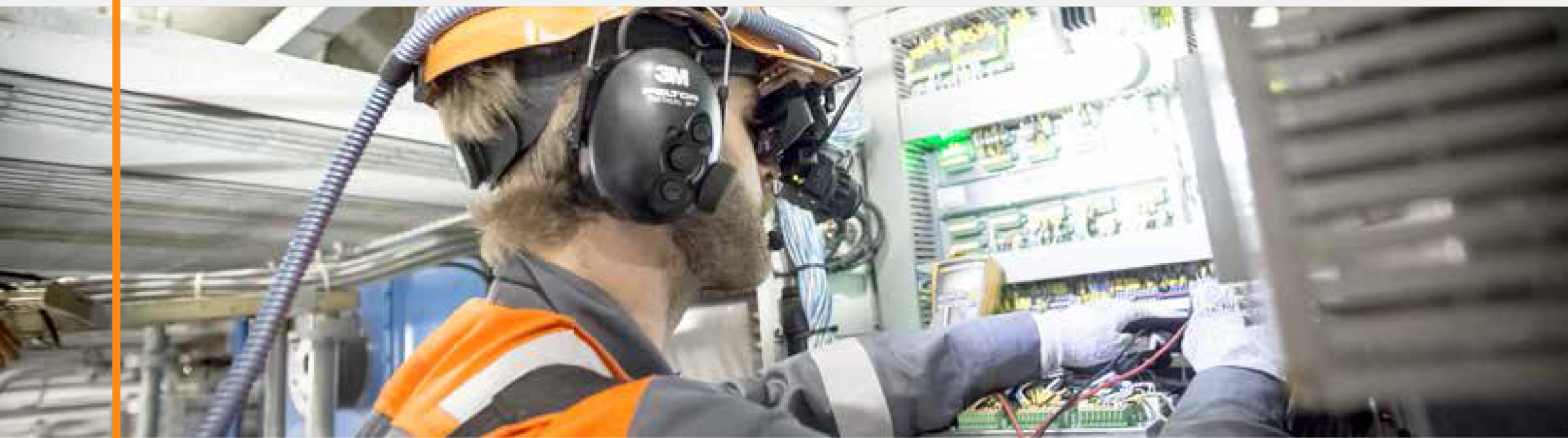
Wärtsilä Corporation
Q3 Interim report

January–September 2015



Net sales and profitability developing according to plan

Third quarter highlights

- Order intake decreased 17% to EUR 1,086 million (1,309)
- Net sales increased 9% to EUR 1,222 million (1,117)
- Book-to-bill 0.89 (1.17)
- EBITA EUR 170 million, or 13.9% of net sales (EUR 149 million or 13.3%)
- Operating result before non-recurring items EUR 160 million, or 13.1% of net sales (EUR 142 million or 12.7%)
- Earnings per share 0.49 euro (0.43)
- Cash flow from operating activities EUR -5 million (68)
- Mr Jaakko Eskola appointed President and CEO of Wärtsilä Corporation as of 1 November 2015

Highlights of the review period January-September 2015

- Order intake was stable at EUR 3,529 million (3,562)
- Net sales increased 6% to EUR 3,439 million (3,230)
- Book-to-bill 1.03 (1.10)
- EBITA EUR 420 million, or 12.2% of net sales (EUR 392 million or 12.1%)
- Operating result before non-recurring items EUR 397 million, or 11.5% of net sales (EUR 373 million or 11.5%)
- Earnings per share 1.46 euro (1.16)
- Cash flow from operating activities EUR 78 million (240)
- Order book at the end of the period increased 9% to EUR 5,112 million (4,674)

Wärtsilä's prospects for 2015 unchanged

Wärtsilä expects its net sales for 2015 to grow by 5-10% and its operational profitability (EBIT% before non-recurring items) to be 12.0-12.5%. This guidance includes the impact of the L-3 Marine Systems International (MSI) acquisition. MSI is expected to contribute approximately EUR 250 million to net sales and EUR 9 million to the operating result during 2015. Excluding purchase price allocation amortisation, MSI's operating result is estimated to reach EUR 16 million.

Björn Rosengren, President and CEO

"Net sales increased by 9% to EUR 1,222 million in the third quarter, supported by growth in aftermarket activities and by the contribution from L-3 Marine Systems International. Good development within Services contributed to profitability, which reached 13.1%. We are well on track to reach our guidance for sales and profitability development this year.

Competition in the power generation markets is increasing, and the current macroeconomic uncertainty continues to cause delays in customer decision-making. Nevertheless, the project pipeline is solid and we continue to see opportunities for improved activity in the upcoming quarter. The Marine Solutions markets remain challenging. Low vessel contracting volumes, together with weak sentiment in the offshore segment, is impacting our order intake. I am pleased to note that our Services business is compensating well for the lower demand in our equipment markets.

Improved maintenance demand from marine customers and stability within power plant service indicates a positive outlook for the rest of this year.

