Wärtsilä Corporation

Interim Report

January – September 2017

Strong development in order intake

Third quarter highlights

- Order intake increased 19% to EUR 1,354 million (1,139)
- Net sales increased 9% to EUR 1,178 million (1,079)
- Book-to-bill reached 1.15 (1.06)
- Comparable operating result increased to EUR 135 million (123), which represents 11.4% of net sales (11.4)
- Earnings per share amounted to 0.43 euro (0.43)
- Cash flow from operating activities decreased to EUR 150 million (189)

Highlights of the review period January-September 2017

- Order intake increased 15% to EUR 4,130 million (3,604)
- Net sales increased 7% to EUR 3,477 million (3,242)
- Book-to-bill reached 1.19 (1.11)
- Comparable operating result increased to EUR 346 million (330), which represents 10.0% of net sales (10.2)
- Earnings per share increased to 1.10 euro (0.92)
- Cash flow from operating activities decreased to EUR 154 million (378)
- Order book at the end of the period amounted to EUR 5,075 million (5,024)

Wärtsilä's prospects for 2017

The overall development for 2017 is expected to be relatively unchanged from the previous year. Demand by business area is anticipated to be as follows:

- Solid in Services with growth opportunities in selected regions and segments.
- Good in Energy Solutions, thanks to increasing electricity demand in the emerging markets and the global shift towards renewable energy sources, which will support the need for distributed, flexible, gas-fired power generation.
- Solid in Marine Solutions. Despite good order intake growth, the marine market environment remains challenging, as the merchant, gas carrier, and offshore segments continue to suffer from overcapacity and slow trade growth.

Wärtsilä’s current order book for 2017 deliveries is EUR 1,206 million (1,346). Wärtsilä will continue to focus on improving efficiency, which is expected to partially offset lower volumes in the marine markets. The pricing environment in Energy Solutions’ markets has stabilised, but the order book is still impacted by the competitive pressure seen in previous years. The good performance in Services is expected to continue.

Jaakko Eskola, President & CEO

“Wärtsilä’s performance in the third quarter was satisfactory. Although power plant deliveries continued to drive overall sales development, challenges in the offshore segment and low volumes from service projects resulted in lower than expected sales growth in the Services business. Profitability was supported by certain deliveries being brought forward from the fourth quarter to the third. These timetable changes also result in a more even distribution of deliveries between the quarters than in the previous year.

I am pleased with the continued growth in order intake. In addition to good demand for our power generation solutions, we received an order to build our third LNG terminal in Finland, which will be located in Hamina. The project will provide cleaner fuel for both marine transport applications and local industry, thereby demonstrating Wärtsilä's contribution to the development of sustainable societies. A favourable contracting mix in the marine markets supported order intake growth in Marine Solutions, the highlight being a contract to supply the main engines and exhaust gas cleaning systems to Norwegian Cruise Line's four new generation cruise ships to be built by Fincantieri. The high level of activity in the cruise segment over the past few years has lengthened delivery times for both yards and equipment suppliers. Finally, the continued demand for long-term service agreements resulted in order intake growth also for Services.

After the third quarter, we announced two acquisitions in our Marine Solutions business. Puregas Solutions will expand our overall reach in the gas value chain by strengthening our position in the biogas liquefaction market. The acquisition of Guidance Marine, on the other hand, represents a further step in our digital transformation. Being a technology leader in sensor solutions relating to dynamic positioning and other vessel control systems, such as collision avoidance and remote control operations, Guidance Marine enhances our frontrunner position in intelligent shipping technologies."

Key figures

MEUR	7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	2016
Order intake	1 354	1 139	19%	4 130	3 604	15%	4 927
Order book at the end of the period				5 075	5 024	1%	4 696
Net sales	1 178	1 079	9%	3 477	3 242	7%	4 801
Operating result[1]	130	122	7%	327	301	9%	532
% of net sales	11.1	11.3		9.4	9.3		11.1
Comparable operating result	135	123	9%	346	330	5%	583
% of net sales	11.4	11.4		10.0	10.2		12.1
Comparable adjusted EBITA	144	132	9%	373	356	5%	618
% of net sales	12.2	12.3		10.7	11.0		12.9
Profit before taxes	114	115	-1%	291	253	15%	479
Earnings/share, EUR	0.43	0.43		1.10	0.92		1.79
Cash flow from operating activities	150	189		154	378		613
Net interest-bearing debt at the end of the period				432	384		150
Gross capital expenditure				176	126		146
Gearing				0.20	0.18		0.07

[1]Items affecting comparability in the third quarter of 2017 included costs related to restructuring programmes of EUR 4 million (2). During the review period January-September 2017 restructuring costs amounted to EUR 19 million (29).

Market development

SERVICES

Steady development in the service markets

Service market activity was solid in the period January-September, supported by continued demand for long-term service agreements in both end markets. In the marine markets, activity favoured the cruise segment, while the offshore segment remained challenging. Activity among merchant customers stabilised at a low level in the third quarter. The demand for power plant related service activities was steady.

ENERGY SOLUTIONS

Power generation markets shifting towards flexible technologies

The demand for Wärtsilä's energy solutions was good in January-September. Electricity demand in the emerging markets continued to increase, particularly in Asia, and the growing share of intermittent renewable power sources in several developed markets supported interest in flexible generation capacity. The role of storage technology and hybrid solutions, including solar generation, is increasingly being discussed globally. These encouraging developments are counterbalanced by strong competition in the liquid and gas fuelled power generation markets, as well as by the potential impact of geopolitical and macroeconomic uncertainties.

