Wärtsilä Corporation
Q2 Interim report

JANUARY-JUNE 2014

WÄRTSILÄ

Good development in profitability

This interim report is unaudited.

Second quarter highlights

- Order intake increased 9% to EUR 1,163 million (1,071)
- Net sales decreased 2% to EUR 1,132 million (1,152)
- Book-to-bill 1.03 (0.93)
- Operating result before non-recurring items EUR 122 million, or 10.8% of net sales (EUR 111 million or 9.6%)
- Earnings per share EUR 0.42 (0.39)
- Cash flow from operating activities EUR 61 million (38)

Highlights of the review period January-June 2014

- Order intake decreased 5% to EUR 2,305 million (2,424)
- Net sales increased 5% to EUR 2,144 million (2,034)
- Book-to-bill 1.07 (1.19)
- Operating result before non-recurring items EUR 212 million, or 9.9% of net sales (EUR 181 million or 8.9%)
- Earnings per share EUR 0.73 (0.76)
- Cash flow from operating activities EUR 172 million (122)
- Order book at the end of the period decreased 4% to EUR 4,554 million (4,763)

Events after the reporting period

- Wärtsilä and China State Shipbuilding Corporation announced the establishment of a joint venture, which will take over Wärtsilä's two-stroke engine business. Going forward, the two-stroke engine business will be reported as discontinued operations.
- Wärtsilä and China State Shipbuilding Corporation announced the establishment of a joint venture for manufacturing medium and large bore medium-speed diesel and dual-fuel engines.

Wärtsilä's prospects for 2014 revised

Wärtsilä estimates its profitability for 2014 (EBIT% before non-recurring items) to be around 11.5%, due to the two-stroke business transaction. Net sales are expected to grow by around 5%.

Previously Wärtsilä expected its net sales to grow by 0-10% and its operational profitability (EBIT% before non-recurring items) to be around 11%.

Björn Rosengren, President and CEO

"The first half of 2014 has developed well. I am pleased to note that the ongoing restructuring measures have already made a positive contribution to our operating result. The savings we have achieved through these measures, together with the improved Ship Power and Services performance, have compensated for the low volumes in the Power Plants business and resulted in profitability increasing to 9.9%.

Contracting in the marine markets was active and Ship Power's second quarter order intake developed favourably, especially in the offshore and gas carrier segments. The challenges in the overall power generation markets, however, continued to affect our Power Plants business. Orders remained fairly low, although improving from the weak levels seen in the first quarter. I am confident that activity will improve in the second half. The Services business had an active quarter in terms of signing long-term service contracts with marine customers. The interest for agreements continues to be strongest in the more specialised vessel segments.

In July, Wärtsilä and China State Shipbuilding Corporation announced the establishment of a joint venture company, which will assume total responsibility for Wärtsilä's two-stroke engine business. Our ownership in the joint venture will be 30%. The responsibility for servicing Wärtsilä's two-stroke engines will remain with our Services business. The partnership will enhance the position of Wärtsilä's two-stroke technology in the marine engine market, and will provide a strong base for future investments in leading two-stroke technology and customer support. The transaction will have a positive impact on our continuing operations and consequently our estimate for 2014 profitability has been increased to around 11.5%. We have also narrowed down our net sales guidance to around 5% growth."

Key figures

MEUR	4-6/2014	4-6/2013	Change	1-6/2014	1-6/2013	Change	2013
Order intake	1 163	1 071	9%	2 305	2 424	-5%	4 872
Order book at the end of the period				4 554	4 763	-4%	4 426
Net sales	1 132	1 152	-2%	2 144	2 034	5%	4 654
Operating result (EBIT)[1]	122	111	10%	212	181	17%	520
% of net sales	10.8	9.6		9.9	8.9		11.2
Profit before taxes [2]	109	104		190	200		507
Earnings/share, EUR [2]	0.42	0.39		0.73	0.76		1.98
Cash flow from operating activities	61	38		172	122		578
Net interest-bearing debt at the end of the period				350	658		276
Gross capital expenditure				47	49		134
Gearing				0.19	0.40		0.15

[1] EBIT is shown excluding non-recurring items. Wärtsilä recognised non-recurring items related to restructuring measures amounting to EUR 10 million (1) in the second quarter and EUR 16 million (2) during the review period January-June 2014.

