



**Wärtsilä's Interim Report  
January-September 2008**

**THE ENGINE OF INDUSTRY**

## INTERIM REPORT JANUARY-SEPTEMBER 2008

The figures in this interim report are unaudited.

### THIRD QUARTER 7-9/2008 IN BRIEF

MEUR	7-9/2008	7-9/2007	Change
Order intake	1 382	1 514	-9%
Net sales	1 140	933	22%
Operating result	123	96	28%
% of net sales	10.8%	10.3%	
Profit before taxes	127	95	35%
Earnings/share, EUR	0.97	0.71	

### REVIEW PERIOD JANUARY-SEPTEMBER 2008 IN BRIEF

MEUR	1-9/2008	1-9/2007	Change	2007
Order intake	4 750	4 039	18%	5 633
Order book at the end of the period	7 762	6 162	26%	6 308
Net sales	3 082	2 491	24%	3 763
Operating result	327	233	40%	379
% of net sales	10.6%	9.3%		10.1%
Profit before taxes	333	227	47%	372
Earnings/share, EUR	2.42	1.69		2.74
Cash flow from operating activities	255	299		431
Interest-bearing net debt at the end of the period	361	61		-27
Gross capital expenditure	272	172		231

## MARKET DEVELOPMENT

### SHIP POWER

Measured in number of new vessels, new ship ordering has fallen almost 50% during 2008 from the high levels of last year. Historically the levels are still high and ordering has thus far resisted well the general turmoil of the financial markets. Shipbuilding markets have experienced some cancellations, although so far they have been mostly in the previously overheated bulker markets. In addition to slowdown in orders, the very recent financial crisis is undoubtedly going to result in more cancellations and other rearrangements since some yards and owners are likely to experience difficulties in raising financing due to tightened lending. Another likelihood to be faced in the future is the slippage of the delivery schedules at shipyards. Many yards are falling back from their original timetables which inevitably impacts the schedules of the whole supply chain.

Measured in number of vessels, China still has the number one position with a 39% market share while Korean yards have signed 37% of the new vessels ordered in 2008. Japan's share has grown to 14% whereas Europe and other areas total 9% of the market. Measured in tonnage Korea still has the biggest share with 45%, China following with 37%, Japan with 12% and Europe with just 2% of the market.

### Ship Power market shares

Wärtsilä's share of market in medium speed main engines has slightly increased from 32 to 34% thanks to Wärtsilä's strong presence in the Offshore and Special vessel segments. Market share in low speed engines

decreased to 13% (16% at the end of the previous quarter). In the auxiliary engines market the share increased slightly to 9% (8) due to continued good development in the Chinese market.

## POWER PLANTS

The market situation remained good and demand in the power plant market remained high in all segments relevant to Wärtsilä. The offering activity remained at all time high levels. To date the Power Plants markets appear not to have been affected by the financial crisis.

### Power Plants market shares

According to statistics compiled by the Diesel and Gas Turbine magazine, the total global market for oil and gas power plants in Wärtsilä's power range between June 2007 and May 2008 grew to 20,980 MW (14,065). The market for gas power plants, including both reciprocating engines and gas turbines, grew strongly to 15,630 MW (10,900), Wärtsilä's share of the market being 8% (12). Wärtsilä's market share of heavy fuel oil plants increased to 49% (38) due to strong order intake in markets such as Brazil and Pakistan. In light fuel oil power plants, Wärtsilä's market share was 20% (24).

## SERVICES

High energy prices, together with new and more stringent environmental legislation, are driving machinery development towards more complex technologies and advanced control systems. Maintaining, tuning or upgrading this equipment for optimal efficiency and emission compliance requires highly skilled specialists that aren't always available to the market. The lack of skilled resources in the marine, oil & gas as well as energy industries, is resulting in increased demand for services provided by equipment suppliers. The Services market remained active during the review period.

## ORDER INTAKE AND ORDER BOOK

The order intake for the third quarter continued at a good level, totalling EUR 1,382 million (1,514). Order intake for Wärtsilä Ship Power decreased from the very high level of the corresponding period last year and totalled EUR 450 million (766). The slowdown was most apparent in the Merchant vessel segment where the share of total orders during the quarter was 35%. The Offshore segment remained quite strong and, with 36% of the total, was the biggest segment in orders. Cruise&Ferry and Special vessels represented 10% and 9% respectively, whereas the Navy segment represented 10% of total orders. For the review period January-September 2008, Ship Power's order intake was EUR 1,674 million (1,960).

The order intake for the Power Plants business continued to be very strong during the third quarter totalling EUR 498 million (420), 19% higher than during the corresponding period last year. During the third quarter the largest oil-fired power plant orders were received from Pakistan and Brazil. The latest order from Pakistan follows another power plant order from Nishat Power Ltd earlier this year. The latest order from Brazil follows three others for Brazil signed earlier this year. The largest gas power plant orders were received from Portugal and Turkey.

For the review period January-September 2008, the Power Plants order intake totalled EUR 1,620 million (958), a 69% growth compared to the corresponding period last year.

