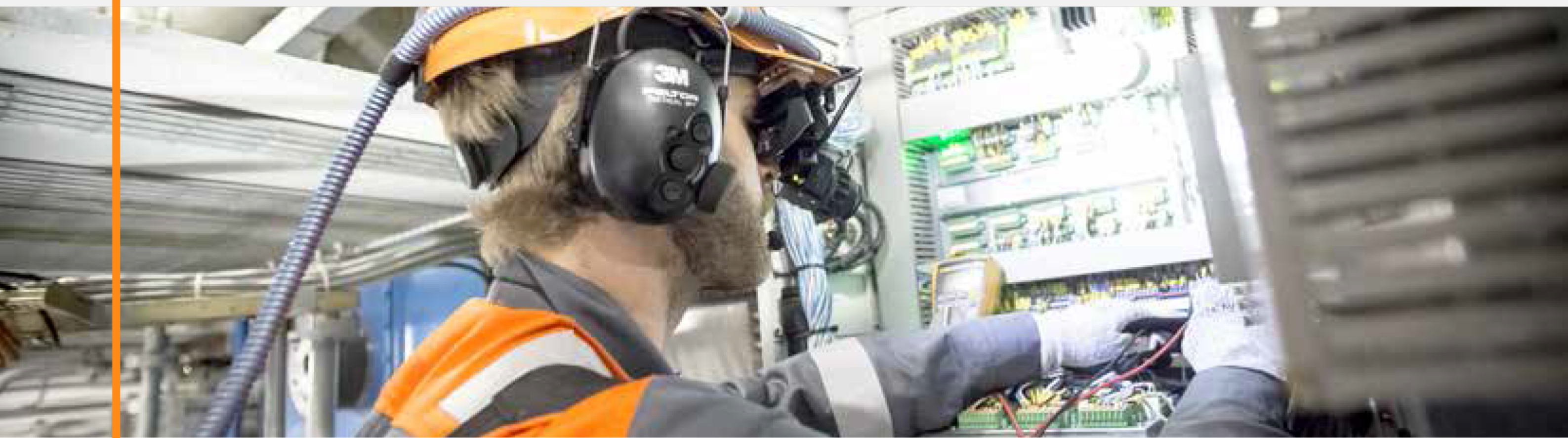
Wärtsilä Corporation
Q2 Interim report

January–June 2015



Net sales increased in challenging market conditions

As a result of the 2-stroke operations being classified as discontinued operations in 2014, comparison figures related to the statement of income have been restated.

Second quarter highlights

- Order intake increased 2% to EUR 1,159 million (1,138)
- Net sales increased 10% to EUR 1,230 million (1,116)
- Book-to-bill 0.94 (1.02)
- EBITA EUR 144 million, or 11.7% of net sales (EUR 138 million or 12.4%)
- Operating result before non-recurring items EUR 137 million, or 11.1% of net sales (EUR 132 million or 11.8%)
- Earnings per share 0.54 euro (0.42)
- Cash flow from operating activities EUR 47 million (61)
- Acquisition of L-3 Marine Systems International finalised

Highlights of the review period January-June 2015

- Order intake increased 8% to EUR 2,443 million (2,253)
- Net sales increased 5% to EUR 2,218 million (2,113)
- Book-to-bill 1.10 (1.07)
- EBITA EUR 250 million, or 11.3% of net sales (EUR 243 million or 11.5%)
- Operating result before non-recurring items EUR 237 million, or 10.7% of net sales (EUR 230 million or 10.9%)
- Earnings per share 0.97 euro (0.73)
- Cash flow from operating activities EUR 84 million (172)
- Order book at the end of the period increased 20% to EUR 5,325 million (4,420)

Events after the reporting period

- Plans to realign the Ship Power business, today renamed Marine Solutions, announced on 17 July 2015

Wärtsilä's prospects for 2015 revised

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%. The 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.

Previously Wärtsilä expected its net sales to grow by 0-10% and its operational profitability (EBIT% before non-recurring items) to be 12.0-12.5%, excluding the impact of the MSI acquisition.

