



Wärtsilä Corporation

Annual report 2013

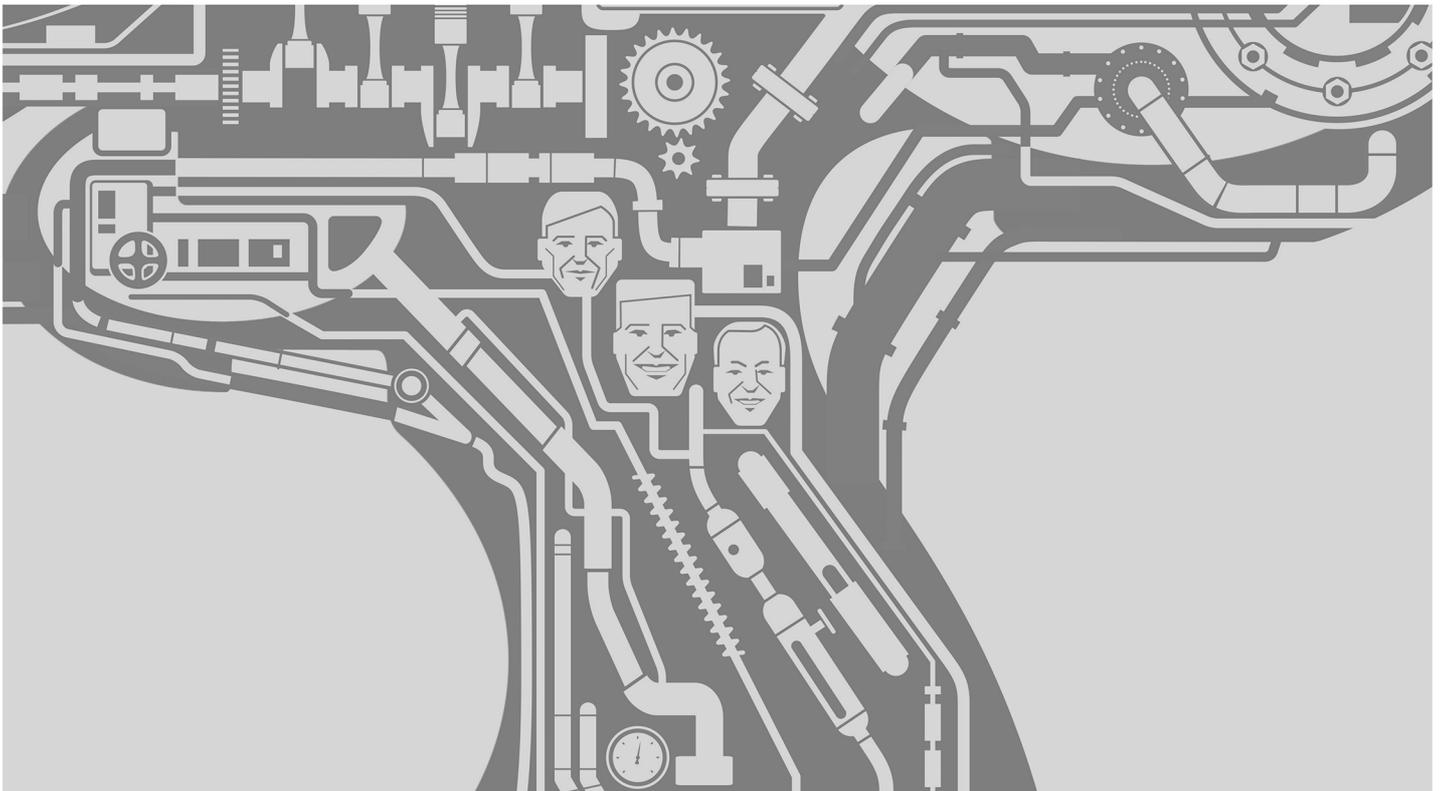


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Message to the shareholders

Dear shareholders,

For Wärtsilä, 2013 was a year of varying activity within our different end markets. While the improvement in global vessel contracting was significant, power generation markets declined for the second consecutive year.

Unfavourable exchange rates and some delayed deliveries at the end of the year led to a slightly weaker than expected net sales development. Profitability on the other hand developed well, reaching 11.2% for the full year. I am pleased with the resilience we have shown in reaching our profitability targets, despite the lower level of sales. Cash flow from operating activities development was strong, increasing to EUR 578 million during the year.

Global economic policies and fluctuations in emerging market currencies delayed customer decision-making in the power generation markets. Our Power Plants order intake developed accordingly, decreasing by 15%. 82% of the orders received were for gas based power plants, showing that there is continued demand for our fuel flexible solutions. Major orders were received for a 274 MW dual-fuel power plant from Jordan and a 220 MW natural gas fuelled power plant from Oregon, USA.

In the shipbuilding industry, competitive new building prices combined with the increased fuel efficiency of modern vessels attracted investments in the merchant segment. Furthermore, oil price levels supported activity in the offshore markets, including operations in harsh and deep water areas. This resulted in stronger vessel contracting and a more balanced order mix compared to recent years. In line with overall market activity, Ship Power's order intake developed well, increasing by 14% in 2013. Several notable orders were received in the offshore industry and the demand for dual-fuel engines and gas handling systems continued to be active. In the latter part of 2013, we launched our 2-stroke, low pressure, dual-fuel engine. The first order for this technology was received shortly thereafter, and we feel that this technology could very well be a game changer for merchant shipping.

Overcapacity in the marine market continued to impact global fleet utilisation and our customers' remained focused on reducing operating expenses. The continued good demand for power plant related services compensated for this development and contributed to the overall stability of the service market. I am pleased to note that our concentration on long-term service agreements has proven successful in 2013. The share of contracts in Services net sales increased during the year, and several important agreements were signed with both power plant and marine customers.

As certain emerging countries, such as China and Brazil, gain a stronger foothold in the shipbuilding industry, we must adapt our operations accordingly. During 2013, Wärtsilä announced the set up of a new, fully-owned manufacturing facility in Brazil to meet the local content requirement and the increasing demand, particularly in the offshore market. We also began to construct production facilities for Wärtsilä Yuchai Engine Co. Ltd, our latest joint venture in China. These initiatives will enable us to better serve our customers locally, thus strengthening our competitiveness in these key markets.

In 2012, we took the first steps towards restructuring our organisation so as to increase the flexibility and speed of our operations. In this way we can better address the changing market environment. The success of this realignment resulted in the decision to take the next step and combine the PowerTech and Ship Power 4-stroke organisations into one single business unit. In this new set up, all activities, from R&D and manufacturing to sales, are combined into one organisation. This change will further enhance transparency and accountability within Wärtsilä; factors which will enable us to better support our customers and increase

the efficiency of our operations. I believe these changes are essential in order to be able to capture the growth opportunities that we have identified in the market.

As a global leader in complete lifecycle solutions for the marine and energy markets, Wärtsilä has a key role to play in providing sustainable solutions for the shipping and power generation sectors. A strong emphasis on research and development is necessary for maintaining our competitiveness going forward. Efficiency improvement, fuel flexibility, and environmental performance are the key focus areas of our R&D investments, which in 2013 represented 4.0% of net sales. Responsible business conduct and the safety of our personnel is our priority. The positive trend in lost time injury frequency continued, reaching an all time low in 2013. We remain committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment and anti-corruption.

Our strategic priorities are well in line with the fundamental changes occurring in our end markets. The world's need for sustainable and reliable power has not vanished and we see growth opportunities in gas power plants as part of our Smart Power Generation concept. The regulatory environment is also driving interest in gas in the marine markets, and it is expected that the share of gas-fuelled vessels will increase significantly in the coming years. Today, gas availability represents one of the main barriers for its wider scale use. Infrastructure expansion is partly planned to take place through investments in mid-sized LNG distribution, which represents an interesting opportunity for Wärtsilä. By combining our experience in engineering, procurement and construction project execution with our LNG handling expertise, we can offer turnkey LNG terminal solutions, thus positioning us well in this up and coming market. The new emission regulations are becoming imminent, and vessel owners are preparing themselves to comply with the new requirements. The progress we have made in environmental solutions, both in terms of receiving type approvals for our ballast water systems and in strengthening our extensive reference list of exhaust gas cleaning systems, supports our growth ambition in this field.

Wärtsilä is well positioned to pursue growth even in today's challenging market environment. However, only by increasing the efficiency and flexibility of our organisation globally can we secure profitability and maintain competitiveness going forward. This is the basis for the Group-wide efficiency programme announced at the beginning of 2014. Our market outlook remains cautious, although a slight improvement may be seen in certain areas. In 2014, we anticipate some growth in net sales and expect operating margins to be around 11%.

I would like to take this opportunity to thank our customers who have entrusted their business to us during these challenging times and our personnel for their continuous efforts in serving our customers globally. I am also very thankful to our shareholders for all the interest expressed in Wärtsilä, and for the trust placed in our future potential.