In the third quarter Services received a significant operation & management contract with Attock Gen in Pakistan. Order intake for the Services business totalled EUR 434 million (326) during the third quarter. Services' order intake for the review period January-September 2008 totalled EUR 1,448 million (1,118), a 29% growth over the corresponding period in 2007.

For the review period January-September 2008, Wärtsilä's total order intake amounted to EUR 4,750 million (4,039), a growth of 18%. At the end of the review period Wärtsilä's total order book stood at a new record level of EUR 7,762 million (6,162), a growth of 26%. At the end of the review period the Ship Power order book stood at EUR 5,010 million (4,183), a growth of 20%. The Power Plants order book grew by 45%

compared to the corresponding date last year and amounted to 2,243 million (1,548). The Services order book totalled EUR 505 million (429) at the end of the review period, a growth of 18%. Customer advances related to the order book, amounted to EUR 1,375 million (921) or on average 18% of order book total.

### Order intake by business

MEUR	7-9/2008	7-9/2007	Change	
Ship Power	450	766	-41%	
Services	434	326	33%	
Power Plants	498	420	19%	
Order intake, total	1 382	1 514	-9%	

  

MEUR	1-9/2008	1-9/2007	Change	2007
Ship Power	1 674	1 960	-15%	2 600
Services	1 448	1 118	29%	1 607
Power Plants	1 620	958	69%	1 421
Order intake, total	4 750	4 039	18%	5 633

### Order intake Power Plants

MW	7-9/2008	7-9/2007	Change	
Oil	680	495	37%	
Gas	157	402	-61%	
Renewable fuels	35	87	-60%	

  

MW	1-9/2008	1-9/2007	Change	2007
Oil	1 739	939	85%	1 358
Gas	1 033	761	36%	1 005
Renewable fuels	80	404	-80%	483

### Order book by business

MEUR	30.9.2008	30.9.2007	Change	2007
Ship Power	5 010	4 183	20%	4 292
Services	505	429	18%	405
Power Plants	2 243	1 548	45%	1 608
Order book, total	7 762	6 162	26%	6 308

### NET SALES

During the third quarter Wärtsilä's net sales increased by 22% to EUR 1,140 million (933) compared to the corresponding period last year. Net sales for Ship Power totalled EUR 344 million (310), a growth of 11% over the corresponding period last year. Power Plants' net sales for the third quarter totalled 349 million (228), which is 53% higher than in the corresponding quarter last year. The third quarter net sales for Services amounted to EUR 452 million (394), a growth of 15%, out of which 14% was organic growth.

Wärtsilä's net sales for January-September 2008 totalled EUR 3,082 million (2,491), a growth of 24%. Ship Power net sales grew by 9% and totalled EUR 952 million (871). Net sales for Power Plants developed very strongly during the review period and totalled 797 million (491), which represents a growth of 62% compared to the corresponding period last year. Net sales from the Services business increased to EUR 1,335 million (1,119), a growth of 19%. Organic growth represented 18% of Services' net sales growth. For the review

period January-September 2008, Ship Power net sales accounted for 31%, Services net sales for 43%, and Power Plants for 26% of the total net sales.

### Net sales by business

MEUR	7-9/2008	7-9/2007	Change	
Ship Power	344	310	11%	
Services	452	394	15%	
Power Plants	349	228	53%	
Net sales, total	1 140	933	22%	

  

MEUR	1-9/2008	1-9/2007	Change	2007
Ship Power	952	871	9%	1 320
Services	1 335	1 119	19%	1 550
Power Plants	797	491	62%	882
Net sales, total	3 082	2 491	24%	3 763

### FINANCIAL RESULTS

The operating result for the third quarter amounted to EUR 123 million (96) or 10.8% (10.3) of net sales. The operating result for the review period January-September 2008 rose to EUR 327 million (233), which is 10.6% of net sales (9.3). Financial items amounted to EUR 6 million (-6). Net interest totalled EUR -10 million (-7). Dividends received totalled EUR 6 million (7). Other financial items developed positively due to the favourable development of derivative interest differentials. Profit before taxes amounted to EUR 333 million (227). Taxes in the review period amounted to EUR 91 million (64). Earnings per share were EUR 2.42 (1.69).

### BALANCE SHEET, FINANCING AND CASH FLOW

Cash flow from operating activities for January-September 2008 was strong and totalled EUR 255 million (299). Liquid reserves at the end of the period amounted to EUR 166 million (202). Net interest-bearing loan capital amounted EUR 361 million (61). In addition to the strong cash flow Wärtsilä's financial room to manoeuvre is secured by long-term finance agreements. Advance payments at the end of the period totalled EUR 1,375 million (921). The solvency ratio was 34.7% (46.1) and gearing was 0.34 (0.08).

### HOLDINGS

Wärtsilä owns 7,270,350 B shares in Assa Abloy, or 2.0% of the total. This holding has been booked in the balance sheet at its market value at the end of the reporting period, EUR 61 million.