Björn Rosengren, President and CEO

"Environmental awareness and changing energy needs are increasingly steering investments in the markets in which we operate. The industry dynamics are changing, and we have fine-tuned our strategy accordingly. We seek growth by offering innovative and energy efficient lifecycle solutions, as well as by leveraging our leading position in gas based technology. As we enter new market segments, such as Oil & Gas and LNG terminals, and acquire companies that bring new products to our portfolio, the scope of our offering becomes more than simply powering ships or building power plants. Therefore, we have decided to rename our Ship Power and Power Plants businesses Marine Solutions and Energy Solutions.

Supported by growth in service volumes and increased power plant deliveries, Wärtsilä's second quarter net sales grew by 10% to EUR 1,230 million. I am especially pleased with the development of the Services business; the second quarter saw growth in both order intake and sales, and the market outlook remains positive. Profitability was 11.1% for the second quarter and 10.7% for the first half. In Energy Solutions, delayed decision-making in certain projects affected our order intake. However, our solid project pipeline gives me confidence in improved activity during the second half of the year. The marine markets continue to suffer from weak vessel demand caused primarily by overcapacity, depressed freight rates, and low oil prices. Marine Solutions' order intake was on a good level despite the challenging market conditions. Still, we must ensure our future competitiveness in a low demand environment. Consequently, we have today announced plans to realign our Marine Solutions organisation.

Our guidance has been updated to reflect the acquisition of L-3 Marine Systems International, which was finalised at the end of May. We now expect net sales growth of 5-10% and profitability to be 12.0-12.5%."

Key figures

MEUR	4-6/2015	4-6/2014	Change	1-6/2015	1-6/2014	Change	2014
Order intake	1 159	1 138	2%	2 443	2 253	8%	5 084
Order book at the end of the period				5 325	4 420	20%	4 530
Net sales	1 230	1 116	10%	2 218	2 113	5%	4 779
Operating result (EBITA)[1]	144	138	4%	250	243	3%	594
% of net sales	11.7	12.4		11.3	11.5		12.4
Operating result (EBIT)[2]	137	132	4%	237	230	3%	569
% of net sales	11.1	11.8		10.7	10.9		11.9
Profit before taxes	140	119	18%	222	208	6%	494
Earnings/share, EUR	0.54	0.42		0.97	0.73		1.76
Cash flow from operating activities	47	61		84	172		452
Net interest-bearing debt at the end of the period				495	350		94
Gross capital expenditure				297	42		94
Gearing				0.25	0.19		0.05

[1] EBITA is shown excluding non-recurring items and purchase price allocation amortisation. Purchase price allocation amortisation totalled EUR 7 million (6) in the second quarter of 2015 and EUR 13 million (13) in the review period January-June. In 2014, Wärtsilä recognised non-recurring items related to restructuring measures amounting to EUR 9 million in the second quarter and EUR 15 million during the January-June review period.

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

Market development

Energy Solutions

Challenging environment in the power generation markets

Power generation markets closely follow macroeconomic development, both locally and globally. Despite expectations of growth, continued economic stagnation has dampened investments in new power generation capacity in the industrialised countries. Growth in the emerging markets, although slower than projected, remained supportive of power plant investments. Wärtsilä's quotation activity was good during the second quarter and remained focused on multi-fuel and natural gas based power plants.

Energy Solutions market share

During the first quarter of 2015, global orders for natural gas and liquid fuel power plants of up to 500 MW totalled 4.7 GW (6.5), a decrease of 28% compared to the corresponding period in 2014. In a challenging market environment, Wärtsilä's market share increased to 15% (6). Global orders include all gas turbine and Wärtsilä orders of over 5 MW.

Marine Solutions

Contracting volumes remain low

During the first half of 2015, 458 contracts for new vessels were registered. This represents a decline of approximately 53% compared to the 973 contracts reported in the corresponding period for 2014. Newbuilding prices softened further during the second quarter, as a result of the low contracting volumes. Contracting activity was particularly weak in the dry bulk and offshore segments. Oil prices recovered somewhat during the second quarter, yet the offshore markets remain challenging and oil companies continue to focus on cutting costs. Current oil price levels and improved earnings supported crude tanker contracting. Gas carrier contracting (LNG and LPG) declined compared to the very active 2014, with a total of 36 (84) gas carriers ordered during the first half of 2015. The ordering of cruise and ferry vessels was active.

The top three shipbuilding countries continued to control contracting activity in terms of compensated gross tonnage. South Korea's share of confirmed contracts increased to 42%, mainly due to the orders placed for containerships, tankers, and LNG carriers at South Korean yards. China secured 23% of the confirmed contracts, whereas Japan's share was 20%.