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

Market development

Power Plants

Continued uncertainty in power generation markets

The power generation market remained challenging during the second quarter, as macroeconomic uncertainty and geopolitical developments continued to cause delays in customer decision making. Despite these developments, economic growth in the emerging markets continues to create demand for new power generation capacity. Wärtsilä's power plant quotation activity improved notably during the second quarter and remained focused on natural gas based generation.

Power Plants market share

During 2013, global orders for natural gas and liquid fuel based power generation (including all prime mover units of over five MW) totalled 73.2 GW, a decrease of 3% compared to 2012 (75.4). Wärtsilä's share represents 3.3% of the market (4.2%). The global market size includes exceptional orders from Algeria, which amounted to 11 GW.

Ship Power

Marine markets active especially within the gas carrier segment

During the first half of 2014, 973 contracts for new vessels were registered, of which 342 came in the second quarter. Overall market volumes were on a higher level than in the previous year, when 749 contracts were reported for the first half. Contracting activity has, however, slowed towards the summer. The ordering of gas carriers (LNG and LPG carriers) was robust with a total of 84 contracts registered during the first half of 2014, compared to 49 in the previous year. Contracting for offshore units remained stable. Newbuilding prices continued to rise, although at a more restrained pace since the slowdown in contracting is putting pressure on prices. Freight rates in the traditional merchant markets weakened during the second quarter, in particular within the tanker and bulker segments. However, freight rates in the LPG carrier segment remained at a strong level.

China and South Korea continued to be the largest shipbuilding countries, capturing respectively 45% and 27% of the contracts confirmed in 2014 in terms of compensated gross tonnage, whereas Japan secured 17%. During the first half of 2014, 124 orders were placed outside these top three shipbuilding countries.

Ship Power market shares

Wärtsilä’s share of the medium-speed main engine market was 52% (51% at the end of the previous quarter). The market share in low-speed engines was 11%, while in the auxiliary engine market Wärtsilä’s share was 2% (9% and 3% respectively at the end of the previous quarter).

Services

Stable development in the service markets

Service market activity during the second quarter was stable compared to the corresponding period in the previous year. The offshore segment developed well, which partly compensated for slightly slower activity in the merchant markets. From a geographical perspective, marine service demand was particularly good in China and South Europe. Power plant service markets were active thanks to good energy production performance in the Middle East, Africa and Southern Europe, particularly France.

Order intake

Wärtsilä’s order intake for the second quarter increased by 9% to EUR 1,163 million (1,071). In relation to the previous quarter, Wärtsilä’s order intake increased by 2% (EUR 1,142 million in the first quarter of 2014). The book-to-bill ratio for the second quarter was 1.03 (0.93).

The order intake for Power Plants in the second quarter totalled EUR 244 million (217), which was 12% more than for the corresponding period last year. Compared to the previous quarter order intake increased by 48% (EUR 165 million in the first quarter of 2014). During the second quarter, Wärtsilä received a 47 MW turnkey power plant order from Saudi Arabia. Ordering activity was globally fragmented.

The second quarter order intake for Ship Power totalled EUR 409 million (384), an increase of 6% compared to the corresponding period last year. Compared to the previous quarter order intake decreased by 12% (EUR 467 million in the first quarter of 2014). Ordering activity was highest in gas carriers and in the offshore segment. Offshore related orders included an order to supply generating sets, each fitted with an SCR catalyst, for two new well intervention vessels being built for Siem Offshore A/S of Norway. In the cruise & ferry segment, Wärtsilä received an order from Finnlines to supply exhaust gas cleaning systems for six of its vessels operating in the Baltic and North Seas. Interest in exhaust gas cleaning systems picked up somewhat during the second quarter, with a total of 11 systems ordered for 10 vessels. The merchant segment represented 50% of the second quarter order intake, while the offshore segment's share was 28% and navy orders accounted for 10%. The cruise & ferry segment's share of the order intake was 6% and the special vessels segment's share was 5%. Other orders accounted for 1% of the total.