Energy Solutions' market share

For the twelve months ending in June, global orders for natural gas and liquid fuel power plants of up to 500 MW decreased by 13% to 24.8 GW (28.4 GW at the end of the previous period). Wärtsilä's market share was 14% (12). Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size.

MARINE SOLUTIONS

Improving market conditions supported vessel contracting

During January-September, 690 contracts for new vessels were registered (634). Despite slightly improved market conditions in the merchant segment, large order books and scheduled newbuilding deliveries continue to limit utilisation levels and rates. Current oil and gas prices remain a burden for the offshore industry. Contracting activity continued to be on a good level in the cruise, ferry and Ro-Ro segments, thanks to higher earnings, ageing fleets, attractive newbuilding prices, and planned regulatory developments. Gas carrier contracting has improved from very weak levels in 2016, thanks to the positive sentiment in the market for floating storage and regasification units (FSRU) and project driven investments.

In terms of compensated gross tonnage, China and South Korea remain the largest shipbuilding nations with 31% and 31% of all confirmed contracts respectively. Japan and Italy accounted for 10% and 5% of the global total.

Marine Solutions' market shares

Wärtsilä is well positioned in key product and solution areas, such as electrical and automation and gas systems. In the medium-speed main engine market, Wärtsilä's market share was 43% (40% at the end of the previous period). The market share in auxiliary engines was 13% (8% at the end of the previous period).

Order intake

Wärtsilä's third quarter order intake totalled EUR 1,354 million (1,139), an increase of 19% over the corresponding period last year. The third quarter book-to-bill ratio was 1.15 (1.06).

Order intake for the Services business increased by 5% to EUR 550 million (522) in the third quarter, thanks to new and renewed long-term service agreements with customers in both end markets. Received orders included a maintenance agreement with GasLog LNG Services, covering eight LNG carriers operating on Wärtsilä dual-fuel engines.

Order intake for Energy Solutions totalled EUR 418 million (330) in the third quarter, which represents an increase of 26% from the corresponding period last year. Ordering activity continued to be strongest in Asia, where significant orders included nearly 800 MW of liquid fuel projects in Bangladesh and 180 MW of dual-fuel projects in Indonesia. In addition to traditional power generation solutions, Wärtsilä received a turnkey order to build a liquefied natural gas (LNG) receiving terminal, with a net storage capacity of 30,000 m3, in Hamina, Finland.

Marine Solutions' third quarter order intake totalled EUR 387 million (287), an increase of 35% compared to the corresponding period last year. Orders received included a contract to supply the main engines and scrubbers to four cruise ships being built by Fincantieri for Norwegian Cruise Line. The cruise and ferry segment represented 36% of the third quarter order intake and the gas carrier segment accounted for 21%. The conventional merchant segment's share was 17%. Special vessels represented 12%, navy 6%, and offshore 2% of the order intake. Other orders accounted for 5% of the total.

The total order intake for the review period January-September 2017 increased by 15% to EUR 4,130 million (3,604). The book-to-bill ratio for the review period was 1.19 (1.11). Services' order intake totalled EUR 1,834 million (1,629), an increase of 13%. Energy Solutions' order intake increased by 25% to EUR 1,184 million (947). Marine Solutions' order intake increased by 8% to EUR 1,112 million (1,028).

Order intake by business

MEUR	7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	2016
Services	550	522	5%	1 834	1 629	13%	2 194
Energy Solutions	418	330	26%	1 184	947	25%	1 448
Marine Solutions	387	287	35%	1 112	1 028	8%	1 285
Order intake, total	1 354	1 139	19%	4 130	3 604	15%	4 927

Order intake Energy Solutions

MW	7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	2016
Oil	757	205	270%	1 445	1 503	-4%	1 929
Gas	284	465	-39%	1 411	1 053	34%	1 584
Order intake, total	1 041	670	55%	2 856	2 555	12%	3 513

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea, and in the Wärtsilä Qiyao Diesel Company Ltd and CSSC Wärtsilä Engine Company Ltd joint venture companies in China totalled EUR 56 million (57) during the review period January-September 2017. These companies' 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 was stable at EUR 5,075 million (5,024). The Services order book totalled EUR 1,194 million (1,031), which is 16% higher than at the same time last year thanks to increased demand for long-term service agreements. The Energy Solutions order book increased by 10%, totalling EUR 1,839 million (1,676), while the Marine Solutions order book decreased by 12% to EUR 2,042 million (2,317).

Order book by business

MEUR	30.9.2017	30.9.2016	Change	31.12.2016
Services	1 194	1 031	16%	999
Energy Solutions	1 839	1 676	10%	1 680
Marine Solutions	2 042	2 317	-12%	2 017
Order book, total	5 075	5 024	1%	4 696

Net sales

Wärtsilä's net sales for the third quarter totalled EUR 1,178 million (1,079), an increase of 9% compared to the corresponding period last year. Net sales from the Services business increased by 3% to EUR 526 million (512). Net sales for Energy Solutions increased by 83% to EUR 324 million (177). Marine Solutions' net sales totalled EUR 328 million (390), which is 16% lower than in the corresponding quarter last year.

Wärtsilä's net sales for January-September 2017 were EUR 3,477 million (3,242), an increase of 7% over the corresponding period last year. Net sales from the Services business was stable at EUR 1,561 million (1,554). Net sales for Energy Solutions totalled EUR 975 million (530), an increase of 84%. Marine Solutions' net sales decreased by 19% to EUR 941 million (1,158). Of the total net sales, Services accounted for 45%, Energy Solutions for 28%, and Marine Solutions for 27%.

