to the situation in the new building markets.

Risks

Foreign exchange risk

Due to its activities abroad, results and equity are affected by the development in exchange rates and interest rates with regard to numerous currencies. It is the Company's policy to hedge against commercial foreign exchange exposure. Hedging takes place by means of forward exchange contracts to cover projected sales and purchases arising from incoming orders. The Company does not enter into forward exchange contracts for speculative purposes.

Intellectual capital

The Company's objective is to supply high-technology products. This activity involves specific requirements in terms of intellectual capital, especially with regard to product development as well as sales and order processing. Recruiting qualified staff has not posed a problem, and in general, employee turnover is low.

Management's review

Operating review

Environmental matters

The Company's production of pumps does not materially affect the external environment and takes place in a manner ensuring compliance with current regulatory requirements.

The Company has been certified by Lloyd's Register Quality Assurance for the environmental management standard ISO 14001:2004, the health and safety management standard OHSAS 18001:2007 and the quality management standard ISO 9001:2008.

Research and development activities

The Company has its own R&D department, partly to develop new pumps and partly to optimise and maintain its existing product range on an ongoing basis.

Statutory corporate social responsibility statement

Wärtsilä Svanehøj has not worked out independent strategies and policies with regard to Danish Financial Statements Act 99 a. However, the Company's ultimate parent company Wärtsilä Corporation prepares a consolidated Annual report, in accordance with "Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4.", where specific strategies and policies regarding corporate social responsibility, including climate, environment and human rights are disclosed. The report for 2016 can be found here: http://www.wartsilareports.com/en-US/2016/ar/sustainability/report-scope/.

Additional information, regarding The Wärtsila Group's sustainability policies can be found here: http://www.wartsila.com/sustainability"

Statement on gender distribution in Management

Wärtsilä Group continued its work on diversity during 2016. The above-mentioned Sustainability Report for 2016 contains a statement in this respect and can be found here: http://www.wartsilareports.com/en-US/2016/ar/sustainability/sustainability-management/management-approach/people-management/.

Wärtsilä's Diversity Initiative began in 2012 with the aim of fostering an inclusive corporate culture at all levels of the organisation so as to meet global requirements. By investing in diversity and supporting employees of varied age, gender, personality and educational background, Wärtsilä becomes a more innovative business partner as well as a more attractive employer.

The composition of the Board of Directors is determined at group level in accordance with the Group's and thereby the Company's general policy on "People management". At 31 December 2016, no females served on the Board of Directors of Wärtsilä Svanehøj A/S.

Management's review

Operating review

By virtue of its general policy, it is natural for the Company to aim at a more even gender distribution of the Board of Directors elected by the general meeting within the next few years, thus ensuring that the underrepresented gender does not amount to 0%. The goal is thus that, within four years, one of the board members elected at the general meeting should be a woman. Based on the Board of Directors' current size, it will correspond to 33%.

The general policy also applies to other levels of management and entails that several executive employees are women. As gender is not considered when executive employees are appointed, no specific measures have been taken in order to change the distribution.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2016	2015
Revenue		328,867	527,737
Production costs		-215,942	-343,137
Gross profit		112,925	184,600
Distribution costs		-16,653	-20,488
Administrative expenses		-26,025	-35,185
Operating profit		70,247	128,927
Other financial income	2	154	5
Financial expenses	3	-1,418	-866
Profit before tax		68,983	128,066
Tax on profit for the year	4	-15,452	-30,331
Profit for the year	5	53,531	97,735

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2016	2015
ASSETS			
Fixed assets			
Intangible assets	6		
Acquired patents and licences		729	1,059
Completed development projects		5,219	7,632
		5,948	8,691
Property, plant and equipment	7		
Land and buildings		11,978	14,145
Plant and machinery		2,894	3,548
Fixtures and fittings, tools and equipment		392	639
		15,264	18,332
Total fixed assets		21,212	27,023
Current assets			
Inventories			
Raw materials and consumables		49,488	32,349
Work in progress		20,136	3,716
Finished goods and goods for resale		699	40,434
		70,323	76,499
Receivables			
Trade receivables		46,770	131,739
Construction contracts	8	6,891	7,103
Receivables from group entities		20,218	29,865
Other receivables		143	52
Prepayments		653	628
		74,675	169,387
Cash at bank and in hand		36,018	13,625
Total current assets		181,016	259,511
TOTAL ASSETS		202,228	286,534