Wärtsilä's mission is to shape the marine and energy markets with advanced technologies while focusing on lifecycle performance - our ambition level is high. We are well positioned to benefit from the ongoing fundamental changes in our end markets, and from the increasing demand for higher efficiency with fewer emissions. Furthermore, we have during the past few years initiated various measures to develop the efficiency and flexibility of our own operations. I am confident in Wärtsilä's long-term opportunities for growth and improved profitability, and believe that Jaakko Eskola, with his strong and proven track record, is well suited to lead the company towards continued success. I would like to take this opportunity to thank our shareholders and the entire Wärtsilä organisation for the inspiring past four years."

Key figures

MEUR	7-9/2015	7-9/2014	Change	1-9/2015	1-9/2014	Change	2014
Order intake	1 086	1 309	-17%	3 529	3 562	-1%	5 084
Order book at the end of the period				5 112	4 674	9%	4 530
Net sales	1 222	1 117	9%	3 439	3 230	6%	4 779
Operating result (EBITA)[1]	170	149	14%	420	392	7%	594
% of net sales	13.9	13.3		12.2	12.1		12.4
Operating result (EBIT)[2]	160	142	13%	397	373	7%	569
% of net sales	13.1	12.7		11.5	11.5		11.9
Profit before taxes	132	129		354	338		494
Earnings/share, EUR	0.49	0.43		1.46	1.16		1.76
Cash flow from operating activities	-5	68		78	240		452
Net interest-bearing debt at the end of the period				513	277		94
Gross capital expenditure				314	69		94
Gearing				0.26	0.14		0.05

[1] EBITA is shown excluding non-recurring items related to restructuring measures of EUR 11 million (17) and purchase price allocation amortisation of EUR 23 million (19) during the review period January-September 2015. During the third quarter, non-recurring items related to restructuring measures amounted to EUR 11 million (1) and purchase price allocation amortisation to EUR 9 million (6).

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

Market development

Energy Solutions

Competition in the power generation markets is increasing

Macroeconomic uncertainty continued to affect the demand for new power generation capacity in the third quarter. There are a good number of prospects in the market, but investment decisions are being made slowly and many are being postponed. Excess capacity resulting from low demand in the marine industry is causing engine manufacturers specialising in that sector to enter the power plant markets, thus resulting in increased competition and price pressure. From a geographical perspective, the signals are mixed. Emerging market growth continues to create projects, while in the industrialised world, sustainable economic growth is needed in order to recover power plant investments. Wärtsilä's quotation activity developed well during the third quarter and remained focused on multi-fuel and natural gas based power plants.

Energy Solutions market share

During the first half of 2015, global orders for natural gas and liquid fuel power plants of up to 500 MW totalled 12.6 GW (10.6), an increase of 19% from a low basis in the corresponding period of 2014. Wärtsilä's market share remained stable at 10% (10). Global orders include all gas turbine and Wärtsilä orders of over 5 MW.

Marine Solutions

Contracting volumes remain low

During the period January-September 2015, 930 contracts for new vessels were registered (1,395), of which 319 came in the third quarter (272). The low demand for new vessels continued to put pressure on newbuilding prices. Contracting activity in the conventional merchant markets was slow, with orders for tankers and container vessels being the most prominent. Gas carrier contracting remained below the strong volumes seen in 2014, with a total of 61 LNG and LPG carrier contracts registered year to date (132). Depressed oil prices continued to limit demand in the offshore markets. Contracting in the cruise & ferry segment remained on a good level, with 21 vessels ordered thus far this year (25).

The top three shipbuilding countries continued to control contracting activity in terms of compensated gross tonnage. South Korea and China secured 35% and 26% respectively of all confirmed contracts. Japan's share of the confirmed contracts improved to 26%, thanks to increased domestic ordering activity.

Marine Solutions market shares

Wärtsilä's share of the medium-speed main engine market was 63% (59% at the end of the previous quarter). The market share in auxiliary engines increased to 9% (5% at the end of the previous quarter), thanks to the increasing use of the Wärtsilä 34DF engines for auxiliary applications in the LNG carrier segment.

Services

Service market activity developing well

Service market activity remained strong during the third quarter, with demand improving from the previous year's good levels. Activity in both end markets favoured investments in maintenance service. In the marine markets, performance was strongest in the merchant segment. Demand from merchant customers developed particularly well in South Europe. Power plant service demand was stable, with good development in Asia.

Order intake

Wärtsilä's third quarter order intake totalled EUR 1,086 million (1,309), a decrease of 17% from the corresponding period last year. Compared to the previous quarter, order intake development was stable (EUR 1,159 million in the second quarter of 2015). The third quarter book-to-bill ratio was 0.89 (1.17).

Order intake for Energy Solutions totalled EUR 167 million (383) in the third quarter, which was 56% lower than in the corresponding period last year. Compared to the previous quarter, order intake decreased by 11% (EUR 188 million in the second quarter of 2015). Third quarter orders included a 40 MW industrial power plant contract in Kazakhstan.