Marine Solutions market shares

Wärtsilä's share of the medium-speed main engine market was 59% (56% at the end of the previous quarter). The market share in auxiliary engines was 5% (4% at the end of the previous quarter).

Services

Good activity in the Services markets

Service market activity continued to develop well throughout the second quarter. In the marine markets, low fuel costs have had a positive impact on customers' operating costs and the demand for service projects continued. Service activity was strongest in the merchant segment and, from a regional perspective, in Northern Europe. Power plant service markets improved somewhat, with especially good development in Africa.

Order intake

Wärtsilä's second quarter order intake totalled EUR 1,159 million (1,138), an increase of 2% over the corresponding period last year. Compared to the previous quarter, order intake decreased by 10% (EUR 1,285 million in the first quarter of 2015). The second quarter book-to-bill ratio was 0.94 (1.02).

Order intake for Energy Solutions totalled EUR 188 million (244), which was 23% lower than in the corresponding period last year. Compared to the previous quarter, order intake decreased by 34% (EUR 287 million in the first quarter of 2015). The main new orders came from Colombia, the USA and Turkey.

Marine Solutions' order intake in the second quarter of 2015 totalled EUR 392 million (383), an increase of 2% over the corresponding period last year. Compared to the previous quarter, order intake increased by 17% (EUR 336 million in the first quarter of 2015). Gas carriers represented 28% of the second quarter order intake and the conventional merchant segment accounted for 14%. The offshore segment's share was 18%, while cruise & ferry represented 24% of order intake, navy 3%, and special vessels 10%. Other orders accounted for 3% of the total.

Services order intake increased by 13% to EUR 579 million (510). Compared to the previous quarter the order intake decreased by 13% (EUR 662 million in the first quarter of 2015).

The total order intake for the review period January-June 2015 was EUR 2,443 million (2,253), an increase of 8% over the corresponding period in 2014. The book-to-bill ratio for the review period was 1.10 (1.07). Energy Solutions' order intake increased by 16% to EUR 475 million (409). Marine Solutions' order intake decreased 12% to EUR 728 million (823). Services' order intake totalled EUR 1,240 million (1,021), an increase of 22%.

Order intake by business

MEUR	4-6/2015	4-6/2014	Change	1-6/2015	1-6/2014	Change	2014
Energy Solutions	188	244	-23%	475	409	16%	1 293
Marine Solutions[1]	392	383	2%	728	823	-12%	1 746
Services	579	510	13%	1 240	1 021	22%	2 045
Order intake, total	1 159	1 138	2%	2 443	2 253	8%	5 084

[1] MSI's contribution to order intake was EUR 41 million in the second quarter of 2015.

Order intake Energy Solutions

MW	4-6/2015	4-6/2014	Change	1-6/2015	1-6/2014	Change	2014
Oil	237	309	-24%	688	470	47%	980
Gas	283	281	1%	534	516	3%	1 509
Order intake, total	520	590	-12%	1 222	986	24%	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 140 million (92) during the review period January-June 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 5,325 million (4,420), an increase of 20%. The Energy Solutions order book increased by 10%, totalling EUR 1,459 million (1,322). The Marine Solutions order book was EUR 2,785 million (2,233), an increase of 25%. The Services order book totalled EUR 1,081 million (865), which is 25% higher than at the same date last year.

Order book by business

MEUR	30.6.2015	30.6.2014	Change	31.12.2014
Energy Solutions	1 459	1 322	10%	1 475
Marine Solutions[1]	2 785	2 233	25%	2 213
Services	1 081	865	25%	842
Order book, total	5 325	4 420	20%	4 530

[1] MSI's order book at the end of June 2015 amounted to EUR 519 million.

Net sales

Wärtsilä's net sales for the second quarter increased by 10% to EUR 1,230 million (1,116) compared to the corresponding period last year. Net sales for Energy Solutions increased by 40% to EUR 327 million (233), thanks to order intake growth in the second half of 2014. Marine Solutions' net sales for the second quarter totalled EUR 354 million (415), a decrease of 15%. Net sales from the Services business increased by 17% to EUR 548 million (468), supported by growth in all segments.