Björn Rosengren
President & CEO

Key figures

MEUR						Restated	
	2013	Q4 / 2013	Q3 / 2013	Q2 / 2013	Q1 / 2013	2012	2011 ²
Net sales	4 654	1 533	1 209	1 152	882	4 725	4 209
Power Plants	1 459	468	421	369	202	1 498	1 365
Ship Power	1 325	425	340	315	245	1 301	1 022
Services	1 842	507	435	465	434	1 908	1 816
Depreciation and amortisations	-123	-29	-30	-32	-32	-139	-113
Operating result ¹	520	201	138	111	70	517	469
Operating result ¹ , %	11.2	14.2	11.4	9.6	8.0	10.9	11.1
Profit before taxes	507	181	126	104	96	453	429
Earnings per share, EUR	1.98	0.74	0.48	0.39	0.37	1.72	1.44
Balance sheet total	5 211	5 211	5 030	5 038	4 990	5 036	4 600
Interest-bearing liabilities, gross	276	276	581	549	668	794	652
Cash and cash equivalents	388	388	254	219	205	225	592
ROI, %	21.2	-	-	-	-	20.4	20.4
Gearing	0.15	0.15	0.31	0.40	0.42	0.32	0.04
Order book, end of period	4 426	4 426	4 568	4 763	4 998	4 492	4 007
Order intake	4 872	1 351	1 097	1 071	1 352	4 940	4 516
Year-end market capitalisation	7 055	-	-	-	-	6 454	4 402
Personnel, number at end of period	18 663	18 663	18 776	18 620	18 674	18 887	17 913

¹ Figures exclude non-recurring items.

² The 2011 figures have not been restated according to the revised IAS 19.

Wärtsilä in brief

Wärtsilä is a global leader in complete lifecycle power solutions for the marine and energy markets. By emphasising technological innovation and total efficiency, Wärtsilä maximises the environmental and economic performance of the vessels and power plants of its customers.

In 2013, Wärtsilä's net sales totalled EUR 4.7 billion with approximately 18,700 employees. The company has operations in over 200 locations in nearly 70 countries around the world. Wärtsilä is listed on the NASDAQ OMX Helsinki, Finland.

Power Plants

Wärtsilä is a leading supplier of modern, environmentally advanced, highly efficient, and dynamic power plants that allow the maximum integration of intermittent renewable power generation. We offer multi-fuel power plants, including baseload generation, peaking and load following operation, as well as dynamic system balancing and ultra-fast grid reserve. We serve both the current and future capacity markets. In addition to the technical advantages, our fast track deliveries of complete power plants, together with long-

term operation and maintenance agreements, provide our customers with complete solutions – in urban areas as well as in the most demanding remote environments.

Ship Power

Wärtsilä enhances the business of its marine and oil & gas industry customers by providing innovative products and integrated solutions that are safe, environmentally sustainable, efficient, flexible, and economically sound. Our solutions are developed based on our customers' needs and include products, systems and services. Being a technology leader, and through the experience, know-how and dedication of our personnel, we are able to customise optimised solutions for the benefit of our clients around the world.

Services

Wärtsilä supports its customers throughout the lifecycle of their installations by optimising efficiency and performance. We provide the most comprehensive portfolio of services and the broadest service network in the industry, for both the energy and marine markets. We are committed to providing high quality, expert support and the availability of services in the most environmentally sound way possible, wherever our customers are located.

Wärtsilä's operating environment

During 2013, uncertainty over the global economic development continued. Compared to 2012, global GDP growth decreased from 3.2% to 2.9%. GDP growth was highest in the emerging markets and developing economies, which are expected to continue to account for the bulk of global growth going forward. The emerging markets are highly important for Wärtsilä. Over 50% of the Group net sales came from non-OECD countries in 2013. The majority of Power Plants' orders came from emerging markets, and Asia was the largest single region. The shipbuilding market continues to be dominated by Asian yards in South Korea and China. The lower GDP growth, coupled with global economic policies and significant exchange rate fluctuations in emerging markets, resulted in decreased investments in liquid and gas fuelled power plants. In the Ship Power markets, overcapacity is still one of the main obstacles to a full recovery. Stronger global GDP growth would be required for this overcapacity to be absorbed. Also the Services business would benefit from an improved global economic outlook, as the current conditions in the marine markets have resulted in customers spending less on discretionary maintenance and investments.

Corporate strategy

Wärtsilä aims to be the leader in complete lifecycle power solutions for the global marine markets and selected energy markets worldwide. We see growth opportunities in gas power plants as part of our Smart Power Generation concept, in gas-fuelled engines and related systems for the marine market, as well as in medium-scale LNG infrastructure development. We also seek growth in environmental solutions, including exhaust gas cleaning systems for SO_x removal and ballast water management systems. Our strengths are our technological leadership, an integrated product and service offering, our close and long-standing customer relationships, and our unparalleled global presence. With our production and supply chain management we constantly seek ways to maintain cost efficiency and high quality – often in co-operation

with leading industrial partners in our key growth markets. Our strong focus on R&D allows us to stay at the forefront of technology and innovation in our industry.

We are determined to capture growth opportunities within our end markets, while maintaining a solid profitability.

Sustainability

Wärtsilä's aim is to meet shareholder expectations and contribute toward the well-being of the society. This requires efficient, profitable and competitive company operations. Good economic performance establishes a platform for the other aspects of sustainability – environmental and social responsibility.

Wärtsilä's overriding promise is to supply power solutions that offer high efficiency with low environmental load. Our objective is to continuously improve the environmental performance of our products and services, as well as to maintain technological leadership by utilising new technologies and collaborating with our customers and other stakeholder groups. In doing this, we help our customers and society at large to meet the goals of the tightening global environmental regulations and guidelines.

Wärtsilä acts as a good corporate citizen wherever we are active. Our business operations and relations with our stakeholders are governed by our Code of Conduct. Wärtsilä is a responsible employer, and we seek to offer our employees an interesting and exciting workplace where openness, respect, trust, equal opportunities and scope for personal development prevail. A further aim is to offer a hazard-free working environment to our employees and contractors and to minimise the health and safety risks associated with the use of our products and services. Supply chain management and development are integral elements of our operations.

Values

VALUES

ENERGY

Capture opportunities and make things happen.

EXCELLENCE

Do things better than anyone else in our industry.

EXCITEMENT

Foster openness, respect and trust to create excitement.

MISSION

We provide lifecycle power solutions to enhance our customers' business, whilst creating better technologies that benefit both the customer and the environment.

VISION

We will be each of our customers' most valued business partner.

Financial targets

Target	Development	Graph
<p>Net sales</p> <p>Our target is to grow faster than global GDP.</p>	<p>In 2013, Wärtsilä's net sales decreased by 1% to EUR 4,654 million. Wärtsilä's CAGR 2003-2013 was 8%.</p>	<p>Growth over the cycle</p> <p>World nominal GDP growth 2003-2013 averages 6.8% USD denominated (source: IMF).</p>
<p>Profitability</p> <p>Our operating profit margin (EBIT%) target is 14% at the peak of the cycle. At the trough of the cycle, our target is to keep the operating profit margin above 10%.</p>	<p>In 2013, our operating profit was EUR 520 million, 11.2% of net sales.</p>	<p>Profitability</p> <p>Figures are shown before non-recurring items.</p>

<p>Capital structure</p>																										
<p>Our target is to maintain gearing below 0.50.</p>	<p>In 2013, our gearing was 0.15.</p>	<p>Gearing</p> <table border="1"> <caption>Gearing Data</caption> <thead> <tr> <th>Year</th> <th>Gearing</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>0.28</td> </tr> <tr> <td>2010</td> <td>-0.05</td> </tr> <tr> <td>2011</td> <td>0.04</td> </tr> <tr> <td>2012</td> <td>0.32</td> </tr> <tr> <td>2013</td> <td>0.15</td> </tr> </tbody> </table>	Year	Gearing	2009	0.28	2010	-0.05	2011	0.04	2012	0.32	2013	0.15												
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<p>Dividend</p>																										
<p>Our target is to pay a dividend equivalent to 50% of earnings.</p>	<p>The Board of Directors proposes that a dividend of 1.05 euro per share be paid for the financial year 2013, which represents 53% of operational earnings.</p>	<p>Earnings/share, dividend/share</p> <table border="1"> <caption>Earnings/share, dividend/share Data</caption> <thead> <tr> <th>Year</th> <th>Dividend (EUR)</th> <th>Extra dividend (EUR)</th> <th>Earnings/share (EUR)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>0.85</td> <td>0.00</td> <td>1.95</td> </tr> <tr> <td>2010</td> <td>0.85</td> <td>0.50</td> <td>1.95</td> </tr> <tr> <td>2011</td> <td>0.85</td> <td>0.00</td> <td>1.45</td> </tr> <tr> <td>2012</td> <td>0.95</td> <td>0.00</td> <td>1.95</td> </tr> <tr> <td>2013¹</td> <td>1.05</td> <td>0.00</td> <td>1.95</td> </tr> </tbody> </table> <p>¹ Proposal by the Board 2013.</p>	Year	Dividend (EUR)	Extra dividend (EUR)	Earnings/share (EUR)	2009	0.85	0.00	1.95	2010	0.85	0.50	1.95	2011	0.85	0.00	1.45	2012	0.95	0.00	1.95	2013 ¹	1.05	0.00	1.95
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Wärtsilä Power Plants

Wärtsilä Power Plants provides superior value to its customers by offering decentralised, flexible, efficient, and environmentally advanced energy solutions. We offer dependable power plants that can be constructed in multiple parallel generation units, and on a fast track basis.