Marine Solutions' third quarter order intake totalled EUR 407 million (463), a decrease of 12% from the corresponding period last year. Compared to the previous quarter, order intake increased by 4% (EUR 392 million in the second quarter of 2015). Order intake for the recently acquired L-3 Marine Systems International developed well. Included in the third quarter order intake was the first order for the Wärtsilä 31 engine, which was launched in June. Three engines will be delivered to an icebreaker being built for FSUE Atomflot. Within environmental solutions, orders included exhaust gas cleaning systems for three passenger vessels as well as ballast water management systems for eleven container vessels. In the gas carrier segment, orders included two contracts to supply regasification modules to be installed on FSRU vessels owned by Höegh LNG from Norway. Gas carriers represented 37% of the third quarter order intake, while the conventional merchant segment accounted for 21%. The cruise & ferry segment's share was 16%, special vessels represented 9% of the order intake, navy 6% and offshore 5%. Other orders accounted for 7% of the total.

Order intake for the Services business totalled EUR 511 million (463) in the third quarter, an increase of 10% over the corresponding period last year. Compared to the previous quarter, order intake decreased by 12% due to the seasonal slowdown in demand for projects and long-term agreements (EUR 579 million in the second quarter of 2015). Orders signed in the third quarter included a five-year maintenance agreement with Teck Alaska Incorporated for its power plant at the Red Dog mine in Northwest Alaska.

The total order intake for the review period January-September 2015 was stable at EUR 3,529 million (3,562). The book-to-bill ratio for the review period was 1.03 (1.10). Energy Solutions' order intake decreased by 19% to EUR 642 million (792). Marine Solutions' order intake decreased by 12% to EUR 1,134 million (1,286). Services' order intake totalled EUR 1,752 million (1,484), an increase of 18%.

Order intake by business

MEUR	7-9/2015	7-9/2014	Change	1-9/2015	1-9/2014	Change	2014
Energy Solutions	167	383	-56%	642	792	-19%	1 293
Marine Solutions[1]	407	463	-12%	1 134	1 286	-12%	1 746
Services	511	463	10%	1 752	1 484	18%	2 045
Order intake, total	1 086	1 309	-17%	3 529	3 562	-1%	5 084

[1] MSI's contribution to order intake was EUR 113 million in the third quarter of 2015 and EUR 153 million in the review period January-September.

Order intake Energy Solutions

MW	7-9/2015	7-9/2014	Change	1-9/2015	1-9/2014	Change	2014
Oil	394	321	23%	1 082	791	37%	980
Gas	71	408	-83%	605	925	-35%	1 509
Order intake, total	465	730	-36%	1 687	1 716	-2%	2 489

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 163 million (126) during the review period January-September 2015. 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 amounted to EUR 5,112 million (4,674), an increase of 9%. The Energy Solutions order book decreased by 3%, totalling EUR 1,388 million (1,426). The Marine Solutions order book amounted to EUR 2,699 million (2,369), an increase of 14%. The Services order book totalled EUR 1,026 million (879), which is 17% higher than at the same date last year.

Order book by business

MEUR	30.9.2015	30.9.2014	Change	31.12.2014
Energy Solutions	1 388	1 426	-3%	1 475
Marine Solutions[1]	2 699	2 369	14%	2 213
Services	1 026	879	17%	842
Order book, total	5 112	4 674	9%	4 530

[1] MSI's order book at the end of September 2015 amounted to EUR 503 million.

Net sales

Wärtsilä's net sales for the third quarter increased by 9% to EUR 1,222 million (1,117) compared to the corresponding period last year. Net sales for Energy Solutions decreased by 14% to EUR 243 million (282). Marine Solutions' net sales totalled EUR 448 million (363), which is 23% higher than in the corresponding quarter last year. Net sales from the Services business increased by 12% to EUR 531 million (472), supported primarily by growth in parts orders and field service activities.

Wärtsilä's net sales for January-September 2015 increased by 6% to EUR 3,439 million (3,230). Net sales for Energy Solutions totalled EUR 752 million (705), an increase of 7%. Marine Solutions' net sales totalled EUR 1,122 million (1,150), a decrease of 2%. Net sales from the Services business increased by 14% to EUR 1,565 million (1,375). Of the total net sales, Energy Solutions accounted for 22%, Marine Solutions for 33% and Services for 45%.

Of Wärtsilä's net sales for January-September 2015, approximately 63% was EUR denominated, 20% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	7-9/2015	7-9/2014	Change	1-9/2015	1-9/2014	Change	2014
Energy Solutions	243	282	-14%	752	705	7%	1 138
Marine Solutions[1]	448	363	23%	1 122	1 150	-2%	1 702
Services	531	472	12%	1 565	1 375	14%	1 939
Net sales, total	1 222	1 117	9%	3 439	3 230	6%	4 779

[1] MSI's contribution to net sales was EUR 125 million in the third quarter of 2015 and EUR 155 million in the review period January-September.

