Wärtsilä Corporation

Interim Report

January – September 2019

Third quarter burdened by project related challenges and low equipment demand – services activity remains sound

Highlights of the third quarter 2019

- Order intake decreased 29% to EUR 979 million (1,372)
- Net sales decreased 16% to EUR 1,118 million (1,330)
- Book-to-bill amounted to 0.88 (1.03)
- Comparable operating result decreased to EUR 39 million (141), which represents 3.5% of net sales (10.6).
- Earnings per share decreased to -0.01 euro (0.17)
- Cash flow from operating activities decreased to EUR -61 million (122)

Highlights of the review period January-September 2019

- Order intake decreased 15% to EUR 3,772 million (4,433)
- Order book at the end of the period increased 6% to EUR 6,294 million (5,918)
- Net sales decreased 4% to EUR 3,486 million (3,642)
- Book-to-bill amounted to 1.08 (1.22)
- Comparable operating result decreased to EUR 254 million (352), which represents 7.3% of net sales (9.7)
- Earnings per share decreased to 0.20 euro (0.39)
- Cash flow from operating activities decreased to EUR -63 million (121)

As announced in September, Wärtsilä's full-year operating result will be impacted by a one-time charge related to project cost overruns in the Marine and Energy Businesses amounting to EUR 150 million. Of the total amount, EUR 84 million was booked in the period January-September and EUR 65 million in the third quarter.

Wärtsilä's prospects

The demand for Wärtsilä's services and solutions in the coming 12 months is expected to be somewhat below that of the previous 12 months. Demand by business area is anticipated to be as follows:

- Soft in Wärtsilä Marine Business, due to lower vessel contracting volumes and a decline in the demand for scrubber solutions from last year's exceptionally high level. Activity in the marine services market is expected to be stable.
- Weak in Wärtsilä Energy Business (downgraded from soft). Market conditions in the energy industry are challenging, as the rapidly changing energy landscape is creating uncertainty among customers. The geopolitical and economic environment is further slowing decision-making. The demand for energy services is expected to be stable.

Wärtsilä's current order book for 2019 deliveries is EUR 1,708 million (1,364), comprised mainly of equipment deliveries. The comparable operating result for the full year 2019 is expected to be approximately EUR 100 million lower than in the previous year (EUR 577 million in 2018).

Jaakko Eskola, President & CEO

"The third quarter proved to be challenging for Wärtsilä, both in terms of equipment demand trends and financial performance. The decline in order intake reflected weak vessel contracting and softened demand for scrubber systems, as well as continued slow decision-making in the energy markets. While the project pipeline is healthy in both businesses, visibility on order intake timing is limited and competition is intensifying. Price pressure remains a headwind in the prevailing market environment. I am pleased to note that despite the challenges we face in the equipment businesses, services related activity remained sound.

Wärtsilä's financial performance was significantly below that of the previous year. The decline in net sales was anticipated, as energy equipment and scrubber deliveries are concentrated towards the latter part of the year. Our operating result, on the other hand, was weakened by unforeseen cost overruns in a handful of complex marine and energy projects. The full-year result will be impacted by a one-time charge amounting to EUR 150 million, of which EUR 84 million has already been recognised. A review of the projects in question revealed incorrect underlying assumptions in cost estimates, insufficient risk identification, and supplier related challenges. We have taken corrective actions to prevent similar issues from occurring in the future. These include introducing tighter controls on technical assessments and the supplier approval process, as well as strengthening the project management organisation. With these measures, we aim to improve our project execution quality and ensure better upfront identification of risks and opportunities. I am confident that this will enable us to live up to our reputation for providing high quality and value enhancing solutions."

Key figures

MEUR	7-9/2019	7-9/2018	Change	1-9/2019	1-9/2018	Change	2018
Order intake	979	1 372	-29%	3 772	4 433	-15%	6 307
of which services	679	640	6%	1 954	1 898	3%	2 598
Order book, end of period				6 294	5 918	6%	6 166
Net sales	1 118	1 330	-16%	3 486	3 642	-4%	5 174
of which services	578	571	1%	1 762	1 688	4%	2 419
Book-to-bill	0.88	1.03		1.08	1.22		1.22
Operating result	11	141	-92%	198	337	-41%	543
% of net sales	1.0	10.6		5.7	9.2		10.5
Comparable operating result[1]	39	141	-72%	254	352	-28%	577
% of net sales	3.5	10.6		7.3	9.7		11.2
Comparable adjusted EBITA[2]	49	152	-68%	285	384	-26%	621
% of net sales	4.4	11.5		8.2	10.5		12.0
Profit before taxes	-0	130	-100%	162	308	-48%	502
Earnings/share, EUR	-0.01	0.17		0.20	0.39		0.65
Cash flow from operating activities	-61	122		-63	121		470
Net interest-bearing debt, end of period[3]				987	647		333
Gross capital expenditure				79	258		306
Gearing				0.44	0.28		0.14
Solvency, %				39.4	43.7		44.4
Personnel, end of period				19 018	19 420	-2%	19 294

[1]Items affecting comparability in the third quarter of 2019 included costs related primarily to restructuring programmes of EUR 28 million (0). During January-September, items affecting comparability amounted to EUR 56 million (15).

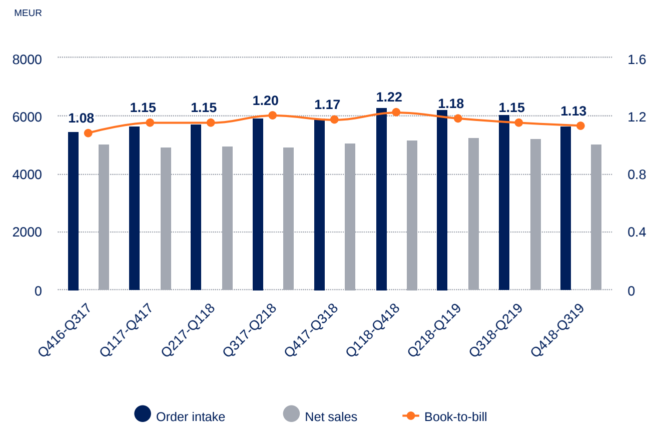
[2]Comparable adjusted EBITA excludes items affecting comparability and purchase price allocation amortisation.

[3]The increase in net interest-bearing debt is largely related to the inclusion of lease liabilities on balance sheet as a result of the new IFRS 16 standard.

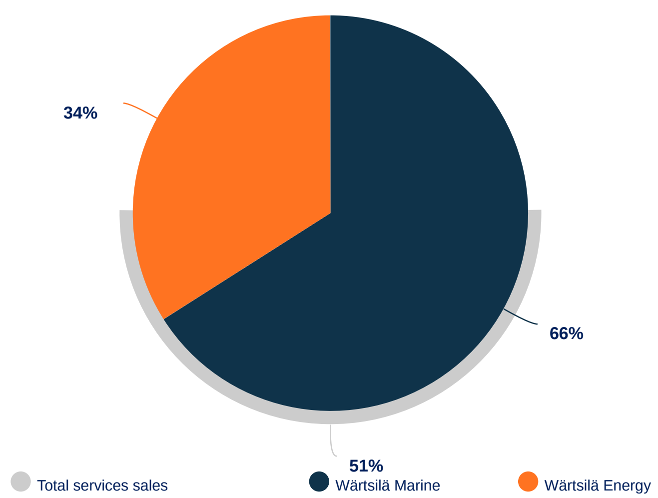
As of the first quarter of 2019, Wärtsilä's financial reporting has been amended to reflect its new organisational structure. The two business areas, Wärtsilä Marine Business and Wärtsilä Energy Business, constitute the reportable segments. Financial reporting for 2018 has been adjusted to reflect this change. In Wärtsilä Marine Business, order intake and net sales for retrofit scrubber projects have been transferred from services to new equipment. The comparison figures have been adjusted accordingly.

Wärtsilä presents certain alternative performance measures in accordance with the guidance issued by the European Securities and Markets Authority (ESMA). The definition of these alternative performance measures is presented in the calculations of financial ratios, at the end of this interim report.

