WÄRTSILÄ CORPORATION INTERIM REPORT

JANUARY-SEPTEMBER 2013

WÄRTSILÄ

Net sales and profitability developed well in a challenging market environment

This interim report is unaudited.

Third quarter highlights

- Order intake decreased 14% to EUR 1,097 million (1,275)
- Net sales increased 11% to EUR 1,209 million (1,087)
- Book-to-bill 0.91 (1.17)
- Operating result before non-recurring items EUR 138 million, or 11.4% of net sales (EUR 113 million or 10.4%)
- EBITA EUR 146 million, or 12.1% of net sales (EUR 122 million or 11.2%)
- Earnings per share EUR 0.48 (0.38)
- Cash flow from operating activities EUR 139 million (121)

Highlights of the review period January-September 2013

- Order intake decreased 2% to EUR 3,520 million (3,583)
- Net sales increased 2% to EUR 3,243 million (3,191)
- Book-to-bill 1.09 (1.12)
- Operating result before non-recurring items EUR 319 million, or 9.8% of net sales (EUR 328 million or 10.3%)
- EBITA EUR 343 million, or 10.6% of net sales (EUR 354 million or 11.1%)
- Earnings per share EUR 1.24 (1.09)
- Cash flow from operating activities EUR 261 million (-34)
- Order book at the end of the period decreased by 3% to EUR 4,568 million (4,724)

Björn Rosengren, President and CEO

“Our operations developed in line with our expectations during the third quarter. Net sales grew by 11% to EUR 1,209 million and profitability was 11.4%. With better visibility on net sales development, we specify our sales growth guidance to 0-5%, while our profitability estimate remains unchanged at around 11%.

Uncertainties in the global economy and fluctuations in emerging market currencies have caused power plant customers to delay decision-making, which has impacted our overall order intake development. In the marine markets, we see good activity across all the main vessel segments. The focus on fuel efficiency and competitive newbuilding prices are supporting investments in the merchant segment, while offshore markets remain active. Services net sales development was steady, which reflects the overall stability of the service market. Wärtsilä signed several long-term service agreements during the quarter and we see further opportunities in this area."

Wärtsilä's prospects for 2013 revised

Wärtsilä specifies its net sales prospects for 2013. Based on the current order book, net sales for 2013 is expected to grow by 0-5%. Previously, Wärtsilä estimated that its net sales would grow by 0-10%. Wärtsilä reiterates its expectations that operational profitability (EBIT% before non-recurring items) will be around 11%.

Key figures

MEUR	7-9/2013	Restated[3] 7-9/2012	Change	1-9/2013	Restated[3] 1-9/2012	Change	Restated[3] 2012
Order intake	1 097	1 275	-14%	3 520	3 583	-2%	4 940
Order book at the end of the period				4 568	4 724	-3%	4 492
Net sales	1 209	1 087	11%	3 243	3 191	2%	4 725
Operating result (EBITA)[1]	146	122	20%	343	354	-3%	552
% of net sales	12.1	11.2		10.6	11.1		11.7
Operating result (EBIT)[2]	138	113	22%	319	328	-3%	517
% of net sales	11.4	10.4		9.8	10.3		10.9
Profit before taxes	126	99		326	291		453
Earnings/share, EUR	0.48	0.38		1.24	1.09		1.72
Cash flow from operating activities	139	121		261	-34		153
Net interest-bearing debt at the end of the period				534	698		567
Gross capital expenditure				84	462		513
Gearing				0.31	0.42		0.32

[1] EBITA is shown excluding non-recurring items of EUR 10 million (16) and intangible asset amortisation related to acquisitions of EUR 24 million (26) during the review period January-September 2013. During the third quarter, non-recurring items amounted to EUR 8 million (3) and intangible asset amortisation related to acquisitions to EUR 8 million (8).

[2] EBIT is shown excluding non-recurring items.

[3] Figures have been restated due to changes in pension accounting (IAS 19 Employee benefits).

Market development

Power Plants

Moderate activity in power generation markets

Power plant market activity slowed during the review period. Activity in power plant quotations remained stable during the third quarter, with a continued focus on natural gas based generation. Supported by their economic growth, demand in the emerging markets for power generation capacity continued. However, the significant exchange rate fluctuations in multiple emerging market currencies have caused delays in customer decision-making. Volatility in the macro economy continues to delay investment decisions in the power generation markets overall.

Power Plants market share

During the first half of 2013, global orders for natural gas and liquid fuel based power generation (including all prime mover units of over five MW) totalled 18.8 GW, a decrease of 35% compared to the corresponding period last year (28.8). Wärtsilä's share represents 5.8% of the market (4.9%).