Of Wärtsilä's net sales for January-September 2017, approximately 67% was EUR denominated, 21% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	2016
Services	526	512	3%	1 561	1 554	0%	2 190
Energy Solutions	324	177	83%	975	530	84%	943
Marine Solutions	328	390	-16%	941	1 158	-19%	1 667
Net sales, total	1 178	1 079	9%	3 477	3 242	7%	4 801

Operating result and profitability

The third quarter operating result was EUR 130 million (122), or 11.1% of net sales (11.3). The comparable operating result was EUR 135 million (123), or 11.4% of net sales (11.4). Items affecting comparability included restructuring costs of EUR 4 million (2). The comparable adjusted EBITA was EUR 144 million (132), or 12.2% of net sales (12.3). Purchase price allocation amortisation amounted to EUR 9 million (9).

The operating result for the review period January-September 2017 was EUR 327 million (301), which represents 9.4% of net sales (9.3). The comparable operating result was EUR 346 million (330), or 10.0% of net sales (10.2). Items affecting comparability included costs related to restructuring programmes of EUR 19 million (29). The comparable adjusted EBITA was EUR 373 million (356), or 10.7% of net sales (11.0). Purchase price allocation amortisation amounted to EUR 27 million (26).

Wärtsilä's operating result was affected by a provision related to long-term incentive schemes, which amounted to EUR 9 million in the third quarter and EUR 36 million in the review period January-September 2017. The provision covers all three ongoing programmes. No such provisions were made in the comparison periods. Wärtsilä's three-year long-term incentive schemes are tied to the development of the company's share price, and they apply to approximately 100 company executives.

Financial items for the review period January-September 2017 amounted to EUR -37 million (-48). Financial items include exchange rate losses related to terminated hedges. Net interest totalled EUR -6 million (-9). Profit before taxes amounted to EUR 291 million (253). Taxes amounted to EUR 74 million (68), implying an effective tax rate of 25.4% (26.8). Earnings per share were 1.10 euro (0.92) and the equity per share was 11.22 euro (10.73). The return on investments (ROI) was 19.5% (16.6), while return on equity (ROE) was 17.7% (16.3).

Measures of profit and items affecting comparability

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	2016
Comparable adjusted EBITA	144	132	373	356	618
Purchase price allocation amortisation	-9	-9	-27	-26	-35
Comparable operating result	135	123	346	330	583
Items affecting comparability	-4	-2	-19	-29	-51
Operating result	130	122	327	301	532

Balance sheet, financing and cash flow

Wärtsilä’s third quarter cash flow from operating activities amounted to EUR 150 million (189). Cash flow was negatively impacted by the increase in receivables. For January-September 2017, the operating cash flow totalled EUR 154 million (378). At the end of the review period, working capital totalled EUR 658 million (540), a decrease of EUR 22 million from the end of the previous quarter. Advances received at the end of the period totalled EUR 495 million (626). At the end of the previous quarter, advances totalled EUR 525 million. Cash and cash equivalents at the end of the period amounted to EUR 292 million (345) and unutilised Committed Credit Facilities totalled EUR 640 million (629).

Wärtsilä had interest-bearing debt totalling EUR 729 million (735) at the end of September 2017. At the end of December 2016, the interest-bearing debt totalled EUR 629 million. The total amount of short-term debt maturing within the next 12 months was EUR 199 million. Long-term loans amounted to EUR 530 million. Net interest-bearing debt totalled EUR 432 million (384) and gearing was 0.20 (0.18).

Liquidity preparedness

MEUR	30.9.2017	31.12.2016
Cash and cash equivalents	292	472
Unutilised committed credit facilities	640	640
Liquidity preparedness	932	1 112
% of net sales (rolling 12 months)	19	23
Less Commercial Papers	105	-
Liquidity preparedness excluding Commercial Papers	827	1 112
% of net sales (rolling 12 months)	16	23

On 30 September 2017, the average maturity of the total loan portfolio was 40 months and the average maturity of the long-term debt was 47 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant, and equipment amounted to EUR 30 million (35) during the review period January-September 2017. Capital expenditure related to acquisitions and investments in joint ventures totalled EUR 145 million (91). Depreciation, amortisation, and impairment for the review period amounted to EUR 93 million (104).

In 2017, capital expenditure related to intangible assets and property, plant, and equipment is expected to be below depreciation and amortisation.

Strategic projects, acquisitions and joint ventures

In July, Wärtsilä completed the acquisition of Greensmith Energy Management Systems Inc., a market leader in grid-scale energy storage software and integrated solutions. The acquisition will enable Wärtsilä to rapidly expand its footprint in the global energy storage market, and position itself as a premier energy systems integrator.

In August, Wärtsilä and ABB signed an agreement to expand their cooperation in lifecycle service offerings. ABB granted Wärtsilä the Authorized Service Provider status for the standard maintenance of ABB turbochargers installed with Wärtsilä 4-stroke engines.

In September, Wärtsilä and Flender (Siemens AG, Mechanical Drives) reached an agreement regarding the contract manufacturing of Wärtsilä's marine gearbox portfolio. The assembly and testing of the gearboxes will be moved to the Siemens Mechanical Drives facilities in Voerde, Germany. The design and technical specifications, as well as the delivery arrangement, project management, and interfacing with shipyards and owners will continue to be Wärtsilä's responsibility.