An offering based on flexibility

We offer our customers solutions ranging from power generation equipment only deliveries to full turnkey power plants. Our tried and tested power plants are modularised so as to enable them to be located close to the end-user customers. This also allows construction to be carried out in phases according to the customer's needs. The fuel flexibility of our solutions supports the transition from oil to gas as the markets increasingly embrace natural gas. Through operation and maintenance agreements we support our customers throughout the lifecycle of their installations. We operate mainly in emerging markets; however, there is demand for our power plant projects also in the developed markets.

Our business is divided into three segments

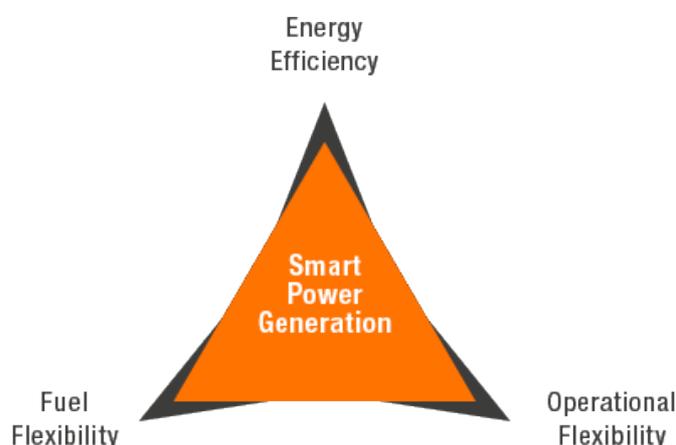
We have three main customer segments: utilities, Independent Power Producers (IPP's) and industrial customers. Utilities supply electricity to residential, commercial, and industrial end users, whereas IPP's are financial investors investing in power plants and selling the generated power to utilities. Customer needs in these segments vary according to the application for which the plant is used. In traditional baseload power generation, customers require competitive lifecycle costs, reliability, world-class product quality, and fuel and operational flexibility. In balancing and peaking applications, customer needs typically include rapid start and ramp up, the ability to operate at varying loads, as well as competitive electricity generation and capacity costs. Industrial customers are mainly private companies in industries, such as mining, cement and oil & gas, investing in captive power plants. Reliability, reduced energy costs, and independence from the grid are among the key factors in their decision-making.

Smart Power Generation

Wärtsilä's Smart Power Generation concept enables an existing power system to operate at its maximum efficiency by most effectively absorbing current and future system load variations, hence providing dramatic savings. The concept's main cornerstones are very high energy efficiency, outstanding operational flexibility, and multi-fuel operation. For current and future low-carbon power systems, it balances the large input fluctuations from wind and solar power. It also provides high efficiency baseload, peaking, and load-following power, as well as super-fast grid reserves at the national power system level.

Further information on Smart Power Generation can be found by visiting www.smartpowergeneration.com.

Smart Power Generation



Power Plants operating environment

Wärtsilä's power plants are used in wide variety of applications. These include traditional baseload energy generation for national grids, providing dynamic grid power balancing services in order to integrate larger share of renewable energy, and island mode applications which operate independently.

As a global supplier of power plant solutions, we recognise that there are significant differences in the energy infrastructure models between regions and countries. Wärtsilä's Smart Power Generation concept is ideal for matching the solutions to meet the specific needs of each infrastructure. We serve primarily four types of energy infrastructure:

- Liquid fuel based energy infrastructure with heavy fuel oil power plants
- Energy infrastructure transitioning to gas through LNG with dual-fuel power plants
- Natural gas based energy infrastructure with pure gas flexible baseload power plants
- Energy infrastructures with high levels of intermittent renewable energy requiring fast responding, dynamic balancing power plants

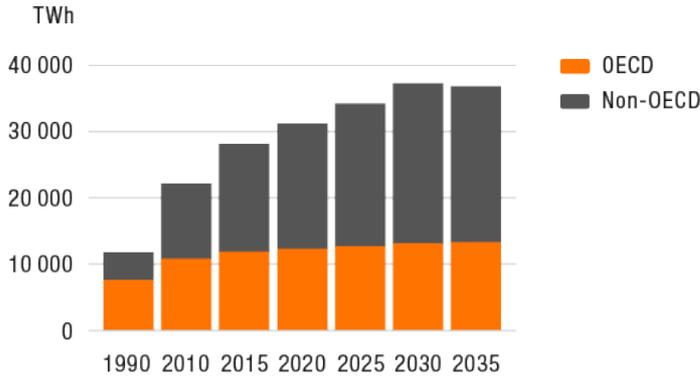
The main customer segments within these markets are utilities, Independent Power Producers (IPP's), industrial manufacturers in industries such as the cement, mining and textile industries as well as oil & gas industry customers. The commercial drivers for power plant investments vary between the different customer segments. Generating and selling power is the core business for utilities, and power generation facilities are therefore strategic assets. IPP's are typically financial investments in order to gain returns. Industrial customers need power supply for their process facilities or factories. The common factor in each of these customer segments is that the power plant projects are often significant investments.

Wärtsilä's power plants are funded in many geographical markets. Funding sources are typically a mix of international, commercial, governmental, export credit agency and multilateral financing. Wärtsilä does not provide its customers with funding, but provides support in finding funding solutions for them.

General market drivers in the Power Plants business

The demand for power generation is driven primarily by population growth and economic development. As electricity consumption grows, the demand for both new power generation equipment and replacement equipment for older capacity increases correspondingly. Looking ahead, growth is expected to be higher in non-OECD countries, due to increasing industrialisation and improving living standards. The majority of Wärtsilä Power Plants' orders come from the emerging markets. In emerging markets and remote areas, the demand for flexible baseload power plants, as well as for industrial self-generation, is driven by growth in electricity consumption and by developments in the commodity prices. The demand for gas and dual-fuel driven plants increases along with the introduction of gas networks to the emerging markets.

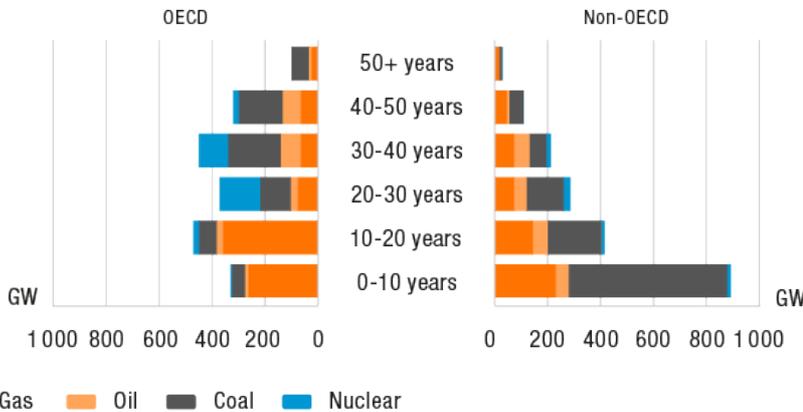
Final electricity generation by region



Source: New Policies Scenario in the IEA World Energy Outlook 2013.

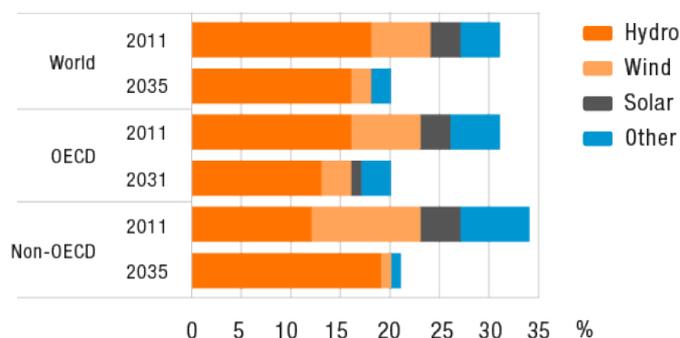
While economic development is a less important driver in the OECD countries, the ageing installed capacity will drive demand for new investments. The important drivers include stricter environmental regulations and the aim for low carbon power systems, which are spurring investments in renewable energy. Solutions, such as wind power, lead to unforeseen grid stability challenges, which require additional backup and balancing power. The large scale use of renewable power increases the need for the flexible, reliable, and efficient power that Wärtsilä's solutions provide.

Age profile of installed thermal and nuclear capacity by region



Source: New Policies Scenario in the IEA World Energy Outlook 2013.

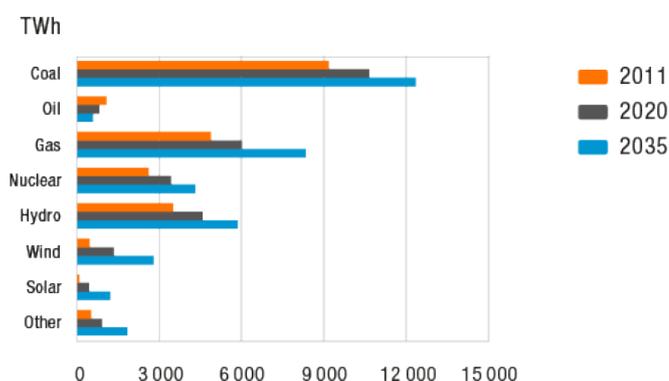
Share of renewables in electricity generation by region



Source: New Policies Scenario in the IEA World Energy Outlook 2013.