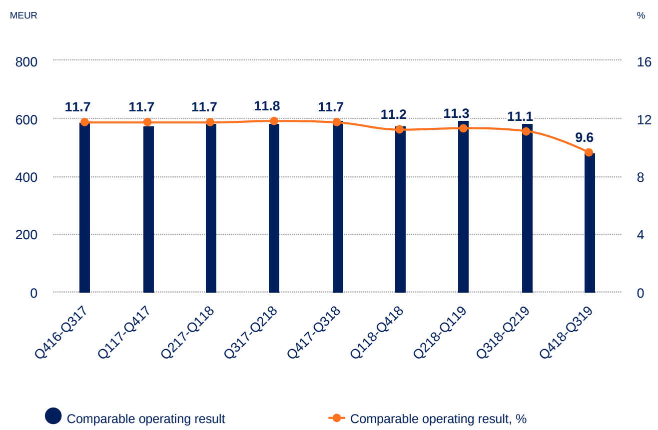
Book-to-bill, 12 months rolling



January-September net sales by business area



Comparable operating result, 12 months rolling



Group financial and strategic development

Operating environment, order intake, and order book

The demand for Wärtsilä's services and solutions during the period January-September 2019 was below that of the corresponding period last year. In the marine markets, equipment order intake was affected by fewer orders received for scrubber solutions, project timing, and the weak vessel contracting environment. Delayed investment decisions continued to burden activity in the energy markets. Service demand, however, was sound in both end-markets.

Wärtsilä's **third quarter order intake** totalled EUR 979 million (1,372), a decrease of 29% compared to the corresponding period last year. The book-to-bill ratio was 0.88 (1.03). Wärtsilä Marine accounted for 72% of the order intake and Wärtsilä Energy for 28%. The services related order intake increased by 6% to EUR 679 million (640).

Wärtsilä's **January-September order intake** decreased by 15% to EUR 3,772 million (4,433) compared to the corresponding period last year, due to fewer equipment orders in both businesses. The book-to-bill ratio was 1.08 (1.22). Wärtsilä Marine accounted for 68% of the order intake and Wärtsilä Energy for 32%. The services related order intake increased by 3% to EUR 1,954 million (1,898).

The total **order book at the end of September** increased by 6% to EUR 6,294 million (5,918). Wärtsilä Marine accounted for 62% of the order book and Wärtsilä Energy for 38%.

Order intake and order book by reporting segment

MEUR	7-9/2019	7-9/2018	Change	1-9/2019	1-9/2018	Change	2018
Order intake	979	1 372	-29%	3 772	4 433	-15%	6 307
Marine	705	1 009	-30%	2 565	2 914	-12%	3 945
Energy	274	363	-25%	1 207	1 519	-21%	2 362
Order book, end of period				6 294	5 918	6%	6 166
Marine				3 895	3 536	10%	3 651
Energy				2 399	2 382	1%	2 515

Net sales and operating result

Wärtsilä's **third quarter net sales** decreased by 16% to EUR 1,118 million (1,330) compared to the corresponding period last year. Wärtsilä Marine accounted for 69% of net sales and Wärtsilä Energy for 31%. Services related net sales increased by 1% to EUR 578 million (571). Adjusting for the effects of currency translation, services related net sales remained stable.

The **third quarter operating result** amounted to EUR 11 million (141), which represents 1.0% of net sales (10.6). The comparable operating result was EUR 39 million (141), or 3.5% of net sales (10.6). Items affecting comparability included costs of EUR 28 million (0) primarily related to restructuring programmes. The comparable operating result for Wärtsilä Marine amounted to EUR 49 million (68) or 6.3% of net sales (10.1), while the comparable operating result for Wärtsilä Energy amounted to EUR -9 million (73) or -2.7% of net sales (11.2). The comparable adjusted EBITA was EUR 49 million (152), or 4.4% of net sales (11.5). Purchase price allocation amortisation amounted to EUR 10 million (11).

The third quarter operating result includes a charge of EUR 65 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 48 million in Wärtsilä Energy.

Wärtsilä's **January-September net sales** decreased by 4% to EUR 3,486 million (3,642) compared to the corresponding period last year, due to fewer power plant deliveries. Wärtsilä Marine accounted for 66% of net sales and Wärtsilä Energy for 34%. Services related net sales increased by 4% to EUR 1,762 million (1,688). Adjusting for the effects of currency translation, services related net sales increased by 3%. Of Wärtsilä's net sales, approximately 66% was EUR denominated, 20% USD denominated, with the remainder being split between several currencies.

The **January-September operating result** amounted to EUR 198 million (337), which represents 5.7% of net sales (9.2). The comparable operating result was EUR 254 million (352), or 7.3% of net sales (9.7). Items affecting comparability included costs of EUR 56 million (15) primarily related to restructuring programmes. The comparable operating result for Wärtsilä Marine amounted to EUR 185 million (190) or 8.0% of net sales (9.6), while the comparable operating result for Wärtsilä Energy amounted to EUR 69 million (162) or 5.9% of net sales (9.8). The comparable adjusted EBITA was EUR 285 million (384), or 8.2% of net sales (10.5). Purchase price allocation amortisation amounted to EUR 31 million (32).

The operating result for January-September includes a charge of EUR 84 million related to the project cost overruns mentioned above, of which EUR 17 million was recognised in Wärtsilä Marine and EUR 67 million in Wärtsilä Energy.

Financial items amounted to EUR -36 million (-29) during the period January-September. Net interest totalled EUR -9 million (-5). Profit before taxes amounted to EUR 162 million (308). Taxes amounted to EUR 45 million (75), implying an effective tax rate of 28.0% (24.4). Earnings per share were 0.20 euro (0.39) and the equity per share was 3.81 euro (3.90). The return on investments (ROI) was 12.8% (18.6), while the return on equity (ROE) was 11.7% (17.5).

Net sales and operating result by reporting segment

MEUR	7-9/2019	7-9/2018	Change	1-9/2019	1-9/2018	Change	2018
Net sales	1 118	1 330	-16%	3 486	3 642	-4%	5 174
Marine	776	680	14%	2 310	1 984	16%	2 815
Energy	342	650	-47%	1 176	1 658	-29%	2 359
Operating result	11	141	-92%	198	337	-41%	543
Marine	21	69	-69%	137	177	-23%	349
Energy	-10	73	-114%	61	159	-62%	194
Operating result, % of net sales	1.0	10.6		5.7	9.2		10.5
Marine	2.7	10.1		5.9	8.9		12.4
Energy	-3.0	11.2		5.2	9.6		8.2
Comparable operating result	39	141	-72%	254	352	-28%	577
Marine	49	68	-29%	185	190	-2%	380
Energy	-9	73	-113%	69	162	-57%	197
Comparable operating result, % of net sales	3.5	10.6		7.3	9.7		11.2
Marine	6.3	10.1		8.0	9.6		13.5
Energy	-2.7	11.2		5.9	9.8		8.4

Financing and cash flow

Wärtsilä's third quarter cash flow from operating activities amounted to EUR -61 million (122). For the January-September period, the cash flow from operating activities totalled EUR -63 million (121). Working capital totalled EUR 870 million (782) at the end of the review period, an increase of EUR 86 million from the end of the previous quarter in preparation for fourth quarter deliveries. Advances received at the end of the period totalled EUR 609 million (557). At the end of the previous quarter, advances totalled EUR 559 million. Cash and cash equivalents at the end of the period amounted to EUR 374 million (221) and unutilised Committed Credit Facilities totalled EUR 640 million (640). A dividend of EUR 0.24 per share (0.23, adjusted to reflect the increased number of shares resulting from the share issue in 2018) was distributed in September, which corresponds to a total of EUR 142 million (136).

Wärtsilä had interest-bearing debt totalling EUR 1,365 million (874) at the end of September 2019. The increase is largely related to the inclusion of lease liabilities amounting to EUR 203 million on the balance sheet, as a result of the new IFRS 16 standard. At the end of December 2018, the interest-bearing debt totalled EUR 823 million. The total amount of short-term debt maturing within the next 12 months was EUR 333 million. Long-term loans amounted to EUR 1,031 million. Net interest-bearing debt totalled EUR 987 million (647). Gearing was 0.44 (0.28) and the solvency ratio was 39.4% (43.7).

Capital expenditure

Capital expenditure related to intangible assets and property, plant, and equipment amounted to EUR 75 million (61) during January-September. Capital expenditure related to acquisitions and investments in joint ventures totalled EUR 4 million (197). The comparison figure includes the acquisition of Transas, which was completed in May 2018. Depreciation, amortisation, and impairment for the period amounted to EUR 141 million (92).

In 2019, capital expenditure related to intangible assets and property, plant, and equipment is expected to be below depreciation and amortisation.

Innovations, research and development

In July, Wärtsilä announced a new technology benchmark with the introduction of the marine sector’s first hybrid installation for a bulk carrier. The Wärtsilä HY hybrid power module is designed to ensure the seamless integration and control of the technologies to be installed, with the ship’s various existing power production systems. The integrated solution is expected to deliver a significant reduction in fuel consumption and maintenance costs.

