Wärtsilä Corporation
Q3 Interim report

JANUARY-SEPTEMBER 2014

WÄRTSILÄ

Good development in order intake and profitability

This interim report is unaudited. As of the third quarter of 2014, the two-stroke business is reported as discontinued operations. Consequently, comparison figures related to the statement of income have been restated. The comments in this interim text refer only to continuing operations.

Third quarter highlights

- Order intake increased 21% to EUR 1,309 million (1,086)
- Net sales decreased 7% to EUR 1,117 million (1,199)
- Book-to-bill 1.17 (0.91)
- Operating result before non-recurring items EUR 142 million, or 12.7% of net sales (EUR 148 million or 12.3%)
- Earnings per share EUR 0.43 (0.48)
- Cash flow from operating activities EUR 68 million (139)

Highlights of the review period January-September 2014

- Order intake increased 2% to EUR 3,562 million (3,487)
- Net sales increased 1% to EUR 3,230 million (3,203)
- Book-to-bill 1.10 (1.09)
- Operating result before non-recurring items EUR 373 million, or 11.5% of net sales (EUR 346 million or 10.8%)
- Earnings per share EUR 1.16 (1.24)
- Cash flow from operating activities EUR 240 million (261)
- Order book at the end of the period increased 5% to EUR 4,674 million (4,455)

Björn Rosengren, President and CEO

“The third quarter was characterised by the strong development in order intake. In the power generation markets customers are gradually beginning to commit to investments. The improved activity levels especially for smaller orders, combined with the 139 MW order we received from Mexico and the 112 MW order from North Dakota, resulted in a 47% increase in Power Plants’ order intake. In the marine markets the recent activity in LNG and LPG carriers has supported the ordering of gas handling systems. The 24% increase in Ship Power’s order intake was further enhanced by good activity in the cruise markets. I am confident that the positive trend in order development will continue during the upcoming quarter.

Third quarter net sales and profitability developed in line with our expectations. I am especially pleased that Services’ net sales grew by 9%, which shows that our focus on growth is paying off. Profitability reached 12.7% partly thanks to the ongoing efficiency program, which resulted in savings of EUR 10 million in the third quarter. Profitability has developed well thus far in 2014, reaching 11.5% for the period January-September, and consequently we raise our full year profitability guidance to 11.5-12.0%.”

Wärtsilä's prospects for 2014 revised

Wärtsilä estimates its profitability for 2014 (EBIT% before non-recurring items) to be 11.5-12.0%. Previously profitability was expected to be around 11.5%. Wärtsilä reiterates its expectation that net sales will grow by around 5%.

Key figures

MEUR	7-9/2014	Restated 7-9/2013	Change	1-9/2014	Restated 1-9/2013	Change	Restated 2013
Order intake	1 309	1 086	21%	3 562	3 487	2%	4 821
Order book at the end of the period				4 674	4 455	5%	4 311
Net sales	1 117	1 199	-7%	3 230	3 203	1%	4 607
Operating result (EBIT)[1]	142	148	-4%	373	346	8%	557
% of net sales	12.7	12.3		11.5	10.8		12.1
Profit before taxes [2]	129	136		338	353		544
Earnings/share, EUR [2]	0.43	0.48		1.16	1.24		1.98
Cash flow from operating activities	68	139		240	261		578
Net interest-bearing debt at the end of the period				277	534		276
Gross capital expenditure				75	84		134
Gearing				0.14	0.31		0.15

[1] EBIT is shown excluding non-recurring items. Wärtsilä recognised non-recurring items related to restructuring measures amounting to EUR 1 million (8) in the third quarter and EUR 17 million (10) during the review period January-September 2014. Non-recurring items amounted to EUR 20 million in 2013, of which EUR 11 million related to restructuring measures.

[2] Earnings/share and profit before taxes for January-September 2013 and the full year 2013 include the sale of Wärtsilä's shares in Sato Oyj.

Market development

Power Plants

Continued uncertainty in power generation markets

The market situation remained challenging during the third quarter, as macro-economic uncertainty and slow global growth projections continued to impact investments in new power generation capacity. Nevertheless, economic growth in the emerging markets has supported the demand for new power plants. Furthermore, positive signals can be seen in the USA, as a result of economic growth in certain regions and the dollar strengthening against the euro during the last six months. Wärtsilä's power plant quotation activity remained at a high level during the third quarter and was focused on natural gas based power generation.

Power Plants market share

During the first half of 2014, global orders for natural gas and liquid fuel power plants (including all prime mover units of over five MW) totalled 23.4 GW (18.8), an increase of 24.4% compared to the corresponding period last year. Wärtsilä's market share was 4.3% (5.8%). In Wärtsilä's main market, i.e. the market for installations of up to 500 MW, orders totalled 10.6 GW (12.7) and Wärtsilä's market share was 9.4% (8.6%).

Ship Power

Contracting activity focused on specialised vessel segments

During the period January-September 2014, 1,395 contracts for new vessels were registered (1,341), of which 272 were in the third quarter (396). Newbuilding prices are under pressure due to current market volumes. In the traditional merchant markets, contracting activity was slow and freight rates remained weak. The ordering of gas carriers (LNG and LPG carriers), on the other hand, was robust and LPG freight rates in particular were at a high level. Thus far in 2014, a total of 132 gas carrier contracts have been registered, compared to 116 in the previous year. The demand for offshore vessels is lower than in 2013, with third quarter contracting activity at a similar level to that seen in the previous quarter.