Wärtsilä's net sales for January-June 2015 was EUR 2,218 million (2,113). Net sales for Energy Solutions totalled EUR 509 million (424), an increase of 20%. Marine Solutions' net sales totalled EUR 674 million (786), a decrease of 14%. Net sales from the Services business increased by 14% to EUR 1,034 million (903). Of the total net sales, Energy Solutions accounted for 23%, Marine Solutions for 30% and Services for 47%.

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

Net sales by business

MEUR	4-6/2015	4-6/2014	Change	1-6/2015	1-6/2014	Change	2014
Energy Solutions	327	233	40%	509	424	20%	1 138
Marine Solutions[1]	354	415	-15%	674	786	-14%	1 702
Services	548	468	17%	1 034	903	14%	1 939
Net sales, total	1 230	1 116	10%	2 218	2 113	5%	4 779

[1] MSI's contribution to net sales was EUR 30 million in the second quarter of 2015.

Operating result and profitability

The second quarter operating result (EBIT) before non-recurring items was EUR 137 million (132), or 11.1% of net sales (11.8). The operating result (EBITA) excluding non-recurring items and purchase price allocation amortisation was EUR 144 million (138), or 11.7% of net sales (12.4). Purchase price allocation amortisation amounted to EUR 7 million (6). During the second quarter of 2014, Wärtsilä recognised EUR 9 million of non-recurring items related to restructuring measures. Including non-recurring items, the operating result for the comparison period was EUR 123 million, or 11.0% of net sales.

For the review period January-June 2015, the operating result (EBIT) before non-recurring items was EUR 237 million (230), or 10.7% of net sales (10.9). The operating result (EBITA) excluding non-recurring items and purchase price allocation amortisation was EUR 250 million (243), or 11.3% of net sales (11.5). Purchase price allocation amortisation amounted to EUR 13 million (13). During the review period January-June 2014, non-recurring items related to restructuring measures amounted to EUR 15 million. Including non-recurring items, the operating result for the comparison period was EUR 215 million or 10.2% of net sales.

During the review period January-June 2015, financial items amounted to EUR -15 million (-6). The weakening of the euro resulted in unrealised exchange rate losses. Net interest totalled EUR -5 million (-4). Profit before taxes amounted to EUR 222 million (208). Taxes amounted to EUR 49 million (47), implying an effective tax rate of 22.0%. Earnings per share were 0.97 euro (0.73) and equity per share was 10.08 euro (9.12). Return on investments (ROI) was 20.8% (22.6). Return on equity was 20.7% (24.0).

Balance sheet, financing and cash flow

Wärtsilä's second quarter cash flow from operating activities amounted to EUR 47 million (61). For January-June 2015, the operating cash flow totalled EUR 84 million (172). Working capital totalled EUR 404 million (339) 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 761 million (840). Cash and cash equivalents at the end of the period amounted to EUR 269 million (345) and unutilised Committed Revolving Credit Facilities totalled EUR 629 million (599).

Wärtsilä had interest-bearing debt totalling EUR 779 million (696) at the end of June 2015. The total amount of short-term debt maturing within the next 12 months was EUR 315 million. Long-term loans amounted to EUR 464 million. Net interest-bearing debt totalled EUR 495 million (350) and gearing was 0.25 (0.19).

Liquidity preparedness

MEUR	30.6.2015	31.3.2015
Cash and cash equivalents	269	382
Unutilised committed credit facilities	629	629
Liquidity preparedness	898	1 011
% of net sales (rolling 12 months)	18	21
Less Commercial Papers	180	-
Liquidity preparedness excluding Commercial Papers	718	1 011
% of net sales (rolling 12 months)	15	21

On 30 June 2015, the average maturity of the total loan portfolio was 32 months and the average maturity of the long-term debt was 41 months.

Capital expenditure

Capital expenditure related to intangible assets and property, plant and equipment amounted to EUR 35 million (41) during the review period January-June 2015. Capital expenditure related to acquisitions and investments in securities totalled EUR 262 million (1). Depreciation, amortisation, and impairment for the review period amounted to EUR 59 million (56).

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

Personnel

Wärtsilä had 19,427 (17,876) employees at the end of June 2015. On average, the number of personnel for January-June 2015 totalled 17,987 (18,057). Marine Solutions employed 7,217 (5,695), of which 1,671 were employees of the MSI business. Energy Solutions employed 974 (1,000) people and Services 10,785 (10,748).