Also in September, Wärtsilä added wave power technology to its capabilities as an energy systems integrator through its partnership with AW-Energy. The co-operation is based on AW-Energy's patented and certified wave energy technology and Wärtsilä's global project execution, services and integration capabilities.

The set-up of CSSC Wärtsilä Electrical & Automation Co Ltd, a joint venture between Wärtsilä and China State Shipbuilding Corporation (CSSC) that will focus on the growing Chinese electrical & automation market is proceeding. The business license is expected to be in place during the fourth quarter of 2017.

Research and development, product launches

During the third quarter, Wärtsilä successfully tested its automatic wireless induction charging system on a hybrid powered coastal ferry, owned by Norled, one of Norway's largest ferry operators. This is the first commercial ferry in the world operating with high power wireless charging capability for its batteries, and the project represents a breakthrough in the evolution of plug-in electrically operated vessels.

In August, Wärtsilä took a further step towards developing its Smart Marine capabilities by successfully testing the remote control of ship operations. The testing, which involved driving a vessel through a sequence of manoeuvres using a combination of dynamic positioning and manual joystick control, was carried out off the North Sea coast of Scotland in collaboration with the U.S. based operator Gulfmark Offshore. The remote control navigating took place from the Wärtsilä office in San Diego, California, using standard bandwidth onboard satellite communication.

In September, Wärtsilä introduced the Wärtsilä HYTug series, a new portfolio of tug designs with the emphasis on environmental sustainability. The recently introduced Wärtsilä HY hybrid propulsion solution forms the basis of the new designs, the benefits of which include the flexibility and efficiency provided by the technology.

Restructuring programmes

Wärtsilä's aim is to continuously pursue more cost efficient ways of operating and align its operations to market conditions. In 2017, incremental savings from local actions within Marine Solutions and restructuring measures initiated in previous years are estimated to be EUR 50-55 million and the related costs approximately EUR 40 million. During January-September 2017, Wärtsilä recognised savings of approximately EUR 40 million and costs of EUR 19 million. The remaining savings of EUR 20-25 million are expected to materialise in 2018.

Personnel

Wärtsilä had 17,859 (18,337) employees at the end of September 2017. On average, the number of personnel for January-September 2017 totalled 17,822 (18,398). Services employed 10,528 (10,648) people, Energy Solutions 1,017 (920), and Marine Solutions 5,774 (6,305).

Of Wärtsilä's total number of employees, 20% (19) were located in Finland and 38% (39) elsewhere in Europe. Personnel employed in Asia represented 27% (28) of the total, personnel in the Americas 11% (11), and personnel in other countries 4% (4).

Sustainable development

Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce exhaust emissions and the use of natural resources, and to support its customers in preparing for new regulatory requirements. Wärtsilä's R&D efforts continue to focus on the development of advanced environmental technologies and solutions. The company is committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment and anti-corruption. Wärtsilä's share is included in several sustainability indices. During the third quarter, Wärtsilä was informed that it had been selected as an index component of the Dow Jones Sustainability Indices (DJSI) for the second consecutive year.

Shares and shareholders

During January-September 2017, the volume of trades on Nasdaq Helsinki was 63,869,981 shares, equivalent to a turnover of EUR 3,359 million. Wärtsilä's shares are also traded on alternative exchanges, such as Chi-X, Turquoise and BATS. The total trading volume on these alternative exchanges was 68,111,510 shares.

Shares on Nasdaq Helsinki

30.9.2017	Number of shares and votes	Number of shares traded 1-9/2017
WRT1V	197 241 130	63 869 981

1.1. - 30.9.2017	High	Low	Average [1]	Close
Share price	61.60	41.90	52.59	59.90

[1] Trade-weighted average price

	30.9.2017	30.9.2016
Market capitalisation, EUR million	11 815	7 903
Foreign shareholders, %	56.0	54.0

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 2 March 2017 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 2016.

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

The audit firm PricewaterhouseCoopers Oy was elected as the auditor of the Company for the year 2017.

Dividend distribution

The Annual General Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.30 per share in two instalments. The first instalment of EUR 0.65 per share was paid on 13 March 2017, and the second instalment of EUR 0.65 per share was paid on 21 September 2017.

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 of the shareholders' meeting.

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 3 March 2016. The Board of Directors was authorised to resolve to whom and in which order the Company's own shares will be distributed. The Board of Directors was authorised to decide on the distribution of the Company's own shares otherwise 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 Tom Johnstone 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, Risto Murto

Nomination Committee: Chairman Mikael Lilius, Kaj-Gustaf Bergh, Johan Forssell, Risto Murto

Remuneration Committee: Chairman Mikael Lilius, Maarit Aarni-Sirviö, Tom Johnstone

Risks and business uncertainties

In the Services business, slow economic growth and political instability in specific regions are the main risks for demand development. The challenging conditions in specific marine market segments are also seen as a potential risk.

In the power generation markets, fragile economic growth and slow decision-making continue to be the primary risks for demand development. Geopolitical tensions and significant currency fluctuations can result in investment decisions being postponed in certain countries. Low oil prices have a similar impact in the oil and gas producing countries. Price pressure resulting from the prevailing competitive environment remains a risk.

Economic and political uncertainty, as well as new emerging technologies and innovations, will challenge current business models and trade patterns in the marine industry. Reduced capital expenditure from oil companies continues to limit offshore investments, and offshore production is facing increasing competition from low cost onshore and shale production. In addition, increasing energy efficiency and the substitution of other energy sources, will impair crude oil demand growth. The enforcement of environmental regulations remains as a source of uncertainty. While the risk of cancellations exists, negotiations to extend existing delivery contracts appear to be a larger risk for shipyard order books.