China and South Korea remained the largest shipbuilding countries, capturing respectively 43% and 27% of the contracts confirmed in 2014 in terms of compensated gross tonnage, whereas Japan secured 19%. During the period January-September, 180 orders were placed from other than these top three shipbuilding countries.

Ship Power market shares

Wärtsilä's share of the medium-speed main engine market was 51% (52% at the end of the previous quarter). The market share in auxiliary engines was 2% (2% at the end of the previous quarter).

Services

Good development in the service markets

Service market activity developed well during the third quarter. Demand in the marine industry was strong, supported by good development in the cruise segment. From a regional perspective, customer interest in service projects boosted marine service activity in Europe and the Americas. The demand for power plant related services was healthy and increased slightly compared to the corresponding period last year. Brazil especially developed favourably, as did the industrial and mining segments globally.

Order intake

Wärtsilä's order intake for the third quarter increased by 21% to EUR 1,309 million (1,086). In relation to the previous quarter, Wärtsilä's order intake increased by 15% (EUR 1,138 million in the second quarter of 2014). The book-to-bill ratio for the third quarter was 1.17 (0.91).

The order intake for Power Plants in the third quarter totalled EUR 383 million (261), which was 47% more than for the corresponding period last year. Compared to the previous quarter, the order intake increased by 57% (EUR 244 million in the second quarter of 2014) with ordering activity being evenly spread globally. Highlights of the third quarter was the 139 MW turnkey order received from Mexico and the 112 MW order received from North Dakota. Other important orders were received from Senegal, Suriname and elsewhere in the USA.

Despite the slight slowdown in vessel contracting during the third quarter, Ship Power's order intake developed well, increasing by 24% to EUR 463 million (372). Compared to the previous quarter, the order intake increased by 21% (EUR 383 million in the second quarter of 2014). All segments contributed to this improvement, with especially strong activity in gas carriers and cruise vessels. Among noteworthy orders in the gas carrier segment was an order to deliver gas handling systems to six very large ethane carriers being built for the Reliance Group based in India. There was continued interest in environmental solutions during the third quarter. A total of 11 exhaust gas cleaning systems were ordered for 6 vessels, and in the merchant segment Wärtsilä received an order to deliver ballast water management systems to 22 bulk carriers being built for Pioneer Marine based in Singapore. The gas carrier segment represented 41% of the third quarter order intake, while the cruise & ferry segment's share was 26% and the offshore segment accounted for 16%. The special vessels segment and the traditional merchant segment each accounted for 6% of order intake, while the navy segment's share was 3%. Other orders accounted for 2% of the total.

Order intake for the Services business totalled EUR 463 million (454) in the third quarter of 2014, an increase of 2% compared to the corresponding period last year. In relation to the previous quarter, the order intake decreased by 9% (EUR 510 million in the second quarter of 2014). Interest in long-term service agreements for gas fuelled vessels remained solid. During the third quarter, Wärtsilä signed a five-year technical management agreement with Harvey Gulf International Marine LLC covering condition based maintenance and dynamic maintenance planning for six liquefied natural gas fuelled platform supply vessels and two offshore construction vessels.

The total order intake for the review period January-September 2014 was EUR 3,562 million (3,487), which represents an increase of 2% compared to the corresponding period in 2013. The book-to-bill ratio for the review period was 1.10 (1.09). Power Plants' order intake was EUR 792 million (884), which is 10% lower than in 2013. Ship Power's order intake was EUR 1,286 million (1,176), an increase of 9% from the corresponding period last year. Services' order intake for the review period increased by 4%, totalling EUR 1,484 million (1,428).

Order intake by business

MEUR	7-9/2014	Restated 7-9/2013	Change	1-9/2014	Restated 1-9/2013	Change	Restated 2013
Power Plants	383	261	47%	792	884	-10%	1 292
Ship Power[1]	463	372	24%	1 286	1 176	9%	1 644
Services	463	454	2%	1 484	1 428	4%	1 885
Order intake, total	1 309	1 086	21%	3 562	3 487	2%	4 821
Discontinued operations	*15*	*11*	*39%*	*67*	*33*	*101%*	*51*

[1] The comparison figures have been adjusted to reflect the combination of PowerTech and Ship Power, which became effective on 1 January 2014.

Order intake Power Plants

MW	7-9/2014	7-9/2013	Change	1-9/2014	1-9/2013	Change	2013
Oil	321	150	114%	791	355	123%	444
Gas	408	523	-22%	925	1 431	-35%	1 957
Order intake, total	730	673	8%	1 716	1 786	-4%	2 401

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea and the Wärtsilä Qiyao Diesel Company Ltd joint venture company in China totalled EUR 126 million (143) during the review period January-September 2014. Wärtsilä's share of ownership in these companies is 50%, and the results are reported as a share of the result of associates and joint ventures.

Order book

The total order book at the end of the review period stood at EUR 4,674 million (4,455), an increase of 5%. The Power Plants order book amounted to EUR 1,426 million (1,459), a decrease of 2%. The Ship Power order book stood at EUR 2,369 million (2,155), which is 10% higher than at the same date last year. The Services order book increased by 5% to EUR 879 million (840).

Order book by business

MEUR	30.9.2014	Restated 30.9.2013	Change	Restated 31.12.2013
Power Plants	1 426	1 459	-2%	1 367
Ship Power[1]	2 369	2 155	10%	2 193
Services	879	840	5%	751
Order book, total	4 674	4 455	5%	4 311
Discontinued operations	*129*	*114*	*13%*	*114*

[1] The comparison figures have been adjusted to reflect the combination of PowerTech and Ship Power, which became effective on 1 January 2014.