Ship Power

Good activity in all major vessel segments

During the third quarter of 2013, 396 contracts for new vessels were registered. Thus far in 2013, 1,341 vessels have been contracted globally. Market activity has improved significantly compared to 2012, when the average quarterly volume for known contracts was 273 vessels. Ordering has been active in all major vessel segments, resulting in a more evenly spread contracting mix compared to 2012.

This year, counter-cyclical ordering has played an important role, with competitive newbuilding prices and the increased fuel efficiency of modern vessels attracting investments in merchant vessels. Notable activity has been seen in the product tanker, LPG carrier, and large containership segments. The gas carrier market (LNG carriers and LPG carriers) has recorded 116 contracts thus far in 2013. Contracting in the offshore sector has also remained active. The contracting of mobile drilling units has been positive, and there has been active ordering of jack-up rigs. The drillship market remains solid, although activity is lower than the high level of contracting seen in 2012. There is also continued demand for mobile production units. Contracting volumes in the anchor handling tug supply and platform supply vessel segments have, however, been lower than in recent years.

China and South Korea captured respectively 39% and 36% of the contracts confirmed in 2013 in terms of compensated gross tonnage, whereas Japan secured 14%.

Ship Power market shares

Wärtsilä’s share of the medium-speed main engine market increased to 49% (47% at the end of the previous quarter). The market share in low-speed engines decreased to 10% (14%). In the auxiliary engine market, Wärtsilä’s share increased slightly to 5% (4%).

Services

Stable development in the service markets

Service market activity continued to be stable during the third quarter of 2013. European marine markets remain challenging, while the demand for services to LNG carriers has developed well. Service activity was healthy in the Americas and Africa. The demand from IPP and utility customers for power plant related services has remained at a good level.

Order intake

Wärtsilä's order intake for the third quarter decreased by 14% to EUR 1,097 million (1,275). In relation to the previous quarter, Wärtsilä's order intake increased by 2% (EUR 1,071 million in the second quarter of 2013). The book-to-bill ratio for the third quarter was 0.91 (1.17).

The order intake for Power Plants in the third quarter totalled EUR 261 million (453), which was 42% less than for the corresponding period last year. Compared to the previous quarter, order intake increased by 20% (EUR 217 million in the second quarter of 2013). Important orders were received from Indonesia, Bangladesh and Nigeria.

The third quarter order intake for Ship Power totalled EUR 378 million (391), a decrease of 3% compared to the corresponding period last year. Compared to the previous quarter, order intake development was stable (EUR 380 million in the second quarter of 2013). Activity continued to be highest in the offshore and specialised tonnage segments. Ship Power's offshore related orders included supplying propulsion solutions, comprising engines and thrusters, for six new offshore pipe laying vessels being built by IHC Merwede for Subsea 7 and Seabras Sapura. During the review period, Wärtsilä also received an order from the People's Republic of China's Communications Import & Export Corporation to supply propulsion solutions for four new ocean rescue vessels. Ordering of environmental solutions was active, with Ship Power receiving orders for 16 exhaust gas cleaning systems. The offshore segment represented 46% of the third quarter order intake, while the merchant segment's share was 22% and cruise & ferry accounted for 16%. The navy segment's share of the order intake was 8% and the special vessels segment's was 4%. Other orders accounted for 5% of the total.

Order intake for the Services business totalled EUR 454 million (428) in the third quarter of 2013, an increase of 6% compared to the corresponding period last year. Compared to the previous quarter, order intake decreased by 3% (EUR 469 million in the second quarter of 2013). During the third quarter, Wärtsilä signed long-term service agreements with power plant customers in the USA, Africa and Australia.

The total order intake for the review period January-September 2013 was EUR 3,520 million (3,583), which represents a decrease of 2% compared to the corresponding period in 2012. The book-to-bill ratio for the review period was 1.09 (1.12). Power Plants' order intake was EUR 884 million (1,045), which is 15% lower than in 2012. Ship Power's order intake was EUR 1,200 million (1,114), an increase of 8% from the corresponding period last year. Services' order intake for the review period totalled EUR 1,428 million (1,418), an increase of 1% over the corresponding period in 2012.

Order intake by business

MEUR	7-9/2013	7-9/2012	Change	1-9/2013	1-9/2012	Change	2012
Power Plants	261	453	-42%	884	1 045	-15%	1 515
Ship Power	378	391	-3%	1 200	1 114	8%	1 453
Services	454	428	6%	1 428	1 418	1%	1 961
Order intake, total	1 097	1 275	-14%	3 520	3 583	-2%	4 940

Order intake Power Plants

MW	7-9/2013	7-9/2012	Change	1-9/2013	1-9/2012	Change	2012
Oil	150	167	-10%	355	715	-50%	796
Gas	523	824	-37%	1 431	1 672	-14%	2 323
Renewable fuels		22			27		27
Order intake, total	673	1 013	-34%	1 786	2 414	-26%	3 146

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea, and the Wärtsilä Qiyao Diesel Company Ltd joint venture company in China, producing auxiliary engines, totalled EUR 143 million (175) during the review period January-September 2013. Wärtsilä's share of ownership in these companies is 50%, and the results are reported as a share of result of associates and joint ventures.