Order intake for the Services business totalled EUR 510 million (469) in the second quarter, an increase of 9% compared to the corresponding period last year. Compared to the previous quarter the order intake was stable (EUR 510 million in the first quarter of 2014). Several marine service contracts were signed during the second quarter. In the LNG segment, Services signed technical management agreements covering a total of 15 vessels with three Greek vessel owners; Dynagas Ltd, TMS Cardiff Gas Ltd, and Maran Gas Maritime Inc. A three-year services supply agreement was signed with the Norwegian DOF Group covering service for all Wärtsilä equipment on some 30 vessels operating in Norway, Brazil and Singapore. Furthermore, two vessels were added to the existing five-year maintenance agreement between Wärtsilä and US-based Prestige Cruise Holdings, Inc.

The total order intake for the review period January-June 2014 was EUR 2,305 million (2,424), which represents a decrease of 5% compared to the corresponding period in 2013. The book-to-bill ratio for the review period was 1.07 (1.19). Power Plants' order intake was EUR 409 million (623), which is 34% lower than in 2013. Ship Power's order intake was EUR 875 million (827), an increase of 6% from the corresponding period last year. Services' order intake for the review period totalled EUR 1,021 million (974), an increase of 5% over the corresponding period in 2013.

Order intake by business

MEUR	4-6/2014	4-6/2013	Change	1-6/2014	1-6/2013	Change	2013
Power Plants	244	217	12%	409	623	-34%	1 292
Ship Power[1]	409	384	6%	875	827	6%	1 695
Services	510	469	9%	1 021	974	5%	1 885
Order intake, total	1 163	1 071	9%	2 305	2 424	-5%	4 872

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

Order intake Power Plants

MW	4-6/2014	4-6/2013	Change	1-6/2014	1-6/2013	Change	2013
Oil	309	67	361%	470	204	130%	444
Gas	281	286	-2%	516	909	-43%	1 957
Order intake, total	590	353	67%	986	1 113	-11%	2 401

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea and the Wärtsilä Qiyao Diesel Company Ltd joint venture company in China totalled EUR 92 million (113) during the review period January-June 2014. Wärtsilä's share of ownership in these companies is 50%, and the results are reported as a share of the result of associates and joint ventures.

Order book

The total order book at the end of the review period stood at EUR 4,554 million (4,763), a decrease of 4%. Compared to the end of 2013, the order book increased by 3%. The Power Plants order book amounted to EUR 1,322 million (1,638), a decrease of 19%. The Ship Power order book stood at EUR 2,367 million (2,292), which is 3% higher than at the same date last year. The Services order book increased by 4% to EUR 865 million (833).

Order book by business

MEUR	30.6.2014	30.6.2013	Change	31.12.2013
Power Plants	1 322	1 638	-19%	1 367
Ship Power[1]	2 367	2 292	3%	2 308
Services	865	833	4%	751
Order book, total	4 554	4 763	-4%	4 426

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

Net sales

Wärtsilä's net sales for the second quarter decreased by 2% to EUR 1,132 million (1,152) compared to the corresponding period last year. Net sales for Power Plants totalled EUR 233 million (369), a decrease of 37%. Ship Power's net sales for the second quarter totalled EUR 431 million (320), which is 35% higher than for the corresponding quarter last year. Net sales from the Services business were stable at EUR 468 million (465). The sales mix saw an increase in revenues from spare parts and long-term contracts.

Net sales for January-June 2014 increased by 5%, totalling EUR 2,144 million (2,034). Power Plants' net sales totalled EUR 424 million (570), a decrease of 26%. Ship Power's net sales increased by 43% and totalled EUR 818 million (571). Net sales from the Services business were stable at EUR 903 million (899). Of the total net sales, Power Plants accounted for 20%, Ship Power for 38% and Services for 42%.

Of Wärtsilä's net sales for January-June 2014, approximately 67% was EUR denominated, 16% USD denominated, with the remainder being split between several currencies.