Net sales

Wärtsilä's net sales for the third quarter decreased by 7% to EUR 1,117 million (1,199) compared to the corresponding period last year. Net sales for Power Plants totalled EUR 282 million (421), a decrease of 33%. Ship Power's net sales for the third quarter totalled EUR 363 million (343), which is 6% higher than for the corresponding quarter last year. Net sales from the Services business increased by 9% to EUR 472 million (435). The Services sales mix saw an increase in revenues from spare parts and projects.

Net sales for January-September 2014 remained stable at EUR 3,230 million (3,203). Power Plants' net sales totalled EUR 705 million (991), a decrease of 29%. Ship Power's net sales increased by 30% and totalled EUR 1,150 million (884). Net sales from the Services business totalled EUR 1,375 million (1,334), an increase of 3%. Of the total net sales, Power Plants accounted for 22%, Ship Power for 36% and Services for 43%.

Of Wärtsilä's net sales for January-September 2014, approximately 67% was EUR denominated, 17% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	7-9/2014	Restated 7-9/2013	Change	1-9/2014	Restated 1-9/2013	Change	Restated 2013
Power Plants	282	421	-33%	705	991	-29%	1 459
Ship Power[1]	363	343	6%	1 150	884	30%	1 309
Services	472	435	9%	1 375	1 334	3%	1 842
Other[2]		1			-6		-2
Net sales, total	1 117	1 199	-7%	3 230	3 203	1%	4 607
Discontinued operations	*16*	*10*	*60%*	*47*	*40*	*18%*	*48*

[1] The comparison figures have been adjusted to reflect the combination of PowerTech and Ship Power, which became effective on 1 January 2014.

[2] Other comprises hedges, which have not been allocated to the businesses.

Operating result and profitability

The third quarter operating result (EBIT) before non-recurring items was EUR 142 million (148), or 12.7% of net sales (12.3). Including non-recurring items, the operating result was EUR 141 million (140) or 12.6% of net sales (11.7). Non-recurring items related to restructuring measures amounted to EUR 1 million (8) during the third quarter.

For the review period January-September 2014, the operating result (EBIT) before non-recurring items was EUR 373 million (346), which is 11.5% of net sales (10.8). Including non-recurring items, the operating result was EUR 356 million (336) or 11.0% of net sales (10.5). Non-recurring items related to restructuring measures amounted to EUR 17 million (10) during the review period.

Financial items amounted to EUR -18 million (-8). The weakening of the euro resulted in unrealised exchange rate losses. Net interest totalled EUR -6 million (-11). Profit before taxes amounted to EUR 338 million (353). Profit before taxes for 2013 includes the sale of Wärtsilä's Sato Oyj shares. Taxes in the reporting period amounted to EUR 78 million (84), implying an effective tax rate of 23%. Earnings per share were EUR 1.16 (1.24) and equity per share was EUR 9.69 (8.79). Return on investment (ROI) was 21.8% (21.3). Return on equity (ROE) was 22.3% (22.8). ROI and ROE are calculated on a 12 months rolling basis, whereas previously they were calculated on an annualised basis.

Balance sheet, financing and cash flow

Wärtsilä's third quarter cash flow from operating activities amounted to EUR 68 million (139). For January-September 2014 the operating cash flow totalled EUR 240 million (261). Working capital totalled EUR 379 million (488) at the end of the review period. Advances received at the end of the period totalled EUR 747 million (799). Cash and cash equivalents at the end of the period amounted to EUR 400 million (254) and unutilised Committed Revolving Credit Facilities totalled EUR 599 million (599).

Wärtsilä had interest-bearing debt totalling EUR 679 million (800) at the end of September 2014. The total amount of short-term debt maturing within the next 12 months was EUR 131 million. Long-term loans amounted to EUR 548 million. Net interest-bearing debt totalled EUR 277 million (534) and gearing was 0.14 (0.31).

Liquidity preparedness

MEUR	30.9.2014	31.12.2013
Cash and cash equivalents	400	388
Unutilised committed credit facilities	599	699
Liquidity preparedness	999	1 087
% of net sales (rolling 12 months)	21	23
Commercial Papers	-	14
Liquidity preparedness excluding Commercial Papers	999	1 073
% of net sales (rolling 12 months)	21	23

On 30 September 2014, the average maturity of the total loan portfolio was 44 months and the average maturity of the long-term debt was 45 months.

Capital expenditure

Gross capital expenditure for continuing operations totalled EUR 69 million (77) during the review period, comprising EUR 2 million (5) in acquisitions and investments in securities, and EUR 67 million (71) in intangible assets and property, plant and equipment. Gross capital expenditure related to intangible assets and property, plant and equipment from discontinued operations was EUR 6 million (8). Depreciation, amortisation and impairment for the review period amounted to EUR 85 million (92).

Maintenance capital expenditure for 2014 is expected to be below depreciation.

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

Wärtsilä Yuchai Engine Co., Ltd, the 50/50 joint venture between Wärtsilä and Yuchai Marine Power Co., Ltd, inaugurated its new factory in Zhuhai, China in September. The new factory site covers a total area of 266,700 square meters. The factory will be used for the assembly and testing of Wärtsilä 20, Wärtsilä 26 and Wärtsilä 32 medium-speed engines. The plant is expected to be in full production before the end of 2016. The inauguration ceremony for Wärtsilä's new fully-owned manufacturing facility in Brazil is expected to take place in the fourth quarter of 2014.