Operating result and profitability

The third quarter operating result (EBIT) before non-recurring items was EUR 160 million (142), or 13.1% of net sales (12.7). The operating result increase was primarily due to higher service volumes, the acquisition of L-3 Marine Systems International, and internal cost reductions. Including non-recurring items, the operating result was EUR 149 million (141), or 12.2% of net sales (12.6). The operating result (EBITA) excluding non-recurring items and purchase price allocation amortisation was EUR 170 million (149), or 13.9% of net sales (13.3). During the third quarter, non-recurring items related to restructuring measures amounted to EUR 11 million (1) and purchase price allocation amortisation to EUR 9 million (6).

For the review period January-September 2015, the operating result (EBIT) before non-recurring items was EUR 397 million (373), or 11.5% of net sales (11.5). Including non-recurring items, the operating result was EUR 386 million (356) or 11.2% of net sales (11.0). The operating result (EBITA) excluding non-recurring items and purchase price allocation amortisation was EUR 420 million (392), or 12.2% of net sales (12.1). Non-recurring items related to restructuring measures amounted to EUR 11 million (17) and purchase price allocation amortisation to EUR 23 million (19) during January-September 2015.

During the review period January-September 2015, financial items increased to EUR -31 million (-18) mainly related to unrealised exchange rate losses. Net interest totalled EUR -8 million (-6). Profit before taxes amounted to EUR 354 million (338). Taxes amounted to EUR 84 million (78), implying an effective tax rate of 23.6%. Earnings per share were 1.46 euro (1.16) and the equity per share was 10.25 euro (9.69). Return on investments (ROI) was 20.3% (21.8). Return on equity (ROE) was 19.9% (22.3).

Balance sheet, financing and cash flow

Wärtsilä’s third quarter cash flow from operating activities amounted to EUR -5 million (68). Increased receivables affected cash flow development. For January-September 2015, the operating cash flow totalled EUR 78 million (240). Working capital totalled EUR 522 million (379) at the end of the review period. Increased inventories had a negative impact on working capital development. Advances received at the end of the period totalled EUR 814 million (747). Cash and cash equivalents at the end of the period amounted to EUR 250 million (400) and unutilised Committed Credit Facilities totalled EUR 679 million (599).

Wärtsilä had interest-bearing debt totalling EUR 778 million (679) at the end of September 2015. The total amount of short-term debt maturing within the next 12 months was EUR 279 million. Long-term loans amounted to EUR 499 million. Net interest-bearing debt totalled EUR 513 million (277) and gearing was 0.26 (0.14).

Liquidity preparedness

MEUR	30.9.2015	30.6.2015
Cash and cash equivalents	250	269
Unutilised committed credit facilities	679	629
Liquidity preparedness	929	898
% of net sales (rolling 12 months)	19	18
Less Commercial Papers	175	180
Liquidity preparedness excluding Commercial Papers	754	718
% of net sales (rolling 12 months)	15	15

On 30 September 2015, the average maturity of the total loan portfolio was 35 months and the average maturity of the long-term debt was 45 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant and equipment amounted to EUR 52 million (67) during the review period January-September 2015. Capital expenditure related to acquisitions and investments in securities totalled EUR 262 million (2). Depreciation, amortisation, and impairment for the review period amounted to EUR 91 million (85).

In 2015, capital expenditure related to intangible assets and property, plant and equipment is expected to be below depreciation and amortisation.

Research and development, product launches

In September, Wärtsilä introduced a new WST-14 thruster aimed at river and inland waterway vessel applications. The space-saving compact design provides increased reliability and efficiency, while also lowering costs.

In June, the company launched the Wärtsilä 31, a breakthrough engine featuring the most advanced technology. The Wärtsilä 31 engine has significantly reduced maintenance requirements, while also raising fuel efficiency, fuel flexibility, and operational optimisation to levels beyond anything else currently available. The engine achieved a Guinness World Records title for the most efficient 4-stroke diesel engine with diesel fuel consumption as low as 165 g/kWh.

Strategy

Wärtsilä aims at profitable growth by providing advanced technologies and lifecycle solutions to its marine and energy market customers. Our objective is to shape the markets in which we are present, as well as to enhance the businesses of our customers while benefitting the environment.

Increasing environmental awareness and changing energy needs are affecting the way that companies operate. With our integrated products and services, we are well positioned today to respond to the need for energy efficient and flexible solutions. We will meet the increasing demand for gas based technologies with our industry leading multiple fuel products and LNG solutions. We will leverage our project management and engineering competences to achieve growth by offering our customers new and innovative solutions. Our growth ambitions are supported by our superior global service network.

With our production and supply chain management, we constantly seek ways to provide high quality and maintain cost efficiency - often in co-operation with leading industrial partners in our key growth markets. Our market driven investments in R&D create a strong foundation for securing and strengthening our position at the forefront of technological innovation. This innovative culture, together with our constant emphasis on safety, diversity, and high ethical standards, attract skilled and committed people and lead to a high performing organisation. Our entrepreneurial drive, customer focus and passion for doing right not only create new opportunities and environmentally sustainable solutions, but also bring value to all our stakeholders.