In September, Wärtsilä introduced two new versions of the Wärtsilä 31 engine: the 31SG pure gas engine for marine applications and the 31DF multi-fuel engine for the power generation markets. The Wärtsilä 31SG engine further reduces the total cost of ownership and the environmental footprint for vessels operating in regions where there is a developed gas supply infrastructure. The gas-only focus and lean-burn spark ignition technology allows for further optimisation of the engine’s thermal efficiency, while also lowering greenhouse gas emissions and facilitating adaptations for alternative heavier gas fuels, such as LPG. The Wärtsilä 31SG engine is ideally suited for hybrid applications, since it provides outstanding thermal efficiency. It also enables investment cost reductions that help offset the additional cost of energy storage. The Wärtsilä 31DF engine, in turn, offers unequalled open-cycle efficiency, fuel flexibility, and unparalleled dynamic operational features for markets where gas supply is anticipated but not yet available, or where there are concerns about the availability or price of gaseous fuels.

Strategic projects, acquisitions, and joint ventures

In September, Wärtsilä and Q Power Oy, a Finnish bio-methanisation company, signed a cooperation agreement to accelerate the development and commercialisation of renewable fuels. The companies will work together to develop the market and find new business opportunities for bio-methanisation and synthetic fuels globally.

Restructuring programmes

Wärtsilä’s Group-wide programme to realign its operations and resources in order to secure future profitability and competitiveness is proceeding according to plan. The programme emphasises sustainable savings and actions that increase customer value. The planned actions include an increased focus on targeted sales activities, developing the agreements-based and “as-a-service” business, reviewing the cost structure, and optimising the business portfolio.

The programme is expected to lead to a reduction of approximately 1,200 employees globally. The reductions will impact all businesses and support functions. With these actions Wärtsilä seeks annual savings of EUR 100 million. Savings are expected to materialise gradually during the second half of 2019, with the full effect being seen by the end of 2020. Costs related to the restructuring measures are expected to be EUR 75 million, of which EUR 56 million was recognised during the period January-September 2019.

Personnel

Wärtsilä had 19,018 (19,420) employees at the end of September 2019. On average, the number of personnel totalled 19,213 (18,781) during the period January-September. Wärtsilä Marine employed 13,530 (13,727) people at the end of the period and Wärtsilä Energy 5,488 (5,692).

Of Wärtsilä's total number of employees, 20% (20) were located in Finland and 41% (40) elsewhere in Europe. Personnel employed in Asia represented 23% (25) of the total, personnel in the Americas 11% (11), and personnel in other countries 4% (4).

Sustainability

Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce exhaust emissions and the use of natural resources, and to support its customers in preparing for new regulatory requirements. 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 is also committed to supporting the UN sustainability goals that deal with issues to which Wärtsilä contributes in a positive way. Such goals include those related to clean energy, a low-carbon marine ecosystem, and responsible business conduct.

Sustainability highlights in the third quarter included the supply and installation of an auto gasification solution for a cruise vessel. This innovative technology will enable the safe disposal of waste from the ship through a self-fuelling thermal decomposition unit, thereby significantly reducing greenhouse gas emissions. The Wärtsilä supplied gasification unit will replace one of the vessel's onboard incinerators, and will safely dispose of hazardous, contaminated, and dry burnable waste in an environmentally sustainable way. Another key action was the decision to join the "Getting to Zero 2030 Coalition", in which Wärtsilä and 74 other organisations committed to the decarbonisation of deep-sea shipping and its energy value chains. This is in line with the most ambitious interpretation of the IMO's carbon emissions reduction strategy and the latest relevant IPCC climate science.

Wärtsilä's share is included in several sustainability indices. During the third quarter, Wärtsilä was reconfirmed for inclusion in the Dow Jones Sustainability Indices.

Reporting segment: Wärtsilä Marine Business

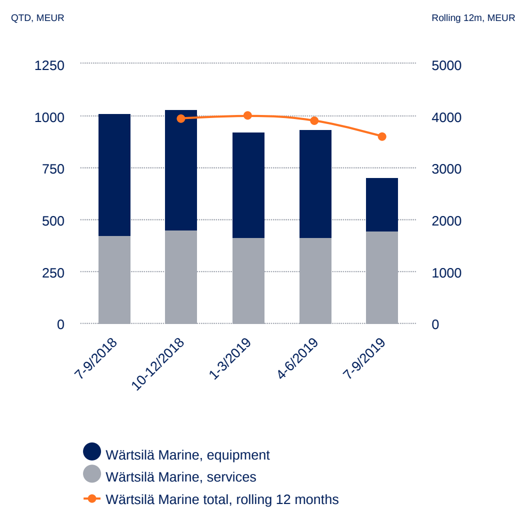
In the marine and oil & gas industries, no other company has a broader offering of technologically advanced, environmentally sustainable, and economically sound solutions. We are leading the industry's transformation towards a Smart Marine Ecosystem, whereby real-time communication and the digitalisation of all aspects of shipping and port operations, are utilised to create long-term value for our customers and partners. With an integrated product portfolio comprising full lifecycle solutions supported by the market's most extensive service network, we are able to optimise performance and achieve the safest, smartest, most ecological and efficient operating profiles possible.

- Declining interest in scrubber investments, project timing, and weak vessel contracting resulted in fewer equipment orders received
- Services activity remained sound
- Cost overruns in gas solution project deliveries burdened the operating result

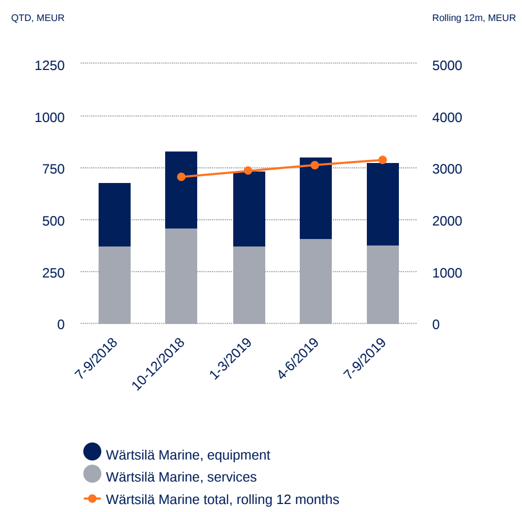
Key figures

MEUR	7-9/2019	7-9/2018	Change	1-9/2019	1-9/2018	Change	2018
Order intake	705	1 009	-30%	2 565	2 914	-12%	3 945
of which services	445	425	5%	1 271	1 300	-2%	1 747
Order book, end of period				3 895	3 536	10%	3 651
Net sales	776	680	14%	2 310	1 984	16%	2 815
of which services	376	372	1%	1 155	1 116	3%	1 577
Book-to-bill	0.91	1.48		1.11	1.47		1.40
Operating result	21	69	-69%	137	177	-23%	349
% of net sales	2.7	10.1		5.9	8.9		12.4
Comparable operating result	49	68	-29%	185	190	-2%	380
% of net sales	6.3	10.1		8.0	9.6		13.5
Personnel, end of period				13 530	13 727	-1%	13 582

Order intake



Net sales



Operating environment

Economic uncertainty, trade tensions, and the impact of upcoming regulations have resulted in subdued activity in the marine market, with 655 contracts for new vessels registered during the period January-September 2019 (801). Newbuild orders in all the major vessel segments have declined, with LNG carrier and cruise vessel segments being the least affected. Demand for larger cruise vessels has stabilised following the contracting of most of the major fleet replacement programs and the increased interest in the refurbishment of the existing fleet due to capacity constraints at shipyards. In the offshore sector, interest in vessel contracting is burdened by reactivation and upgrades of stacked vessels, as well as by the slow rate of growth in vessel utilisation and day rates.

Sustainability issues and regulations are pushing increased efforts to minimise the environmental footprint of the shipping industry. This is resulting in a growing interest in LNG as a fuel and in hybrid battery packs across all vessel segments. Uncertainty concerning bunker fuel pricing and availability has delayed decision-making among customers for scrubber technology investments, despite supportive initial price indications.

The demand for marine services was sound. Activity improved from a low level in the offshore support vessel segment, where the laid-up fleet is increasingly being re-activated into production around the globe. Activity continued to be at a good level in the gas carrier segment, as LNG carriers are reaching their maintenance windows for major overhauls. In the container and general cargo vessel segments, economic and geopolitical uncertainties resulted in stable demand for services.