Order book

The total order book at the end of the review period stood at EUR 4,568 million (4,724), a decrease of 3%. At the end of the review period, the Power Plants order book amounted to EUR 1,459 million (1,691), a decrease of 14%. The Ship Power order book stood at EUR 2,266 million (2,226), which is 2% higher than at the same date last year. The Services order book increased by 4% to EUR 840 million (808).

Order book by business

MEUR	30.9.2013	30.9.2012	Change	31.12.2012
Power Plants	1 459	1 691	-14%	1 561
Ship Power	2 266	2 226	2%	2 127
Services	840	808	4%	804
Order book, total	4 568	4 724	-3%	4 492

Net sales

Wärtsilä's net sales for the third quarter increased by 11% to EUR 1,209 million (1,087) compared to the corresponding period last year. Net sales for Power Plants totalled EUR 421 million (304), an increase of 38%. Ship Powers' net sales for the third quarter was stable, totalling EUR 340 million (339). The third quarter net sales for Services totalled EUR 435 million (435). Services' sales mix remained stable, with a slight increase in revenues from contracts.

Net sales for January-September 2013 increased by 2%, totalling EUR 3,243 million (3,191). Power Plants' net sales totalled EUR 991 million (930), an increase of 7%. Ship Power's net sales increased by 3% and totalled EUR 900 million (875). Net sales from the Services business totalled EUR 1,334 million (1,377), a decrease of 3%. Of the total net sales, Power Plants accounted for 31%, Ship Power for 28% and Services for 41%.

Of Wärtsilä's net sales for January-September 2013, approximately 61% was EUR denominated, 21% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	7-9/2013	7-9/2012	Change	1-9/2013	1-9/2012	Change	2012
Power Plants	421	304	38%	991	930	7%	1 498
Ship Power	340	339	0%	900	875	3%	1 301
Services	435	435	0%	1 334	1 377	-3%	1 908
Other	13	8		18	10		17
Net sales, total	1 209	1 087	11%	3 243	3 191	2%	4 725

Operating result and profitability

The third quarter operating result (EBIT) before non-recurring items was EUR 138 million (113), or 11.4% of net sales (10.4). Including non-recurring items, the operating result was EUR 130 million (110) or 10.8% of net sales (10.1). The operating result (EBITA) excluding non-recurring items and intangible asset amortisation related to acquisitions was EUR 146 million (122), or 12.1% of net sales (11.2). During the third quarter, non-recurring items amounted to EUR 8 million (3) and intangible asset amortisation related to acquisitions to EUR 8 million (8).

For the review period January-September 2013, the operating result (EBIT) before non-recurring items was EUR 319 million (328), which is 9.8% of net sales (10.3). Including non-recurring items, the operating result was EUR 309 million (312) or 9.5% of net sales (9.8). The operating result (EBITA) excluding non-recurring items and intangible asset amortisation related to acquisitions was EUR 343 million (354) or 10.6% of net sales (11.1). Wärtsilä recognised EUR 10 million of non-recurring items (16) and intangible asset amortisation related to acquisitions of EUR 24 million (26) during the review period January-September 2013.

In March, Wärtsilä sold its holding of 1,987,940 shares in Sato Oyj, for approximately EUR 27 million. Wärtsilä recorded a capital gain of approximately EUR 25 million on this sale. The tax on the capital gain is approximately EUR 6 million.

Financial items amounted to EUR -8 million (-22). Net interest totalled EUR -11 million (-13). Profit before taxes amounted to EUR 326 million (291). Taxes in the reporting period amounted to EUR 80 million (72), implying an effective tax rate of 24%. Earnings per share were 1.24 euro (1.09) and equity per share was 8.79 euro (8.38).

Balance sheet, financing and cash flow

Cash flow from operating activities for January-September 2013 totalled EUR 261 million (-34). The working capital at the end of the period totalled EUR 488 million (485). Advances received at the end of the period totalled EUR 799 million (685). Cash and cash equivalents at the end of the period amounted to EUR 254 million (199).

Wärtsilä had interest-bearing debt totalling EUR 800 million (899) at the end of September 2013. The total amount of short-term debt maturing within the next 12 months was EUR 219 million, including EUR 123 million of Finnish Commercial Papers. Net interest-bearing debt totalled EUR 534 million (698).