Of Wärtsilä's total number of employees, 19% (20) were located in Finland and 38% (35) elsewhere in Europe. Personnel employed in Asia represented 29% (31) of the total, personnel in the Americas 10% (10), and personnel in other countries 4% (4).

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

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

In May, Wärtsilä signed a manufacturing license agreement with COSCO (Weihai) Shipbuilding Marine Technology Company Limited based in Weihai, China. The two-way agreement provides COSCO with access to technology and the rights to manufacture the Wärtsilä Aquarius Electro Chlorination (EC) Ballast Water Management System (BWMS) for applications in their global marine market. In return, Wärtsilä gains access to an additional manufacturing facility, which will assist with the supply of ballast water management systems directly to Wärtsilä customers.

Also in May, Wärtsilä and Carnival Corporation & plc announced an agreement to pilot technologies and systems to optimise engine room operations aboard Carnival's fleet.

During the second quarter, Wärtsilä established a subsidiary to trade spare parts for classic 4-stroke Wärtsilä engines. QuantiParts B.V., fully owned by Wärtsilä, operates from the Netherlands and serves customers in the marine, locomotive and power plant industries worldwide.

Acquisition of L-3 Marine Systems International

The acquisition of L-3 Marine Systems International (MSI) from 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. The integration of MSI with Wärtsilä's existing Electrical & Automation business within Marine Solutions has begun. Wärtsilä foresees that the new unit will capture new market opportunities and improve the operational efficiency of its customers. In addition to sales synergies, Wärtsilä expects MSI to reach current group profitability within five years.

The enterprise value was EUR 285 million and the purchase price, after estimated adjustments of cash, working capital, and pension liabilities, was EUR 298 million. Purchase price allocation amortisation is expected to be EUR 7 million in 2015. According to preliminary calculations, the goodwill value of the transaction is estimated at EUR 161 million.

MSI's order intake for the review period January-June 2015 totalled EUR 161 million and the order book at the end of the period stood at EUR 519 million. Net sales for the review period amounted to EUR 197 million. MSI has been consolidated as of June 2015. MSI contributed EUR 41 million to order intake and EUR 30 million to net sales during the second quarter of 2015. The impact on operating result was not significant.

Research and development, product launches

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.

The market leading Wärtsilä 50DF engine has been successfully tested and certified to run on ethane (LEG) fuel. The extensive test programme was carried out by Wärtsilä in close collaboration with Evergas, a world renowned owner and operator of seaborne petrochemical and liquid gas transport vessels.

During the second quarter, Wärtsilä launched several new ship designs. A new innovative anchor handling tug supply vessel design was launched at the Sea Asia exhibition, and four new fuel efficient container feeder vessel designs were launched at Nor-Shipping together with a new and improved platform supply vessel design.

Strategy

Wärtsilä aims at profitable growth by providing advanced technologies and lifecycle solutions to its marine and energy market customers.

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.

Sustainable development

Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce 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-June 2015, the volume of trades on Nasdaq Helsinki was 60,018,742 shares, equivalent to a turnover of EUR 2,437 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 37,717,875 shares.

Shares on Nasdaq Helsinki

30.6.2015	Number of shares and votes	Number of shares traded 1-6/2015
WRT1V	197 241 130	60 018 742

1.1. - 30.6.2015	High	Low	Average [1]	Close
Share price	44.52	34.86	40.63	42.02

[1] Trade-weighted average price

	30.6.2015	30.6.2014
Market capitalisation, EUR million	8 288	7 144
Foreign shareholders, %	50.6	54.3

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

In the power generation industry, uncertainty in the financial markets and the availability of financing impact the timing of larger projects in certain markets. Low oil prices are postponing investment decisions in oil and gas based economies. Delays in customer decision-making can also occur in regions affected by geopolitical tension or by significant currency fluctuations. Investment decisions in the industrial segment are impacted by the demand for commodities, such as minerals or cement. Competition is increasing since low demand in the marine industry is causing traditional engine manufacturers to enter the power plant markets.

The business environment for the shipping and shipbuilding industries remains challenging. The weak short-term global economic outlook, overcapacity, and low demand for cargo tonnage limit recovery in the conventional shipping markets. Low oil prices, an oversupply of oil and gas, and reduced capital expenditure from oil companies may further impact 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.