Financial development

Wärtsilä Marine's **third quarter order intake** totalled EUR 705 million (1,009), a decrease of 30% compared to the corresponding period last year. Book-to-bill was 0.91 (1.48). Services orders increased by 5% to EUR 445 million (425), while equipment orders decreased by 55% to EUR 260 million (584). Demand was highest in the merchant segment, which, including both traditional merchant vessels and gas carriers, represented 55% and 32% of the order intake of equipment and services respectively. Activity was solid also in the cruise and ferry segment.

Third quarter net sales increased by 14% to EUR 776 million (680) compared to the corresponding period last year. Services net sales increased by 1% to EUR 376 million (372), while equipment net sales increased by 30% to EUR 400 million (308). The **comparable operating result** for the quarter was EUR 49 million (68), or 6.3% of net sales (10.1).

Order intake for January-September amounted to EUR 2,565 million (2,914), a decrease of 12% compared to the corresponding period last year. Book-to-bill was 1.11 (1.47). Services orders decreased by 2% to EUR 1,271 million (1,300), while equipment orders decreased by 20% to EUR 1,294 million (1,613). The **order book** at the end of September amounted to EUR 3,895 million (3,536), which is 10% higher than last year.

January-September net sales increased by 16% to EUR 2,310 million (1,984) compared to the corresponding period last year. Services net sales increased by 3% to EUR 1,155 million (1,116), while equipment net sales increased by 33% to EUR 1,155 million (868). The **comparable operating result** during the same period amounted to EUR 185 million (190), which represents 8.0% of net sales (9.6). The comparable operating result includes a charge of EUR 17 million related to cost overruns in certain gas solution project deliveries. The charge was booked during the third quarter.

Reporting segment: Wärtsilä Energy Business

Wärtsilä Energy is leading the transition towards a 100% renewable energy future. As an energy system integrator, we understand, design, build, and serve optimal power systems for future generations. Wärtsilä's solutions provide the needed flexibility to integrate renewables and secure power system reliability. Our offering comprises engine-based flexible power plants – including liquid gas systems – hybrid solar power plants, energy management systems, and storage and integration solutions. We support our customers over the lifecycle of their installations with services that enable increased efficiency and guaranteed performance.

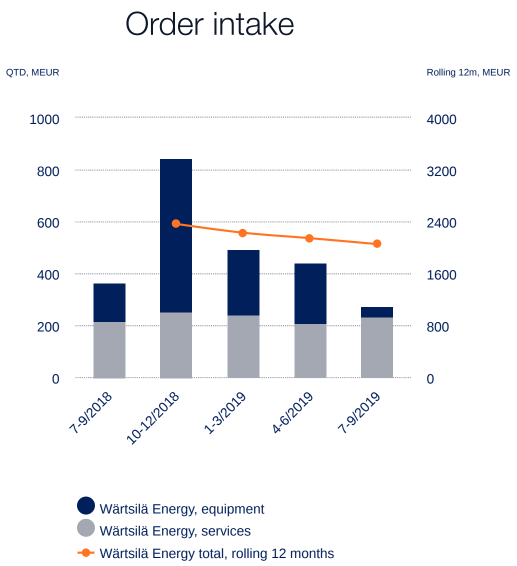
- Slow decision-making burdened equipment orders, services activity remained healthy
- Operating result affected by cost overruns in certain equipment business projects

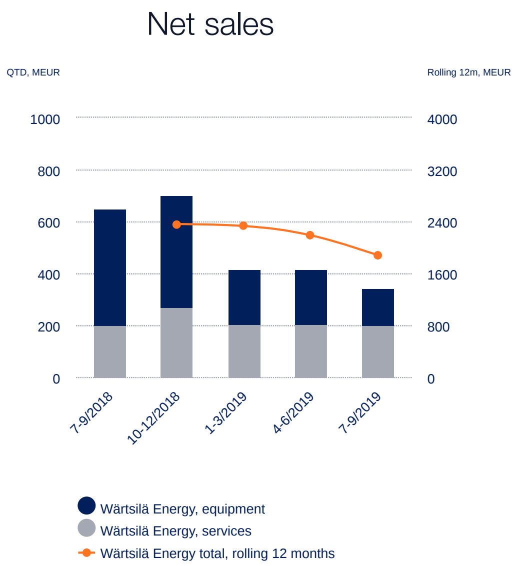
Key figures

MEUR	7-9/2019	7-9/2018	Change	1-9/2019	1-9/2018	Change	2018
Order intake	274	363	-25%	1 207	1 519	-21%	2 362
of which services	234	215	9%	683	598	14%	851
Order book, end of period				2 399	2 382	1%	2 515
Net sales	342	650	-47%	1 176	1 658	-29%	2 359
of which services	201	199	1%	607	572	6%	842
Book-to-bill	0.80	0.56		1.03	0.92		1.00
Operating result	-10	73	-114%	61	159	-62%	194
% of net sales	-3.0	11.2		5.2	9.6		8.2
Comparable operating result	-9	73	-113%	69	162	-57%	197
% of net sales	-2.7	11.2		5.9	9.8		8.4
Personnel, end of period				5 488	5 692	-4%	5 712

Order intake Wärtsilä Energy

MW	7-9/2019	7-9/2018	Change	1-9/2019	1-9/2018	Change	2018
Gas	50	212	-76%	857	1 127	-24%	1 941
Oil	4	21	-79%	118	699	-83%	877
Renewables	-	-	0%	30	42	-29%	87
Order intake, total	54	232	-77%	1 005	1 868	-46%	2 905





Operating environment

Activity in the equipment business was weak in the third quarter of 2019. Decision-making was slow globally, as utilities update their investment plans to achieve ambitious decarbonisation targets and macroeconomic uncertainty continues to cause customers to postpone investments. The low number of new power plant projects is resulting in a tough competitive environment. The demand for services in the energy markets was healthy, and customers continued to show interest towards long-term service agreements.

Wärtsilä's market share in the up to 500 MW market segment decreased slightly to 14% (15), while global orders for natural gas and liquid power plants decreased by 14% to 15.1 GW during the twelve-month period ending in June 2019 (17.6 at the end of March). Global orders include gas turbine and Wärtsilä orders with prime movers over 5 MW in size. The data is gathered from the McCoy Power Report.

Financial development

Wärtsilä Energy's **third quarter order intake** totalled EUR 274 million (363), a decrease of 25% compared to the corresponding period last year. Book-to-bill was 0.80 (0.56). Services order intake increased by 9% to EUR 234 million (215), while equipment order intake decreased by 73% to EUR 39 million (148). Services orders include a 5-year extension to a guaranteed asset performance agreement for a 27.65 MW combined heat and power plant in Hungary.

Third quarter net sales decreased by 47% to EUR 342 million (650) compared to the corresponding period last year. Services net sales increased by 1% to EUR 201 million (199), while equipment net sales decreased by 69% to EUR 141 million (451). The **comparable operating result** for the quarter was EUR -9 million (73), or -2.7% of net sales (11.2).

Order intake for January-September totalled EUR 1,207 million (1,519), a decrease of 21% compared to the corresponding period last year. Book-to-bill was 1.03 (0.92). Services order intake increased by 14% to EUR 683 million (598), while equipment order intake decreased by 43% to EUR 524 million (921). The **order book** at the end of September was stable at EUR 2,399 million (2,382).

January-September net sales decreased by 29% to EUR 1,176 million (1,658) compared to the corresponding period last year. Services net sales increased by 6% to EUR 607 million (572), while equipment net sales decreased by 48% to EUR 569 million (1,086). The **comparable operating result** during the same period was EUR 69 million (162), which represents 5.9% of net sales (9.8). The comparable operating result includes a charge of EUR 67 million related to cost overruns in certain projects in the equipment business, of which EUR 48 million was booked during the third quarter.

Outlook

Risks and business uncertainties

Trade tensions, geopolitical uncertainty and an anticipated slowdown in the global economy are affecting investment decisions in the shipping industry, especially in the bulk carrier and container sectors. While slow economic growth is also a risk to demand development in the service markets, the capital-intensive newbuilding market is more sensitive to changes in the economic outlook. Changes in the financial landscape have resulted in challenges for certain small and medium-sized owners to secure financing. Continued oversupply in the market has lead to further price pressure. Concerns related to climate change require increasing efforts to reduce emissions within the shipping industry. However, development in the regulatory environment remains a source of uncertainty, which may slow newbuild activity.