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

The acquisition of L-3 Marine Systems International (MSI) from the NYSE-listed L-3 Communications Holdings Inc. has been finalised and control of the company was transferred to Wärtsilä with effect from 1 June 2015. Integration is proceeding according to plan and MSI's financial development is in line with expectations. Further information on the acquisition can be found in the interim report tables.

Construction of the CSSC Wärtsilä Engine (Shanghai) Co. Ltd factory in Lingang, Shanghai is proceeding according to plan. The business licence was received in July 2015. The first engines are expected to be ready for delivery during 2016.

Personnel

Wärtsilä had 19,237 (17,817) employees at the end of September 2015. Personnel has declined by 190 employees from the end of the previous quarter due to the ongoing efficiency programmes. On average, the number of personnel for January-September 2015 totalled 18,429 (17,960). Marine Solutions employed 7,101 (5,651) people, Energy Solutions 966 (990) and Services 10,714 (10,742). The increase in the number of Marine Solutions employees relates to the acquisition of L-3 Marine Systems International.

Of Wärtsilä's total number of employees, 19% (20) were located in Finland and 39% (35) elsewhere in Europe. Personnel employed in Asia represented 28% (31) of the total, personnel in the Americas 10% (10), and personnel in other countries 4% (4).

Restructuring programmes

In July 2015, Wärtsilä announced plans to realign its Marine Solutions organisation, operations and resources in response to the sluggish global marine market situation. The organisational adjustments are proceeding according to plan. The realignment will mean the reduction of approximately 600 jobs, of which approximately 160 will be in Finland. In taking these measures, Wärtsilä seeks annual savings in the region of EUR 40 million, which are expected to materialise fully by the end of 2016. The non-recurring costs related to the restructuring measures will be approximately EUR 25-30 million, of which EUR 11 million was booked in the third quarter of 2015.

Changes in management

Wärtsilä’s Board of Directors has appointed Mr Jaakko Eskola (57) M.Sc. (Eng.) as the new President and CEO of Wärtsilä Corporation. He will assume the position on 1 November 2015, succeeding Mr Björn Rosengren who leaves the company to become the CEO of Sandvik.

Mr Roger Holm (43) M.Sc. (Econ.) has been appointed President of Marine Solutions, Executive Vice President and member of the Board of Management, effective as of 1 November 2015.

Sustainable development

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

Shares and shareholders

During January-September 2015, the volume of trades on Nasdaq Helsinki was 87,876,688 shares, equivalent to a turnover of EUR 3,506 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 55,202,065 shares.

Shares on Nasdaq Helsinki

30.9.2015	Number of shares and votes	Number of shares traded 1-9/2015
WRT1V	197 241 130	87 876 688

1.1. - 30.9.2015	High	Low	Average [1]	Close
Share price	44.97	33.22	39.91	35.47

[1] Trade-weighted average price

	30.9.2015	30.9.2014
Market capitalisation, EUR million	6 996	6 988
Foreign shareholders, %	51.2	54.0

Flagging notifications

During the review period January-September 2015, Wärtsilä was informed of the following changes in ownership:

On 10 September, BlackRock, Inc. increased its holding in Wärtsilä. Following the transaction BlackRock Inc. owned 10,019,838 shares or 5.08% of Wärtsilä's share capital and total votes.

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 5 March 2015 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 2014. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.15 per share. The dividend was paid on 16 March 2015.

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, Sune Carlsson, Tom Johnstone, Mikael Lilius, Risto Murto, Gunilla Nordström and Markus Rauramo.

The firm of public auditors KPMG Oy Ab was appointed as the company's auditor for the year 2015.

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 6 March 2014. 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 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 Sune Carlsson 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, Sune Carlsson, Risto Murto

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

Risks and business uncertainties

Uncertainty in the financial markets and the availability of financing are impacting the timing of larger power plant projects in certain markets. Low oil prices are affecting national infrastructure development in oil and gas producing economies. This is evident in the Middle East where national budgets have been adjusted. Although oil and gas importing countries benefit from low oil prices; power plant investment decisions are based on long-term price forecasts, not short-term price swings. Delays in customer decision-making can occur in regions affected by geopolitical tension or by significant currency fluctuations. In the industrial segment, investment decisions are impacted by the demand for commodities, such as minerals or cement. Price pressure continues to be a risk, as competition is increasing.

The business environment for the shipping and shipbuilding industry remains challenging. The weak short-term global economic outlook, overcapacity, and low demand for cargo tonnage are the main obstacles to recovery in the conventional shipping markets. Low oil prices, an oversupply of oil and gas, and reduced capital expenditure from oil companies continue to limit offshore investments. Reduced newbuild prices may push yards to squeeze suppliers on price. Vessel owners are negotiating extensions to existing delivery contracts, which represents a risk to shipyard order books. The risk of cancellations appears to be more limited.

In the Services business, slow economic growth and political instability in specific regions represent the main risks for demand development. 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. There is currently one unusually sizable 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 2014 annual report contains a more detailed description of Wärtsilä's risks and risk management.