Events after the reporting period

On 17 July 2015, Wärtsilä announced plans to realign its Marine Solutions organisation, operations and resources in response to the sluggish global marine market situation. 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. The effect of the savings will materialise gradually beginning from the third quarter of 2015, and will take full effect by the end of 2016. The non-recurring costs related to the restructuring measures will be approximately EUR 25-30 million.

Market outlook

Based on the market situation during 2014 and the GDP forecasts for 2015, the market for liquid and gas fuelled power generation is expected to remain challenging. Despite slower economic growth in the emerging markets, increased 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 evident. The increasing deployment in many parts of the world of intermittent renewable power, such as wind and solar, will require flexible solutions to balance fluctuations in the grid.

The overall outlook for the shipping and shipbuilding markets is challenging. Low oil prices continue to impact investments in exploration and development, thereby limiting the demand for offshore drilling and support vessels. Overcapacity affects the demand for vessels, particularly in the dry bulk and offshore markets. Increased scrapping, together with a more balanced fleet growth, supports a gradual recovery in the freight market. The sentiment in the gas carrier market remains healthy; activity is however expected to revert to normal levels after the strong ordering volumes of 2014. The outlook for cruise and ferry activity is positive and is backed by new entrants to the market, fleet renewal, and increased passenger traffic from Asia. The importance of fuel efficiency and environmental regulations are clearly visible, driving interest in environmental solutions and gas as a marine fuel for the broader 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 offsets the slower service demand for older installations and uncertainty regarding short-term demand development in the merchant marine segment. The service demand for installations operating on oil based fuels is expected to grow as recent oil price developments 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's prospects for 2015 revised

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%. The guidance includes the impact of the L-3 Marine Systems International (MSI) acquisition. MSI is expected to contribute approximately EUR 250 million to 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.

Previously Wärtsilä expected its net sales to grow by 0-10% and its operational profitability (EBIT% before non-recurring items) to be 12.0-12.5%, excluding the impact of the MSI acquisition.

Wärtsilä Interim report January-June 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 will be adopted in 2015.

This interim report is unaudited.

Comparison figures related to the statement of income have been restated due to the two-stroke business being classified as discontinued operations in September 2014.

Condensed statement of income

MEUR	1–6/2015	Restated 1–6/2014	2014
Continuing operations			
Net sales	2 218	2 113	4 779
Other operating income	20	24	52
Expenses	-1 949	-1 881	-4 220
Depreciation, amortisation and impairment	-59	-56	-115
Share of result of associates and joint ventures	7	15	26
Operating result	237	215	522
Financial income and expenses	-15	-6	-28
Profit before taxes	222	208	494
Income taxes	-49	-47	-106
Profit for the reporting period from the continuing operations	173	161	389
Profit/loss for the reporting period from the discontinued operations	22	-15	-37
Net profit for the reporting period	195	146	351
Attributable to:			
Equity holders of the parent company	192	145	347
Non-controlling interests	3	1	5
	195	146	351
Earnings per share attributable to equity holders of the parent company (basic and diluted):			
Earnings per share, continuing operations, EUR	0.86	0.81	1.95
Earnings per share, discontinued operations, EUR	0.11	-0.08	-0.19
Earnings per share, EUR	0.97	0.73	1.76

Statement of other comprehensive income

MEUR	1–6/2015	1–6/2014	2014
Net profit for the reporting period	195	146	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	-4	-3	-29
Tax on items that will not be reclassified to the statement of income	1	1	4
Total items that will not be reclassified to the statement of income	-3	-2	-25
Items that may be reclassified subsequently to the statement of income:			
Exchange rate differences on translating foreign operations	62	21	56
Exchange rate differences on translating foreign operations for non-controlling interests	3		4
Cash flow hedges	5	1	-74
Tax on items that may be reclassified to the statement of income	-1	-1	20
Total items that may be reclassified to the statement of income	69	21	5
Other comprehensive income for the reporting period, net of taxes	65	18	-20
Total comprehensive income for the reporting period	261	164	332
Total comprehensive income attributable to:			
Equity holders of the parent company	255	165	323
Non-controlling interests	6		9
	261	164	332