In the power generation markets, fragile economic growth and slow decision-making continue to be the primary risks for demand development. Geopolitical tensions and trade barrier implications, as well as significant currency fluctuations, can result in investment decisions being postponed in certain countries. The prevailing competitive environment is resulting in increasing headwinds from pricing.

Effective cyber risk management is increasingly important as cyber security has become vital to the operation and management of many safety, security, and protection systems in the shipping environment. Cyber risk management is crucial also with energy management systems, which are gaining importance as renewable penetration grows. Wärtsilä emphasises a holistic approach to the management of cyber and physical security risks in its internal operations and customer offerings. In its operational and governance activities, the company’s cyber security team has continued to move towards compliance with the IEC62443 and ISO 27000 protocols. Such activities include cyber assurance, risk management and detection, a secure software development lifecycle, training, endpoint protection, network security, and cyber advisory services.

The Group is a defendant in a number of legal cases that have arisen out of, or are incidental to, the ordinary course of its business. These lawsuits mainly concern issues such as contractual and other liability, labour relations, property damage, and regulatory matters. The Group receives from time to time claims of different amounts and with varying degrees of substantiation. There is currently one unusually sizeable claim. It is the Group’s policy to provide for amounts related to the claims, as well as for litigation and arbitration matters, when an unfavourable outcome is probable, and the amount of the loss can be reasonably estimated.

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

Shares and shareholders

During January-September 2019, the volume of trades on Nasdaq Helsinki was 230,976,026 shares, equivalent to a turnover of EUR 2,965 million. Wärtsilä's shares are also traded on alternative exchanges, such as Turquoise, BATS CXE, and BATS BXE. The total trading volume on these alternative exchanges was 173,023,911 shares.

Shares on Nasdaq Helsinki

30.9.2019	Number of shares and votes	Number of shares traded 1-9/2019
WRT1V	591 723 390	230 976 026

1.1. - 30.9.2019	High	Low	Average [1]	Close
Share price	15.56	9.41	12.88	10.28

[1]Trade-weighted average price

	30.9.2019	30.9.2018
Market capitalisation, EUR million	6 080	9 935
Foreign shareholders, %	51.9	55.2

Flagging notifications

During the period January-September 2019, Wärtsilä was informed of the following changes in ownership:

Transaction date	Shareholder	Threshold	Direct holding, %	Total holding, %
22.2.2019	BlackRock, Inc.	Below 5%	4.94	5.35
26.2.2019	BlackRock, Inc.	Above 5%	5.07	5.42
22.3.2019	BlackRock, Inc.	Below 5%	4.82	5.38
26.4.2019	BlackRock, Inc.	Above 5%	5.02	5.18
7.5.2019	BlackRock, Inc.	Below 5%	4.95	5.18
9.5.2019	BlackRock, Inc.	Above 5%	5.00	5.23
13.5.2019	BlackRock, Inc.	Below 5%	4.98	5.23
23.5.2019	BlackRock, Inc.	Above 5%	5.02	5.16
27.5.2019	BlackRock, Inc.	Below 5%	4.97	5.16
4.6.2019	BlackRock, Inc.	Below 5%	Below 5%	Below 5%
11.6.2019	Fiskars Corporation	Below 5%	Below 5%	Below 5%

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting, held on 7 March 2019, 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 2018.

The Annual General Meeting decided that the Board of Directors shall have eight members. The following were elected to the Board: Maarit Aarni-Sirviö, Kaj-Gustaf Bergh, Karin Falk, Johan Forssell, Tom Johnstone, Mikael Lilius, Risto Murto and Markus Rauramo.

The audit firm PricewaterhouseCoopers Oy was elected as the company's auditor for the year 2019.

Dividend distribution

The Annual General Meeting approved the Board of Directors' proposal to distribute a dividend of EUR 0.48 per share in two instalments. The first instalment of EUR 0.24 per share was distributed on 18 March 2019. The second instalment of EUR 0.24 per share was distributed on 27 September 2019.

Authorisation to repurchase the Company's own shares

The Board of Directors was authorised to resolve to repurchase a maximum of 57,000,000 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 of the shareholders' meeting.

Authorisation to issue shares

The Board of Directors was authorised to resolve to issue new shares or transfer shares held by the Company. The maximum amount of shares to be so issued shall not exceed 57,000,000. The shares can be issued for consideration or without consideration. They can also be issued in deviation from the shareholders' pre-emptive rights by way of a directed issue if there is a weighty financial reason for the Company to do so. The authorisation for the Board of Directors to issue 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 2018 to distribute the Company's own shares.

Wärtsilä Interim report January-September 2019

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 2018, 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.

Segment information

As of 1 January 2019, Wärtsilä is organised into two business areas, Wärtsilä Marine Business and Wärtsilä Energy Business, according to its two main customer markets. The Businesses cover both new equipment sales and services for their respective markets. The new organisational structure enables Wärtsilä to accelerate growth and the implementation of its Smart Marine and Smart Energy strategies. Integrating newbuild and service activities enhances customer value by strengthening the focus on complete lifecycle solutions tailored to specific market needs. Wärtsilä Marine Business and Wärtsilä Energy Business constitute Wärtsilä's operating and reportable segments.

Wärtsilä's highest operative decision maker (CODM, Chief Operating Decision Maker) is the President and CEO, with the support of the Board of Management and in some cases the Board of Directors.

Marine Business and Energy Business are both led by Presidents of respective business area and both are supported by Business management teams. Discrete financial information for the Businesses is provided to the CODM to support decision-making. The segment information presented by Wärtsilä reflects the internal management reporting. The segment information is reported to the level of operating result, as items below the operating result are not allocated to segments.

Internal sales between segments is not reported in the management reporting, revenue and costs of sales are booked directly to the respective customer projects and orders. The main factors affecting the allocation of indirect and administration costs to the segments are net sales and personnel amount. Management considers these allocation principles the most suitable to reflect the cost carried by each segment. The allocation principles are reviewed regularly.

Wärtsilä Energy Business

Wärtsilä Energy Business is leading the transition towards a 100% renewable energy future. As an energy systems integrator, Wärtsilä understands, designs, builds and serves optimal power systems for future generations. Its offering includes flexible internal combustion engine-based power plants, hybrid solar power plants, energy storage and integration solutions, as well as gas to power systems. Wärtsilä supports its customers throughout the lifecycle of their installations with services that enable increased efficiency and guaranteed performance.

Wärtsilä's three main customer segments in the energy markets are utilities, independent power producers and industrial customers. Wärtsilä's energy solutions are used for a wide variety of applications. These include baseload generation, capacity for grid stability, peaking and load-following generation, and for the integration of wind and solar power. Wärtsilä provides its customers with a comprehensive understanding of energy systems, including fully integrated assets and software, complete with value adding lifecycle services.

Wärtsilä Marine Business

Wärtsilä's aim is to lead the industry's transformation towards a Smart Marine Ecosystem. Building on a sound foundation of being a leading provider of innovative products, integrated solutions and lifecycle services to the marine and oil & gas industries, Wärtsilä Marine aims to unlock new customer values through connectivity, digitalisation and smart technology.

Wärtsilä provides marine power solutions, processing solutions and voyage solutions, which are supported by a broad scope of services ranging from spare part delivery to optimising customer operations, providing performance guarantees and offering cyber intelligence and incident support.

Marine Power Solutions	Processing Solutions	Voyage Solutions
· Power Supply	· Water and waste treatment	· Automation, navigation & communication
· Power conversion	· Gas solutions for marine and land based applications	· Simulation & training solutions
· Propulsion		· Fleet operations solutions
· Exhaust treatment		· Ship traffic control solutions
		· Special products
		· Entertainment systems

Wärtsilä's marine customer base covers all the main vessel segments, including traditional merchant vessels, gas carriers, cruise & ferry, navy, and special vessels. In the oil & gas industry, Wärtsilä is active in serving offshore installations and related industry vessels, as well as land-based gas installations. Wärtsilä's customers comprise ship owners, shipyards and ship management companies.

Entity wide information

In addition to segment information, Wärtsilä reports the services revenue and order intake for both segments.

Wärtsilä continues to report information for the geographical areas Finland, other European countries, Asia, the Americas, and other continents. In the geographical information net sales are split by customer destination and non-current assets by customer origin. Non-current assets consist of goodwill, intangible assets, property, plant and equipment, and investments in associates and joint ventures.

IFRS amendments

In 2019, the Group has adopted the following new standards and interpretation issued by the IASB.