The demand for gas is expected to grow, as it enables system balancing with minimal emissions compared to other fossil fuels. This is further supported by the increasing availability of gas resulting from growing investments in LNG infrastructure, as well as from unconventional sources such as shale gas becoming economical. The gas power plant capacity is expected to grow by 2.4% per year, and 65% of this growth is expected to occur in non-OECD countries. Wärtsilä is well positioned in these markets. In regions where the gas infrastructure is being built, a key feature of our power plants is the capability to utilise available liquid fuels until the availability of gas is fully reliable.

World electricity generation by type



Source: New Policies Scenario in the IEA World Energy Outlook 2013.

Power Plants' competition

In larger gas-fired projects, Wärtsilä often competes against gas turbine technology. In smaller gas based projects and in the heavy fuel oil based power plant market, Wärtsilä's competitors are mainly other engine suppliers. We hold a leading position in engine technology with the largest and most efficient gas and dual-fuel engines. Our competitive strengths include the ability to provide complete turnkey power plants combined with operation & maintenance agreements as well as fuel flexibility. Our main advantages over gas turbine technology are higher efficiency in varying loads, the capability to achieve faster starts without increased costs, and the ability to offer dual-fuel solutions for markets transitioning to natural gas.

Gas turbine and engine manufacturers



Total market H1 18.8 GW

- Wärtsilä 5.9% (4.9)
- GE 26.1% (32.2)
- Siemens 34.6% (28.1)
- MHI 12.8% (26.3)
- Ansaldo 5.9% (3.5)
- Alstom 6.4% (1.9)
- Other GTs 8.0% (3.1)

Includes all Wärtsilä power plants and other manufacturers' gas and liquid fuelled power plants with prime movers above 5 MW, as well as estimated output of steam turbines for combined cycles. The data is gathered from the McCoy Power Report. Other combustion engines not included. In engine technology Wärtsilä has a leading position.

Main drivers for Wärtsilä's Power Plants business

- Economic development and growth in electricity consumption
- Growth in the use of gas as fuel in power plants
- Need for fuel flexibility due to uncertainty in gas availability
- Environmental concerns and renewable energy investments
- Ageing generation capacity

Power Plants strategy

Our aim is to be a globally recognised leader in liquid fuel and gas power plants. We will promote the Smart Power Generation concept to the increasingly dynamic and environmentally conscious global energy market to enable more sustainable, affordable and reliable power systems. Our strategy is to:

- Maintain our leading position in heavy fuel oil & dual-fuel power plants by enhancing our value proposition as well as by influencing and actively developing selected target markets
- Grow strongly in large utility gas power plants by capturing market share from combustion turbines
- Grow in biofuel power plants by enabling a wide fuel range
- Grow in special applications - nuclear emergency power, combined heat and power, oil & gas and LNG infrastructure - by introducing our value proposition to the selected customer segments

Our value proposition is based on providing solutions with guaranteed performance, high energy efficiency, and unique fuel and operational flexibility, which make them ideal for many types of energy infrastructures in varying applications. Our products are based on tried and tested concepts, and modularity is a key enabler for ensuring cost competitive solutions in both equipment and turnkey deliveries.

Demonstrating the superiority of our value proposition will enable us to achieve our strategic goals of growing in the large gas power plant market for utilities and maintaining our leading position in heavy fuel oil fired and dual-fuel power plants. We will also seek growth in special applications, such as LNG terminal deliveries, combined heat and power solutions, oil & gas field power, and emergency power applications for nuclear power plants. The capability of our engines to run on a wide range of fuels makes it possible for us to further

grow in the market for power plants using renewable fuels. Our focus is on products and projects that provide unquestionable environmental benefits and that make economic sense.

Power Plants strengths

- Unique operational and fuel flexibility
- Energy efficiency and emissions compliance
- Competitive capital cost and EPC capability
- Global service organisation

Power Plants and sustainability

Wärtsilä Power Plants contributes to the development of a sustainable power system with proven optimised solutions for various market needs.

The development of a more sustainable energy infrastructure is driven by climate policies, energy security, and economics. Carbon-intensive energy sources are being replaced by low carbon fuels, such as natural gas and renewable solutions. Energy savings and efficiency improvements are encouraged, and even legally enforced, at every level. This development is evident on a global scale, even though short-term actions can vary in different regions.

As a part of its commitment to sustainability and responsible business conduct, Wärtsilä has taken an active role in market and solution development, advising national decision makers on changes in the power markets, and on relevant technical and commercial norms. In this way, Wärtsilä is helping to speed the transition to more sustainable power systems. Wärtsilä strives to maintain a deep understanding of the market requirements, and to develop its solutions in a way that enables them to contribute effectively to improved energy system performance in various regions of the world. Wärtsilä's energy solutions offer a unique combination of flexibility, high efficiency, and low emissions. Many different fuels, including bio-fuels, can be used efficiently, which helps reduce greenhouse gas emissions. Wärtsilä's Smart Power Generation technology enables the development of a reliable energy infrastructure, wherein most of the sustainable characteristics are already known.

Towards sustainable power systems

The effects of climate change require a dramatic decrease in coal based power generation and a major increase in low carbon power generation, including wind, solar and natural gas fired plants. In modern power systems, the majority of electricity will be generated by wind and solar power, while thermal power generation will be increasingly used for system balancing and back-up. The variability of renewable energy generation requires the balancing and back-up power to be flexible and dynamic. Current and earlier power systems were not designed for this purpose. In order to meet the required capacity, new flexible power generation assets need to be added to the system. Such flexible capacity is based on three elements: operational flexibility, energy efficiency, and fuel flexibility.

Operational flexibility is needed for reacting to the rapid changes in wind and solar output. Power plant requirements include the following capabilities:

- Frequent and fast plant starts and stops without negative wear and tear consequences
- Cyclic operation with high up and down ramp rates

- High full and part load efficiency
- A broad load range
- Minimal CO₂ emissions

Energy efficiency means that less fuel is needed to generate electricity. Lower fuel consumption results in lower CO₂ levels in power generation.

Fuel flexibility enables the transition to more sustainable fuels when they become available. This feature becomes increasingly important when investing in new power capacity, because the plant is not fixed to a certain fuel where more sustainable fuels may be available in the future. Smart Power Generation meets all of these requirements, thus allowing the maximal utilisation of valuable renewable power, and the smooth operation of inelastic baseload thermal power plants.

According to the results of future power system modelling, Smart Power Generation, together with increased wind and solar capacity, enables dramatic reductions in system level CO₂ emissions. Wärtsilä's Smart Power Generation concept allows true operational optimisation of the entire energy system in a cost-efficient, reliable and sustainable way:

- Enables extremely low carbon levels from the total system
 - Enables the highest penetration of wind and solar power capacity without balancing problems
 - Enables baseload plants to operate on high output and efficiency, thereby enabling the lowest CO₂ levels
 - Minimises wind curtailment and helps to avoid negative prices
 - Reduces the amount of spinning reserve
 - Enables the efficient use of bio gas- and liquid bio-fuel resources
- Allows the entire system to operate in the most cost effective way
 - Removes the abusive cyclic load from plants that are not designed for it, enabling them to operate in their most cost-effective way
 - High efficiency over a wide load range enables flexible power plants to operate in the most cost effective way
- Ensures system reliability, even during extreme conditions, such as
 - Wind variations
 - Contingency situations
- Enables decentralisation of the intermediate and peak load capacity
 - Flexible plant sizing facilitates later expansion to match local needs
 - Installing generation capacity in load pockets reduces grid losses and helps to avoid investments in new high voltage grid expansions
 - Fast track delivery enables local capacity deficits to be rapidly overcome

Power Plants development in 2013

Activity in the overall power generation markets declined during 2013, as macro-economic volatility continued to cause delays in investment decisions throughout the year. Customer decision-making was further impacted by the significant exchange rate fluctuations seen in multiple emerging market currencies during the

second and third quarters. Still, economic growth in the emerging markets continued to support demand for new power generation capacity. Wärtsilä's power plant quotation activity was higher in 2013 than during the previous year. Activity remained focused on natural gas based generation. Wärtsilä's share of global orders for natural gas and liquid fuel based power generation (including all prime mover units of over five MW) increased to 5.8% during the first half of 2013 from 4.9% during the corresponding period in the previous year. The total market was 18.8 GW during the same time period.

In 2013, the Power Plants order intake decreased by 15% to EUR 1,292 million. This development is in line with the decline in the global power generation markets. 82% of the orders received, measured in MW, were for gas based power plants. In 2013, major orders were received for a 274 MW power plant from Jordan and a 220 MW power plant from Oregon, USA. Other important orders were received from Finland, Russia and Indonesia. Net sales for Power Plants decreased by 3% to EUR 1,459 million during 2013, which represents 31% of Wärtsilä's total net sales.

Wärtsilä Ship Power

Wärtsilä Ship Power has a strong position in the marine industry, and we are a growing force in the oil & gas industry as well, where our name is well-known in the offshore sector. We provide optimised, environmentally sustainable, and economically sound solutions, which are developed according to our customers' needs. Our in-depth understanding of our customers' businesses, combined with our extensive network, broad product portfolio, and ability to be involved in the life of the vessel as early as the design process, enables us to support our customers throughout the lifecycle of their installations.