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

Condensed statement of financial position

MEUR	30.6.2015	30.6.2014	31.12.2014
Non-current assets			
Intangible assets	1 504	1 244	1 180
Property, plant and equipment	442	439	434
Investments in associates and joint ventures	74	100	90
Available-for-sale financial assets	16	15	16
Deferred tax assets	172	133	144
Other receivables	56	6	20
	2 266	1 936	1 884
Current assets			
Inventories	1 539	1 444	1 156
Other receivables	1 549	1 394	1 567
Cash and cash equivalents	269	345	571
	3 357	3 183	3 294
Assets held for sale			102
Total assets	5 622	5 119	5 280
Equity			
Share capital	336	336	336
Other equity	1 651	1 463	1 624
Total equity attributable to equity holders of the parent company	1 987	1 799	1 960
Non-controlling interests	42	38	45
Total equity	2 030	1 837	2 005
Non-current liabilities			
Interest-bearing debt	464	595	537
Deferred tax liabilities	113	82	64
Other liabilities	350	237	231
	927	913	832
Current liabilities			
Interest-bearing debt	315	102	129
Other liabilities	2 351	2 267	2 259
	2 666	2 369	2 388
Total liabilities	3 593	3 282	3 220
Liabilities directly attributable to assets held for sale			55
Total equity and liabilities	5 622	5 119	5 280

Figures in condensed statement of financial position for comparison period 30.6.2014 include both continuing and discontinued operations.

Condensed statement of cash flows

MEUR	1–6/2015	1–6/2014	2014
Cash flow from operating activities:			
Net profit for the reporting period	195	146	351
Depreciation, amortisation and impairment	59	58	119
Financial income and expenses	15	6	28
Selling profit and loss of fixed assets and other changes	-25	-3	2
Share of result of associates and joint ventures	-7	-12	-24
Income taxes	49	44	99
Changes in working capital	-164	-6	32
Cash flow from operating activities before financial items and taxes	122	233	606
Financial items and paid taxes	-38	-61	-154
Cash flow from operating activities	84	172	452
Cash flow from investing activities:			
Investments in shares and acquisitions	-262	-1	-2
Net investments in property, plant and equipment and intangible assets	-32	-37	-83
Proceeds from sale of available-for-sale financial assets and shares in associated companies			15
Disposal of discontinued operations, net of cash	44		
Cash flow from investing activities	-250	-37	-71
Cash flow from financing activities:			
Proceeds from non-current borrowings		100	100
Repayments and other changes in non-current loans	-81	-57	-81
Changes in current loans and other changes	171	-12	-18
Dividends paid	-237	-210	-211
Cash flow from financing activities	-148	-179	-210
Change in cash and cash equivalents, increase (+) / decrease (-)	-314	-44	172
Cash and cash equivalents at the beginning of the reporting period	571	388	388
Exchange rate changes	11	1	12
Net change in cash effect from discontinued operations			1
Cash and cash equivalents at the end of the reporting period	269	345	571

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

Consolidated statement of changes in equity

	Total equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Actuarial gains and losses	Retained earnings		
Equity on 1 January 2015	336	61	-30	-66	-65	1 723	45	2 005
Dividends paid						-227	-9	-236
Total comprehensive income for the reporting period			62	4	21	168	6	261
Equity on 30 June 2015	336	61	32	-62	-44	1 664	42	2 030

	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			21	1	-3	144	1	164
Equity on 30 June 2014	336	61	-64	-12	-46	1 524	38	1 837

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

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 MSI contributed EUR 41 million to order intake and EUR 30 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 2,385 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	1–6/2015
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	1–6/2015
Cash flow from investing activities	44
Change in cash and cash equivalents, increase (+) / decrease (-)	44

Net sales by geographical areas

MEUR	1–6/2015	Restated 1–6/2014	2014
Europe	657	743	1 402
Asia	876	839	1 989
The Americas	464	312	840
Other	220	218	548
Total	2 218	2 113	4 779

Intangible assets and property, plant & equipment

MEUR	1–6/2015	Restated 1–6/2014	2014
Intangible assets			
Carrying amount on 1 January	1 180	1 235	1 235
Changes in exchange rates	52	14	22
Acquisitions	293		
Additions	8	20	36
Amortisation and impairment	-27	-25	-51
Disposals and reclassifications		-2	
Reclassifications to assets held for sale		-1	-61
Carrying amount at the end of the reporting period	1 504	1 244	1 180
Property, plant and equipment			
Carrying amount on 1 January	434	449	449
Changes in exchange rates	8	2	7
Acquisitions	8		
Additions	27	26	62
Depreciation and impairment	-32	-31	-63
Disposals and reclassifications	-3	-6	-10
Reclassifications to assets held for sale		-1	-8
Carrying amount at the end of the reporting period	442	439	434

Figures in this table for comparison period 1–6/2014 include both continuing and discontinued operations.