In July, Wärtsilä and China State Shipbuilding Corporation (CSSC) signed an agreement to establish a joint venture for the manufacturing of medium and large bore medium-speed diesel and dual-fuel engines. Wärtsilä's share of the joint venture will be 49%. The size of Wärtsilä's equity investment is approximately EUR 12 million. The CSSC Wärtsilä Engine (Shanghai) Co. Ltd factory will be located in Lingang, Shanghai and is expected to have its first engine ready for delivery by the end of 2015. The joint venture will target the growing offshore and LNG markets, as well as the auxiliary engine market for very large container vessels.

The divestment of Wärtsilä's 50% share in the joint venture Wärtsilä TMH Diesel Engine Company LLC to Transmashholding, the other joint venture party, was completed in July. The joint venture was established for the manufacture of modern and multipurpose diesel engines to be used in shunter locomotives, as well as in various marine and power applications. The value of the agreement is approximately EUR 12 million and the transaction does not have a significant impact on Wärtsilä's operating result.

Discontinued operations

Due to the reorganisation of its two-stroke operations, Wärtsilä has commenced reporting the two-stroke business as discontinued operations.

In July, Wärtsilä and China State Shipbuilding Corporation (CSSC) signed an agreement to establish a joint venture, which will take over Wärtsilä's two-stroke engine business. Following the closure of the transaction CSSC will own 70% of the business and Wärtsilä's ownership will be 30%. Responsibility for servicing Wärtsilä's two-stroke engines will remain with Wärtsilä Services. The value of the transaction is approximately EUR 46 million. The closing of the transaction is subject to the required regulatory approvals, which are expected in the first quarter of 2015. In August, Wärtsilä divested its shares in the joint venture Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co. Ltd. The joint venture company was established for manufacturing large, low-speed marine diesel engines. Wärtsilä's shares in the joint venture were transferred to the majority shareholder, Qingdao Qiyao Linshan Power Development Co Ltd, a company fully owned by China Shipbuilding Industry Corporation. The transaction price is not significant.

The financial impact of the reorganisation of the two-stroke business is dependent on the timing of the closing of the transactions and certain related mechanisms. The effect on Wärtsilä's continuing operations is positive. Further financial information can be found in the discontinued operations table included in the condensed interim financial statements.

Research and development, product launches

In September, Wärtsilä introduced its latest development of large controllable pitch propellers. The benefits of the new propeller system include increased load capability, high propulsive efficiency and the reduced fuel consumption that this efficiency brings to the vessel, excellent reliability, and a reduced environmental footprint. The system addresses the demands of medium and large size vessel owners, and is particularly applicable for special vessels equipped with dynamic positioning capabilities, as well as for vessels having ice notation. Wärtsilä has also expanded its propulsion condition monitoring services offering, which enables the extension of overhaul intervals and promotes optimal equipment condition. Dynamic lifetime prognosis, a new functionality in the upgraded offering, fulfils the need for certainty of operations and long-term maintenance planning.

The new Wärtsilä LNGPac, an upgraded version of the company's successful LNG fuel handling system, was launched in August and in September was granted an AIP (Approval in Principle) Certificate from the classification society DNV GL.

Wärtsilä launched a new Low Loss Hybrid (LLH) innovation in August. The Wärtsilä LLH utilises different power sources in combination with energy storage devices to operate the prime movers closest to their optimum performance. In addition to annual fuel savings of up to 15 per cent, depending on the type and configuration of the engine and mission profile, the LLH ensures a substantial reduction in exhaust gas emissions.

The HERCULES R&D programme to develop large engine technologies, which was initiated in 2004 as a joint vision by the two major European engine manufacturing groups, Wärtsilä and MAN Diesel & Turbo, is to continue with a new HERCULES-2 project, pending approval under the Horizon 2020 EU Framework Programme for Research and Innovation. The HERCULES-2 project is aimed at developing a fuel-flexible marine engine that is optimally adaptive to its operating environment.

Personnel

Wärtsilä had 17,817 (18,421) employees at the end of September 2014. On average, the number of personnel for January-September 2014 totalled 17,960 (18,322). Power Plants employed 990 (1,041) people, Ship Power employed 5,651 (5,716 including PowerTech employees) and Services 10,742 (10,901). Personnel in discontinued operations was 326 at the end of the reporting period.

Of Wärtsilä's total number of employees, 19% (20) were located in Finland and 35% (36) elsewhere in Europe. Personnel employed in Asia represented 31% (31) of the total, personnel in the Americas 10% (10) and in other countries 4% (3).

Restructuring programmes

The global efficiency programme announced in January is proceeding according to plan. The restructuring measures were initiated in order to realign Wärtsilä's organisation to secure its future profitability and competitiveness. The programme targets annual savings of EUR 60 million and is expected to lead to a reduction of approximately 1,000 employees globally. The restructuring measures will be completed by the end of 2014 and the full impact of the savings will be seen in 2015. At the end of the review period January-September 2014, approximately EUR 20 million of savings had materialised. The non-recurring costs related to the restructuring measures are estimated to be EUR 50 million, of which EUR 11 million was recognised in 2013 and EUR 17 million during the review period January-September 2014. The remaining costs will be recognised during the fourth quarter of 2014.

Sustainable development

Wärtsilä is well positioned to help reduce emissions and the use of natural resources, thanks to its various technologies and specialised services. Wärtsilä's R&D efforts continue to focus on the development of advanced environmental technologies and solutions. The company is committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment and anti-corruption. Wärtsilä's share is included in several sustainability indices.