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2016	2015
EQUITY AND LIABILTIES			
Equity			
Share capital	9	26,250	26,250
Retained earnings		2,673	4,197
Proposed dividends for the financial year		55,000	100,000
Total equity		83,923	130,447
Provisions			
Deferred tax	10	20,710	22,072
Other provisions		1,789	5,921
Total provisions		22,499	27,993
Liabilities other than provisions			
Current liabilities other than provisions			
Prepayments received from customers		17,033	16,351
Trade payables		20,669	31,947
Payables to group entities		40,697	49,573
Corporation tax		1,687	2,489
Other payables		15,720	27,734
Total liabilities other than provisions		95,806	128,094
TOTAL EQUITY AND LIABILITIES		202,228	286,534

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Statement of changes in equity

DKK'000	Share capital	Retained earnings	Proposed dividends	Total
Equity at 1 January 2015	26,250	6,411	70,000	102,661
Distributed dividends	0	0	-70,000	-70,000
Transferred; see the profit appropriation	0	-2,265	100,000	97,735
Value adjustments of hedging instruments at year end	0	51	0	51
Equity at 1 January 2016	26,250	4,197	100,000	130,447
Distributed dividends	0	0	-100,000	-100,000
Transferred; see the profit appropriation	0	-1,469	55,000	53,531
Value adjustments of hedging instruments at year end	0	-55	0	-55
Equity at 31 December 2016	26,250	2,673	55,000	83,923

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Wärtsilä Svanehøj for 2016 has been prepared in accordance with the provisions applying to reporting class C (large) entities under the Danish Financial Statements Act.

Pursuant to section 86(4) of the Danish Financial Statements Act, a cash flow statement has not been prepared.

Pursuant to section 96(3) of the Danish Financial Statements Act, fees to the appointed auditor has not been disclosed. The information is included in the financial statements of Wärtsilä Corporation, Finland.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015.

This has entailed the following changes to recognition and measurement:

- Going forward, the residual value of intangible assets and property, plant and equipment must be reassessed on an ongoing basis. Pursuant to the transition provisions of the Act, any adjustments to residual values must be made prospectively as an accounting estimate without restatement of comparative figures and without effect on equity.

Apart from the above, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments designated as or qualifying for recognition as a fair value hedge of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Changes in the fair value of derivative financial instruments designated as or qualifying for recognition as a hedge of future transactions are recognised as other receivables or other payables and in equity until the realisation of the hedged transactions. If the future transaction results in the recognition of assets or liabilities, amounts which were previously recognised in equity are transferred to the cost of the assets or liabilities. If the future transaction results in income or costs, amounts which were previously recognised in equity are transferred to the income statement for the period when the hedged item affects the income statement.

For derivative financial instruments not qualifying for treatment as hedging instruments, changes in fair value are recognised in the income statement on an ongoing basis.

Revenue

Income from the sale of goods for resale and finished goods is recognised in revenue when delivery and transfer of risk to the buyer have taken place, the income may be reliably measured and is expected to be received.

Revenue from the sale of goods where delivery has been postponed upon the buyer's request is recognised as revenue when ownership of the goods has been transferred to the buyer.

Revenue is measured at the fair value of the agreed remuneration excluding VAT and taxes charged on behalf of third parties. All discounts granted are included in revenue.

Construction contracts are recognised as revenue by reference to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (the percentage of completion method).

Production costs

Production costs comprise costs, including depreciation, amortisation, wages and salaries incurred to generate revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases and depreciation of plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Distribution costs

Distribution costs comprise costs incurred to distribute goods sold during the year and to conduct sales campaigns, etc., including costs relating to sales staff, advertising, exhibitions and depreciation.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Administrative expenses

Administrative expenses comprise expenses incurred during the year for management and administration of the Company, including expenses for administrative staff, management, office premises, office expenses and depreciation.