### CAPITAL EXPENDITURE

Gross capital expenditure in the review period totalled EUR 272 million (172), which comprised EUR 162 million (59) in acquisitions and investments in securities, and EUR 110 million (113) in production and information technology investments. Depreciation for the review period amounted to EUR 68 million (56).

Due to strong volume growth, the total capital expenditure excluding acquisitions for 2008 is expected to be approx. EUR 200 million.

### STRATEGIC ACQUISITIONS, JOINT-VENTURES AND EXPANSION OF THE NETWORK

In March, Wärtsilä signed an agreement to acquire the Norwegian company Maritime Service AS, which specializes in ship service, and mechanical and reconditioning services. Maritime Service has its operations

in Ålesund, on the west coast of Norway. The annual net sales of Maritime Service were NOK 26 million (EUR 3.2 million) in 2007.

In April, Wärtsilä acquired the Danish company International Combustion Engineering A/S (I.C.E.) that specializes in project engineering and the service and repair of steam boilers and ancillary burner systems. The company's annual net sales amounted to DKK 46.8 million (EUR 6.3 million) in 2007. This acquisition expands Wärtsilä's service offering into the new category of boiler services, which in turn further improves Wärtsilä's competitiveness as a leading total services provider. Wärtsilä continued to expand its boiler services capability in June with the acquisition of the boiler services business of I.C.E.'s former subsidiary in Dubai.

In June Wärtsilä acquired the German company Claus D. Christophel Mess- und Regeltechnik GmbH (CDC), which specializes in the design, delivery and service of automation systems for ship owners and yards. CDC's annual net sales were EUR 2.1 million in 2007.

In July, Wärtsilä signed an agreement to acquire the global ship design group Vik-Sandvik, a leading independent group providing design and engineering services to ship owners and the ship building industry worldwide. This acquisition was a major step in Wärtsilä's strategy to strengthen its position as a total solutions provider and to be the most valued partner for its customers. By combining ship design capability with its existing offerings in propulsion systems and automation, Wärtsilä will be able to provide more added value to its customers, with further growth potential in new lifecycle services. Wärtsilä's goal is to become the leading provider of ship design services in various segments. The value of the acquisition was EUR 132 million, with an additional maximum sum of EUR 38 million to be paid based on the performance of the business over the next three years. In 2007, Vik-Sandvik's net sales were EUR 55 million and the profitability is at a very good level. The number of employees is 410. Vik-Sandvik has been included in the consolidation since August 1, 2008.

In September, Wärtsilä acquired Navelec SAS, a French company specializing in marine navigation and communication systems, electrical marine services, and control and automation services. Through this acquisition Wärtsilä is able to broaden its service offering and technological knowledge in the areas of navigation and communication. It also strengthens Wärtsilä's position as the leading service provider within electrical marine and automation services. Navelec's annual net sales were EUR 7 million in 2007. The company employs 45 people.

The total costs of the acquisitions above were EUR 181 million, and EUR 101 million was reported as goodwill. The goodwill of Vik-Sandvik was EUR 95 million.

In September Wärtsilä continued to expand within the field of ship design with the signing of an agreement to acquire Conan Wu & Associates Pte Ltd (CWA), a leading naval architecture and ship design company, headquartered in Singapore. The deal also includes partnership agreements regarding CWA's businesses in Malaysia and China. The price of the deal is EUR 23 millions, to be paid in cash, and an additional amount to be paid based on the performance of the business during the years 2008-2010. In 2007, CWA's net sales were EUR 10.7 million and the profitability was at a very good level. CWA has 66 employees in Singapore. The acquisition price will be paid and the company will be consolidated during the fourth quarter.

In July, Wärtsilä Corporation and the Manara Consortium formed a joint venture Manara Wartsila Power Ltd (MWP), which aims to become the leading developer of decentralized independent power producer (IPP) projects in Islamic countries. MWP is expected to have USD 200 million in equity and the equity commitment of Wärtsilä to the joint venture, through its development and financing arm, Wärtsilä Development & Financial Services (WDFS), will total USD 20 million. MWP will develop and invest in power projects with a capacity of between 50 and 200 MW, and sell electricity to electric utilities, industrial zones and municipalities.

In September, Wärtsilä and Metso signed a contract to form a joint venture combining Metso's Heat & Power business and Wärtsilä's Biopower business. The new joint venture will be one of Europe's leading providers of medium- and small-scale power and heating plants, focusing on renewable fuel solutions. Metso will own 60 percent and Wärtsilä 40 percent of the joint venture. It is estimated that in 2008 the consolidated annual pro forma net sales of the joint venture will be approximately EUR 130 million and the number of employees approximately 200. The closing of the transaction will require the relevant regulatory approvals, which are expected during the coming months.

During the review period Wärtsilä Services continued the expansion of its network by opening and expanding offices and workshops in Namibia, Chile, Brazil, Madagascar, Azerbaijan, China, Turkey and Dubai. Geographical expansion continues to be part of Wärtsilä's strategic focus, and acquisitions to this effect will continue.