Net sales by business

MEUR	4-6/2014	4-6/2013	Change	1-6/2014	1-6/2013	Change	2013
Power Plants	233	369	-37%	424	570	-26%	1 459
Ship Power[1]	431	320	35%	818	571	43%	1 357
Services	468	465	1%	903	899	0%	1 842
Other[2]		-2			-7		-2
Net sales, total	1 132	1 152	-2%	2 144	2 034	5%	4 654

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

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

Operating result and profitability

The second quarter operating result (EBIT) before non-recurring items was EUR 122 million (111), or 10.8% of net sales (9.6). Including non-recurring items, the operating result was EUR 113 million (110) or 10.0% of net sales (9.5). Wärtsilä recognised EUR 10 million (1) of non-recurring items related to restructuring measures during the second quarter.

For the review period January-June 2014, the operating result (EBIT) before non-recurring items was EUR 212 million (181), which is 9.9% of net sales (8.9). Including non-recurring items, the operating result was EUR 197 million (179) or 9.2% of net sales (8.8). Non-recurring items related to restructuring measures amounted to EUR 16 million (2) during the review period.

Financial items amounted to EUR -6 million (-4). Net interest totalled EUR -4 million (-8). Profit before taxes amounted to EUR 190 million (200). Profit before taxes for 2013 includes the capital gain from the sale of Wärtsilä's Sato Oyj shares, which was EUR 25 million. Taxes in the reporting period amounted to EUR 44 million (48), implying an effective tax rate of 23% (24). Earnings per share were EUR 0.73 (0.76) and equity per share was EUR 9.12 (8.31). Return on investment (ROI) was 21.0% (19.6). Return on equity (ROE) was 22.2% (21.7). ROI and ROE are calculated on a 12 months rolling basis, whereas previously they were calculated on an annualised basis.

Balance sheet, financing and cash flow

Wärtsilä's second quarter cash flow from operating activities amounted to EUR 61 million (38). For January-June 2014 the operating cash flow totalled EUR 172 million (122). Working capital totalled EUR 339 million (508) at the end of the review period. Advances received at the end of the period totalled EUR 840 million (838). Cash and cash equivalents at the end of the period amounted to EUR 345 million (219) and unutilised Committed Revolving Credit Facilities totalled EUR 599 million (529).

Wärtsilä had interest-bearing debt totalling EUR 696 million (889) at the end of June 2014. The total amount of short-term debt maturing within the next 12 months was EUR 102 million. Long-term loans amounted to EUR 595 million. Net interest-bearing debt totalled EUR 350 million (658) and gearing was 0.19 (0.40).

Liquidity preparedness

MEUR	30.6.2014	31.3.2014
Cash and cash equivalents	345	242
Unutilised committed credit facilities	599	699
Liquidity preparedness	944	941
% of net sales (rolling 12 months)	20	20
Commercial Papers		4
Liquidity preparedness excluding Commercial Papers	944	937
% of net sales (rolling 12 months)	20	20

On 30 June 2014, the average maturity of the total loan portfolio was 46 months and the average maturity of the long-term debt was 47 months.

Capital expenditure

Gross capital expenditure during the review period totalled EUR 47 million (49), comprising EUR 1 million (5) in acquisitions and investments in securities, and EUR 46 million (44) in intangible assets and property, plant and equipment. Depreciation, amortisation and impairment for the review period amounted to EUR 58 million (65).

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

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

In June, Wärtsilä and Transmashholding agreed that Wärtsilä would sell its 50 per cent share in the joint venture Wärtsilä TMH Diesel Engine Company LLC to Transmashholding, the other joint venture party. The joint venture was established for the manufacture of modern and multipurpose diesel engines to be used in shunter locomotives, as well as in various marine and power applications. The divestment of the joint venture will enable Wärtsilä to concentrate on its core areas of expertise, namely complete lifecycle power solutions for the marine and energy markets. The transaction has received the relevant regulatory approvals, and has been closed in the beginning of July. The value of the agreement is approximately EUR 12 million. The transaction will not have a significant impact on Wärtsilä’s operating result.

In April, Wärtsilä inaugurated its new electrical & automation test centre in Stord, Norway. The new facility is one of the largest test centres in Europe dedicated specifically to electrical and automation systems for marine and offshore applications. With the new testing and training facilities, Wärtsilä can carry out full-scale testing and verification of existing and new electrical & automation solutions.