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

The 2016 annual report contains a more detailed description of Wärtsilä's risks and risk management.

Events after the review period

In October, Wärtsilä reached an agreement to acquire Puregas Solutions, the Sweden based provider of turnkey biogas upgrading solutions. Puregas is a leading player in its field, utilising a unique CApure process to convert raw biogas to biomethane and renewable natural gas. The acquisition will provide Wärtsilä with added equipment and expertise in biogas upgrading, and will complement the company's existing position in the biogas liquefaction market. The transaction is valued at SEK 280 million (enterprise value) with an additional maximum sum of SEK 70 million to be paid based on the performance of the business in the coming year. In 2016, Puregas Solutions' turnover was SEK 200 million. The company currently has approximately 40 employees.

Also in October, Wärtsilä reached an agreement to acquire Guidance Marine Limited, a privately owned company with offices in the UK, Singapore and the USA. Guidance Marine is recognised as a technology leader in the marine industry for sensor solutions relating to dynamic positioning and other vessel control systems, such as collision avoidance and remote control operations. The acquisition of Guidance Marine will enhance Wärtsilä's capabilities in the area of situational awareness and near-field measurement, both essential for more intelligent vessel navigation. The transaction is valued at GBP 14 million (enterprise value) including a maximum deferred payment of GBP 4 million. In 2016, Guidance Marine's turnover was GBP 6 million. Guidance Marine employs more than 50 people worldwide.

Wärtsilä Interim report January-September 2017

This interim 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 2016. 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

In 2017, the Group has adopted the following new standard issued by the IASB.

The Group has early adopted **IFRS 9 Financial Instruments**, which replaces IAS 39 Financial Instruments - Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial assets, new general hedge accounting requirements and a new expected credit loss model for calculating impairment on financial assets. In its main aspects, it also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The impacts of IFRS 9 adoption are described below.

The new hedge accounting guidance in IFRS 9 aligns the hedge accounting treatment better with risk management activities and, among others, allows net position hedging. The Group applies the new hedge accounting requirements prospectively. Usually the Group hedges received orders separately from the committed purchases but in some projects or long term agreements the Group might apply cash flow hedging also against the expected net cash flows, consisting of related sales proceeds and purchases in the same currency. The result from net position hedges is presented on a separate line in the statement of income. The adoption of the new hedge accounting requirements did not have any material impact on the reporting period January-September 2017.

Under IFRS 9, financial assets are classified according to their cash flow characteristics and the business model in which they are managed. The Group has categorised its financial assets to financial assets measured at amortised cost, at fair value through the statement of income and at fair value through other comprehensive income. The reclassification has not had any impact on equity.

Financial assets are classified under IFRS 9 as presented in the table below.

	Classification under IAS 39	Classification under IFRS 9
Trade and other receivables, investments in commercial papers	Loans and receivables	Amortised cost
Interest-bearing investments	Loans and receivables	Fair value through the statement of income
Other investments	Available-for-sale financial assets	Fair value through the statement of income (or other comprehensive income)
Derivatives included in hedge accounting	Cash flow hedges (at fair value through other comprehensive income)	Fair value through other comprehensive income
Derivatives, no hedge accounting	Financial assets at fair value through the statement of income	Fair value through the statement of income

Applying IFRS 9 also changes the measurement of the loss allowance for financial assets by introducing an expected credit loss model. At the adoption of IFRS 9, the Group has revised its impairment methodology. The methodology applied depends on whether there has been a significant increase in credit risk. The Group assesses possible increase in the credit risk for financial assets measured at amortised cost at the end of each reporting period. The loss allowance is estimated at an amount equal to 12-month expected credit losses at the current reporting date if there has not been a significant increase in credit risk.

For trade receivables and receivables from revenue recognition in accordance with the percentage of completion method, a simplified approach is used and the loss allowance is measured at the estimate of the lifetime expected credit losses. Receivables from revenue recognition in accordance with the percentage of completion method are usually covered with advance payments collected from customers. Thus, recognising credit losses based on the lifetime expected loss amounts mainly concerns trade receivables. For trade receivables not due or a maximum of 359 days overdue, an impairment of 0.1% - 2.0% is made, depending on the aging category and the origin of the receivable. In calculating the expected credit loss rates, the Group considers historical loss rates for each category, and adjusts for forward looking macroeconomic data. In addition to this, trade receivables that are more than 360 days old are assessed for impairment individually. Considering this, the Group has made an adjustment of EUR -3 million in retained earnings and trade receivables as of 1 January 2017. Figures in the comparison periods have not been restated.

This interim report is unaudited.