IFRS 16 Leases (effective for financial periods beginning on or after 1 January 2019) addresses the definition, recognition and measurement of lease agreements and notes related to leases. The standard replaced IAS 17 Leases.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. Under IFRS 16, the companies are required to recognise right-of-use assets (ROU) and lease liabilities in the statement of financial position. These are initially measured at the present value of unavoidable future lease payments. The right-of-use assets are depreciated and interest on lease liabilities recognised in the statement of income over the lease term. Whether a contract contains a lease is determined based on whether the customer has the right to control the use of an identified asset for a period of time. Exemptions regarding recognition of leases apply to short-term leases with lease period less than 12 months and to assets of low value. The lessor accounting remains similar to IAS 17.

Wärtsilä Group's capitalised lease agreements consist mainly of office premise and machinery and equipment lease agreements. Based on the applied accounting policy, the Group recognises the lease agreements as lease liabilities and as ROU assets in its statement of financial position. Lease payments are presented as repayments of liabilities and related interest expenses. The lease payments are presented in the cash flow from financing activities and the interest related to leases are presented in the cash flow from operating activities. Lease payments related to short-term leases, low-value assets and variable payments are presented in the cash flow from operating activities.

The Group applied the modified approach in the transition. The Group applies the two available exemptions, which relate to either short-term contracts, in which the lease term is less than 12 months, or low-value assets, which are expensed to other operating expenses. Based on the Group's calculation, the net present value of the capitalised lease liability amounts to EUR 212 million according to the following bridge calculation:

MEUR	
Nominal amount of rents according to leasing contracts on 31 December 2018	284
Variable lease payments	-23
Residual value	-3
Expenses relating to short-term leases and leases of low-value assets	-15
Leases not yet commenced to which Wärtsilä is committed	-3
Nominal amount of lease liability on 1 January 2019	240
Present value	212

The nominal lease liability is initially measured at the present value of the lease payments. The lease payments exclude variable elements. Variable lease payments not included in the initial measurement of the lease liability are recognised directly in the statement of income. The lease term is the non-cancellable period of the lease plus period covered by an option to extend or option to terminate if the lessee is reasonably certain to excercise the extension option. Management judgment based on realistic estimates is used when determining the lease term for artificially short-term and leasing agreements with non-fixed terms. At transition, the lease payments were discounted by using the Group's incremental borrowing rate. The incremental borrowing rates used are the sum of relevant interbank rates and average margin of group loan portfolio and are currency specific.

The Group recognised at transition ROU assets amounting to EUR 213 million, non-current lease liabilities amounting to EUR 169 million, and current lease liabilities amounting to EUR 43 million. The lease expense reduction during 2019 arising from the lease agreements is estimated to be approximately EUR 53 million and increase of interest expense is estimated to be approximately EUR 5 million. The total depreciation expense for the financial period 2019 in the statement of income is estimated to increase by EUR 49 million due to ROU asset depreciations. The comparison figures have not been restated.

Condensed statement of financial position

MEUR	31.12.2018	IFRS 16 adjustment	1.1.2019
Non-current assets			
Intangible assets	1 747		1 747
Property, plant and equipment	324	-2	321
Right-of-use assets		215	215
Investments in associates and joint ventures	66		66
Other investments	16		16
Deferred tax assets	129		129
Other receivables	86		86
Total non-current assets	2 369	213	2 581
Current assets			
Inventories	1 165		1 165
Other receivables	2 038		2 038
Cash and cash equivalents	487		487
Total current assets	3 690	-1	3 690
Total assets	6 059	212	6 271

Equity			
Share capital	336		336
Other equity	2 082		2 082
Total equity attributable to equity holders of the parent company	2 418		2 418
Non-controlling interests	14		14
Total equity	2 432		2 432
Non-current liabilities			
Interest-bearing debt	748	169	917
Deferred tax liabilities	99		99
Other liabilities	245		245
Total non-current liabilities	1 092	169	1 261
Current liabilities			
Interest-bearing debt	74	43	117
Other liabilities	2 461		2 461
Total current liabilities	2 535	43	2 578
Total liabilities	3 627	212	3 839
Total equity and liabilities	6 059	212	6 271

Amendments to **IAS 28 Long-term Interests in Associates and Joint Ventures** (effective for financial periods beginning on or after 1 January 2019). The amendments clarify that IFRS 9 Financial Instruments is applied to the accounting for long-term interest in an associate or joint venture to which the equity method is not applied. The amendments have no impact on the consolidated financial statements.

Amendment to **IAS 19 Plan Amendment, Curtailment or Settlement** (effective for financial periods beginning on or after 1 January 2019). This amendment clarifies the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment specifies that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to use updated assumptions to determine the current service cost and net interest. The interpretation has an impact on the consolidated financial statements in the case of curtailments or settlements.

Amendments to **IFRS 9 Prepayment Features with Negative Compensation** (effective for financial periods beginning on or after 1 January 2019). Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Without the amendment these financial assets would have had to be measured at FVPL. The amendments have no impact on the consolidated financial statements.

IFRIC 23 Uncertainty over income tax treatment (effective for financial periods beginning on or after 1 January 2019). This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The key matter is whether the tax authority will accept the chosen tax treatment. When considering this, the assumption is that tax authorities will have full knowledge of all relevant information in assessing the proposed tax treatment. The interpretation does not have any significant impact on the consolidated financial statements.

Annual improvements to IFRSs 2015-2017 cycle: The improvements that include smaller amendments to four standards do not have an impact on the consolidated financial statements.

Adoption of new and updated IFRS standards

IFRS 17 Insurance contracts* (effective from financial periods beginning on or after 1 January 2021). IFRS 17 applies to all types of insurance contracts (direct insurance and re-insurance) regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective is to provide a consistent accounting model for insurance contracts. The impact is under review within the Group.

* Not yet endorsed for use by the European Union as of 30 September 2019

This interim report is unaudited.

Condensed statement of income

MEUR	1–9/2019	1–9/2018	7–9/2019	7–9/2018	2018
Net sales	3 486	3 642	1 118	1 330	5 174
Other operating income	42	27	10	11	80
Expenses	-3 182	-3 250	-1 053	-1 173	-4 595
Depreciation, amortisation and impairment	-141	-92	-58	-31	-130
Share of result of associates and joint ventures	-7	10	-6	3	13
Operating result	198	337	11	141	543
Financial income and expenses	-36	-29	-11	-11	-40
Profit before taxes	162	308		130	502
Income taxes	-45	-75	-5	-29	-116
Profit for the reporting period	116	233	-5	101	386
Attributable to:					
Equity holders of the parent company	116	233	-5	101	386
Non-controlling interests					1
	116	233	-5	101	386
Earnings per share attributable to equity holders of the parent company (basic and diluted):					
Earnings per share (EPS), basic and diluted, EUR	0.20	0.39	-0.01	0.17	0.65

Statement of other comprehensive income

MEUR	1–9/2019	1–9/2018	7–9/2019	7–9/2018	2018
Profit for the reporting period	116	233	-5	101	386
Other comprehensive income, net of taxes:					
Items that will not be reclassified to the statement of income					
Remeasurements of defined benefit liabilities	-17		-16		-3
Tax on items that will not be reclassified to the statement of income	5		5		
Total items that will not be reclassified to the statement of income	-13		-11		-4
Items that may be reclassified subsequently to the statement of income					
Exchange rate differences on translating foreign operations					
for equity holders of the parent company	23	-1	14	-3	-23
for non-controlling interests		-1		-1	-1
Associates and joint ventures, share of other comprehensive income	-1	-1			-1
Cash flow hedges	-8	-4	-22	2	-26
Tax on items that may be reclassified to the statement of income	3		5	-1	5
Total items that may be reclassified to the statement of income	17	-8	-2	-3	-45
Other comprehensive income for the reporting period, net of taxes	5	-8	-13	-3	-48

Total comprehensive income for the reporting period	121	225	-18	98	338
Total comprehensive income attributable to:					
Equity holders of the parent company	121	226	-19	99	338
Non-controlling interests		-1	1		
	121	225	-18	98	338

Condensed statement of financial position

MEUR	30.9.2019	30.9.2018	31.12.2018
Non-current assets			
Intangible assets	1 753	1 768	1 747
Property, plant and equipment	315	344	324
Right-of-use assets	200		
Investments in associates and joint ventures	41	62	66
Other investments	17	16	16
Deferred tax assets	158	129	129
Other receivables	60	80	86
Total non-current assets	2 543	2 399	2 369
Current assets			
Inventories	1 512	1 280	1 165
Other receivables	1 930	1 980	2 038
Cash and cash equivalents	374	221	487
Total current assets	3 817	3 482	3 690
Total assets	6 360	5 880	6 059
Equity			
Share capital	336	336	336
Other equity	1 919	1 970	2 082
Total equity attributable to equity holders of the parent company	2 254	2 306	2 418
Non-controlling interests	13	20	14
Total equity	2 268	2 326	2 432
Non-current liabilities			
Interest-bearing debt	1 031	746	748
Deferred tax liabilities	84	117	99
Other liabilities	258	275	245
Total non-current liabilities	1 373	1 137	1 092
Current liabilities			
Interest-bearing debt	333	129	74