The funding programmes at the end of September 2013 included long-term loans of EUR 581 million, committed undrawn long-term loans totalling EUR 100 million, and unutilised Committed Revolving Credit Facilities totalling EUR 599 million. The funding programmes also included Finnish Commercial Paper programmes totalling EUR 700 million.

The solvency ratio was 42.0% (39.7) and gearing was 0.31 (0.42). Key figures have been restated due to changes in pension accounting (IAS 19 Employee benefits). The impact is described in the IFRS amendments section.

Capital expenditure

Gross capital expenditure in the review period totalled EUR 84 million (462), comprising EUR 5 million (400) in acquisitions and investments in securities, and EUR 79 million (62) in intangible assets and property, plant and equipment. Depreciation, amortisations and impairment for the review period amounted to EUR 94 million (101).

Maintenance capital expenditure for 2013 will be below depreciation.

Personnel

Wärtsilä had 18,776 (18,961) employees at the end of September 2013. On average, the number of personnel for January-September 2013 totalled 18,680 (18,809). Power Plants employed 1,041 (921) people. Ship Power employed 3,612 (2,112) people, Services 10,901 (11,239), and PowerTech 2,459 (3,840) people. The increase in the number of Ship Power employees and decrease in the number of PowerTech employees relates mainly to changes in the organisational set up, which became effective in 2012.

Of Wärtsilä's total number of employees, 20% (19) were located in Finland and 36% (36) elsewhere in Europe. Personnel employed in Asia represented 31% (33) of the total.

Strategic projects, acquisitions, joint ventures and expansion of the network

Construction of new production facilities for Wärtsilä Yuchai Engine Co., Ltd, the joint venture company owned 50/50 by Wärtsilä and Yuchai Marine Power Co. Ltd., is proceeding according to plan. The company will manufacture the Wärtsilä 20, Wärtsilä 26 and Wärtsilä 32 medium-speed marine engines to serve the increasingly dominant Chinese shipbuilding industry. Production is planned to begin in 2014.

In March, Wärtsilä announced the set up of a new fully-owned manufacturing facility in Brazil to meet increasing market demand, particularly in the offshore market. The manufacturing premises will be based on a multi-product factory concept for the assembly and testing of Wärtsilä's generating sets and propulsion products. In the initial phase, activities will focus on medium sized, medium-speed generating sets and steerable thrusters, while retaining the possibility to flexibly expand the product range to respond to market needs. Wärtsilä's capital expenditure is approximately EUR 20 million and the facility is scheduled to be fully operational by mid 2014.

Construction of the Wärtsilä TMH Diesel Engine Company LLC factory is proceeding according to plan. The new plant is expected to begin production before the end of 2013.

During the review period, Wärtsilä continued to expand its service network by opening a new service workshop in Niterói, Rio de Janeiro, Brazil.

Research and development, product launches

During the third quarter, Wärtsilä received the internationally recognised Red Dot award for its new propulsion control panel design. The panel is a comprehensive system of levers and touch-sensitive interfaces, designed to suit all possible propulsion configurations for modern ships.

The Wärtsilä RT-flex58T version D ER-3 has successfully passed its type approval test, which verifies that it fulfils all classification society requirements. The low-speed engine is a further optimised version of the Wärtsilä RT-flex58T version D engine, with reduced power and greater fuel economy.

Progress with regards to type approvals for ballast water management systems continues. All testing of the AQUARIUS UV (ultraviolet) system has been completed, and type approval was received in December 2012. The AQUARIUS EC (electro-chlorination) based system was granted final approval status in May 2013.

Wärtsilä currently has the widest portfolio of exhaust gas cleaning systems for the removal of SOx, and the most extensive reference list on the market. The portfolio consists of open-loop, closed-loop, and hybrid systems. Wärtsilä has to date a total of 77 exhaust gas cleaning systems delivered or on order, for a total of 36 vessels.

During the review period Wärtsilä was granted a 10-year loan agreement totalling EUR 150 million from the European Investment Bank, and a 10-year loan agreement totalling EUR 50 million from the Nordic Investment Bank for research and development financing. With these loans, Wärtsilä will further develop its medium-speed engine technology in terms of efficiency, reliability and environmental performance, while focusing on reducing the lifecycle costs of installations.

After the review period, in October, Wärtsilä introduced a new series of steerable and transverse thrusters. The new thrusters have been developed in response to changing market demand, requiring competitive products that are more efficient and cover a wider power range.

Sustainable development

Wärtsilä is well positioned to reduce emissions and the use of natural resources, thanks to its various technologies and specialised services. 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.