Condensed statement of income

MEUR	1–9/2017	1–9/2016	7–9/2017	7–9/2016	2016
Net sales	3 477	3 242	1 178	1 079	4 801
Other operating income	38	40	16	16	55
Expenses	-3 102	-2 886	-1 036	-944	-4 200
Depreciation, amortisation and impairment	-93	-104	-30	-31	-138
Share of result of associates and joint ventures	7	9	3	2	14
Operating result	327	301	130	122	532
Financial income and expenses	-37	-48	-17	-7	-53
Profit before taxes	291	253	114	115	479
Income taxes	-74	-68	-29	-31	-123
Profit for the reporting period	217	185	85	84	357
Attributable to:					
Equity holders of the parent company	216	181	85	84	352
Non-controlling interests	1	5			4
	217	185	85	84	357
Earnings per share attributable to equity holders of the parent company (basic and diluted):					
Earnings per share (EPS), basic and diluted, EUR	1.10	0.92	0.43	0.43	1.79

Statement of other comprehensive income

MEUR	1–9/2017	1–9/2016	7–9/2017	7–9/2016	2016
Profit for the reporting period	217	185	85	84	357
Other comprehensive income, net of taxes:					
Items that will not be reclassified to the statement of income					
Remeasurements of defined benefit liabilities	2	-13			-12
Tax on items that will not be reclassified to the statement of income		3			3
Total items that will not be reclassified to the statement of income	1	-9			-9
Items that may be reclassified subsequently to the statement of income					
Exchange rate differences on translating foreign operations					
for equity holders of the parent company	-60	-66	-13	-13	-52
for non-controlling interests	-2	-2			-1
Associates and joint ventures, share of other comprehensive income	-4	3	-2	2	1
Cash flow hedges	38	61	19	17	41
Tax on items that may be reclassified to the statement of income	-6	-15		-4	-10
Total items that may be reclassified to the statement of income	-34	-19	3	1	-21
Other comprehensive income for the reporting period, net of taxes	-33	-29	3	1	-30
Total comprehensive income for the reporting period	184	156	88	85	327

Total comprehensive income attributable to:					
Equity holders of the parent company	185	153	89	86	323
Non-controlling interests	-1	3	-1		3
	184	156	88	85	327

Condensed statement of financial position

MEUR	30.9.2017	30.9.2016	31.12.2016
Non-current assets			
Intangible assets	1 540	1 440	1 434
Property, plant and equipment	362	409	405
Investments in associates and joint ventures	74	83	84
Other investments	13	14	15
Deferred tax assets	145	151	141
Other receivables	99	26	38
Total non-current assets	2 234	2 122	2 116
Current assets			
Inventories	1 125	1 249	1 042
Other receivables	1 714	1 610	1 760
Cash and cash equivalents	292	345	472
Total current assets	3 131	3 203	3 275
Total assets	5 365	5 326	5 391
Equity			
Share capital	336	336	336
Other equity	1 877	1 781	1 952
Total equity attributable to equity holders of the parent company	2 213	2 117	2 288
Non-controlling interests	26	33	34
Total equity	2 239	2 151	2 321
Non-current liabilities			
Interest-bearing debt	530	532	520
Deferred tax liabilities	103	99	93
Other liabilities	268	284	270
Total non-current liabilities	902	915	884
Current liabilities			
Interest-bearing debt	198	203	108
Other liabilities	2 027	2 058	2 078
Total current liabilities	2 224	2 260	2 186
Total liabilities	3 126	3 175	3 070
Total equity and liabilities	5 365	5 326	5 391

Condensed statement of cash flows

MEUR	1–9/2017	1–9/2016	7–9/2017	7–9/2016	2016
Cash flow from operating activities:					
Profit for the reporting period	217	185	85	84	357
Adjustments for:					
Depreciation, amortisation and impairment	93	104	30	31	138
Financial income and expenses	37	48	17	7	53
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-11	-6	-7	-3	-6
Share of result of associates and joint ventures	-7	-9	-3	-2	-14
Income taxes	74	68	29	31	123
Cash flow before changes in working capital	403	390	151	147	650
Changes in working capital	-160	73	22	83	84
Cash flow from operating activities before financial items and taxes	243	463	173	230	734
Financial items and paid taxes	-89	-85	-23	-41	-121
Cash flow from operating activities	154	378	150	189	613
Cash flow from investing activities:					
Investments in shares and acquisitions	-145	-90	-145	-43	-90
Net investments in property, plant and equipment and intangible assets	-26	-26	-11	-9	-38
Proceeds from sale of shares in associated companies and other investments	2				1
Cash flow from investing activities	-169	-115	-155	-52	-126
Cash flow from financing activities:					
Proceeds from non-current debt	90	131			131
Repayments and other changes in non-current debt	-100	-90	-25	-13	-91
Changes in current loans and other changes	107	-30	108	-133	-129
Dividends paid	-250	-250	-115		-250
Cash flow from financing activities	-153	-240	-31	-147	-339
Change in cash and cash equivalents, increase (+)/decrease (-)	-169	23	-36	-10	148
Cash and cash equivalents at the beginning of the reporting period	472	334	332	357	334
Exchange rate changes	-11	-12	-5	-3	-9
Cash and cash equivalents at the end of the reporting period	292	345	292	345	472

Consolidated statement of changes in equity

MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Non-controlling interests	Total equity
	Total equity attributable to equity holders of the parent company							
Equity on 31 December 2016	336	61	-57	-39	-45	2 032	34	2 321
Restatement due to IFRS 9						-3		-3
Equity on 1 January 2017	336	61	-57	-39	-45	2 028	34	2 318
Dividends paid						-256	-6	-263
Total comprehensive income for the reporting period			-64	32	1	216	-1	184
Equity on 30 September 2017	336	61	-121	-7	-44	1 988	26	2 239

MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Non-controlling interests	Total equity
	Total equity attributable to equity holders of the parent company							
Equity on 1 January 2016	336	61	-6	-70	-36	1 916	41	2 242
Dividends paid						-237	-11	-247
Total comprehensive income for the reporting period			-64	46	-9	181	3	156
Equity on 30 September 2016	336	61	-70	-24	-46	1 860	33	2 151

Acquisitions

Greensmith Energy Management Systems Inc.

On 3 July 2017, Wärtsilä acquired Greensmith Energy Management Systems Inc.