Ship Power is organised by product lines, with one shared sales organisation responsible for customer relations, clarifying customer needs, and for the sales network globally. This organisational structure enables end-to-end control of activities, including R&D, engineering and manufacturing. As of 2014, PowerTech will be integrated into the 4-stroke product line, with the aim of further strengthening competitiveness and serving customers more effectively through increased flexibility, faster decision-making, and optimal utilisation of resources.

We serve shipyards and ship owners

Ship Power customers comprise both shipyards and ship owners, and their needs and demands differ significantly. The decision-making process of shipyard customers is typically affected by product prices, delivery times and reliability, project management, ease of installation, and the supplier's ability to manage large delivery scopes. Ship owners, on the other hand, require reliability and support, as well as the availability of services. Decision-making is further impacted by freight rates, interest rates, and the cost of the ship. Furthermore, both ship owners and operators are increasingly considering factors such as operational efficiency, including environmental compliance, in their decision-making.

We are committed to meeting the needs of all our customer groups, which we achieve through our in-depth understanding of their businesses, operating models and requirements. As a result, we are able to offer products and solutions that best further their business interests.

Our extensive offering covers all main vessel segments

Ship Power is active in all the main vessel segments, and understands the particular needs and requirements related to each of them – from the initial vessel design choices to everyday operations throughout the lifecycle. Our offering also covers gas systems for land-based installations, such as gas terminals. Our design

capabilities, extensive industry experience, and technological leadership form the basis of our reputation. Our offering is the broadest in the industry:

- Medium- and low-speed diesel and dual-fuel gas engines
- Propulsion systems and gears
- Seals and bearings
- Automation systems
- Communication and control systems
- Power distribution and management systems
- Environmental solutions, including exhaust gas cleaning, ballast water management and fresh water systems
- Pumps and valves
- Gas systems, including LNG handling, inert gas systems, compressors, liquefaction and regasification
- Ship design

Our in-depth expertise in optimising the efficiency of vessels makes it possible for our customers to achieve performance that specifically matches their operating profile, as well as cost efficiencies and improved environmental performance. Innovative and competitive products, delivered efficiently and with high quality, form the basis of our offering. The ability to combine the products we offer into larger systems and solutions supports our strategy of being the main ship power supplier to our customers. This strategy provides added value to both our yard and ship owner customers. Shipyard customers can focus on their areas of expertise and benefit from reduced risks of product interface problems, while ship owners can rely on benefits related to operations and maintenance.

Segment	Vessel type	Main offering*
Merchant	Tankers	2-st engines, auxiliary engines, fixed pitch propellers (FPP), tunnel thrusters, 4-st engines for smaller vessels
	Containers	2-st engines, auxiliary engines, FPP, tunnel thrusters, ship design, 4-st engines for smaller vessels
	LNG carriers	4-st main dual-fuel engines, controllable pitch propellers (CPP), gearboxes, tunnel thrusters
	Bulkers	2-st engines, auxiliary engines, FPP, tunnel thrusters, 4-st engines for smaller vessels
	Other: cargo, RoRo, car carriers, LPG carriers	All of the above
Offshore	Floating exploration: drillships, semi-submersibles, etc.	4-st engines, steerable thrusters, tunnel thrusters, vessel automation, electric power distribution, gearboxes
	Floating production units: FPSO's, FSO, floating LNG, etc.	4-st engines, steerable thrusters, tunnel thrusters, CPP, vessel automation, electric power distribution, gearboxes
	Service/Supply vessels: OSV's, PSV's, AHTS, AHS	4-st engines, steerable thrusters, tunnel thrusters, CPP, electrical propulsion, ship design, automation, gearboxes

	Other: crane vessels, pipelayers, accommodation vessels	All of the above
Cruise and Ferry	Cruise vessels	4-st engines, FPP, tunnel thrusters
	Ferries	4-st engines, CPP, FPP, steerable thrusters, tunnel thrusters
	Other: ro-pax, yachts	All of the above
Special vessels	Tugs	4-st engines, FPP, steerable thrusters, tunnel thrusters, vessel automation, ship design
	Dredgers	4-st engines, CPP, FPP, steerable thrusters, tunnel thrusters, vessel automation
	Other: fishing vessels, ice breakers, research vessels, work boats, inland waterway vessels	All of the above
Navy	Frigates, corvettes, patrol vessels, aircraft carriers, destroyers, support vessels	Waterjets, seals and bearings, tunnel thrusters, 4-st engines

* Excluding Wärtsilä Hamworthy's offering, which can be installed in nearly all ship types.

Growth through gas, environmental solutions and efficient vessels

Within the industry, Ship Power is uniquely positioned for growth driven by the increasing availability and use of gas as a marine fuel, the introduction of new environmental regulations, and the increased demand for more efficient vessels as a result of rising fuel costs.

Stricter environmental regulations are driving the interest in gas as a marine fuel, as well as in emissions abatement technology, such as exhaust gas scrubbers and ballast water treatment systems. Ship Power offers its customers alternative solutions for meeting these requirements in a way that best meets the needs of their business and operating model, both as part of new build projects and as retrofits to vessels already in operation.

In order to comply with the upcoming IMO sulphur regulations, ship owners whose vessels operate in environmental control areas have the choice of either operating on lower sulphur fuels, such as light fuel oil and gas, or using exhaust gas cleaning technology. Our offering for the gas markets consists of gas fuelled engines, gas conversions, and gas handling systems including LNG handling, liquefaction, regasification, inert gas systems, and equipment for small-to-medium scale onshore gas installations. We are a market leader in on-board gas handling and dual-fuel engines, which have been supplied to more than one hundred LNG carriers, and increasingly to other segments of the marine and oil & gas industry, from cruise ferries to FPSO's.

Today, our portfolio of exhaust cleaning systems is the broadest in the industry, and our reference list the most extensive in the market. Our exhaust gas cleaning portfolio consists of closed loop systems for fresh water use, open loop systems for seawater use, and a combination of the two, i.e. the hybrid system. Proposed ballast water regulations will necessitate the installation of a ballast water management system to stop the spread of non-indigenous invasive species. We offer our customers systems based on the two most common technologies for ballast water treatment; ultraviolet treatment and electro-chlorination.

Increasing fuel prices has made efficiency one of the top concerns for ship owners and operators. We help our customers maximise the efficiency of their vessels on several levels: we design vessels which are as efficient as possible for their intended operating profile, we engineer integrated power, propulsion and equipment systems that ensure the best possible total efficiency, and of course also supply the efficient individual products required for the system. Once delivered, our comprehensive control and monitoring systems and lifecycle services enable efficient operation of the vessels throughout their lifecycle.

Ship Power operating environment

Ship Power serves the marine industry and the oil & gas industry. The main vessel segments covered in the marine industry are merchant, cruise & ferry, navy and special vessels. In the oil & gas industry we are active in offshore vessels, and in land-based gas installations. Ship Power's customers include both shipyards and ship owners.

General shipbuilding and shipping market drivers

Demand in the shipbuilding and shipping industries is mainly driven by developments within the global economy and the resulting impact on trade and transportation capacity requirements. The global economy also influences fuel prices, which in turn has both a direct and an indirect impact on the marine and oil & gas industries. High fuel prices drive the development in the oil & gas industry, while in the general shipping industry they increase the demand for efficient vessels. Other factors, such as shipyard capacity, new build prices, decommissioning and scrapping, interest and freight rates, and environmental regulations, also affect these industries. Global demand for new vessels drives Wärtsilä Ship Power's business, in particular ships built for seaborne cargo transportation, offshore oil drilling, production and support, cruise and ferry services, and for naval use. Another important factor is the demand for environmental solutions and gas as a marine fuel that stems from environmental regulations. Moreover, the increasing demand for oil and gas, together with declining production from traditional fields, supports new offshore oil & gas investments in deepwater and remote locations.

Main drivers for Wärtsilä's Ship Power business

- Developments in the global economy
- Development of world trade and needed transportation capacity
- Development of oil and gas prices
- Environmental regulations
- Development of new offshore oil & gas fields

Competitors and market position

Wärtsilä Ship Power has continuously broadened its portfolio, which today ranges from engines and propulsion equipment to electrical equipment, automation, ship design, environmental solutions, gas systems, and pumps and valves. This is backed by the capability to build environmentally sound solutions, and by the best service support throughout the lifecycle of the product. Our competitive advantage lies in having the industry's broadest marine focused offering of leading, innovative products, and insightful integrated systems and engineering, which is supported by a unique sales and service network in touch with our customers globally.

Our field of competitors is broad. It includes engine companies like MAN, Caterpillar and Chinese license manufacturers, propeller makers such as Schottel and Thrustmaster, and environmental and auxiliary equipment providers like Alfa Laval. It also includes electrical and automation houses like Siemens or Kongsberg, pump and gas system providers such as Colfax and Cryostar, and companies with broad offerings like Rolls-Royce or Hyundai Heavy Industries.

Wärtsilä is recognised as a proven supplier of innovative, sustainable technology in the marine and oil & gas markets ranging across our portfolio. In the medium-speed dual-fuel engines we are recognised as the market leader with the most extensive references in the industry.