Changes in the organisational structure

In August 2013, Wärtsilä announced the combination of PowerTech and Ship Power's 4-stroke organisation into a single entity. The reorganisation is a continuation to the changes implemented in 2012. It aims to further strengthen competitiveness, and to serve customers more effectively with increased flexibility, faster decision making, and the optimal utilisation of resources. The new set-up will become effective as of 1 January 2014. Mr Roger Holm (41), MSc (Econ.), has been appointed Senior Vice President, 4-stroke, and a member of the Ship Power management team as of 1 September 2013. Holm will head the PowerTech organisation until the changes in the organisational structure become effective.

Changes in management

Mr Pierpaolo Barbone (55) MSc (Eng.) has been appointed President of Services, Executive Vice President and a member of the Board of Management.

Mr Jaakko Eskola (55) MSc (Eng.) has been appointed Senior Executive Vice President and Deputy to the CEO. He assumed this responsibility in addition to his existing position as President of Ship Power.

Mr Marco Wirén (47), MSc (Econ.), has been appointed Chief Financial Officer, Executive Vice President and a member of the Board of Management.

The previous heads of Services and PowerTech, Mr Christoph Vitzthum and Mr Lars Hellberg, have left Wärtsilä to pursue careers outside the company. The previous Chief Financial Officer, Mr Raimo Lind, reached his contractual retirement age and retired in August 2013.

Shares and shareholders

During January-September 2013, the volume of trades of Wärtsilä's shares on the Nasdaq OMX exchange was 69,337,677 shares, equivalent to a turnover of EUR 2,460 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 38,608,825 shares.

Shares on the Nasdaq OMX Helsinki Stock Exchange

30.9.2013	Number of shares and votes	Number of shares traded 1-9/2013
WRT1V	197 241 130	69 337 677

1.1. - 30.9.2013	High	Low	Average [1]	Close
Share price	39.00	32.71	35.49	33.38

[1] Trade-weighted average price

	30.9.2013	30.9.2012
Market capitalisation, EUR million	6 584	5 316
Foreign shareholders, %	52.0	49.8

Flagging notifications

During the review period January-September 2013, Wärtsilä was informed of the following changes in ownership:

On 25 September, BlackRock, Inc. decreased it holding in Wärtsilä. Following the transaction BlackRock Inc. owned 9,824,523 shares or 4.98% of Wärtsilä's share capital and total votes.

On 7 February, Wärtsilä was informed that Fiskars Corporation and Investor AB had completed the legal combination into a joint venture in accordance with a release published on 24 April 2012. At the time of the announcement, the total ownership for the joint company, Avlis AB, and its wholly owned subsidiary, Avlis Invest AB (formerly Instoria AB), was 42,948,325 or 21.77% of Wärtsilä's share capital and votes. Fiskars owned 59.7% of Avlis AB and Investor 40.3%.

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 7 March 2013 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 2012. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.00 per share. The dividend was paid on 19 March 2013.

The Annual General Meeting decided that the Board of Directors has nine members. The following were elected to the Board: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Sune Carlsson, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Mikael Lilius, Ms Gunilla Nordström, Mr Markus Rauramo and Mr Matti Vuoria.

The firm of public auditors KPMG Oy Ab was appointed as the company's auditor for the year 2013.

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.

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 8 March 2012. The Board of Directors is authorised to resolve to whom and in which order the Company's own shares will be distributed. The Board of Directors is authorised to decide on the distribution of the Company's own shares other 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 Kaj-Gustaf Bergh 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, Alexander Ehrnrooth

Nomination Committee:

Chairman Mikael Lilius, Kaj-Gustaf Bergh, Matti Vuoria

Remuneration Committee:

Chairman Mikael Lilius, Paul Ehrnrooth, Matti Vuoria

Risks and business uncertainties

In the Power Plants business, uncertainty in the financial markets and significant currency fluctuations may impact financing availability and the timing of bigger projects. A lack of demand for commodities, e.g. minerals, can affect industrial customers' investment decisions.

The business environment for the shipping and shipbuilding industry remains challenging and concerns over the global economy continue to cause uncertainty. Overcapacity in the traditional merchant markets is still a concern and financing remains under pressure as banks continue to be cautious. Investments in offshore exploration and production are highly sensitive to changes in oil prices. However, current oil prices continue to support the offshore industry's operational activities in harsher conditions and deeper waters.

Continued risks in the global economy may have a negative impact on Services' order intake. The challenging conditions in several marine market segments are also seen as a potential risk.

The annual report 2012 contains a more specific description of Wärtsilä’s risks and risk management.