Gross capital expenditure

MEUR	1–6/2015	Restated 1–6/2014	Restated 2014
Investments in securities and acquisitions	262	1	2
Intangible assets and property, plant and equipment	35	41	92
Total	297	42	94

Net interest-bearing debt

MEUR	1–6/2015	1–6/2014	2014
Non-current liabilities	464	595	537
Current liabilities	315	102	129
Loan receivables	-15	-1	-1
Cash and cash equivalents	-269	-345	-571
Total	495	350	94

Figures in this table for comparison period 1–6/2014 include both continuing and discontinued operations.

Financial ratios

	1–6/2015	Restated 1–6/2014	2014
Earnings per share (basic and diluted), EUR	**0.97**	0.73	1.76
Equity per share, EUR	**10.08**	9.12	9.94
Solvency ratio, %	**41.8**	42.9	43.5
Gearing	**0.25**	0.19	0.05
Return on investment (ROI), continuing operations, %	**20.8**	22.6	20.3
Return on equity (ROE), continuing operations, %	**20.7**	24.0	20.0

Figures in this table include both continuing and discontinued operations.

Personnel

	1–6/2015	Restated 1–6/2014	Restated 2014
On average	**17 987**	18 057	18 042
At the end of the reporting period	**19 427**	17 876	17 717

Contingent liabilities

MEUR	1–6/2015	1–6/2014	2014
Mortgages	**10**	10	10
Chattel mortgages and other pledges	**26**	25	26
Total	**36**	35	36
Guarantees and contingent liabilities			
on behalf of Group companies	**774**	687	746
on behalf of associated companies	**4**		
Nominal amount of rents according to leasing contracts			
payable within one year	**23**	26	25
payable between one and five years	**64**	65	66
payable later	**20**	24	23
Total	**884**	803	859

Figures in this table for comparison period 1–6/2014 include both continuing and discontinued operations.

Nominal values of derivative instruments

MEUR	**Total amount**	**of which closed**
Interest rate swaps	185	
Inflation hedges	3	
Foreign exchange forward contracts	2 063	873
Currency options, purchased	32	
Total	2 282	873

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)	7	7
Other receivables, non-current (level 3)	21	21
Derivatives (level 2)	13	13
Financial liabilities		
Interest-bearing debt, non-current (level 2)	464	475
Derivatives (level 2)	59	59

Condensed statement of income, quarterly

MEUR	4–6/2015	1–3/2015	10–12/2014	7–9/2014	Restated 4–6/2014	Restated 1–3/2014
Continuing operations						
Net sales	1 230	988	1 549	1 117	1 116	997
Other operating income	13	7	17	10	12	12
Expenses	-1 081	-868	-1 375	-964	-983	-898
Depreciation, amortisation and impairment	-30	-29	-30	-29	-27	-29
Share of result of associates and joint ventures	5	2	4	7	5	10
Operating result	137	100	166	141	123	92
Financial income and expenses	3	-18	-9	-12	-4	-3
Profit before taxes	140	82	157	129	119	89
Income taxes	-31	-18	-27	-31	-28	-20
Profit for the reporting period from the continuing operations	109	64	129	98	91	70
Profit/loss for the reporting period from the discontinued operations		22	-9	-13	-8	-7
Net profit for the reporting period	109	86	121	85	83	63
Attributable to:						
Equity holders of the parent company	107	85	118	84	83	62
Non-controlling interests	2	1	3	1		1
	109	86	121	85	83	63
Earnings per share attributable to equity holders of the parent company (basic and diluted):						
Earnings per share, continuing operations, EUR	0.54	0.32	0.64	0.50	0.46	0.35
Earnings per share, discontinued operations, EUR		0.11	-0.04	-0.07	-0.04	-0.04
Earnings per share, EUR	0.54	0.43	0.60	0.43	0.42	0.31

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

16 July 2015
Wärtsilä Corporation
Board of Directors