Changes in management

The following changes were made within Wärtsilä Corporation's Board of Management, with effect from 1 September 2014:

Mr Rakesh Sarin (59), B.Sc. (Eng.), was appointed President of Power Plants, Executive Vice President and a member of the Board of Management of Wärtsilä Corporation. Mr Vesa Riihimäki (48), M.Sc. (Eng.), who previously headed the Power Plants business, was appointed Vice President, Wärtsilä Quality.

Shares and shareholders

During January-September 2014, the volume of trades of Wärtsilä shares on the Nasdaq OMX exchange was 103,909,367 shares, equivalent to a turnover of EUR 4,100 million. Wärtsilä's shares are also traded on alternative exchanges, including Chi-X, Turquoise and BATS. The trading volume on alternative exchanges was 42,151,669 shares.

Shares on the Nasdaq OMX Helsinki Stock Exchange

30.9.2014	Number of shares and votes	Number of shares traded 1-9/2014
WRT1V	197 241 130	103 909 367

1.1. - 30.9.2014	High	Low	Average [1]	Close
Share price	43.82	33.35	39.07	35.43

[1] Trade-weighted average price

	30.9.2014	30.9.2013
Market capitalisation, EUR million	6 988	6 584
Foreign shareholders, %	54.0	52.0

Flagging notifications

On 19 September 2014, Wärtsilä was informed that Fiskars, Investor and their joint venture Avlis AB had signed an agreement, which would result in the following changes in ownership:

Avlis Invest AB acquires 15,759,566 shares or 7.99% of Wärtsilä's share capital and total votes from Avlis AB. All Avlis Invest AB's shares are distributed to Invaw Holding AB, a wholly-owned subsidiary of Investor AB. Fiskars acquires 9,881,781 shares or 5.01% of Wärtsilä's share capital and total votes from Avlis AB. The shareholder's agreement between Fiskars and Investor is terminated and their joint venture, which held 42,948,325 shares, representing 21.77% of Wärtsilä's share capital and total votes, dissolved. Following the transaction Investor AB's indirect ownership in Wärtsilä is 33,066,544 shares or 16.76% of Wärtsilä's share capital and total votes, while Fiskars Group's direct ownership is 9,881,781 shares or 5.01% of Wärtsilä's share capital and total votes.

On 9 October 2014, Wärtsilä was informed that the agreement had been completed. Consequently, the above changes in holdings have taken place and the shareholder's agreement has been terminated.

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 6 March 2014 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 2013. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.05 per share. The dividend was paid on 18 March 2014.

The Annual General Meeting decided that the Board of Directors has nine members. The following were elected to the Board: M.Sc. (Techn), MBA Maarit Aarni-Sirviö, Managing Director Kaj-Gustaf Bergh, M.Sc. (Eng) Sune Carlsson, M.Sc. (Econ), MBA Alexander Ehrnrooth, M.Sc. (Econ) Paul Ehrnrooth, B.Sc. (Econ) Mikael Lilius, Managing Director Risto Murto, Executive Vice President Gunilla Nordström and Executive Vice President Markus Rauramo.

The firm of public auditors KPMG Oy Ab was appointed as the company's auditor for the year 2014.

Authorisation to repurchase and distribute the Company's own shares

The Board of Directors was authorised to resolve to repurchase a maximum of 19,000,000 of the Company's own shares. The authorisation to repurchase the Company's own shares shall be valid until the close of the next Annual General Meeting, however no longer than for 18 months from the authorisation.

The Board of Directors was authorised to resolve to distribute a maximum of 19,000,000 of the Company's own shares. The authorisation for the Board of Directors to distribute the Company's own shares shall be valid for three years from the authorisation of the shareholders' meeting and it cancels the authorisation given by the General Meeting on 7 March 2013. The Board of Directors is authorised to resolve to whom and in which order the Company's own shares will be distributed. The Board of Directors is authorised to decide on the distribution of the Company's own shares other than in proportion to the existing pre-emptive right of the shareholders to purchase the Company's own shares.

Organisation of the Board of Directors

The Board of Directors of Wärtsilä Corporation elected Mikael Lilius as its chairman and Kaj-Gustaf Bergh as the deputy chairman. The Board decided to establish an Audit Committee, a Nomination Committee and a Remuneration Committee. The Board appointed from among its members the following members to the Committees:

Audit Committee:
Chairman Markus Rauramo, Maarit Aarni-Sirviö, Alexander Ehrnrooth

Nomination Committee:
Chairman Mikael Lilius, Kaj-Gustaf Bergh, Risto Murto, Sune Carlsson

Remuneration Committee:
Chairman Mikael Lilius, Paul Ehrnrooth, Risto Murto

Sune Carlsson was appointed to the Nomination Committee in the Board meeting held on 22 October 2014.

Risks and business uncertainties

In the Power Plants business uncertainty in the financial markets and significant currency fluctuations may impact financing availability and the timing of bigger projects. Geopolitical tension may slow down customer decision-making in specific regions. In the industrial segment the lack of demand for commodities, e.g. minerals, can also affect investment decisions.

The business environment for the shipping and shipbuilding industry remains challenging. The weak short term global economic outlook, overcapacity and low cargo tonnage demand limit freight rate development within the traditional shipping markets. Lower oil prices and increasing exploration and production costs, combined with the focus of international oil companies' on cash flow and slower growth in oil demand, may further impact offshore investments.

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

The 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. It is the Group's policy to provide for amounts related to the claims, as well as for the litigation and arbitration matters, when an unfavourable outcome is probable and the amount of the loss can be reasonably estimated.

The 2013 annual report contains a more specific description of Wärtsilä's risks and risk management.