Wärtsilä offering	Main application*	Main competition**	Wärtsilä's market position
4-stroke medium speed main engines	Small merchant vessels, offshore, special vessels	MAN D&T, MAK (CAT), Rolls-Royce, HiMSEN.	Approximately half of the market (in kW) is controlled by Wärtsilä.
4-stroke auxiliary generating sets	All vessel types	Market is highly fragmented, price sensitive and with heavy competition. Main competitors are MAN D&T and its local license manufacturers, Yanmar and HiMSEN. High-speed engines also compete in the auxiliary engine market.	Wärtsilä is a market challenger, having around 4% of the total market.
2-stroke engines (built under license)	Large and medium size merchant vessels	MAN D&T, Mitsubishi Heavy Industries	Market challenger, approximately 10% of the market (in kW) is controlled by Wärtsilä
Propulsion <ul style="list-style-type: none"> • Controllable Pitch Propellers (CPP) • Fixed Pitch Propellers (FPP) • Steerable thrusters • Tunnel thrusters 	All vessel types	Rolls-Royce, Schottel, Hyundai Heavy Industries, Mitsubishi Heavy Industries, Mecklenburger Metallguss, Thrustmaster, Brunvoll, Kawasaki, Caterpillar (Berg Propulsion)	CPP & FPP: Market is fragmented with several players competing, Wärtsilä among the top players. Steerable thrusters: Wärtsilä among the top players. Tunnel thrusters: Market is highly fragmented, Wärtsilä is a market challenger.

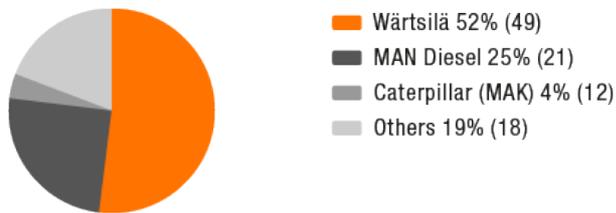
<p>Electrical & Automation</p> <ul style="list-style-type: none"> • Low loss concept (LLC) • LV & MV switchboards • Variable speed drive • Flowline heating • Ship automation systems • Power management systems • Integrated bridge solutions 	Offshore, special vessels	ABB, Siemens, Kongsberg, Rolls-Royce, General Electrics	Established position in offshore, otherwise market challenger.
Ship design	OSVs, merchant vessels, specialized vessels, fishing vessels	Skipsteknik, Marinteknik, MMC, Rolls-Royce, Ulstein	Amongst the leading independent ship design houses.
<p>Oil & Gas systems</p> <ul style="list-style-type: none"> • Regasification systems • Gas reliquefaction systems • Onshore gas liquefaction systems • Gas recovery systems • Oil separation systems • Fuel gas systems 	Offshore gas processing & storage vessels, LNG/LEG/LPG carriers, floating production systems, industry applications, fuel gas systems for all vessel types	TGE Marine, Cryostar, Linde GAS - AGA, Kobelco, Moss Maritime, Daewoo Shipbuilding & Marine Engineering, Weir LGE, Cryonorm, John Zink, Black & Veatch, Air Liquid, Aker Solutions, FMC/CDS, Cameron/Concept	Wärtsilä Hamworthy among the top players.
<p>Pumps and valves</p> <ul style="list-style-type: none"> • Deepwell cargo pumps • Pump room systems • Engine room pumps • Fire-fighting systems • Valves 	All vessel types, on- and offshore oil & gas facilities	Niigata, Marflex, Framo, Hyundai Heavy Industries, Shinko, Colfax, Ellehammer	Wärtsilä Hamworthy among the top players.
<p>Environmental solutions</p> <ul style="list-style-type: none"> • Exhaust gas cleaning • Ballast water management systems 	All vessel types	Alfa Laval, Green Tech Marine, Techcross, Panasia, Evac, Scanship GEA Westfalia, Marinfloc	Wärtsilä among the top players.

<ul style="list-style-type: none"> • Inert gas systems • Water production systems • Water treatment systems 			
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* Only main applications mentioned.

** Only main competitors mentioned.

Market position of medium-speed main engines



Wärtsilä's market shares are calculated on a 12 months rolling basis, numbers in brackets are from the end of the previous quarter. The calculation is based on Wärtsilä's own data portal.

Market position of low-speed main engines



Wärtsilä's market shares are calculated on a 12 months rolling basis, numbers in brackets are from the end of the previous quarter. The calculation is based on Wärtsilä's own data portal.

Market position of auxiliary engines



Wärtsilä's market shares are calculated on a 12 months rolling basis, numbers in brackets are from the end of the previous quarter. The calculation is based on Wärtsilä's own data portal.

Ship Power strategy

Wärtsilä Ship Power's strategic goal is to be the leading provider of innovative products and integrated solutions to the marine and oil & gas industries.

To achieve this we will build on our deep customer understanding and:

- Solidify our clear leading position in solutions for gas fuelled vessels, environmental compliance and efficiency optimisation
- Further develop our position as the shipbuilding industry's leading systems integrator
- Provide a competitive offering of products for the growing needs of the marine and oil & gas markets
- Seek further growth through the ability to offer the most efficient lifecycle solutions for our customers

As a solutions provider, we are ready to deliver everything from a single product to complete lifecycle support of complex systems for powering ships; from concept development to operational use. Wärtsilä Ship Power is uniquely positioned in being the industry's only true provider of a total marine offering. This offering includes engines, generating sets, reduction gears, propulsion equipment, automation and power distribution systems, sealing solutions, emission control and abatement systems, gas containment and handling systems, control and communications, and the world's strongest service network serving the shipping and offshore industries. Our wide range of products is supported by world class ship design, engineering, and project delivery capabilities, allowing us to provide solutions capable of optimising the lifecycle value of our customers' installations.

We see important mid-term growth opportunities in solutions for gas fuelled vessels, environmental compliance and efficiency optimisation. Wärtsilä is already well positioned in these areas, having the most extensive experience and track record in running gas engines, a unique portfolio of products for emissions control and abatement (including exhaust gas cleaning systems, ballast water treatment systems, selective catalytic reduction etc.), and a holistic approach to ship-level efficiency optimisation through our engineering and ship design capabilities.

Wärtsilä Ship Power seeks organic growth that will be supported by acquisitions and partnerships. We develop and deliver our offering of innovative and competitive products based on the requirements of our customer segments and the operating profiles of their vessels. We further offer ship owners and operators

integrated lifecycle solutions, whereby performance and availability are guaranteed. This integrated offering will be crafted hand in hand with Wärtsilä's Services business.

We maintain our position as the shipbuilding industry's leading systems integrator, and will establish a similarly strong foothold in the oil & gas business. Finally, we will invest further in strengthening our presence and maximising the efficiency of our supply chain, engineering and sales, especially in the key shipbuilding areas, notably China, South Korea and Brazil.

Ship Power strengths

- The broadest portfolio of reliable and high performing products and solutions in the marine and offshore oil & gas industries, supported by the industry's strongest global services network
- An unmatched track record in providing gas fuelled vessels with our dual-fuel technology and gas systems
- The most comprehensive selection of options for meeting our customers' needs concerning fuel flexibility, efficiency and environmental requirements
- A unique synergy between ship design and engineering capabilities that allows us to maximise a vessel's efficiency throughout its lifecycle
- A strong presence in all major segments in the industry, allowing us to navigate ship building cycles

Ship Power and sustainability

The marine and oil & gas industries are at the very center of converging megatrends, namely a move towards a more diverse and cleaner energy mix, increased transparency and accountability with regards to environmental performance, and a need to improve economic performance despite possible uncertainties in the global economy. For Wärtsilä it is clear that improved sustainability is central to addressing all these trends.

Shift to natural gas	Stricter regulatory environment	Focus on energy efficiency
<p>The global energy landscape is shifting towards a more diverse and sustainable energy mix, and natural gas - the cleanest fossil fuel - has a key role to play in this transition. The oil & gas industry has, during recent years, seen a dramatic rise in the demand for natural gas as supply is increasing. The marine industry is also affected by this transition with interest in the use of gas as a marine fuel rising sharply.</p>	<p>The marine industry is implementing changes to comply with existing environmental regulations, while evaluating the possibilities for complying with upcoming regulations. Emissions to air (CO₂, NO_x, SO_x, PM, VOC, and others) and water are under scrutiny. Similarly, regulations relating to safe and clean operations are becoming stricter, especially for the oil & gas industry.</p>	<p>The global economic downturn has put enormous pressure on the cost structure of especially the marine, but also the oil & gas industry. In the marine industry in particular, the high cost of fuel is a key driver for upgrading equipment, rethinking operational profiles, and new vessel designs. Investments in improved energy efficiency have both economic as well as improved environmental performance benefits.</p>

Wärtsilä is committed to becoming the most valued business partner of all of its customers. This means that it is essential for Ship Power to have sustainability at the very core of its product and solutions development.

Our R&D and business development activities are based on a deep understanding of how these megatrends affect our customers. The expansion and development of Wärtsilä's offering to the marine and oil & gas industries over the years demonstrates our response to our customers' needs. Gas, environmental compliance, and efficiency are the three pillars on which Ship Power builds its offering.