### OTHER STRATEGIC ISSUES

In May, Wärtsilä announced its intention to strengthen its international customer service by centralizing its spare parts logistics, and by building a new spare parts distribution centre in the Netherlands. A large and modern central warehouse is planned near the company's current service unit in the Netherlands. The intention is to outsource logistics and warehousing operations.

Wärtsilä and Emerson Process Management announced the expansion of their global offshore alliance in June. Under the expansion, the companies can now deliver integrated energy and automation systems for Floating Production Storage and Offloading vessels and for semi submersible oil and gas drilling rigs. The collaboration between the companies began in 2006 within an alliance covering at the time mainly FPSO vessels.

The importance of Asia as a shipbuilding hub has increased during recent years. In order to be closer to the main shipbuilding markets, the senior management of Wärtsilä Ship Power has relocated to Shanghai.

### MANUFACTURING

During the third quarter, several important capacity extensions were inaugurated. In Khopoli, India Wärtsilä inaugurated the extension of its plant for auxiliary units for power plants. The extension of the gear plant in Rubbestadneset, Norway was inaugurated in September. This extension will strengthen Wärtsilä's position as a leading provider of power solutions to marine customers globally. In Korea, Wärtsilä-Hyundai Engine Company, the manufacturing centre of the joint venture between Wärtsilä and Hyundai Heavy Industries, was inaugurated. The 50/50 joint venture company manufactures Wärtsilä 50DF dual fuel engines for LNG carriers and other applications.

The investment programmes for enhancing productivity in Trieste, Italy and extending propulsion capacity in Drunen, the Netherlands and Zhenjiang, China are proceeding according to plan. These additions are vital for the execution of the record high order book.

### RESEARCH & DEVELOPMENT

Wärtsilä's fuel cell power plant at the Vaasa Housing Fair in Finland was inaugurated during the third quarter. The fuel cell unit, developed by Wärtsilä, is based on planar solid oxide fuel cell (SOFC) technology, and is the first of its kind in the world. The plant is fuelled by methane gas originating from a nearby landfill, a gas that would otherwise be harmful to the environment. The fuel cell power plant produces both electricity and heating for the residential area's needs. In the next stage fuel cells will be tested for marine applications.

Wärtsilä and Mitsubishi Heavy Industries Ltd have signed a joint development agreement to design and develop new small, low-speed marine diesel engines of less than 450 mm cylinder bore. The development programme is proceeding according to plan.

On the 9th of October 2008, the International Maritime Organization (IMO) approved amendments to the MARPOL Annex VI regulations on ship emissions. The amended regulation on NOx emissions will be introduced in two additional tiers; Tier 2 represents a global 20% NOx cut from the present Tier 1 level and will come into force in 2011, and the Tier 3 level in 2016 represents a massive 80% NOx reduction when applied to specific designated NOx Emission Control Areas. The engine concepts for meeting the Tier 2 NOx level are ready for the whole Wärtsilä marine engine portfolio and some engines are already pre-certified. For Tier 3 the "Selective Catalytic Reduction" (SCR catalyst) represents a means by which the level can already be achieved today. Wärtsilä has over 100 SCR equipped engines in operation. Wärtsilä is currently investigating and developing other measures to ensure cost efficient compliance with IMO Tier 3 regulations. The revised Annex VI also set limits on the fuel sulphur content. Wärtsilä engines are designed for operation on any fuel sulphur content.

## PERSONNEL

Wärtsilä's personnel on average during the review period was 17.386 (15.040). At the end of September Wärtsilä had 18,268 (15,811) employees, growth of 16%. The largest personnel increases took place in the Services business where 10,623 (9,288) people were employed at the end of September.

During the review period Wärtsilä launched a Top Graduates professional programme for R&D. During the programme, attendees will drive R&D projects throughout Wärtsilä's international organization. A similar programme for finance graduates has been in action since March 2007 and ended in September 2008.

## CHANGES IN MANAGEMENT

Atte Palomäki (43) M.Sc. (pol.) started as Group Vice President, Corporate Communications and member of the Board of Management on March 1, 2008.

## SHARES AND SHAREHOLDERS

In March Wärtsilä's A and B-series shares were combined. Following the combination all shares now carry one vote and equal rights. The combination of the share series involved a free share issue directed to the holders of Series A-shares so that holders of Series A-shares received one share free of charge for each nine Series A-shares. In the directed share issue 2,619,954 shares were given. Trading with the new and combined shares started on 27th of March 2008.