In addition, write-down for bad debts on receivables are recognised.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Financial income and expenses comprise interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit for the year

Wärtsilä Svanehøj A/S is jointly taxed with the affiliated company Wärtsilä Danmark A/S and Wärtsilä Lyngsø Marine A/S. Current tax is distributed between the jointly taxed Danish companies in proportion to the taxable income of these companies (full absorption with refund for tax losses). The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Intangible assets

On initial recognition, intangible assets are recognised at cost.

Development costs comprise costs, wages, salaries and amortisation directly and indirectly attributable to development activities.

Development projects that are clearly defined and identifiable where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses as well as development costs. Other development costs are recognised in the income statement as incurred.

Development costs recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Upon completion of development work, development costs are amortised on a straight-line basis over the estimated useful lives. The amortisation period is 5 years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining life of the patent, and licences are amortised over the contract period. The software amortisation period is 5 years.

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as operating income or operating costs, respectively.

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

Interest expense is not included in costs.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

The depreciable amount, which is calculated as cost less any projected residual values after the end of the useful life, is depreciated on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Buildings	25 years
Plant and machinery	3-10 years
Fixtures and fittings, tools and equipment	5-10 years

Land is not depreciated.

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively. Depreciation is recognised in the income statement as production costs, distributions costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads.

Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less provisions for bad debts.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Construction contracts

Construction contracts are measured at the selling price of the work performed. The selling price is measured on the basis of the degree of completion at the balance sheet date and total expected income from specific work in progress.

If the selling price of a construction contract cannot be measured reliably, the selling price is measured at the lower of costs incurred and net realisable value.

Individual work in progress is recognised in the balance sheet as either receivables or payables depending on the net value of the sales amount less progress billings and prepayments.

Prepayments

Prepayments comprise prepayments of costs relating to subsequent financial years.

Equity

Dividends

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Reserve for development costs

The reserve for development costs comprises capitalised development costs. The reserve cannot be used for dividends, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year adjusted for tax on the taxable income of prior years and for tax paid on account.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability.

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax, on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement and equity, respectively.

Provisions

Provisions comprise anticipated costs of warranties. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation, and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at net realisable value or fair value if the obligation is expected to be settled in the distant future.

Warranties comprise obligations to make good any defects within the warranty period. Provisions are measured at net realisable value and recognised on the basis of the Company's experience with warranties. Provisions expected to be maintained for more than one year from the balance sheet date are discounted at a rate reflecting risk and the due date for payment.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises accrued costs to finish projects where the risk of the goods has been transferred to the customer.

Financial statements 1 January – 31 December

Notes

	DKK'000	2016	2015
2	**Other financial income**		
	Other interest income	154	5
		154	5
3	**Financial expenses**		
	Interest expense to group entities	629	131
	Other financial expenses	789	735
		1,418	866
4	**Tax on profit for the year**		
	Current tax for the year	16,733	31,488
	Adjustment of deferred tax for the year	-1,274	-1,016
	Adjustment regarding previous years	-23	-55
	Effect of reduction of the corporation tax rate on deferred tax	0	-70
		15,436	30,347
	Which is specified as follows:		
	Tax on profit for the year	15,452	30,331
	Tax on changes in equity	-16	16
		15,436	30,347
5	**Proposed profit appropriation**		
	Proposed dividends for the financial year	55,000	100,000
	Retained earnings	-1,469	-2,265
		53,531	97,735

Financial statements 1 January – 31 December

Notes

6 Intangible assets

DKK'000	Acquired patents and rights	Completed develop-ment projects	Total
Cost at 1 January 2016	8,964	12,065	21,029
Additions	0	0	0
Transferred	0	0	0
Cost at 31 December 2016	8,964	12,065	21,029
Amortisation and impairment losses at 1 January 2016	7,905	4,433	12,338
Amortisation	330	2,413	2,743
Amortisation and impairment losses at 31 December 2016	8,235	6,846	15,081
Carrying amount at 31 December 2016	729	5,219	5,948