Market outlook

The general macro-economic uncertainty and the slow global growth projections continue to impact power generation markets. Based on weaker global ordering statistics in the first half-year, the overall market for natural gas and liquid fuel based power generation in 2013 is expected to decline. Ordering activity remains focused on the emerging markets, which continue to invest in new power generation capacity. In the OECD countries, there is still pent-up power sector demand, mainly driven by CO_2 neutral generation and the ramp down of older, mainly coal-based generation.

Our outlook for the shipping and shipbuilding market in 2013 has improved. The lively ordering of product tankers, large containerships and gas carriers is expected to continue during the rest of the year. Furthermore, the offshore sector is expected to remain active, although with a different contracting mix that favours mobile drilling units and FPSOs more. Current emission regulations and the focus on fuel efficiency create interesting opportunities in gas fuelled vessels and environmental solutions. Financing is expected to remain difficult, but some signs of easing can be seen across the industry. Overall, the contracting mix is expected to be more balanced than in 2012, with activity in all major vessel segments.

The overall service market outlook remains stable. An increase in the installed base partly balances the slower service demand for older installations and the continued focus of merchant marine customers on reducing operating expenses. The outlook for services to the offshore industry and gas fuelled vessels remains positive. Demand for services in the power plant segment continues to be good, with opportunities for long-term agreements. The outlook for the Middle East and Asia remains slightly more positive, supported by interest in power plant related services. The outlook is also good in the Americas and in Africa.

Wärtsilä's prospects for 2013 revised

Wärtsilä specifies its net sales prospects for 2013. Based on the current order book, net sales for 2013 is expected to grow by 0-5%. Previously, Wärtsilä estimated that its net sales would grow by 0-10%. Wärtsilä reiterates its expectations that operational profitability (EBIT% before non-recurring items) will be around 11%.

Wärtsilä Interim Report January-September 2013

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 2012, 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

Of the amended International Financial Reporting Standards (IFRS) and interpretations mandatory as of 1 January 2013 the following are applicable on the Group reporting:

- Amendment to *IAS 19 Employee benefits*: The amendment eliminates the possibility to use the corridor approach in recognising the actuarial gains and losses from defined benefit plans. In the corridor approach the actuarial gains and losses had to be recognised only when they exceeded by more than 10% the greater of the present value of the defined benefit obligation and the fair value of the plan assets. The excess was recognised in the statement of income over the expected average remaining working lives of employees participating in the plan.

The revised IAS 19 standard requires the actuarial gains and losses to be recognised immediately in the statement of other comprehensive income. This change in accounting principles leads to faster recognition of actuarial gains and losses than the corridor approach. As a result of the change the Group now determines the net interest expense on the net defined benefit plan by applying the discount rate used to measure the defined benefit obligation. Previously the Group applied a long-term rate of expected return on the plan assets. The Group reports the service cost in employee benefit expenses and the net interest in financial expenses.

The amendments to IAS 19 have been applied retrospectively. The impact on comparison figures presented in the condensed statement of financial position, condensed statement of income and statement of other comprehensive income in this interim report are the following. The impact on the equity in the opening balance 2012 was EUR -33 million. Pension obligations increased by EUR 43 million and working capital reduced by EUR 43 million. The impact on profit for the reporting period 2012 was EUR 0 million, and for January-September 2012 there was no impact.

A table showing the impact is included in the interim reports published previously this year.

- *IFRS 13 Fair value Measurement*: The standard defines fair value. It sets out in a single standard a framework for measuring fair value and requirements for disclosures about fair value measurements. The standard does not introduce any new requirements to measure at fair value. It provides guidance for fair value measurement required or permitted by other standards.

The adaption of the revised standards and interpretations have an effect on the interim report.

This interim report is unaudited.

Condensed statement of income

MEUR	1–9/2013	Restated 1–9/2012	Restated 2012
Net sales	3 243	3 191	4 725
Other operating income	56	56	68
Expenses	-2 911	-2 837	-4 180
Depreciation, amortisation and impairment	-94	-101	-139
Share of result of associates and joint ventures	15	3	9
Operating result	309	312	483
Financial income and expenses	-8	-22	-31
Net income from available-for-sale financial assets	25	1	1
Profit before taxes	326	291	453
Income taxes	-80	-72	-109
Profit for the reporting period	246	219	344
Attributable to:			
Equity holders of the parent company	244	216	339
Non-controlling interests	2	4	5
	246	219	344
Earnings per share attributable to equity holders of the parent company:			
Earnings per share (basic and diluted), EUR	1.24	1.09	1.72