Market outlook

Power generation markets closely follow global macro-economic development. Based on the difficult market situation seen during the three first quarters of the year and the revised GDP forecasts for 2014, the overall market for liquid and gas fuelled power generation is expected to continue to be challenging. Ordering remains active in emerging markets, which continue to invest in new power generation capacity. Furthermore, the current market situation is creating pent-up demand in certain emerging countries where investment decisions have been delayed. In the OECD countries demand is mainly driven by CO_2 neutral generation and the ramp down of older, largely coal-based generation.

Overcapacity continues to affect the demand for traditional merchant vessels. Vessels are being scrapped at a younger age, which along with a more balanced fleet growth supports a gradual recovery in the freight market. In the offshore segment, the contracting of drilling units and certain support vessels is expected to continue to be at a lower level. The outlook for gas carriers remains positive, although the recent strong ordering volumes may affect activity in the short term. The importance of fuel efficiency and environmental regulations are clearly visible. The regulatory environment is also driving interest in gas as a marine fuel in the wider marine markets, a trend further strengthened in the US by favourable pricing.

The overall service market outlook remains stable, with positive developments in selected regions. An increase in the installed base offsets the slower service demand for older installations and the continued emphasis of merchant marine customers on reducing operating expenses. The outlook for services to offshore and gas fuelled vessels remains favourable. Demand for services in the power plant segment continues to be good. The interest in service agreements is strong in both of Wärtsilä's end markets. From a regional perspective, the outlook for the Middle East and Asia is positive, and is supported by interest in power plant related services. The outlook is also good in the Americas and in Africa.

Wärtsilä's prospects for 2014 revised

Wärtsilä estimates its profitability for 2014 (EBIT% before non-recurring items) to be 11.5-12.0%. Previously profitability was expected to be around 11.5%. Wärtsilä reiterates its expectation that net sales will grow by around 5%.

Wärtsilä Interim Report January-September 2014

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 2013, except for the IFRS amendments stated below. All figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

Use of estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent liabilities and the recognition of income and expenses in the statement of income. Although the estimates are based on the management's best knowledge of current events and actions, actual results may differ from the estimates.

IFRS amendments

Of the amended International Financial Reporting Standards (IFRS) and interpretations mandatory as of 1 January 2014 the following are applicable on the Group reporting:

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and *IFRS 12 Disclosure of Interests in Other Entities*, as well as the related amendments to IAS 27 and IAS 28. The standards have no significant impact on the Group's consolidated financial statements. IFRS 12 will expand the information disclosed in the financial statements regarding interests in other entities.

Amendments to *IAS 32 Financial Instruments: Presentation*: The amendments provide clarifications on the application of requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amended standard is to be applied retrospectively. The amendments have no significant impact on the Group's consolidated financial statements.

The standards have been approved for application in the EU.

This interim report is unaudited.

Comparison figures related to the statement of income have been restated due to the two-stroke business being classified as discontinued operations.

Condensed statement of income

MEUR	1–9/2014	Restated 1–9/2013	Restated 2013
Continuing operations			
Net sales	3 230	3 203	4 607
Other operating income	34	43	65
Expenses	-2 846	-2 838	-4 042
Depreciation, amortisation and impairment	-85	-92	-120
Share of result of associates and joint ventures	22	19	28
Operating result	356	336	537
Financial income and expenses	-18	-8	-19
Net income from available-for-sale financial assets		25	25
Profit before taxes	338	353	544
Income taxes	-78	-84	-119
Profit for the reporting period from the continuing operations	259	269	425
Loss for the reporting period from the discontinued operations	-29	-23	-31
Net profit for the reporting period	231	246	393
Attributable to:			
Equity holders of the parent company	228	244	391
Non-controlling interests	2	2	3
	231	246	393
Earnings per share attributable to equity holders of the parent company (basic and diluted):			
Earnings per share, continuing operations, EUR	1.31	1.36	2.15
Earnings per share, discontinued operations, EUR	-0.15	-0.11	-0.16
Earnings per share, EUR	1.16	1.24	1.98

Statement of other comprehensive income

MEUR	1–9/2014	1–9/2013	2013
Net profit for the reporting period	231	246	393
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income:			
Actuarial gains (losses) on defined benefit plan	-4	6	-9
Tax on items that will not be reclassified to the statement of income		-3	-1
Total items that will not be reclassified to the statement of income	-4	3	-10
Items that may be reclassified subsequently to the statement of income:			
Exchange rate differences on translating foreign operations	69	-51	-72
Available-for-sale financial assets			
measured at fair value		1	1
transferred to the statement of income		-25	-25
Cash flow hedges	-20	-20	-24
Tax on items that may be reclassified to the statement of income	4	12	14
Total items that may be reclassified to the statement of income	53	-83	-107
Other comprehensive income for the reporting period, net of taxes	49	-80	-117
Total comprehensive income for the reporting period	280	166	276
Total comprehensive income attributable to:			
Equity holders of the parent company	274	164	275
Non-controlling interests	5	2	2
	280	166	276

Figures in statement of other comprehensive income include both continuing and discontinued operations.