Other liabilities	2 386	2 288	2 461
Total current liabilities	2 719	2 417	2 535
Total liabilities	4 092	3 554	3 627
Total equity and liabilities	6 360	5 880	6 059

Condensed statement of cash flows

MEUR	1–9/2019	1–9/2018	7–9/2019	7–9/2018	2018
Cash flow from operating activities:					
Profit for the reporting period	116	233	-5	101	386
Adjustments for:					
Depreciation, amortisation and impairment	141	92	58	31	130
Financial income and expenses	36	27	11	10	39
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-11	-4		-3	-26
Share of result of associates and joint ventures	7	-10	6	-3	-13
Income taxes	45	75	5	29	116
Other non-cash flow adjustment	3		3		-7
Cash flow before changes in working capital	337	414	78	164	625
Changes in working capital	-263	-191	-107	-6	-35
Cash flow from operating activities before financial items and taxes	75	223	-30	157	589
Financial items and paid taxes	-137	-102	-31	-36	-119
Cash flow from operating activities	-63	121	-61	122	470
Cash flow from investing activities:					
Investments in shares and acquisitions	-4	-197			-196
Net investments in property, plant and equipment and intangible assets	-60	-52	-23	-18	-99
Reduction of share capital in associates and joint ventures		13		13	13
Proceeds from sale of shares in associated companies and other investments	1				41
Cash flow from other investing activities		1			1
Cash flow from investing activities	-62	-235	-23	-5	-240
Cash flow from financing activities:					
Proceeds from non-current debt	150	279			279
Repayments and other changes in non-current debt	-92	-58	-26	-4	-84
Changes in current loans and other changes	218	-1	225	-9	-39
Dividends paid	-269	-261	-128	-125	-274
Cash flow from financing activities	7	-41	72	-138	-118
Change in cash and cash equivalents, increase (+)/decrease (-)	-118	-155	-11	-21	112
Cash and cash equivalents at the beginning of the reporting period	487	379	383	245	379
Exchange rate changes	6	-3	3	-3	-5
Cash and cash equivalents at the end of the reporting period	374	221	374	221	487

Consolidated 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	Remeasurements of defined benefit liabilities	Retained earnings		
Equity on 1 January 2019	336	61	-155	-31	-39	2 245	14	2 432
Total comprehensive income for the reporting period			22	-5	-13	116		121
Dividends paid						-284	-1	-285
Equity on 30 September 2019	336	61	-133	-36	-52	2 078	13	2 268

	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	Remeasurements of defined benefit liabilities	Retained earnings		
Equity on 31 December 2016	336	61	-57	-39	-45	2 032	34	2 321
Restatement due to IFRS 9						-3		-3
Restatement due to IFRS 15						-13		-13
Equity on 1 January 2017	336	61	-57	-39	-45	2 016	34	2 305
Restated total comprehensive income for the reporting period			-74	28	7	376	-3	333
Dividends paid						-256	-6	-263
Equity on 1 January 2018	336	61	-132	-10	-38	2 135	24	2 376
Total comprehensive income for the reporting period			-3	-5		233	-1	225
Dividends paid						-272	-3	-275
Equity on 30 September 2018	336	61	-134	-15	-38	2 096	20	2 326

Segment information

Wärtsilä's reportable segments are Wärtsilä Marine Business and Wärtsilä Energy Business. The segments cover both new equipment sales and services for the respective business area. The segment information presented reflects the internal management reporting. The segment information is reported to the level of operating result as items below operating result are not allocated to segments.

The main factors affecting the allocation of indirect and administration costs to the segments are net sales and personnel amount. Management considers these allocation principles the most suitable to reflect the cost carried by each segment. In Wärtsilä Marine Business, order intake and net sales for retrofit scrubber projects have been transferred from services to new equipment. The comparison period figures for the segment reporting and the service information have been adjusted to reflect the new reporting structure.

MEUR	1–9/2019	1–9/2018	7–9/2019	7–9/2018	2018
Net sales					
Wärtsilä Marine Business	2 310	1 984	776	680	2 815
Wärtsilä Energy Business	1 176	1 658	342	650	2 359
Total	3 486	3 642	1 118	1 330	5 174
Depreciation, amortisation and impairment					
Wärtsilä Marine Business	-116	-72	-49	-23	-102
Wärtsilä Energy Business	-25	-20	-9	-7	-28
Total	-141	-92	-58	-31	-130
Share of result of associates and joint ventures					
Wärtsilä Marine Business	-7	10	-6	3	13
Total	-7	10	-6	3	13
Operating result					
Wärtsilä Marine Business	137	177	21	69	349
Wärtsilä Energy Business	61	159	-10	73	194
Total	198	337	11	141	543
Operating result as a percentage of net sales (%)					
Wärtsilä Marine Business	5.9	8.9	2.7	10.1	12.4
Wärtsilä Energy Business	5.2	9.6	-3.0	11.2	8.2
Total	5.7	9.2	1.0	10.6	10.5
Comparable operating result					
Wärtsilä Marine Business	185	190	49	68	380
Wärtsilä Energy Business	69	162	-9	73	197
Total	254	352	39	141	577
Comparable operating result as a percentage of net sales (%)					
Wärtsilä Marine Business	8.0	9.6	6.3	10.1	13.5
Wärtsilä Energy Business	5.9	9.8	-2.7	11.2	8.4
Total	7.3	9.7	3.5	10.6	11.2

Net sales by geographical areas

MEUR	1–9/2019	1–9/2018	7–9/2019	7–9/2018	2018
Europe	1 167	1 086	358	357	1 485
Asia	1 343	1 311	474	526	1 867
The Americas	702	877	213	324	1 245
Other	275	367	74	122	577
Total	3 486	3 642	1 118	1 330	5 174

Service information

MEUR	1–9/2019	1–9/2018	7–9/2019	7–9/2018	2018
Net sales					
Marine service	1 155	1 116	376	372	1 577
Energy service	607	572	201	199	842
Total	1 762	1 688	578	571	2 419

Measures of profit and items affecting comparability

MEUR	1–9/2019	1–9/2018	2018
Comparable adjusted EBITA	285	384	621
Purchase price allocation amortisation	-31	-32	-43
Comparable operating result	254	352	577
Items affecting comparability:			
Social plan costs	-26	-7	-8
Impairment and write-downs	-17	-3	-19
Other restructuring costs and transfer costs	-14		-2
Acquisition related costs		-6	-6
Items affecting comparability, total	-56	-15	-35
Operating result	198	337	543

Acquisitions

Ships Electronic Services Ltd

In May, Wärtsilä acquired 100% of Ships Electronic Services Ltd (“SES”), a UK based company specializing in navigation and communication electronics, installation, maintenance and repair services, mainly for commercial and leisure vessels. SES’ turnover was approximately GBP 10 million and the company employed a staff of 47. The enterprise value of the transaction was GBP 3.2 million.
The consideration paid and the impact on profit for the reporting period are not significant.

Disaggregation of revenue

Revenue from the contracts with customers is derived over time and at a point in time in the following revenue types.

Net sales by revenue type

MEUR	1–9/2019	1–9/2018	2018
Products	830	812	1 145
Goods and services	432	384	557
Projects	1 876	2 099	2 992
Long-term agreements	349	347	480
Total	3 486	3 642	5 174

Timing of satisfying performance obligations

MEUR	1–9/2019	1–9/2018	2018
At a point in time	2 486	2 688	3 740
Over time	1 001	954	1 434
Total	3 486	3 642	5 174

Product sales consist of sales of spare parts and standard equipment for which the revenue is recognised at a point in time when the control of the products has transferred to customer, in general at the delivery of the goods.

Goods and services -type of revenue involves short-term field service jobs, which includes the delivery of a combination of service and equipment. The revenue is recognised at a point in time when service is rendered.

Projects contain short-term and long-term projects. Depending on the contract terms and the duration of the project, the revenue is recognised at a point in time or over time. Revenue related to long-term projects, such as construction contracts, integrated solutions projects, ship design, and energy solutions contracts, is recognised over time. Revenue for tailor-made equipment delivery projects is recognised at a point in time.