Statement of other comprehensive income

MEUR	1–9/2013	Restated 1–9/2012	Restated 2012
Profit for the reporting period	246	219	344
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income:			
Actuarial gains (losses) on defined benefit plan	6		-2
Tax on items that will not be reclassified to the statement of income	-3		1
Total items that will not be reclassified to the statement of income	3		-1
Items that may be reclassified subsequently to the statement of income:			
Exchange rate differences on translating foreign operations	-51	1	-14
Available-for-sale financial assets			
measured at fair value	1	3	3
transferred to the statement of income	-25	-1	-1
Cash flow hedges	-20	10	18
Tax on items that may be reclassified to the statement of income	12	-3	-4
Total items that may be reclassified to the statement of income	-83	9	1
Other comprehensive income for the reporting period, net of taxes	-80	9	
Total comprehensive income for the reporting period	166	228	344
Total comprehensive income attributable to:			
Equity holders of the parent company	164	225	339
Non-controlling interests	2	4	5
	166	228	344

Condensed statement of financial position

MEUR	30.9.2013	Restated 30.9.2012	Restated 31.12.2012	Restated 1.1.2012
Non-current assets				
Intangible assets	1 235	1 261	1 259	826
Property, plant and equipment	440	473	470	472
Investments in associates and joint ventures	99	83	90	87
Available-for-sale financial assets	17	42	44	39
Deferred tax assets	120	118	112	127
Other receivables	18	26	24	23
	1 929	2 003	2 000	1 574
Current assets				
Inventories	1 451	1 498	1 322	1 222
Other receivables	1 396	1 217	1 489	1 209
Cash and cash equivalents	254	199	225	592
	3 101	2 914	3 036	3 023
Total assets	5 030	4 917	5 036	4 597
Equity				
Share capital	336	336	336	336
Other equity	1 399	1 317	1 430	1 268
Total equity attributable to equity holders of the parent company	1 735	1 653	1 766	1 604
Non-controlling interests	40	27	26	30
Total equity	1 775	1 680	1 791	1 633
Non-current liabilities				
Interest-bearing debt	581	578	545	485
Deferred tax liabilities	90	98	95	67
Other liabilities	231	231	228	244
	903	908	868	795
Current liabilities				
Interest-bearing debt	219	321	249	167
Other liabilities	2 134	2 009	2 128	2 001
	2 352	2 330	2 377	2 169
Total liabilities	3 255	3 237	3 245	2 964
Total equity and liabilities	5 030	4 917	5 036	4 597

Condensed statement of cash flows

MEUR	1–9/2013	Restated 1–9/2012	Restated 2012
Cash flow from operating activities:			
Profit for the reporting period	246	219	344
Depreciation, amortisation and impairment	94	101	139
Financial income and expenses	8	22	31
Selling profit and loss of fixed assets and other changes	-28	-12	-16
Share of result of associates and joint ventures	-15	-3	-9
Income taxes	80	72	109
Changes in working capital	-55	-297	-278
Cash flow from operating activities before financial items and taxes	331	102	320
Financial items and paid taxes	-69	-136	-167
Cash flow from operating activities	261	-34	153
Cash flow from investing activities:			
Investments in shares and acquisitions	-5	-400	-402
Net investments in property, plant and equipment and intangible assets	-75	-53	-99
Proceeds from sale of available-for-sale financial assets and shares in associated companies	32	26	26
Cash flow from other investing activities	4	3	4
Cash flow from investing activities	-44	-425	-471
Cash flow from financing activities:			
Contribution by non-controlling interests	16		
Proceeds from non-current borrowings	100	158	158
Repayments and other changes in non-current loans	-68	-63	-92
Changes in current loans and other changes	-26	154	73
Dividends paid	-201	-184	-186
Cash flow from financing activities	-179	65	-47
Change in cash and cash equivalents, increase (+) / decrease (-)	39	-393	-365
Cash and cash equivalents at the beginning of the reporting period	225	592	592
Exchange rate changes	-10		-2
Cash and cash equivalents at the end of the reporting period	254	199	225

Condensed 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	Actuarial gains and losses	Retained earnings		
Equity on 1 January 2013, restated	336	61	-12	21	-34	1 393	26	1 791
Dividends paid						-197	-3	-200
Contribution by non-controlling interests							16	16
Total comprehensive income for the reporting period			-50	-32	4	244	2	168
Equity on 30 September 2013	336	61	-62	-11	-30	1 440	40	1 775
Equity on 31 December 2011	336	61	2	5		1 233	30	1 666
Change in accounting policy (IAS19)					-33			-33
Equity on 1 January 2012, restated	336	61	2	5	-33	1 233	30	1 633
Dividends paid						-178	-6	-184
Total comprehensive income for the reporting period			1	10	-1	217	4	230
Equity on 30 September 2012, restated	336	61	2	15	-33	1 272	27	1 680

Net sales by geographical areas

MEUR	1–9/2013	1–9/2012	2012
Europe	922	875	1 202
Asia	1 274	1 298	2 009
The Americas	744	643	994
Other	303	376	520
Total	3 243	3 191	4 725