Market outlook

The market for liquid and gas fuelled power generation is expected to remain challenging as economic uncertainty continues. Despite the slower economic growth in the emerging markets, growth in electricity demand will support power plant investments. In the OECD countries, low economic growth continues to limit demand for new power plants. Low gas prices are driving demand in the USA. The megatrend towards distributed, flexible gas-fired power generation is gaining further ground globally. The increasing deployment of intermittent renewable power, such as wind and solar, will require flexible solutions to balance the power systems. Electricity markets, all over the world, are being developed to accommodate the necessary flexibility.

The overall outlook for the shipping and shipbuilding markets remains challenging. Overcapacity continues to affect demand. Low oil prices are impacting investments in offshore exploration and development, resulting in weak contracting of offshore drilling units and support vessels. Gas carrier contracting is expected to remain on a normalised level. The outlook for the cruise segment remains positive thanks to an anticipated increase in Asian passenger traffic, while the outlook for ferries is supported by signs of economic recovery in the USA and Europe. The importance of fuel efficiency and environmental regulations are clearly visible. The regulatory environment is driving interest in gas as a marine fuel in the wider marine markets.

The overall service market outlook is positive with growth opportunities in selected regions and segments. An increase in the installed base of medium-speed engines and propulsion equipment is offsetting the slower service demand for older installations and the uncertainty regarding short-term demand in the merchant marine segment. The service demand for installations operating on oil based fuels is expected to grow as low oil prices have had a favourable impact on operating costs. Although the decline in oil prices has resulted in a challenging outlook for offshore services in specific regions, the growth during recent years in the offshore installed base partially compensates for a potential decline in service volumes. The service outlook for gas fuelled vessels remains favourable. Service demand in the power plant segment continues to be good with an especially positive outlook in the Middle East and Africa. Customers in both the marine and power plant markets continue to show healthy interest in long-term service agreements.

Wärtsilä Interim report January-September 2015

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 2014. 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

No new or updated IFRS standards have been adopted in 2015.

This interim report is unaudited.

Condensed statement of income

MEUR	1–9/2015	1–9/2014	2014
Continuing operations			
Net sales	3 439	3 230	4 779
Other operating income	33	34	52
Expenses	-3 007	-2 846	-4 220
Depreciation, amortisation and impairment	-91	-85	-115
Share of result of associates and joint ventures	12	22	26
Operating result	386	356	522
Financial income and expenses	-31	-18	-28
Profit before taxes	354	338	494
Income taxes	-84	-78	-106
Profit for the reporting period from the continuing operations	270	259	389
Profit/loss for the reporting period from the discontinued operations	22	-29	-37
Net profit for the reporting period	292	231	351
Attributable to:			
Equity holders of the parent company	287	228	347
Non-controlling interests	5	2	5
	292	231	351
Earnings per share attributable to equity holders of the parent company (basic and diluted):			
Earnings per share, continuing operations, EUR	1.35	1.31	1.95
Earnings per share, discontinued operations, EUR	0.11	-0.15	-0.19
Earnings per share, EUR	1.46	1.16	1.76

Statement of other comprehensive income

MEUR	1–9/2015	1–9/2014	2014
Net profit for the reporting period	292	231	351
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income:			
Actuarial gains (losses) on defined benefit plan	-2	-4	-29
Tax on items that will not be reclassified to the statement of income			4
Total items that will not be reclassified to the statement of income	-2	-4	-25
Items that may be reclassified subsequently to the statement of income:			
Exchange rate differences on translating foreign operations	8	66	56
Exchange rate differences on translating foreign operations for non-controlling interests	2	3	4
Cash flow hedges	-5	-20	-74
Tax on items that may be reclassified to the statement of income	1	4	20
Total items that may be reclassified to the statement of income	6	53	5
Other comprehensive income for the reporting period, net of taxes	4	49	-20
Total comprehensive income for the reporting period	296	280	332

Total comprehensive income attributable to:			
Equity holders of the parent company	290	274	323
Non-controlling interests	6	5	9
	296	280	332

Condensed statement of financial position

MEUR	30.9.2015	30.9.2014	31.12.2014
Non-current assets			
Intangible assets	1 462	1 200	1 180
Property, plant and equipment	425	439	434
Investments in associates and joint ventures	75	87	90
Available-for-sale financial assets	16	16	16
Deferred tax assets	168	139	144
Other receivables	55	5	20
	2 202	1 887	1 884
Current assets			
Inventories	1 535	1 387	1 156
Other receivables	1 621	1 315	1 567
Cash and cash equivalents	250	400	571
	3 407	3 102	3 294
Assets held for sale		101	102
Total assets	5 609	5 090	5 280
Equity			
Share capital	336	336	336
Other equity	1 686	1 575	1 624
Total equity attributable to equity holders of the parent company	2 022	1 911	1 960
Non-controlling interests	43	42	45
Total equity	2 065	1 953	2 005
Non-current liabilities			
Interest-bearing debt	499	548	537
Deferred tax liabilities	112	81	64
Other liabilities	310	221	231
	921	850	832
Current liabilities			
Interest-bearing debt	279	131	129
Other liabilities	2 343	2 105	2 259
	2 623	2 236	2 388
Total liabilities	3 544	3 086	3 220
Liabilities directly attributable to assets held for sale		51	55
Total equity and liabilities	5 609	5 090	5 280