7 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2016	49,527	44,377	3,457	97,361
Additions	0	66	0	66
Transferred	0	0	0	0
Cost at 31 December 2016	49,527	44,443	3,457	97,427
Depreciation and impairment losses at 1 January 2016	35,382	40,829	2,818	79,029
Depreciation	2,167	720	247	3,134
Depreciation and impairment losses at 31 December 2016	37,549	41,549	3,065	82,163
Carrying amount at 31 December 2016	11,978	2,894	392	15,264

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8 Construction contracts

DKK'000	2016	2015
Selling price of work performed	234,128	228,771
Progress billings made	-227,237	-221,668
	6,891	7,103
Specified as follows:		
Construction contracts	6,891	7,103

Accrued costs related to construction contracts amounted to DKK 13,738 thousand and have been recognised as trade payables.

9 Share capital

The share capital consists of 1 share of DKK 26,250 thousand. All shares rank equally. The share capital has remained unchanged for the last five financial years.

	DKK'000	2016	2015
10	**Deferred tax**		
	Deferred tax 1 January	22,072	23,222
	Adjustment in the year in income statement	-1,274	-1,016
	Adjustment on equity	-16	16
	Adjustment regarding previous year	-72	-150
		20,710	22,072
11	**Lease commitments**		
	Remaining lease commitments at 31 December	54	54

Residual operating lease obligations recognised at the balance sheet date fall due within 1 year.

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12 Currency risks and the use of derivative financial instruments

The Company hedges forecast currency risks relating to the sale and purchase of goods within the coming year using forward exchange contracts. Large potential future transactions subject to a high degree of risk are hedged by means of currency options after the first year.

	2016				
Currency	Payment/ expiry	Recei- vables	Payables	Hedged by forward exchange contracts and currency swaps	Net position
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
EUR	48,654	20,162	-3,227	0	65,589
JPY	7,701	0	0	-7,701	0
GBP	0	0	-1,120	0	-1,120
USD	-2,053	4,203	-1,989	0	161
	54,302	24,365	-6,336	-7,701	64,630

13 Contractual obligations, contingencies, etc.

The Company is jointly taxed with other Danish companies in the Wärtsilä Group. As a wholly-owned subsidiary, together with the other companies included in the join taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties. Any subsequent correction of the taxable joint taxation income or withholding taxes might increase the Company's liability.

No other recourse liabilities or contingent liabilities are incumbent on the Company.

14 Mortgages and collateral

The Company has issued a mortgage registered to the mortgagor of DKK 12,000 thousand secured upon the Company's land and buildings. The carrying amount of the properties held under mortgage amounts DKK 11,978 thousand. The mortgage registered to the mortgagor remains in the Company's possession.

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15 Related party disclosures and ownership

The following shareholders are registered in the Company's register of shareholders as holding a minimum of 5% of the votes or a minimum of 5% of the share capital:

Wärtsilä Hamworthy International Ltd., England

Ultimate owner is:

Wärtsilä Corporation
John Stenbergin ranta 2
Postbox 196
00531 Helsinki
Finland
www.wartsila.com

Related parties also include the Board of Directors and the Executive Board as well as group entities within the Wärtsilä Group.

Related party transactions are not disclosed as the Company is included in the consolidated financial statements of Wärtsilä Corporation, Finland.

16 Events after the balance sheet date

No events have occurred after the end of the financial year with a significant impact on the financial position of the entity.

	DKK'000	2016	2015
17	**Staff costs**		
	Wages and salaries	73,394	88,176
	Pensions	6,149	6,906
	Other social security costs	1,262	823
		80,805	95,905
	Average number of employees	145	171

Staff costs include remuneration of the Executive Board of DKK 1,489 thousand and pensions 0 DKK and remuneration of the Board of Directors of 40 DKK.

18	**Depreciation, amortisation and impairment losses**		
	Intangible assets	2,743	2,772
	Property, plant and equipment	3,134	3,105
		5,877	5,877