Construction of the new production facilities for Wärtsilä Yuchai Engine Co., Ltd, the Chinese joint venture owned 50/50 by Wärtsilä and Yuchai Marine Power Co. Ltd., and Wärtsilä’s new fully-owned manufacturing facility in Brazil is proceeding according to plan. The inauguration ceremonies will take place in the third quarter of 2014, and the first deliveries from these factories are scheduled to be made during this current year.

Research and development, product launches

A new, highly efficient, Aframax tanker design offering practical and viable solutions that meet current and forthcoming emissions legislation was launched in June. The new Aframax design emphasises energy efficiency to provide lower operating costs and enhanced environmental performance. Also in June, Wärtsilä introduced the new FPP Opti Design, a state-of-the-art fixed pitch propeller design concept that offers fuel savings of up to four per cent and highly reliable full scale performance predictions.

In May, Wärtsilä received an important service level recognition for its Wärtsilä Airguard and Wärtsilä Oceanguard propeller shaft sealing systems from Lloyd’s Register. The recognition confirms that the sealing systems meet the US Environmental Protection Agency’s requirements.

During the review period, the first Wärtsilä X72 two-stroke engine passed its type approval test at the premises of Wärtsilä’s licensee, Doosan Engine Co. Ltd, in South Korea. This was followed by a successful sea trial carried out by Dalian Shipbuilding Industry Corporation. In addition, the first Wärtsilä X62 two-stroke engine successfully passed its factory acceptance test at Hyundai Heavy Industries Engine and Machinery Division’s factory in South Korea. This verifies that the engine fulfils the design criteria for performance and functioning.

Personnel

Wärtsilä had 18,213 (18,620) employees at the end of June 2014. On average, the number of personnel for January-June 2014 totalled 18,408 (18,663). Power Plants employed 1,000 (1,017) people, Ship Power employed 6,033 (6,022 including PowerTech employees) and Services 10,748 (10,829).

Of Wärtsilä's total number of employees, 19% (20) were located in Finland and 36% (36) elsewhere in Europe. Personnel employed in Asia represented 31% (31) of the total, personnel in the Americas 10% (9) and in other countries 4% (3).

Restructuring programmes

The restructuring measures announced in January are proceeding according to plan. The global efficiency programme was initiated in order to realign Wärtsilä's organisation to secure its future profitability and competitiveness. The programme targets annual savings of EUR 60 million and is expected to lead to a reduction of approximately 1,000 employees globally. The effect of the savings is expected to materialise fully by the end of 2014. At the end of the review period January-June 2014, approximately EUR 10 million of savings had materialised. The non-recurring costs related to the restructuring measures are expected to be EUR 50 million, of which EUR 11 million was recognised in 2013 and EUR 16 million during the review period January-June 2014. The remainder of the costs will be recognised during the second half of 2014.

Sustainable development

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

Shares and shareholders

During January-June 2014, the volume of trades of Wärtsilä shares on the Nasdaq OMX Helsinki exchange was 57,527,156 shares, equivalent to a turnover of EUR 2,291 million. Wärtsilä's shares are also traded on alternative exchanges, including Chi-X, Turquoise and BATS. The total trading volume on these alternative exchanges was 32,843,389 shares.

Shares on the Nasdaq OMX Helsinki Stock Exchange

30.6.2014	Number of shares and votes	Number of shares traded 1-6/2014
WRT1V	197 241 130	57 527 156

1.1. - 30.6.2014	High	Low	Average [1]	Close
Share price	43.82	33.35	39.81	36.22

1 Trade-weighted average price

	30.6.2014	30.6.2013
Market capitalisation, EUR million	7 144	6 594
Foreign shareholders, %	54.3	51.9

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 6 March 2014 approved the financial statements and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year

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

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

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

Authorisation to repurchase and distribute the Company's own shares

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

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

Organisation of the Board of Directors

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

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

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

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

Events after the reporting period

Wärtsilä and China State Shipbuilding Corporation (CSSC) announced an agreement to establish a joint venture, which will take over Wärtsilä's two-stroke engine business. CSSC will own 70% of the business and Wärtsilä's ownership will be 30%. Responsibility for servicing Wärtsilä's two-stroke engines will remain with Wärtsilä Services. The partnership will boost the position of Wärtsilä's two-stroke technology in the marine engine market and provide a strong base for future investments in leading two-stroke technology and customer support. The value of the transaction is approximately EUR 46 million. The financial impact of the deal will be dependent on the timing of the closing and certain related mechanisms. The deal will have a positive effect on Wärtsilä's continuing operations. The closing of the transaction is subject to the required regulatory approvals, which are expected in the first quarter of 2015. Going forward, the two-stroke engine business will be reported as discontinued operations.