## SHARES ON HELSINKI EXCHANGES

<b>30 September 2008</b>	<b>Number of shares</b>	<b>Number of votes</b>	<b>Number of shares traded 1-9/2008</b>	
WRT1V	98 620 565	98 620 565	104 852 891	
<b>1. Jan -30 Sept 2008</b>	<b>High</b>	<b>Low</b>	<b>Average 1)</b>	<b>Close</b>
WRT1V	52.40	28.13	41.80	29.46
1) Trade-weighted average price				
	<b>30 Sept. 2008</b>	<b>30 Sept. 2007</b>		
<b>Market capitalization, EUR million</b>	2 905	4 616		
	<b>30 Sept. 2008</b>	<b>30 Sept. 2007</b>		
<b>Foreign shareholders</b>	49.5%	32.8%		

## CHANGES IN OWNERSHIP

During the review period and in relation to the combination of the share series and the directed free share issue, Wärtsilä was informed of the following changes in ownership:



The Fiskars Group's share of Wärtsilä Corporation's votes decreased to less than 1/5 (20%). Following the transaction Fiskars Corporation holds 901,857 or 0.9% of Wärtsilä's share capital and votes, and the Fiskars wholly owned subsidiary Avlis AB's holds 15,944,444 or 16.2% of Wärtsilä's share capital and total votes. In total, Fiskars Group holds 16,846,301 or 17.1% of Wärtsilä Corporation's share capital and votes.

Varma Mutual Pension Insurance's share of Wärtsilä Corporation's shares increased to more than 1/20 (5%) and the share of the votes decreased to less than 1/10 (10%). Following the transaction Varma holds 5,130,087 or 5.2% of Wärtsilä's share capital and total votes.

Svenska Litteratursällskapet i Finland r.f.'s share of Wärtsilä Corporation's votes decreased to less than 1/20 (5%). Following the transaction Svenska Litteratursällskapet holds 1,735,506 or 1.76% of Wärtsilä's share capital and total votes.

The above-mentioned changes came into effect when the combined and new shares were registered in the trade register on 26 March 2008.

### **OPTION SCHEMES**

During the review period Wärtsilä had one option scheme that ended on 31 March 2008. All option rights of this 2002 option scheme were exercised.

### **DECISIONS TAKEN BY THE ANNUAL GENERAL MEETING**

Wärtsilä's Annual General Meeting on 19 March 2008 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 2007. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 2.25 per share and an extra dividend of EUR 2.00 per share for a total dividend of EUR 4.25 per share.

The Annual General Meeting decided that the Board of Directors shall have six members. The following were elected to the Board: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Kari Kauniskangas, Mr Antti Lagerroos, Mr Bertel Langenskiöld and Mr Matti Vuoria.

The firm of authorized public accountants KPMG Oy Ab was appointed to be the company's auditors.

The Annual General Meeting approved the proposal of the Board of Directors to amend the Articles of Association.

The Annual General Meeting approved the proposal of the Board of Directors to direct a free share issue to holders of A shares and to combine the Series A and Series B shares and the changes to the Articles of Association.

### **ORGANIZATION OF THE BOARD OF DIRECTORS**

The Board of Directors of Wärtsilä Corporation elected Antti Lagerroos as its chairman and Matti Vuoria as the deputy chairman. The Board decided to establish an Audit Committee, a Nomination Committee and a Compensation Committee. The Board appointed from among its members the following members to the Committees:

#### **Audit Committee:**

Chairman Antti Lagerroos, Maarit Aarni-Sirviö, Matti Vuoria

#### **Nomination Committee:**

Chairman Antti Lagerroos, Matti Vuoria, Kaj-Gustaf Bergh

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### Compensation Committee:

Chairman Antti Lagerroos, Matti Vuoria, Bertel Langenskiöld

## RISKS AND BUSINESS UNCERTAINTIES

The global financial crisis has rapidly changed the economic environment and the shipping market has become unpredictable. Most especially in light of the downturn of the economy, fears of an oversupply in some vessel types have become evident and looking ahead it is anticipated that freight rates are going to fall. This is already mirrored in container vessel ordering. As the banks are tightening their lending and even freezing the shipping financing completely, some owners are facing difficulties in taking delivery of their orders and trading of orders is already taking place. Shipyards are still trying to keep new building prices intact but it is expected that the balance is gradually moving from a shipyard market to a ship owners' market as orders become scarcer. This is expected to have an impact on new building prices. Due to the stricter lending conditions within the shipbuilding market, the risk of cancellations of vessel orders has increased. The possibility of slippage in shipyard delivery schedules is also a risk that affects Ship Power.

Though the fundamentals in the Power Plant business remain unchanged, the current financial crisis could have an effect on the timing of orders. To date this risk has not materialized, but the possible impact from the financial crisis is still difficult to predict. The offering activity remains at all time high levels. The funding of many future projects in the pipeline appears to be secure, particularly in cash rich economies such as countries with large oil and mineral wealth. Municipally funded projects also seem to have secured funding. Wärtsilä's main markets in the industrial self generation segment, are in the mining and cement industries in the developing world. So far activity around these projects remains strong.

So far, Wärtsilä has seen only a few cancellations in Ship Power and the orders have been reallocated. The effects of the possible cancellations, due to the uncertainty of the shipbuilding markets, are expected to be approximately 10% of Wärtsilä's total order book value.

In Services, the biggest risks continue to be the availability and retention of new personnel. Wärtsilä's measures to ensure the availability of these competencies are ongoing.