Long-term agreements contain long-term operating and maintenance agreements for which the revenue is recognised over time.

Intangible assets and property, plant & equipment

MEUR	1–9/2019	1–9/2018	2018
Intangible assets			
Carrying amount on 1 January	1 747	1 577	1 577
Changes in exchange rates	14	8	3
Acquisitions and disposals		212	190
Additions	40	21	45
Amortisation and impairment	-47	-50	-68
Decreases and reclassifications	-1		-1
Carrying amount at the end of the reporting period	1 753	1 768	1 747

Property, plant and equipment			
Carrying amount on 1 January	324	349	349
Transfer to right-of use assets	-2		
Changes in exchange rates	2	-2	-1
Acquisitions and disposals		5	-21
Additions	34	39	64
Depreciation and impairment	-41	-43	-62
Decreases and reclassifications	-3	-5	-7
Carrying amount at the end of the reporting period	315	344	324

Leases

MEUR	30.9.2019
Land and buildings, right-of-use assets	
Carrying amount on 1 January	203
Additions	21
Depreciation and impairment	-32
Decreases and reclassifications	-4
Carrying amount at the end of the reporting period	188
Machinery and equipment, right-of-use assets	
Carrying amount on 1 January	12
Additions	3
Depreciation and impairment	-4
Carrying amount at the end of the reporting period	11
Lease liabilities	
Carrying amount on 1 January	215
Additions	25
Interest expense	2
Payments	-36
Other adjustmends	-5
Carrying amount at the end of the reporting period	203

MEUR	1–9/2019
Amounts recognised in statement of income	
Depreciation expense of right-of-use assets	-36
Interest expense	-4
Expense - short-term leases	-25
Expense - leases of low-value assets	-5
Expense - variable lease payments	-3

Gross capital expenditure

MEUR	1–9/2019	1–9/2018	2018
Investments in securities and acquisitions	4	197	196
Intangible assets and property, plant and equipment	75	61	110
Total	79	258	306

Net interest-bearing debt

MEUR	1–9/2019	1–9/2018	2018
Interest-bearing debt, non-current	867	746	748
Lease liabilities, non-current	164		
Interest-bearing debt, current	294	129	74
Lease liabilities, current	39		
Total interest-bearing liabilities	1 365	874	823
Interest-bearing receivables	-4	-6	-3
Cash and cash equivalents	-374	-221	-487
Total interest-bearing assets	-378	-227	-490
Total net interest-bearing debt	987	647	333

Financial ratios

	1–9/2019	1–9/2018	2018
Earnings per share (EPS), basic and diluted, EUR	0.20	0.39	0.65
Equity per share, EUR	3.81	3.90	4.09
Solvency ratio, %	39.4	43.7	44.4
Gearing	0.44	0.28	0.14
Return on investment (ROI), %	12.8	18.6	18.1
Return on equity (ROE), %	11.7	17.5	16.1

The increase in interest-bearing debt due to the accounting treatment of lease agreements according to IFRS 16 affects solvency ratio and gearing.

Personnel

	1–9/2019	1–9/2018	2018
On average	19 213	18 781	18 899
At the end of the reporting period	19 018	19 420	19 294

Contingent liabilities

MEUR	1–9/2019	1–9/2018	2018
Mortgages	10	10	10
Chattel mortgages and other pledges and securities	14	20	19
Total	24	30	29
Guarantees and contingent liabilities			
on behalf of Group companies	662	761	775
Nominal amount of rents according to leasing contracts		215	284
Nominal amount of leasing contracts			
Low-value lease liabilities	5		
Short-term lease liabilities	14		
Lease not yet commenced but to which Wärtsilä is committed.	147		
Total	828	976	1 060

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	270	
Cross currency swaps	255	
Foreign exchange forward contracts	2 310	940
Total	2 835	940

In addition, the Group had copper futures and swaps amounting to 223 tons.

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		
Other investments (level 3)	17	17
Interest-bearing investments, non-current (level 2)	4	4
Other receivables, non-current (level 2)	2	2
Derivatives (level 2)	16	16
Financial liabilities		
Interest-bearing debt, non-current (level 2)	1 031	1 045
Derivatives (level 2)	55	55

Quarterly figures

MEUR	7–9/ 2019	4–6/ 2019	1–3/ 2019	10–12/ 2018	7–9/ 2018	4–6/ 2018	1–3/ 2018	Restated 10–12/ 2017	Restated 7–9/ 2017
Order intake									
Wärtsilä Marine Business*	705	936	922	1 031	1 009	1 027	877		
Wärtsilä Energy Business*	274	441	494	843	363	526	630		
Total	979	1 377	1 416	1 874	1 372	1 553	1 507	1 514	1 354
Order book at the end of the reporting period									
Wärtsilä Marine Business*	3 895	3 974	3 861	3 651	3 536	3 244	2 818		
Wärtsilä Energy Business*	2 399	2 496	2 469	2 515	2 382	2 660	2 672		
Total	6 294	6 470	6 330	6 166	5 918	5 904	5 490	5 100	5 107
Net sales									
Wärtsilä Marine Business*	776	801	733	831	680	685	619		
Wärtsilä Energy Business*	342	416	418	701	650	561	447		
Total	1 118	1 217	1 151	1 532	1 330	1 246	1 066	1 441	1 175
Share of result of associates and joint ventures	-6	-1		3	3	4	3	6	3
Comparable adjusted EBITA	49	123	113	237	152	134	98	250	141
as a percentage of net sales	4.4	10.1	9.8	15.4	11.5	10.7	9.2	17.4	12.0
Depreciation, amortisation and impairment	-58	-42	-41	-37	-31	-31	-30	-42	-30
Purchase price allocation amortisation	-10	-10	-11	-11	-11	-11	-10	-10	-9
Comparable operating result	39	113	102	226	141	123	88	241	131
as a percentage of net sales	3.5	9.3	8.9	14.7	10.6	9.8	8.3	16.7	11.2
Items affecting comparability, total	-28	-17	-11	-20		-12	-3	-19	-4
Operating result	11	96	91	206	141	111	85	222	127
as a percentage of net sales	1.0	7.9	7.9	13.4	10.6	8.9	8.0	15.4	10.8
Financial income and expenses	-11	-13	-13	-12	-11	-8	-9	-10	-17
Profit before taxes		83	78	194	130	102	76	211	110
Income taxes	-5	-21	-19	-41	-29	-28	-19	-47	-28
Profit for the reporting period	-5	62	59	153	101	75	57	165	82
Earnings per share (EPS), basic and diluted, EUR	-0.01	0.11	0.10	0.25	0.17	0.13	0.10	0.28	0.14
Gross capital expenditure	24	32	23	48	26	194	37	79	156
Investments in securities and acquisitions		4		-1		177	20	45	145

Cash flow from operating activities	-61	-37	35	349	122	41	-42	276	150
Working capital (WCAP) at the end of the reporting period	870	784	656	581	782	790	726	563	632
Personnel at the end of the reporting period									
Wärtsilä Marine Business*	13 530	13 598	13 467	13 582	13 727	13 609	12 618		
Wärtsilä Energy Business*	5 488	5 641	5 758	5 712	5 692	5 622	5 564		
Total	19 018	19 239	19 225	19 294	19 420	19 231	18 182	18 065	17 859

* The segment figures have been restated for the financial period 2018.

Calculation of financial ratios

Earnings per share (EPS), basic and diluted

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

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

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

Gearing

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

Return on investment (ROI)

$$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Total equity and liabilities – non-interest-bearing liabilities – provisions, average over the reporting period}} \times 100$$

Return on equity (ROE)

$$\frac{\text{Profit for the reporting period}}{\text{Equity, average over the reporting period}} \times 100$$

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
– dividend payable)

Comparable adjusted EBITA

Operating result – items affecting comparability – purchase price allocation amortisation

Comparable operating result

Operating result – items affecting comparability

Items affecting comparability

Certain income and expenses are presented as Items Affecting Comparability, when they have significant impact on Wärtsilä's statement of income.
Items affecting comparability consist of income and expenses, which result from restructuring activities aiming to adjust the capacity of Wärtsilä's operations. They may also include other income and expenses incurred outside Wärtsilä's normal course of business, such as impairment charges, acquisition related costs, settlements recorded as a result of legal proceedings with third parties or unforeseen obligations from earlier discontinued businesses.

Wärtsilä Corporation
Board of Directors
24 October 2019