Wärtsilä and China State Shipbuilding Corporation (CSSC) announced an agreement to establish a joint venture company, for manufacturing medium and large bore medium-speed diesel and dual-fuel engines. The CSSC Wärtsilä Engine (Shanghai) Co. Ltd factory will be located in Lingang, Shanghai and is expected to have its first engine ready for delivery by the end of 2015. The Wärtsilä share of the joint venture is 49 per cent and the size of Wärtsilä's equity investment is approximately EUR 27 million.

Risks and business uncertainties

In the Power Plants business uncertainty in the financial markets and significant currency fluctuations may impact financing availability and the timing of bigger projects. A lack of demand for commodities, such as minerals, can affect the investment decisions of industrial customers.

The business environment for the shipping and shipbuilding industry remains challenging. Despite the modestly optimistic outlook for the global economy, there are still concerns related to certain regions. Overcapacity and a low cargo tonnage demand are limiting freight rate development within the traditional shipping markets. Stable oil and gas prices, combined with increasing exploration and production costs, may cause near-term hesitation towards increasing offshore investments.

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

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

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

Market outlook

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

The main drivers supporting activity in the shipping and offshore sectors are in place, yet growth has nevertheless been slow. Despite improving seaborne trade, overcapacity is still affecting demand in the traditional merchant markets. Increased scrapping and a more balanced fleet growth support gradual freight market recovery. In the offshore segment, current oil price levels support investments in projects with controlled exploration and development costs. The importance of fuel efficiency and the introduction of environmental regulations are clearly visible. The regulatory environment is also increasing interest in gas as a marine fuel, which is further strengthened in the US by favourable pricing. Offshore activity is anticipated to continue; however a decline in the contracting of drilling units and certain support vessels may be seen. The shipping markets are expected to remain active, especially within the gas carrier segment, although the contracting of traditional merchant vessels is likely to decline.

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

Wärtsilä's prospects for 2014 revised

Wärtsilä estimates its profitability for 2014 (EBIT% before non-recurring items) to be around 11.5%, due to the two-stroke business transaction. Net sales are expected to grow by around 5%.

Previously Wärtsilä expected its net sales to grow by 0-10% and its operational profitability (EBIT% before non-recurring items) to be around 11%.

Wärtsilä Interim Report January-June 2014

This interim financial report is prepared in accordance with IAS 34 (Interim Financial Reporting) using the same accounting policies and methods of computation as in the annual financial statements for 2013, except for the IFRS amendments stated below. All figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

Use of estimates

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

IFRS amendments

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

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

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

The standards have been approved for application in the EU.

This interim report is unaudited.

Condensed statement of income

MEUR	1–6/2014	1–6/2013	2013
Net sales	2 144	2 034	4 654
Other operating income	30	38	85
Expenses	-1 933	-1 839	-4 137
Depreciation, amortisation and impairment	-58	-65	-123
Share of result of associates and joint ventures	12	10	22
Operating result	197	179	500
Financial income and expenses	-6	-4	-19
Net income from available-for-sale financial assets		25	25
Profit before taxes	190	200	507
Income taxes	-44	-48	-113
Profit for the reporting period	146	151	393
Attributable to:			
Equity holders of the parent company	145	150	391
Non-controlling interests	1	2	3
	146	151	393
Earnings per share attributable to equity holders of the parent company:			
Earnings per share (basic and diluted), EUR	0.73	0.76	1.98