During the third quarter, the risk related to the uncertainty in the global market for raw materials eased somewhat and raw material prices, while remaining at a high level, became more balanced. The raw material price risk is rather limited for Wärtsilä, and the main risks related to manufacturing remain related to the capacity constraints of some suppliers as a result of high global demand in key components. The overall availability of key components has however improved.

## MARKET OUTLOOK

The slowdown in the shipbuilding market has hit the bigger tonnage segments i.e. bulkers, container ships and tankers, the hardest. The ordering activity in segments with more specialized tonnage has still been relatively active but demand in these segments is also slowing down. At the moment it is difficult to judge at what levels the ordering of new vessels will end after the most acute crisis is over, but it is clear that demand is going to slow down during the upcoming quarters, thus impacting also Wärtsilä Ship Power's order intake.

The demand in the Power Plant market remains at a high level. The need for a more efficient and CO<sub>2</sub>-friendly power generation mix remains. The main drivers for continued growth in the power plant market remain the quest for increased efficiency, and versatility in power generation due to environmental concerns and fuel availability issues. Flexible baseload, as well as industrial self-generation applications, are forecasted to remain active market segments, especially throughout the Middle East, Africa and the Americas. Continued growth potential is seen in the grid stability services market in North America as well as in other developed countries. Wärtsilä's power plant solutions are ideally suited for today's markets, which require high efficiency and operational flexibility as well as environmental sustainability. For Wärtsilä Power Plants, continued high ordering activity is expected.

Services, which during the review period constituted 43% of total net sales, continues its solid growth.

The long order book and flexible manufacturing model, in combination with the solid growth and global presence in Services, gives Wäertsilä time to react to fluctuations in the market.

### **WÄRTSILÄ'S PROSPECTS FOR 2008 REITERATED**

Based on the strong order book, Wäertsilä's net sales are expected to grow by about 25% in 2008. Wäertsilä's profitability varies considerably from one quarter to another. The full-year operating margin will exceed 11%.

### **WÄRTSILÄ INTERIM REPORT JANUARY - SEPTEMBER 2008**

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 2007. 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 income statement. Although the estimates are based on the management's best knowledge of current events and actions, actual results may differ from the estimates. Amended and new International Financial Reporting Standards (IFRS) and Interpretations as of 1 January 2008:

- IFRIC 11 IFRS 2 – Group Treasury Share Transaction
- IFRIC 12 Service Concession Agreements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new and revised standards and interpretations does not have any material effect on the interim financial report.

This interim report is unaudited.

Wäertsilä Corporation

23 October 2008  
Board of Directors

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**CONDENSED INCOME STATEMENT**

<b>MEUR</b>	<b>1-9/2008</b>	<b>1-9/2007</b>	<b>2007</b>
Net sales	3 082	2 491	3 763
Other income	16	11	21
Expenses	-2 703	-2 214	-3 328
Depreciation and impairment	-68	-56	-78
Operating result	327	233	379
Financial income and expenses	6	-6	-8
Share of profit of associates	1		1
Profit before taxes	333	227	372
Income taxes	-91	-64	-106
Profit for the financial period	242	163	265
Attributable to:			
Equity holders of the parent company	236	161	262
Minority interest	6	1	3
Total	242	163	265
Earnings per share attributable to equity holders of the parent company:			
Earnings per share, EUR	2.42	1.69	2.74
Diluted earnings per share, EUR	2.42	1.68	2.73

**CONDENSED BALANCE SHEET**

MEUR	30 Sep. 2008	30 Sep. 2007	31 Dec. 2007
<b>Non-current assets</b>			
Intangible assets	794	647	646
Property, plant and equipment	428	357	377
Equity in associates	19	11	16
Investments available for sale	120	168	155
Deferred tax receivables	73	72	70
Other receivables	18	43	19
	1 453	1 297	1 283
<b>Current assets</b>			
Equity in associates		1	1
Inventories	1 653	1 113	1 081
Other receivables	1 282	980	1 088
Cash and cash equivalents	166	202	296
	3 101	2 296	2 466
<b>Assets</b>	<b>4 553</b>	<b>3 593</b>	<b>3 749</b>
<b>Shareholders' equity</b>			
Share capital	336	335	336
Other shareholders' equity	753	889	979
Total equity attributable to equity holders of the parent	1 089	1 225	1 315
Minority interest	14	8	10
<b>Total shareholders' equity</b>	<b>1 102</b>	<b>1 232</b>	<b>1 325</b>
<b>Non-current liabilities</b>			
Interest-bearing debt	439	253	245
Deferred tax liabilities	83	80	81
Other liabilities*	611	562	466
	1 133	895	792
<b>Current liabilities</b>			
Interest-bearing debt	100	43	38
Other liabilities	2 218	1 423	1 594
	2 318	1 465	1 632
<b>Total liabilities</b>	<b>3 451</b>	<b>2 360</b>	<b>2 424</b>
<b>Shareholders' equity and liabilities</b>	<b>4 553</b>	<b>3 593</b>	<b>3 749</b>

\*In Q3/2007, the total amount of Advances received was presented in Current liabilities.