Condensed statement of cash flows

MEUR	1–9/2015	1–9/2014	2014
Cash flow from operating activities:			
Net profit for the reporting period	292	231	351
Depreciation, amortisation and impairment	91	88	119
Financial income and expenses	31	18	28
Selling profit and loss of fixed assets and other changes	-25	3	2
Share of result of associates and joint ventures	-12	-20	-24
Income taxes	84	73	99
Changes in working capital	-301	-51	32
Cash flow from operating activities before financial items and taxes	161	342	606
Financial items and paid taxes	-83	-102	-154
Cash flow from operating activities	78	240	452
Cash flow from investing activities:			
Investments in shares and acquisitions	-262	-2	-2
Net investments in property, plant and equipment and intangible assets	-45	-60	-83
Proceeds from sale of available-for-sale financial assets and shares in associated companies		14	15
Disposal of discontinued operations, net of cash	44		
Cash flow from other investing activities		1	
Cash flow from investing activities	-263	-47	-71
Cash flow from financing activities:			
Proceeds from non-current borrowings	51	100	100
Repayments and other changes in non-current loans	-97	-57	-81
Changes in current loans and other changes	143	-25	-18
Dividends paid	-238	-211	-211
Cash flow from financing activities	-141	-192	-210
Change in cash and cash equivalents, increase (+) / decrease (-)	-326	1	172
Cash and cash equivalents at the beginning of the reporting period	571	388	388
Exchange rate changes	5	11	12
Net change in cash effect from discontinued operations			1
Cash and cash equivalents at the end of the reporting period	250	400	571

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 2015	336	61	-30	-66	-65	1 723	45	2 005
Dividends paid						-227	-9	-236
Total comprehensive income for the reporting period			8	-4	23	262	6	296
Equity on 30 September 2015	336	61	-21	-70	-42	1 758	43	2 065

	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

Acquisitions

L-3 Marine Systems International

On 31 May 2015 Wärtsilä acquired L-3 Marine Systems International (MSI) from NYSE-listed L-3 Communications Holdings Inc. The preliminary consideration of the transaction is EUR 298 million.

MSI has extensive experience in supplying automation, navigation and electrical systems, dynamic positioning technology, as well as sonar and underwater communications technology for a variety of vessel types and offshore installations. Wärtsilä’s strong position in the development of technologies that enhance operational efficiency will be further strengthened with the addition of MSI’s broad range of capabilities.

The following tables summarise the preliminary amounts for the consideration paid for MSI, 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	298
Total consideration transferred	298

Preliminary cash flow from the acquisition	MEUR
Consideration paid in cash	298
Cash and cash equivalents of the acquired companies	-36
Total cash flow from the acquisition	262

Provisional values of the assets and liabilities arising from the acquisition	MEUR
Intangible assets	132
Property, plant and equipment	8
Inventories	129
Trade and other receivables	68
Deferred tax assets	19
Cash and cash equivalents	36
Total assets	392

Provisions	33
Pension obligations	58
Trade payables and other liabilities	122
Deferred tax liabilities	43
Total liabilities	**255**
Total net assets	**136**
Preliminary goodwill	**161**

The preliminary fair values of acquired identifiable intangible assets at the date of acquisition (including technology, customer relationships and trademarks) amounted to EUR 132 million. The fair value of current trade receivables and other receivables is approximately EUR 68 million. The fair value of trade receivables does not include any significant risk.

The preliminary goodwill of EUR 161 million reflects the value of know-how and expertise in marine electrical & automation. Wärtsilä foresees that the new unit will capture new market opportunities and improve the operational efficiency of its customers. The goodwill recognised for MSI is not tax deductible.

During 2015 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. The total acquisition-related costs are EUR 4 million.

During June-September MSI contributed EUR 153 million to order intake and EUR 155 million to net sales. Contribution to the operating result of the Group was not significant. If the acquisition had occurred on 1 January 2015, management estimates that consolidated net sales would have been EUR 3,607 million. The impact in the consolidated operating result for the reporting period 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 2015.

Disposals

The sale of the two-stroke engine business to the joint venture Winterthur Gas & Diesel Ltd (WinGD) was completed in January. Wärtsilä's ownership of WinGD is 30% and China State Shipbuilding Corporation's (CSSC) ownership is 70%. As a result of the sale transaction, a profit of EUR 24 million has been recognised in profit for the reporting period from the discontinued operations.