Greensmith Energy Management Systems Inc. is a market leader in grid-scale energy storage software and integrated solutions. The acquisition of Greensmith enables Wärtsilä to rapidly expand its footprint in the energy storage market globally and position as a premier energy system integrator. Growth in the energy storage market is expanding from the United States to new regions including the United Kingdom, Asia and Australia.

The following tables summarise the preliminary amounts for the consideration paid for Greensmith, the cash flow from the acquisition and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

Preliminary consideration	MEUR
Consideration transferred	144
Total consideration transferred	144

Preliminary cash flow from the acquisition	MEUR
Consideration paid in cash	144
Total cash flow from the acquisition	144

Provisional values of the assets and liabilities arising from the acquisition	MEUR
Intangible assets	42
Trade and other receivables	3
Deferred tax assets	2
Total assets	48
Provisions	5
Trade payables and other liabilities	5
Deferred tax liabilities	17
Total liabilities	27
Total net assets	21
Preliminary goodwill	124

The preliminary fair values of acquired identifiable intangible assets at the date of acquisition (including trademark and tehcnology related IP) amounted to EUR 42 million. The fair value of current trade receivables and other receivables is approximately EUR 3 million. The fair value of trade receivables does not include any significant risk.

The preliminary goodwill of EUR 124 million reflects the value of know-how and expertise in grid-scale energy storage and integrated solutions. Wärtsilä foresees that the acquisition will strengthen its position as an energy system integrator as well as support growth strategy improving Wärtsilä's offering and services towards customers.

During 2017 the Group incurred acquisition-related costs of EUR 1 million related to external legal fees and due diligence costs. The costs have been included in the other operating expenses in the condensed statement of income.

Pro forma

If the acquisition had occurred on 1 January 2017, management estimates that consolidated net sales would have been EUR 3,483 million. The impact in the consolidated operating result would not have been significant. In determining these amounts, management has assumed that the fair value adjustments, which arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Net sales by geographical areas

MEUR	1–9/2017	1–9/2016	2016
Europe	1 084	1 111	1 581
Asia	1 363	1 214	1 774
The Americas	819	654	1 039
Other	211	263	407
Total	3 477	3 242	4 801

Measures of profit and items affecting comparability

MEUR	1–9/2017	1–9/2016	2016
Comparable adjusted EBITA	373	356	618
Purchase price allocation amortisation	-27	-26	-35
Comparable operating result	346	330	583
Items affecting comparability:			
Social plan costs	-5	-6	-22
Impairment and write-downs	-6	-17	-22
Other restructuring costs	-7	-6	-7
Items affecting comparability, total	-19	-29	-51
Operating result	327	301	532

Intangible assets and property, plant & equipment

MEUR	1–9/2017	1–9/2016	2016
Intangible assets			
Carrying amount on 1 January	1 434	1 464	1 464
Changes in exchange rates	-27	-58	-52
Acquisitions	168	67	71
Additions	9	11	16
Amortisation and impairment	-44	-45	-62
Disposals and reclassifications		1	-3
Carrying amount at the end of the reporting period	1 540	1 440	1 434
Property, plant and equipment			
Carrying amount on 1 January	405	431	431
Changes in exchange rates	-10	2	5
Acquisitions		15	14
Additions	22	24	38
Depreciation and impairment	-49	-59	-76
Disposals and reclassifications	-6	-4	-7
Carrying amount at the end of the reporting period	362	409	405

Gross capital expenditure

MEUR	1–9/2017	1–9/2016	2016
Investments in securities and acquisitions	145	91	91
Intangible assets and property, plant and equipment	30	35	55
Total	176	126	146

Net interest-bearing debt

MEUR	1–9/2017	1–9/2016	2016
Non-current liabilities	530	532	520
Current liabilities	199	203	108
Loan receivables	-5	-6	-7
Cash and cash equivalents	-292	-345	-472
Total	432	384	150

Financial ratios

	1–9/2017	1–9/2016	2016
Earnings per share (EPS), basic and diluted, EUR	1.10	0.92	1.79
Equity per share, EUR	11.22	10.73	11.60
Solvency ratio, %	46.0	45.8	47.6
Gearing	0.20	0.18	0.07
Return on investment (ROI), %	19.5	16.6	17.1
Return on equity (ROE), %	17.7	16.3	15.6

Personnel

	1–9/2017	1–9/2016	2016
On average	17 822	18 398	18 332
At the end of the reporting period	17 859	18 337	18 011

Contingent liabilities

MEUR	1–9/2017	1–9/2016	2016
Mortgages	10	10	10
Chattel mortgages and other pledges and securities	23	26	26
Total	33	36	36
Guarantees and contingent liabilities			
on behalf of Group companies	748	864	921
Nominal amount of rents according to leasing contracts			
payable within one year	30	27	34
payable between one and five years	87	78	84
payable later	44	27	30
Total	909	996	1 069

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	165	
Cross currency swaps	75	
Foreign exchange forward contracts	2 632	593
Total	2 873	593

In addition, the Group had copper futures and swaps amounting to 254 tons.