**CONDENSED CASH FLOW STATEMENT**

MEUR	1-9/2008	1-9/2007	2007
<b>Cash flow from operating activities:</b>			
Profit before taxes	333	227	372
Depreciation and impairment	68	56	78
Financial income and expenses	-6	6	8
Selling profit and loss of fixed assets and other adjustments	-2	-3	-7
Share of profit of associates	-1		-1
Changes in working capital	-62	126	135
Cash flow from operating activities before financial items and taxes	331	411	585
Net financial items and income taxes	-75	-112	-154
<b>Cash flow from operating activities</b>	<b>255</b>	<b>299</b>	<b>431</b>
<b>Cash flow from investing activities:</b>			
Investments in shares and acquisitions	-131	-59	-65
Net investments in tangible and intangible assets	-103	-110	-166
Proceeds from sale of shares	9		7
Cash flow from other investing activities	7	11	9
<b>Cash flow from investing activities</b>	<b>-219</b>	<b>-159</b>	<b>-214</b>
<b>Cash flow from financing activities:</b>			
Issuance of share capital		3	4
New long-term loans	211	65	65
Amortization and other changes in long-term loans	-55	-30	-33
Changes in short term loans and other financing activities	91	15	36
Dividends paid	-411	-168	-168
<b>Cash flow from financing activities</b>	<b>-164</b>	<b>-115</b>	<b>-95</b>
<b>Change in liquid funds, increase (+) / decrease (-)</b>	<b>-127</b>	<b>25</b>	<b>122</b>
Cash and cash equivalents at beginning of period	296	179	179
Fair value adjustments, investments	1		1
Exchange rate changes	-4	-4	-6
Cash and cash equivalents at end of period	166	202	296

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

MEUR	Total equity attributable to equity holders of the parent					Minority interest	Total equity
	Share capital	Share issue premium	Translation differences	Fair value and other reserves	Retained earnings		
<b>Shareholders' equity on 31 December 2007</b>	336	61	3	127	788	10	1 325
Translation differences			-3			1	-3
Available-for-sale investments							
gain/loss from fair valuation, net of taxes				-32			-32
Cash flow hedges after taxes				-20			-20
<b>Net income recognized directly in equity</b>			-3	-52		1	-54
Profit for the financial period					236	6	242
<b>Total recognized income and expense for the period</b>			-3	-52	236	7	188
Dividends paid					-408	-3	-411
<b>Shareholders' equity on 30 Sep. 2008</b>	336	61	0	75	617	14	1 102
<b>Shareholders' equity on 31 December 2006</b>	334	58	3	128	693	13	1 230
Translation differences			1				2
Other changes						-6	-6
Available-for-sale investments							
gain/loss from fair valuation, net of taxes				-9			-9
Cash flow hedges after taxes				18			18
<b>Net income recognized directly in equity</b>			1	9		-5	5
Profit for the financial period					161	1	163
<b>Total recognized income and expense for the period</b>			1	9	161	-4	167
Options exercised	1	2					3
Dividends paid					-167	-1	-168
<b>Shareholders' equity on 30 Sep. 2007</b>	335	60	4	137	688	8	1 232

**GEOGRAPHICAL SEGMENTS**

MEUR	Europe	Asia	Americas	Other	Group
Net sales 1-9/2008	1 119	1 201	471	291	3 082
Net sales 1-9/2007	1 034	903	313	241	2 491

**INTANGIBLE ASSETS AND PROPERTY, PLANT & EQUIPMENT**

MEUR	1-9/2008	1-9/2007	2007
<b>Intangible assets</b>			
Book value at 1 January	646	602	602
Changes in exchange rates	-3	-6	-6
Acquisitions	156	46	47
Additions	22	22	33
Depreciation and impairment	-28	-22	-30
Disposals and intra-balance sheet transfer	1	5	
<b>Book value at end of period</b>	<b>794</b>	<b>647</b>	<b>646</b>
<b>Property, plant and equipment</b>			
Book value at 1 January	377	315	315
Changes in exchange rates	2	-1	3
Acquisitions	9	1	1
Additions	88	91	133
Companies sold		-17	-17
Depreciation and impairment	-40	-34	-48
Disposals and intra-balance sheet transfer	-7	2	-9
<b>Book value at end of period</b>	<b>428</b>	<b>357</b>	<b>377</b>

**GROSS CAPITAL EXPENDITURE**

MEUR	1-9/2008	1-9/2007	2007
Investments in securities and acquisitions	162	59	65
Intangible assets and property, plant and equipment	110	113	166
<b>Group</b>	<b>272</b>	<b>172</b>	<b>231</b>

During the review period investment in the enlargement of propulsion equipment manufacturing in the Netherlands and China amounted to EUR 4 million, and Wärtsilä had commitments related to the enlargements amounting to EUR 11 million at the end of the review period. In addition, Wärtsilä's part of the investments related to the investment programme in the Korean joint venture Wärtsilä Hyundai Engine Company Ltd. Amounted to EUR 13 million and the part of the commitments related to the investment programme were EUR 1 million at the end of the review period. In addition, Wärtsilä centralizes warehousing and logistics of spare parts by investing in a new distribution centre in the Netherlands. The investments to the new distribution centre amounted to EUR 3 million during the review period and commitments related to the investment were EUR 8 million at the end of the review period.