Gas

Gas is an increasingly available, cost-efficient and clean fuel. Wärtsilä develops products and services that enable the safe use, handling and distribution of natural gas for the marine and oil & gas industries.

Wärtsilä is the marine industry's undisputed leader when it comes to gas-fuelled propulsion. Today our dual-fuel medium speed engines power more than 150 vessels (primarily LNG carriers) and have accumulated over 7 million running hours in both land-based and marine applications. These milestones represent achievements that cannot be matched today by any other engine manufacturer. Thanks to a strong and safe track record in the use of gas as a marine fuel for LNG carriers the industry is increasingly keen on expanding the use of LNG to other vessel types.

During 2013, Wärtsilä announced the expansion of its dual-fuel portfolio to cover 2-stroke low speed engines. The launch of the Wärtsilä RT-flex50DF, and the expansion of the entire 2-stroke portfolio to dual-fuel versions, will help catalyze this change towards gas in the marine industry. These new engines are IMO Tier III compliant in gas mode.

The benefits of using Wärtsilä's well proven low-pressure dual-fuel technology are many:

- Emission reductions (when operating in gas mode): -85% NO_x, -99% SO_x, up to 99% reduction of particulates (PM), 20-30% less CO₂ emissions, no smoke
- Fuel flexibility to enhance operational security and competitiveness. Operation on HFO, MDO, bio fuels and crude oil is possible
- Capital expenditure reductions of 15-20%, since the use of low pressure technology means simpler (lower cost) gas handling systems, and no need for further exhaust gas cleaning systems
- Reduced waste streams (liquid waste)
- No need to use secondary emission reduction systems (and hence no consumption of reagents)
- Redundancy and safety
- Stable operation on gas across the entire load range with no need to switch to diesel fuel at low loads
- Lower consumption of pilot fuel (just 1% of total fuel used)

Enabling the use of gas as a marine fuel means much more than supplying a proven technology on gas engines. For Wärtsilä it means also maintaining its leading position in the design of gas fuelled vessels, and offering reliable and competitive gas storage and handling systems.

Wärtsilä also supports the development of the broader gas value chain in the oil and gas industry with, for instance, its liquefaction and regasification solutions.

Environmental compliance

Wärtsilä offers a wide set of options for compliance with environmental regulations. All include working technologies, fast installation, and support throughout our global network. We are committed to providing our customers and the society at large with reliable and safe technologies for environmental compliance, which will be available for use as new regulations come into force. We can also assist our customers in the process of evaluating the best options for compliance so as to adopt a solution that meets their specific operational needs.

In the marine industry our offering for environmental compliance covers the following:

- For SO_x and NO_x compliance: gas propulsion, conversions to gas propulsion, exhaust gas cleaning systems (NOR, hybrid scrubber system, open loop scrubber system)
- For ballast water compliance: UV and EC technologies
- For EEDI compliance: improved efficiency of individual products, ship design
- For emissions to water compliance: sealing systems

In addition to these, Wärtsilä's offering to the oil & gas industry includes the following solutions to facilitate safe and clean operations:

- VOC recovery
- Waste and fresh water management systems
- Oil separation
- Flare gas recovery

Efficiency

At Wärtsilä, we strive to optimise the lifecycle cost of installations. We do this because it makes economic sense to our customers, since we understand the pressure for reducing costs and investing in developing products and solutions that will help achieve significant savings. Furthermore, improved efficiency results in better environmental performance.

For us, one way of improving efficiency is to invest in renewing our product portfolio. During 2013, Wärtsilä announced the introduction of a new efficient thruster portfolio, and has continued to introduce its new X series 2-stroke engines to the market. In both cases, significant improvements in efficiency have been achieved. Currently, Wärtsilä is also developing a new generation of 4-stroke engines where efficiency improvement will be a key feature.

Wärtsilä has also developed individual products that improve efficiency, such as the Energopac Rudder and the Low Loss Concept (LLC). Furthermore, Wärtsilä is uniquely positioned to improve overall vessel efficiency and the efficiency of operations, thanks to our deep know-how in all relevant disciplines, including automation, machinery, propulsion and ship design. By combining this know-how with a deep understanding of our customers operations, we are able to achieve major efficiency improvements.

Ship Power development in 2013

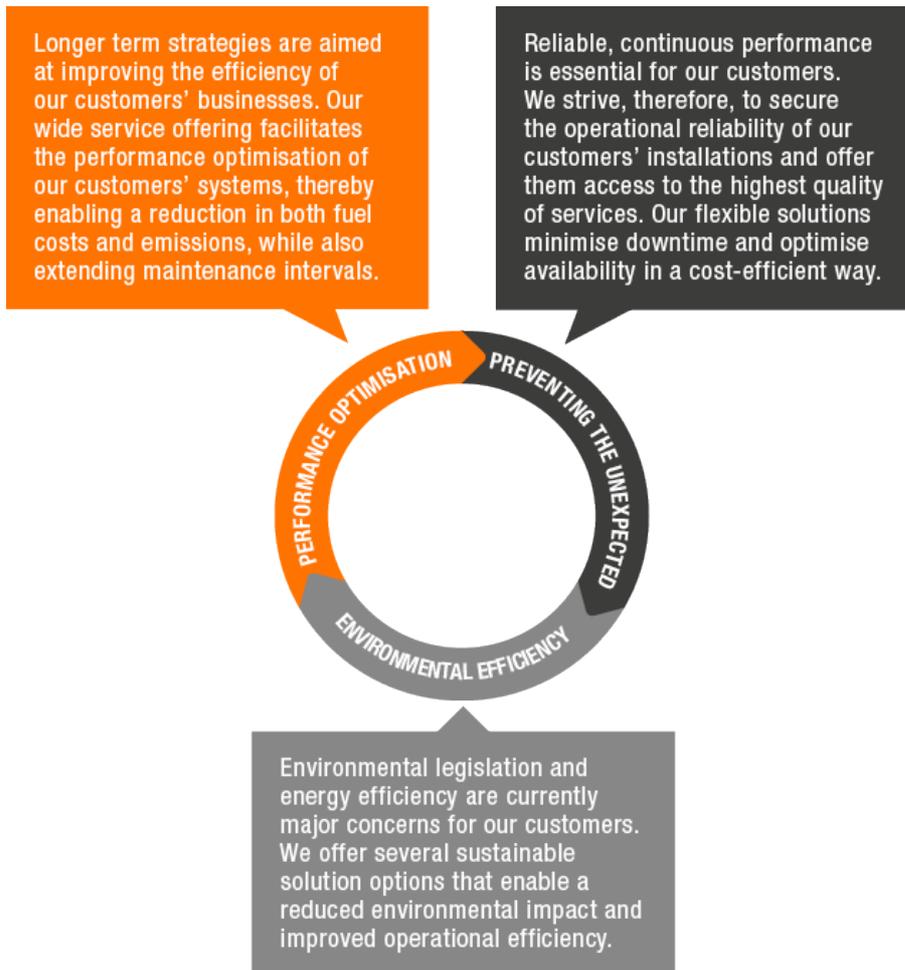
During 2013, the total number of new registered vessel contracts was 2,201. Market activity improved significantly compared to 2012, when the volume for known contracts was 1,090 vessels. Ordering was active in all major vessel segments, resulting in a more evenly spread contracting mix compared to the previous year. Competitive new building prices and the increased fuel efficiency of modern vessels attracted investments in merchant vessels. Furthermore, oil price levels supported activity in the offshore markets, including operations in harsh and deep water areas. China and South Korea captured respectively 41% and 33% of the contracts confirmed during 2013 in terms of compensated gross tonnage, while Japan secured 15%. Wärtsilä's share of the medium-speed main engine market increased to 52% (49% at the end of the third quarter). The market share in low-speed engines remained at 10%, while in auxiliary engines the market share decreased slightly to 4% (10% and 5% respectively at the end of the third quarter).

Ship Power’s order intake increased by 14% to EUR 1,662 million during 2013, reflecting the improvement in the marine market. Ordering was active in the offshore and special tonnage segments, as well as in the merchant segment. The interest in gas as a marine fuel continued throughout the year, and Ship Power received many orders for dual-fuel engines and gas related systems. The ordering of environmental solutions picked up somewhat and Wärtsilä was awarded an order for its AQUARIUS®UV ballast water management system by Carboflotta Group, as well as several orders for exhaust gas cleaning system. Net sales for Ship Power increased by 2% to EUR 1,325 million during 2013, which represents 28% of Wärtsilä’s total net sales.

Wärtsilä Services

Wärtsilä Services supports its customers by offering the most comprehensive portfolio of services in the industry, thereby optimising their operations and the lifecycle performance of their installations. Our service network is the broadest in the industry, consisting of approximately 11,000 service professionals in more than 160 locations in nearly 70 countries. We offer expertise, local availability, responsiveness, and the most environmentally sound solutions for all customers, regardless of the manufacturer of their equipment.

We focus on three key elements for optimal lifecycle efficiency:



Our services offering

We aim to develop close relationships with our customers, thus enabling us to gain an in-depth understanding of their business, and to extend our offering accordingly. Our Services business provides full and complete support for both Ship Power and Power Plants' installations, and is based primarily on the equipment sold and designed by Wärtsilä, including engines, propulsion systems, electrical and automation systems. However, Wärtsilä Services has the capability to retrofit and service other brands as well.