Fair values

Fair value measurements at the end of the reporting period:

MEUR	Carrying amounts of the statement of financial position items	Fair value
Financial assets		
Other investments (level 3)	13	13
Interest-bearing investments, non-current (level 2)	5	5
Other receivables, non-current (level 2)	3	3
Derivatives (level 2)	38	38
Financial liabilities		
Interest-bearing debt, non-current (level 2)	530	538
Derivatives (level 2)	29	29

Events after the balance sheet date

In October, Wärtsilä reached an agreement to acquire Puregas Solutions, the Sweden based provider of turnkey biogas upgrading solutions. Puregas is a leading player in its field, utilizing a unique CApure process to convert raw biogas to biomethane and renewable natural gas. The acquisition will provide Wärtsilä with added equipment and expertise in biogas upgrading, and will complement the company's existing position in the biogas liquefaction market. The transaction is valued at SEK 280 (enterprise value) million with an additional maximum sum of SEK 70 million to be paid based on the performance of the business in the coming year. In 2016, Puregas Solutions' turnover was SEK 200 million. The company currently has approximately 40 employees.

Also in October, Wärtsilä reached an agreement to acquire Guidance Marine Limited, the UK based privately owned company. Guidance Marine is recognised as a technology leader in the marine industry for sensor solutions relating to dynamic positioning and other vessel control systems, such as collision avoidance and remote control operations. The acquisition of Guidance Marine will enhance Wärtsilä's capabilities in the area of situational awareness and near-field measurement, both essential for more intelligent vessel navigation. The transaction is valued at GBP 14 million (enterprise value) including a maximum deferred payment of GBP 4 million. In 2016, Guidance Marine's turnover was GBP 6 million. Guidance Marine employs more than 50 people worldwide.

Quarterly figures

MEUR	7–9/ 2017	4–6/ 2017	1–3/ 2017	10–12/ 2016	7–9/ 2016	4–6/ 2016	1–3/ 2016	10–12/ 2015	7–9/ 2015
Order intake									
Services	550	599	686	565	522	527	580	572	511
Energy Solutions	418	361	405	501	330	304	312	366	167
Marine Solutions	387	403	322	258	287	362	379	465	407
Total	1 354	1 363	1 413	1 324	1 139	1 194	1 271	1 403	1 086
Order book at the end of the reporting period									
Services	1 194	1 193	1 187	999	1 031	1 048	1 017	958	1 026
Energy Solutions	1 839	1 764	1 847	1 680	1 676	1 547	1 491	1 366	1 388
Marine Solutions	2 042	2 108	2 062	2 017	2 317	2 488	2 595	2 558	2 699
Total	5 075	5 065	5 096	4 696	5 024	5 083	5 103	4 882	5 112
Net sales									
Services	526	546	490	636	512	542	500	619	531
Energy Solutions	324	412	239	414	177	220	132	374	243
Marine Solutions	328	334	279	509	390	433	335	598	448
Total	1 178	1 292	1 007	1 559	1 079	1 196	967	1 590	1 222
Share of result of associates and joint ventures	3	3	1	5	2	4	3	6	5
Comparable adjusted EBITA	144	134	94	262	132	131	93	224	170
as a percentage of net sales	12.2	10.4	9.4	16.8	12.3	10.9	9.6	14.1	13.9
Depreciation, amortisation and impairment	-30	-30	-33	-34	-31	-42	-31	-33	-32
Purchase price allocation amortisation	-9	-9	-9	-9	-9	-9	-9	-9	-9
Comparable operating result	135	126	86	253	123	122	84	215	160
as a percentage of net sales	11.4	9.7	8.5	16.3	11.4	10.2	8.7	13.5	13.1
Items affecting comparability, total	-4	-8	-6	-22	-2	-26	-1	-13	-11

Operating result	130	117	80	231	122	96	83	202	149
as a percentage of net sales	11.1	9.1	7.9	14.8	11.3	8.0	8.6	12.7	12.2
Financial income and expenses	-17	-14	-5	-5	-7	-38	-3	-2	-17
Profit before taxes	114	103	74	226	115	58	80	199	132
Income taxes	-29	-27	-17	-55	-31	-17	-20	-41	-35
Profit for the reporting period	85	76	57	172	84	41	60	159	97
Earnings per share (EPS), basic and diluted, EUR	0.43	0.38	0.28	0.87	0.43	0.19	0.30	0.79	0.49
Gross capital expenditure	156	11	9	20	55	60	11	32	17
Investments in securities and acquisitions	145		1		42	49		5	
Cash flow from operating activities	150	2	2	235	189	202	-13	176	-5
Working capital (WCAP) at the end of the reporting period	658	680	580	490	540	602	709	543	522
Personnel at the end of the reporting period									
Services	10 528	10 455	10 464	10 567	10 648	10 575	10 331	10 592	10 714
Energy Solutions	1 017	928	913	903	920	945	958	959	966
Marine Solutions	5 774	5 861	5 920	6 074	6 305	6 443	6 681	6 847	7 101
Other	540	539	533	467	464	465	457	459	456
Total	17 859	17 783	17 832	18 011	18 337	18 428	18 427	18 856	19 237

Calculation of financial ratios

Earnings per share (EPS), basic and diluted

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

Equity per share

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

Solvency ratio

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

Gearing

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

Return on investment (ROI)

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

Return on equity (ROE)

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

Working capital (WCAP)

(Inventories + trade receivables + income tax receivables + other non-interest-bearing receivables) – (trade payables + advances received + pension obligations + provisions + income tax liabilities + other non-interest-bearing liabilities – dividend payable)

Comparable adjusted EBITA

Operating result – items affecting comparability – purchase price allocation amortisation

Comparable operating result

Operating result – items affecting comparability

Items affecting comparability

Items affecting comparability are related to restructuring measures and one-time charges for events or activities, which are not part of the normal business operations

24 October 2017
Wärtsilä Corporation
Board of Directors