**IMPACT OF ACQUISITIONS ON THE CONSOLIDATED BALANCE SHEET**

During the review period Wärtsilä has acquired a Norwegian company Maritime Service AS, specializing in ship service, mechanical and reconditioning services, a Danish company International Combustion Engineering A/S, specializing in project engineering and the service and repair of steam boilers and ancillary burner systems, the boiler services business of International Combustion Engineering's (I.C.E) former subsidiary in Dubai and a German company Claus D. Christophel Mess- und Regeltechnik GmbH (CDC) specializing in the design, delivery and service of automation systems for ship owners and yards. In addition, Wärtsilä has acquired a French company Navelec SAS specializing in marine navigation and communication systems, electrical marine services and control and automation services and a global Norwegian ship design group Vik-Sandvik which provides ship design and engineering services. The allocation of the acquisition price is preliminary.

MEUR	1-9/2008	
	Vik-Sandvik	Other
Acquisition costs	166	15
Acquired assets to fair value	-71	-10
Goodwill	95	6



Specification of acquired assets:		
Intangible assets	51	5
Property, plant and equipment	5	3
Investments available for sale	8	
Inventories		4
Receivables	34	5
Cash and cash equivalents	24	2
Liabilities	-4	-8
Deferred tax liabilities	-47	-2
<b>Total</b>	<b>71</b>	<b>10</b>

### INTEREST-BEARING LOAN CAPITAL

MEUR	30 Sep. 2008	30 Sep. 2007	31 Dec. 2007
Long-term liabilities	439	253	245
Current liabilities	100	43	38
Loan receivables	-12	-33	-14
Cash and bank balances	-166	-202	-296
<b>Net</b>	<b>361</b>	<b>61</b>	<b>-27</b>

### FINANCIAL RATIOS

	1-9/2008	1-9/2007	2007
Earnings per share, EUR	2.42	1.69	2.74
Diluted earnings per share, EUR	2.42	1.68	2.73
Equity per share, EUR	11.04	12.78	13.70
Solvency ratio, %	34.7	46.1	45.9
Gearing	0.34	0.08	-0.01

### PERSONNEL

	1-9/2008	1-9/2007	2007
On average	17 386	15 040	15 337
At end of period	18 268	15 811	16 336

### CONTINGENT LIABILITIES

MEUR	30 Sep. 2008	30 Sep. 2007	31 Dec. 2007
Mortgages	13	14	13
Chattel mortgages	7	9	8
<b>Total</b>	<b>21</b>	<b>23</b>	<b>22</b>
Guarantees and contingent liabilities on behalf of Group companies	436	412	479
Nominal amount of rents according to leasing contracts	74	52	69
<b>Total</b>	<b>510</b>	<b>465</b>	<b>548</b>

**NOMINAL VALUES OF DERIVATIVE INSTRUMENTS**

MEUR	Total amount	of which closed
Interest rate swaps	140	
Foreign exchange forward contracts	1 650	406
Currency options, purchased	139	

**CONDENSED INCOME STATEMENT, QUARTERLY**

MEUR	7-9/2008	4-6/2008	1-3/2008	10-12/2007	7-9/2007	4-6/2007	1-3/2007
Net sales	1 140	1 092	850	1 272	933	797	761
Other income	6	5	5	10	3	4	4
Expenses	-997	-953	-754	-1 114	-821	-710	-683
Depreciation and impairment	-26	-22	-21	-22	-19	-18	-18
Operating result	123	122	81	146	96	73	63
Financial income and expenses	5	7	-7	-1	-2	-1	-4
Share of profit of associates		2		1			
Profit before taxes	127	132	74	145	95	72	60
Income taxes	-30	-36	-25	-43	-26	-20	-17
Profit for the financial period	97	96	49	103	68	52	42
Attributable to:							
Equity holders of the parent company	95	94	47	101	68	52	42
Minority interest	3	2	2	2	1	1	
Total	97	96	49	103	68	52	42
Earnings per share attributable to equity holders of the parent company:							
Earnings per share, EUR	0.97	0.96	0.49	1.05	0.71	0.54	0.44
Diluted earnings per share, EUR	0.97	0.96	0.49	1.05	0.70	0.54	0.44

**CALCULATION OF FINANCIAL RATIOS****Earnings per share (EPS)**

profit before taxes - income taxes - minority interests

Adjusted number of shares over the financial year

**Equity per share**

Shareholders' equity

Adjusted number of shares at the end of the period

**Solvency ratio**

Shareholders' equity + minority interests

Balance sheet total - advances received

x 100

**Gearing**

Interest-bearing liabilities - cash and bank balances

Shareholders' equity + minority interests

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