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

Profit for the reporting period from the discontinued operations

MEUR	1–9/2015
Discontinued operations	
Expenses	-2
Profit on sale of shares	24
Profit for the reporting period	22
Earnings per share, discontinued operations, EUR	0.11

Cash flows from the discontinued operations

MEUR	1–9/2015
Cash flow from investing activities	44
Change in cash and cash equivalents, increase (+) / decrease (-)	44

Net sales by geographical areas

MEUR	1–9/2015	1–9/2014	2014
Europe	1 050	1 031	1 402
Asia	1 388	1 338	1 989
The Americas	697	537	840
Other	304	324	548
Total	3 439	3 230	4 779

Intangible assets and property, plant & equipment

MEUR	1–9/2015	1–9/2014	2014
Intangible assets			
Carrying amount on 1 January	1 180	1 235	1 235
Changes in exchange rates	22	38	22
Acquisitions	293		
Additions	11	27	36
Amortisation and impairment	-43	-39	-51
Reclassifications to assets held for sale		-60	-61
Carrying amount at the end of the reporting period	1 462	1 200	1 180
Property, plant and equipment			
Carrying amount on 1 January	434	449	449
Changes in exchange rates	-3	9	7
Acquisitions	8		
Additions	42	46	62
Depreciation and impairment	-48	-46	-63
Disposals and reclassifications	-8	-9	-10
Reclassifications to assets held for sale		-9	-8
Carrying amount at the end of the reporting period	425	439	434

Gross capital expenditure

		Restated	Restated
MEUR	1–9/2015	1–9/2014	2014
Investments in securities and acquisitions	262	2	2
Intangible assets and property, plant and equipment	52	67	92
Total	314	69	94

The two-stroke business was classified as discontinued operations in September 2014. Figures in this table for comparison periods 1–9/2014 and 2014 include continuing operations.

Net interest-bearing debt

MEUR	1–9/2015	1–9/2014	2014
Non-current liabilities	499	548	537
Current liabilities	279	131	129
Loan receivables	-15	-1	-1
Cash and cash equivalents	-250	-400	-571
Total	513	277	94

Financial ratios

	1–9/2015	1–9/2014	2014
Earnings per share (basic and diluted), EUR	1.46	1.16	1.76
Equity per share, EUR	10.25	9.69	9.94
Solvency ratio, %	43.1	45.0	43.5
Gearing	0.26	0.14	0.05
Return on investment (ROI), continuing operations, %	20.3	21.8	20.3
Return on equity (ROE), continuing operations, %	19.9	22.3	20.0

Personnel

	1–9/2015	1–9/2014	2014
On average	18 429	17 960	18 042
At the end of the reporting period	19 237	17 817	17 717

Contingent liabilities

MEUR	1–9/2015	1–9/2014	2014
Mortgages	10	10	10
Chattel mortgages and other pledges	25	25	26
Total	35	35	36
Guarantees and contingent liabilities			
on behalf of Group companies	734	718	746
on behalf of associated companies	3		
Nominal amount of rents according to leasing contracts			
payable within one year	29	23	25
payable between one and five years	81	57	66
payable later	20	24	23
Total	865	822	859

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	185	
Inflation hedges	3	
Foreign exchange forward contracts	2 352	1 088
Currency options, purchased	26	
Total	2 565	1 088

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)	14	14
Other receivables, non-current (level 2)	6	6
Other receivables, non-current (level 3)	21	21
Derivatives (level 2)	14	14
Financial liabilities		
Interest-bearing debt, non-current (level 2)	499	510
Derivatives (level 2)	50	50

Condensed statement of income, quarterly

MEUR	7–9/2015	4–6/2015	1–3/2015	10–12/2014	7–9/2014	Restated 4–6/2014
Continuing operations						
Net sales	1 222	1 230	988	1 549	1 117	1 116
Other operating income	12	13	7	17	10	12
Expenses	-1 058	-1 081	-868	-1 375	-964	-983
Depreciation, amortisation and impairment	-32	-30	-29	-30	-29	-27
Share of result of associates and joint ventures	5	5	2	4	7	5
Operating result	149	137	100	166	141	123
Financial income and expenses	-17	3	-18	-9	-12	-4
Profit before taxes	132	140	82	157	129	119
Income taxes	-35	-31	-18	-27	-31	-28
Profit for the reporting period from the continuing operations	97	109	64	129	98	91
Profit/loss for the reporting period from the discontinued operations			22	-9	-13	-8
Net profit for the reporting period	97	109	86	121	85	83

Attributable to:						
Equity holders of the parent company	95	107	85	118	84	83
Non-controlling interests	2	2	1	3	1	
	97	109	86	121	85	83
Earnings per share attributable to equity holders of the parent company (basic and diluted):						
Earnings per share, continuing operations, EUR	0.49	0.54	0.32	0.64	0.50	0.46
Earnings per share, discontinued operations, EUR			0.11	-0.04	-0.07	-0.04
Earnings per share, EUR	0.49	0.54	0.43	0.60	0.43	0.42

The two-stroke business was classified as discontinued operations in September 2014.

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

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

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)

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

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)

EBITA

Operating result – non-recurring items – purchase price allocation amortisation

21 October 2015
Wärtsilä Corporation
Board of Directors