Condensed statement of financial position

MEUR	30.9.2014	30.9.2013	31.12.2013
Non-current assets			
Intangible assets	1 200	1 235	1 235
Property, plant and equipment	439	440	449
Investments in associates and joint ventures	87	99	103
Available-for-sale financial assets	16	17	15
Deferred tax assets	139	120	128
Other receivables	5	18	5
	1 887	1 929	1 935
Current assets			
Inventories	1 387	1 451	1 367
Other receivables	1 315	1 396	1 518
Cash and cash equivalents	400	254	388
	3 102	3 101	3 274
Non-current assets held for sale	101		
Total assets	5 090	5 030	5 209
Equity			
Share capital	336	336	336
Other equity	1 575	1 399	1 508
Total equity attributable to equity holders of the parent company	1 911	1 735	1 844
Non-controlling interests	42	40	40
Total equity	1 953	1 775	1 884
Non-current liabilities			
Interest-bearing debt	548	581	571
Deferred tax liabilities	81	90	84
Other liabilities	221	231	237
	850	903	892
Current liabilities			
Interest-bearing debt	131	219	94
Other liabilities	2 105	2 134	2 340
	2 236	2 352	2 434
Total liabilities	3 086	3 255	3 325
Liabilities directly attributable to non-current assets held for sale	51		
Total equity and liabilities	5 090	5 030	5 209

Figures in condensed statement of financial position include both continuing and discontinued operations.

Condensed statement of cash flows

MEUR	1–9/2014	1–9/2013	2013
Cash flow from operating activities:			
Net profit for the reporting period	231	246	393
Depreciation, amortisation and impairment	88	94	123
Financial income and expenses	18	8	19
Selling profit and loss of fixed assets and other changes	3	-28	-29
Share of result of associates and joint ventures	-20	-15	-22
Income taxes	73	80	113
Changes in working capital	-51	-55	60
Cash flow from operating activities before financial items and taxes	342	331	658
Financial items and paid taxes	-102	-69	-81
Cash flow from operating activities	240	261	578
Cash flow from investing activities:			
Investments in shares and acquisitions	-2	-5	-5
Net investments in property, plant and equipment and intangible assets	-60	-75	-122
Proceeds from sale of available-for-sale financial assets and shares in associated companies	14	32	34
Cash flow from other investing activities	1	4	14
Cash flow from investing activities	-47	-44	-79
Cash flow from financing activities:			
Contribution by non-controlling interests		16	16
Proceeds from non-current borrowings	100	100	153
Repayments and other changes in non-current loans	-57	-68	-157
Changes in current loans and other changes	-25	-26	-134
Dividends paid	-211	-201	-202
Cash flow from financing activities	-192	-179	-324
Change in cash and cash equivalents, increase (+) / decrease (-)	1	39	176
Cash and cash equivalents at the beginning of the reporting period	388	225	225
Exchange rate changes	11	-10	-13
Cash and cash equivalents at the end of the reporting period	400	254	388

Figures in condensed statement of cash flows include both continuing and discontinued operations.

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	Actuarial gains and losses	Retained earnings		
Equity on 1 January 2014	336	61	-85	-13	-43	1 587	40	1 884
Dividends paid						-207	-3	-210
Total comprehensive income for the reporting period			66	-16	-1	226	5	280
Equity on 30 September 2014	336	61	-19	-29	-44	1 606	42	1 953
Equity on 1 January 2013	336	61	-12	21	-34	1 393	26	1 791
Dividends paid						-197	-3	-200
Contribution by non-controlling interests							16	16
Total comprehensive income for the reporting period			-50	-32	4	244	2	168
Equity on 30 September 2013	336	61	-62	-11	-30	1 440	40	1 775

Figures in consolidated statement of changes in equity include both continuing and discontinued operations.

Discontinued operations

In July, Wärtsilä and China State Shipbuilding Corporation (CSSC) signed an agreement to establish a joint venture, which will take over Wärtsilä's two-stroke engine business. CSSC will own 70% of the business and Wärtsilä's ownership will be 30%. The closing of the transaction is subject to the required regulatory approvals, which are expected in the first quarter of 2015. The financial impact of the reorganisation is dependent on the timing of the closing of the transactions and certain related mechanisms. The financial effect on Wärtsilä's continuing operations is positive.

As of the third quarter of 2014, the two-stroke business is classified as discontinued operations, including the transfer of non-current assets held for sale and liabilities directly attributable to them on separate rows in the condensed statement of financial position. The comparison figures in the condensed statement of income and the items related to it have been restated to show the discontinued operations separately from continuing operations.

As a result of the two-stroke joint venture with CSSC, Wärtsilä divested its shares in the Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co. Ltd in August. The selling loss of the shares was EUR 10 million and it is included in the expenses from discontinued operations.

Loss for the reporting period from the discontinued operations

MEUR	1–9/2014	1–9/2013	2013
Discontinued operations			
Net sales	47	40	48
Losses on sale of shares	-10		
Expenses	-71	-67	-85
Operating result	-34	-27	-37
Income taxes	5	4	6
Loss for the reporting period	-29	-23	-31
Earnings per share, discontinued operations, EUR	-0.15	-0.11	-0.16

Discontinued operations, items on statement of financial position

MEUR	30.9.2014
Intangible assets and property, plant and equipment	69
Inventories	5
Other receivables	27
Pension obligations	-18
Other liabilities	-33
Net assets	50

Net sales by geographical areas

MEUR	1–9/2014	Restated 1–9/2013	Restated 2013
Europe	1 031	922	1 328
Asia	1 338	1 235	1 713
The Americas	537	744	1 068
Other	324	303	498
Total	3 230	3 203	4 607

Figures in this table include continuing operations.