Statement of other comprehensive income

MEUR	1–6/2014	1–6/2013	2013
Profit for the reporting period	146	151	393
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income:			
Actuarial gains (losses) on defined benefit plan	-3	8	-9
Tax on items that will not be reclassified to the statement of income	1	-3	-1
Total items that will not be reclassified to the statement of income	-2	5	-10
Items that may be reclassified subsequently to the statement of income:			
Exchange rate differences on translating foreign operations	21	-44	-72
Available-for-sale financial assets			
measured at fair value		1	1
transferred to the statement of income		-25	-25
Cash flow hedges	1	-32	-24
Tax on items that may be reclassified to the statement of income	-1	15	14
Total items that may be reclassified to the statement of income	21	-85	-107
Other comprehensive income for the reporting period, net of taxes	18	-80	-117
Total comprehensive income for the reporting period	164	71	276
Total comprehensive income attributable to:			
Equity holders of the parent company	165	69	275
Non-controlling interests		2	2
	164	71	276

Condensed statement of financial position

MEUR	30.6.2014	30.6.2013	31.12.2013
Non-current assets			
Intangible assets	1 244	1 231	1 235
Property, plant and equipment	439	437	449
Investments in associates and joint ventures	100	94	103
Available-for-sale financial assets	15	17	15
Deferred tax assets	133	122	128
Other receivables	6	17	5
	1 936	1 918	1 935
Current assets			
Inventories	1 444	1 498	1 367
Other receivables	1 394	1 402	1 518
Cash and cash equivalents	345	219	388
	3 183	3 120	3 274
Total assets	5 119	5 038	5 209
Equity			
Share capital	336	336	336
Other equity	1 463	1 303	1 508
Total equity attributable to equity holders of the parent company	1 799	1 639	1 844
Non-controlling interests	38	24	40
Total equity	1 837	1 663	1 884
Non-current liabilities			
Interest-bearing debt	595	549	571
Deferred tax liabilities	82	88	84
Other liabilities	237	191	237
	913	828	892
Current liabilities			
Interest-bearing debt	102	341	94
Other liabilities	2 267	2 206	2 340
	2 369	2 547	2 434
Total liabilities	3 282	3 375	3 325
Total equity and liabilities	5 119	5 038	5 209

Condensed statement of cash flows

MEUR	1–6/2014	1–6/2013	2013
Cash flow from operating activities:			
Profit for the reporting period	146	151	393
Depreciation, amortisation and impairment	58	65	123
Financial income and expenses	6	4	19
Selling profit and loss of fixed assets and other changes	-3	-28	-29
Share of result of associates and joint ventures	-12	-10	-22
Income taxes	44	48	113
Changes in working capital	-6	-56	60
Cash flow from operating activities before financial items and taxes	233	175	658
Financial items and paid taxes	-61	-52	-81
Cash flow from operating activities	172	122	578
Cash flow from investing activities:			
Investments in shares and acquisitions	-1	-5	-5
Net investments in property, plant and equipment and intangible assets	-37	-40	-122
Proceeds from sale of available-for-sale financial assets and shares in associated companies		32	34
Cash flow from other investing activities		3	14
Cash flow from investing activities	-37	-10	-79
Cash flow from financing activities:			
Contribution by non-controlling interests			16
Proceeds from non-current borrowings	100	50	153
Repayments and other changes in non-current loans	-57	-61	-157
Changes in current loans and other changes	-12	97	-134
Dividends paid	-210	-200	-202
Cash flow from financing activities	-179	-114	-324
Change in cash and cash equivalents, increase (+) / decrease (-)	-44	-1	176
Cash and cash equivalents at the beginning of the reporting period	388	225	225
Exchange rate changes	1	-4	-13
Cash and cash equivalents at the end of the reporting period	345	219	388

Consolidated statement of changes in equity

	Total equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Actuarial gains and losses	Retained earnings		
Equity on 1 January 2014	336	61	-85	-13	-43	1 587	40	1 884
Dividends paid						-207	-3	-210
Total comprehensive income for the reporting period			21	1	-3	144	1	164
Equity on 30 June 2014	336	61	-64	-12	-46	1 524	38	1 837
Equity on 1 January 2013	336	61	-12	21	-34	1 393	26	1 791
Dividends paid						-197	-3	-200
Total comprehensive income for the reporting period			-45	-41	6	151	2	72
Equity on 30 June 2013	336	61	-57	-20	-28	1 347	24	1 663

Net sales by geographical areas

MEUR	1–6/2014	1–6/2013	2013
Europe	743	572	1 329
Asia	871	850	1 759
The Americas	312	419	1 068
Other	218	193	498
Total	2 144	2 034	4 654