Intangible assets and property, plant & equipment

MEUR	1–9/2013	1–9/2012	2012
Intangible assets			
Carrying amount on 1 January	1 259	826	826
Changes in exchange rates	-30	35	24
Acquisitions		424	426
Additions	36	17	41
Amortisation and impairment	-44	-46	-61
Disposals and reclassifications	13	6	5
Carrying amount at the end of the reporting period	1 235	1 261	1 259
Property, plant and equipment			
Carrying amount on 1 January	470	472	472
Changes in exchange rates	-8	4	1
Acquisitions		19	19
Additions	43	45	70
Depreciation and impairment	-50	-55	-78
Disposals and reclassifications	-15	-13	-14
Carrying amount at the end of the reporting period	440	473	470

Gross capital expenditure

MEUR	1–9/2013	1–9/2012	2012
Investments in securities and acquisitions	5	400	402
Intangible assets and property, plant and equipment	79	62	111
Total	84	462	513

Net interest-bearing debt

MEUR	1–9/2013	1–9/2012	2012
Non-current liabilities	581	578	545
Current liabilities	219	321	249
Loan receivables	-11	-2	-2
Cash and cash equivalents	-254	-199	-225
Total	534	698	567

Financial ratios

	1–9/2013	Restated 1–9/2012	Restated 2012
Earnings per share (basic and diluted), EUR	1.24	1.09	1.72
Equity per share, EUR	8.79	8.38	8.95
Solvency ratio, %	42.0	39.7	41.3
Gearing	0.31	0.42	0.32

Personnel

	1–9/2013	1–9/2012	2012
On average	18 680	18 809	18 930
At the end of the reporting period	18 776	18 961	18 887

Contingent liabilities

MEUR	1–9/2013	1–9/2012	2012
Mortgages	28	41	28
Chattel mortgages and other pledges	24	72	34
Total	51	113	62
Guarantees and contingent liabilities			
on behalf of Group companies	665	429	433
on behalf of associated companies	8	10	9
Nominal amount of rents according to leasing contracts			
payable within one year	24	20	23
payable between one and five years	64	47	44
payable later	28	10	10
Total	788	516	518

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	125	
Inflation hedges	9	
Foreign exchange forward contracts	1 455	614
Currency options, purchased	38	
Currency options, written	23	
Total	1 650	614

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		
Available-for-sale financial assets		
level 1	2	2
level 3	15	15
Interest-bearing investments, non-current (level 2)	11	11
Other receivables, non-current (level 2)	5	5
Derivatives (level 2)	17	17
Financial liabilities		
Interest-bearing debt, non-current (level 2)	581	587
Derivatives (level 2)	21	21

Condensed statement of income, quarterly

MEUR	7–9/2013	4–6/2013	1–3/2013	Restated 10–12/2012	Restated 7–9/2012	Restated 4–6/2012
Net sales	1 209	1 152	882	1 533	1 087	1 099
Other operating income	18	31	7	12	11	35
Expenses	-1 071	-1 046	-793	-1 343	-958	-990
Depreciation, amortisation and impairment	-30	-32	-32	-38	-33	-35
Share of result of associates and joint ventures	4	6	5	7	3	-1
Operating result	130	110	69	171	110	108
Financial income and expenses	-4	-5	1	-9	-11	-11
Net income from available-for-sale financial assets			25			1
Profit before taxes	126	104	96	162	99	98
Income taxes	-31	-25	-23	-37	-23	-22
Profit for the reporting period	95	79	73	124	77	77
Attributable to:						
Equity holders of the parent company	94	78	72	123	75	76
Non-controlling interests	1	1	1	1	2	1
	95	79	73	124	77	77
Earnings per share attributable to equity holders of the parent company:						
Earnings per share (basic and diluted), EUR	0.48	0.39	0.37	0.62	0.38	0.38

Calculation of financial ratios

Earnings per share (EPS)

$$\frac{\text{Profit for the reporting period attributable to equity holders of the parent company}}{\text{Adjusted number of shares over the reporting period}}$$

Equity per share

$$\frac{\text{Equity attributable to equity holders of the parent company}}{\text{Adjusted number of shares at the end of the reporting period}}$$

Solvency ratio

$$\frac{\text{Equity}}{\text{Total equity and liabilities – advances received}} \text{ x 100}$$

Gearing

$$\frac{\text{Interest-bearing liabilities – cash and cash equivalents}}{\text{Equity}}$$

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)

EBITA

Operating result – non-recurring items – intangible asset amortisation related to acquisitions

23 October 2013
Wärtsilä Corporation
Board of Directors