Intangible assets and property, plant & equipment

MEUR	1–9/2014	Restated 1–9/2013	Restated 2013
Intangible assets			
Carrying amount on 1 January	1 235	1 259	1 259
Changes in exchange rates	38	-30	-37
Additions	27	36	53
Amortisation and impairment	-39	-43	-56
Disposals and reclassifications		13	17
Reclassifications to non-current assets held for sale	-60	-1	-2
Carrying amount at the end of the reporting period	1 200	1 235	1 235
Property, plant and equipment			
Carrying amount on 1 January	449	470	470
Changes in exchange rates	9	-8	-12
Additions	46	43	76
Depreciation and impairment	-46	-48	-64
Disposals and reclassifications	-9	-15	-20
Reclassifications to non-current assets held for sale	-9	-2	-2
Carrying amount at the end of the reporting period	439	440	449

Figures in this table include both continuing and discontinued operations.

Gross capital expenditure

MEUR	1–9/2014	1–9/2013	2013
Investments in securities and acquisitions	2	5	5
Intangible assets and property, plant and equipment	73	79	129
Total	75	84	134

Gross capital expenditure related to intangible assets and property, plant and equipment from discontinued operations for the reporting period was EUR 6 million (8). For financial period 2013, gross capital expenditure related to intangible assets and property, plant and equipment from discontinued operations was EUR 13 million.

Figures in this table include both continuing and discontinued operations.

Net interest-bearing debt

MEUR	1–9/2014	1–9/2013	2013
Non-current liabilities	548	581	571
Current liabilities	131	219	94
Loan receivables	-1	-11	-1
Cash and cash equivalents	-400	-254	-388
Total	277	534	276

Figures in this table include both continuing and discontinued operations.

Financial ratios

	1–9/2014	Restated 1–9/2013	Restated 2013
Earnings per share (basic and diluted), EUR	1.16	1.24	1.98
Equity per share, EUR	9.69	8.79	9.35
Solvency ratio, %	45.0	42.0	43.9
Gearing	0.14	0.31	0.15
Return on investment (ROI), %	20.3	20.3	21.2
Return on investment (ROI), continuing operations, %	21.8	21.3	22.6
Return on equity (ROE), %	20.3	21.5	21.4
Return on equity (ROE), continuing operations, %	22.3	22.8	23.1

Figures in this table include both continuing and discontinued operations.

Personnel

	1–9/2014	Restated 1–9/2013	Restated 2013
On average	17 960	18 322	18 339
At the end of the reporting period	17 817	18 421	18 315

The amount of personnel in discontinued operations at the end of the reporting period was 326.

Figures in this table include continuing operations.

Contingent liabilities

MEUR	1–9/2014	1–9/2013	2013
Mortgages	10	28	26
Chattel mortgages and other pledges	25	24	25
Total	35	51	51
Guarantees and contingent liabilities			
on behalf of Group companies	718	665	665
on behalf of associated companies		8	7
Nominal amount of rents according to leasing contracts			
payable within one year	23	24	27
payable between one and five years	57	64	78
payable later	24	28	26
Total	822	788	803

Figures in this table include both continuing and discontinued operations.

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	125	
Inflation hedges	3	
Foreign exchange forward contracts	2 049	892
Currency options, purchased	7	
Currency options, written	15	
Total	2 199	892

Total amount of foreign exchange forward contracts includes EUR 27 million from discontinued operations.

Figures in this table include both continuing and discontinued operations.

Fair values

Fair value measurements at the end of the reporting period:

MEUR	Carrying amounts of the statement of financial position items	Fair value
Financial assets		
Available-for-sale financial assets (level 3)	16	16
Interest-bearing investments, non-current (level 2)	1	1
Other receivables, non-current (level 2)	4	4
Derivatives (level 2)	8	8
Financial liabilities		
Interest-bearing debt, non-current (level 2)	548	562
Derivatives (level 2)	43	43

Derivatives in financial assets and financial liabilities include EUR 1 million from discontinued operations, both in the carrying amounts of the statement of financial position items and fair value.

Figures in this table include both continuing and discontinued operations.

Condensed statement of income, quarterly

MEUR	7–9/2014	Restated 4–6/2014	Restated 1–3/2014	Restated 10–12/2013	Restated 7–9/2013	Restated 4–6/2013
Continuing operations						
Net sales	1 117	1 116	997	1 403	1 199	1 137
Other operating income	10	12	12	22	18	19
Expenses	-964	-983	-898	-1 204	-1 054	-1 014
Depreciation, amortisation and impairment	-29	-27	-29	-28	-29	-31
Share of result of associates and joint ventures	7	5	10	8	6	7
Operating result	141	123	92	202	140	119
Financial income and expenses	-12	-4	-3	-11	-4	-5
Profit before taxes	129	119	89	191	136	113
Income taxes	-31	-28	-20	-35	-33	-27
Profit for the reporting period from the continuing operations	98	91	70	156	103	86
Loss for the reporting period from the discontinued operations	-13	-8	-7	-9	-8	-7
Net profit for the reporting period	85	83	63	147	95	79
Attributable to:						
Equity holders of the parent company	84	83	62	147	94	78
Non-controlling interests	1		1		1	1
	85	83	63	147	95	79
Earnings per share attributable to equity holders of the parent company (basic and diluted):						
Earnings per share, continuing operations, EUR	0.50	0.46	0.35	0.79	0.52	0.44
Earnings per share, discontinued operations, EUR	-0.07	-0.04	-0.04	-0.04	-0.04	-0.04
Earnings per share, EUR	0.43	0.42	0.31	0.74	0.48	0.39

Calculation of financial ratios

Earnings per share (EPS)

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

Equity per share

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

Solvency ratio

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

Gearing

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

Return on investment (ROI)

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

Return on equity (ROE)

$$\frac{\text{Net profit for the reporting period}}{\text{Equity, average over the reporting period}} \text{ x 100}$$

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)

22 October 2014
Wärtsilä Corporation
Board of Directors