Intangible assets and property, plant & equipment

MEUR	1–6/2014	1–6/2013	2013
Intangible assets			
Carrying amount on 1 January	1 235	1 259	1 259
Changes in exchange rates	15	-35	-37
Additions	20	27	53
Amortisation and impairment	-26	-30	-58
Disposals and reclassifications		10	17
Carrying amount at the end of the reporting period	1 244	1 231	1 235
Property, plant and equipment			
Carrying amount on 1 January	449	470	470
Changes in exchange rates	2	-4	-12
Additions	26	17	76
Depreciation and impairment	-32	-34	-66
Disposals and reclassifications	-6	-12	-20
Carrying amount at the end of the reporting period	439	437	449

Gross capital expenditure

MEUR	1–6/2014	1–6/2013	2013
Investments in securities and acquisitions	1	5	5
Intangible assets and property, plant and equipment	46	44	129
Total	47	49	134

Net interest-bearing debt

MEUR	1–6/2014	1–6/2013	2013
Non-current liabilities	595	549	571
Current liabilities	102	341	94
Loan receivables	-1	-12	-1
Cash and cash equivalents	-345	-219	-388
Total	350	658	276

Financial ratios

	1–6/2014	1–6/2013	2013
Earnings per share (basic and diluted), EUR	0.73	0.76	1.98
Equity per share, EUR	9.12	8.31	9.35
Solvency ratio, %	42.9	39.6	43.9
Gearing	0.19	0.40	0.15
Return on investment (ROI), %	21.0	19.6	21.2
Return on equity (ROE), %	22.2	21.7	21.4

Personnel

	1–6/2014	1–6/2013	2013
On average	18 408	18 663	18 749
At the end of the reporting period	18 213	18 620	18 663

Contingent liabilities

MEUR	1–6/2014	1–6/2013	2013
Mortgages	10	28	26
Chattel mortgages and other pledges	25	25	25
Total	35	53	51
Guarantees and contingent liabilities			
on behalf of Group companies	687	690	665
on behalf of associated companies		8	7
Nominal amount of rents according to leasing contracts			
payable within one year	26	19	27
payable between one and five years	65	48	78
payable later	24	22	26
Total	803	786	803

Nominal values of derivative instruments

MEUR	Total amount	of which closed
Interest rate swaps	125	
Inflation hedges	9	
Foreign exchange forward contracts	1 844	705
Currency options, purchased	7	
Currency options, written	15	
Total	1 999	705

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)	15	15
Interest-bearing investments, non-current (level 2)	1	1
Other receivables, non-current (level 2)	5	5
Derivatives (level 2)	8	8
Financial liabilities		
Interest-bearing debt, non-current (level 2)	595	605
Derivatives (level 2)	16	16

Condensed statement of income, quarterly

MEUR	4–6/2014	1–3/2014	10–12/2013	7–9/2013	4–6/2013	1–3/2013
Net sales	1 132	1 012	1 411	1 209	1 152	882
Other operating income	12	18	29	18	31	7
Expenses	-1 007	-925	-1 226	-1 071	-1 046	-793
Depreciation, amortisation and impairment	-28	-29	-29	-30	-32	-32
Share of result of associates and joint ventures	4	9	7	4	6	5
Operating result	113	84	191	130	110	69
Financial income and expenses	-4	-3	-11	-4	-5	1
Net income from available-for-sale financial assets						25
Profit before taxes	109	81	181	126	104	96
Income taxes	-26	-18	-33	-31	-25	-23
Profit for the reporting period	83	63	147	95	79	73
Attributable to:						
Equity holders of the parent company	83	62	147	94	78	72
Non-controlling interests		1		1	1	1
	83	63	147	95	79	73

Earnings per share attributable to equity holders of the parent company:						
Earnings per share (basic and diluted), EUR	0.42	0.31	0.74	0.48	0.39	0.37

Calculation of financial ratios

Earnings per share (EPS)

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

Equity per share

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

Solvency ratio

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

Gearing

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

Return on investment (ROI)

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

Return on equity (ROE)

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

Working capital (WCAP)

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

17 July 2014
Wärtsilä Corporation
Board of Directors