We are continuously developing our existing competences while also building new competences in strategic growth areas, such as gas engines, the offshore oil & gas industry, asset optimisation systems and environmental solutions. Expanding our offering by developing our portfolio through innovations will continue to be our focus in the future. Further growth is sought by strengthening our service offering in response to our customers' increased interest in partnerships, thereby providing them with both lower costs and improved operational efficiency.

Our areas of expertise include:

Engine services

We provide a full range of services for medium- and low-speed gas, dual-fuel and diesel engines and other related systems. Our offering comprises everything from standard engine overhauls to optimisation retrofits that improve the performance of older engine designs.

Propulsion services

We offer a complete range of services for propulsion systems throughout the lifecycle of an installation. Propulsion improvements enable optimal fuel efficiency for vessels and offshore rig reliability.

Seals & bearings services

We provide a wide range of sealing, bearing and sterntube solutions in the form of integrated systems, packages and products. These services provide marine and industrial customers with increased efficiency, reduced running costs, and operational longevity.

Electrical & automation services

Electrical and automation services include the maintenance and upgrade of all types of control and automation systems for power plants, marine applications, and oil & gas installations, as well as for power plant and vessel safety systems. We provide a wide offering of services from instrumentation to turnkey engineering packages, as well as modernisation and conversion projects.

Boiler services

We provide a comprehensive range of boiler services, including inspection services, condition based services, and spare parts for all types of boiler plants, economisers, and their control systems.

Environmental services

We offer land based power plants and ship installations an extensive set of services aimed at improving efficiency and minimising emissions. These solutions include fuel conversions, low NOx solutions, and propulsion efficiency services. Furthermore, our field service organisation supports Ship Power's environmental retrofit market in the installation and commissioning of environmental solutions.

Service agreements

We tailor our service agreements to the customers' needs, letting them choose from different levels of partnership, thus allowing them to concentrate on their core business. Technical management agreements include regular inspections, monthly reporting, and exchange programmes for spare parts. In our maintenance agreements, we provide fixed prices for inspections, technical support, spare parts, training, and maintenance work. Our operations and maintenance agreements can cover full operational, management and maintenance services, as well as installation performance guarantees.

Service projects

Our project management capabilities enable us to optimise the performance of our customers' installations through upgrades, modernisations, fuel conversions and safety solutions.

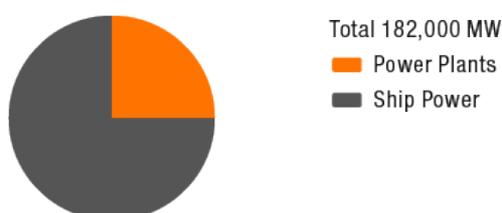
Training services

Our training services cover all aspects of management, operational, maintenance, and safety issues, and range from traditional hands-on training to advanced remote training systems and e-learning opportunities.

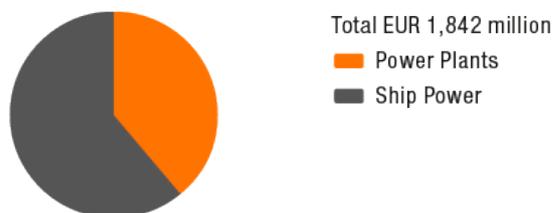
Services operating environment

Wärtsilä Services supports the company's marine and power plant customers. Of the company's existing installed engine base, measured in MW, approximately one quarter is power plant related and the remainder marine industry installations. In terms of Services' revenues, around 40% comes from power plant customers and 60% from marine customers. The service portfolio includes everything from spare parts and field service work, to more advanced lifecycle solutions aimed at reducing operational costs and improving efficiency. Roughly half of the Services revenue comes from spare parts, one quarter from field service, and one quarter from service solutions, such as maintenance agreements and service projects.

Installed base by business



Services net sales by business



General market drivers for Services

The main market driver in the service business is the size and development of the active engine base. The market conditions faced by end customers have a direct impact on the utilisation rate and the estimated lifetime of installations in operation. In the marine service business, the activity level of the vessel fleet is impacted by the number of anchored, idled, and scrapped vessels, as well as by the speed at which vessels operate. The lifecycle phase of an engine also affects maintenance requirements, and thereby the service needs for both marine and power plant installations.

Lifecycle solutions are offered through long-term service agreements and retrofit projects. The need for such solutions is driven by changes in, for instance, the cost or availability of different fuels, the cost or availability of crew, and/or the level of technical expertise needed to operate the vessels or power plants. Changes in environmental regulations, as well as improved safety aspects, also influence the need for lifecycle solutions.

The outsourcing of operations and management is today an important trend in the power plants service market. In the future, this may also become a more important driver for marine customers whereby partnerships can improve clarity concerning future costs and improve operational efficiency.

Competition and market position

Wärtsilä has a strong position in the service market. Only a few smaller players are able to provide such a broad services offering globally, and thus competition is mainly local. Local competition consists mainly of parts traders, repair yards, local workshops, and component suppliers for spare parts and the field service business. The number of local players is quite large and competition is rather fragmented since each product has its own set of competitors.

The competition for long-term service agreements for operating power plants comes from a few regional players capable of offering plant operational services, including those with different technologies. In the marine market, although some customers handle service and maintenance themselves, a similar scope of service agreements is also offered by ship management companies. Wärtsilä Services co-operates with several companies in this area, offering a variety of options to ensure the best solution for the end user.

Services strategy

Our customers recognise Wärtsilä as being a reliable service partner; competitive, trusted, and easy to deal with.

- We focus on customer needs in order to constantly develop our offering proposition with value-enhancing products
- We support our customers locally through our qualified global field service network
- We grow by providing more service agreements with new Ship Power and Power Plants deliveries
- We support our customers in minimising their environmental footprint and foster a customer-focused quality attitude and a safe way of working

The size and scope of the Services business provides a platform for further growth. Our objective is to maximise our market share in the marine and power plant service markets. We will develop our service offering and delivery process to cost-efficiently provide better value for our customers. Together with our customers, we create lifecycle-optimising solutions that improve the operational efficiency and profitability of our customers' installations. We use our advanced expertise to offer them global 24/7 support in the fields of logistics, maintenance, plant-operating services, asset monitoring systems and technical support, as well as high-quality real-time information and analyses through effective online services. This offering includes an advanced portfolio of long-term agreements, allowing customers to focus on their core business. Moreover, we are able to deliver service projects that match the changing needs of our customers' businesses. We combine our service solutions with new equipment sales to create value-adding lifecycle solutions. In the environmental solutions retrofit market, we support Ship Power with our unparalleled sales network and field service organisation. Furthermore, we offer environmental upgrade solutions, such as fuel conversions, that improve the efficiency of installations and minimise emissions.

Services' strengths

- Long-term relationships with customers and an in-depth understanding of their needs
- A complete lifecycle offering
- The broadest services offering in the industry
- A global service network

Services and sustainability

Environmental legislation and the need for energy efficiency are currently the main drivers for our customers' actions towards developing their businesses in a more sustainable way. Wärtsilä Services strives to be a leader in supporting its customers' efforts to meet and exceed current and future business and sustainability demands. Through continuous innovation, we will continue to provide shipping companies and energy providers with environmentally sound solutions well into the future.

Wärtsilä Services conducts its business in a responsible way, and creates added value by providing services from locations in close proximity to its customers, and through offering employment opportunities in local communities.

Solutions for the marine and power industries

The essential role for Wärtsilä Services as regards sustainability is to provide a range of services that ensure reliable and optimised operational, environmental, and safety performance. The availability of liquid fuels and gas, together with stricter environmental requirements, creates opportunities for the Services business.

Our solutions enable the application of the latest technologies in power plants and ships that are already in operation, thereby allowing them to comply with new legislative requirements. A lifecycle optimised approach guides the creation of our solutions, which are developed in co-operation with the customer. The aim is to improve the economic and environmental performance of existing installations, and to ensure their safety and reliability throughout their operational life.

Energy efficiency and maintenance

We develop and provide services, such as upgrades, reconditioning, fuel conversions and retrofit solutions, that improve environmental performance, comply with stringent environmental legislation, and extend the operational lifetime of the application.

The good maintenance of equipment is a key factor in material effectiveness and energy efficiency. Wärtsilä's proactive Dynamic Maintenance Planning (DMP) programme includes the planning and scheduling of engine maintenance based on online monitoring of the mechanical condition, performance, system efficiency data, and other indicators from each engine. The data is collected and monitored daily, which enables fault sources to be identified before failure occurs.

For existing installations, a set of primary upgrading solutions are available, such as:

- Engine, propulsion, or electrical & automation system efficiency upgrade packages that reduce fuel and/or lube-oil consumption, thereby contributing to lower emissions and to the generation of economic benefits
- Low NO_x solutions that combine various engine modifications designed to find the ideal combination of compression ratio, injection timing and injection rate. The concept has been developed so as to achieve the best possible trade-off between NO_x reduction and fuel consumption
- The conversion of propeller shaft sealing systems to an anti-pollution version that eliminates the risk of water pollution
- Diesel to gas conversions that considerably reduce emissions from the installation. The conversion of heavy fuel oil (HFO) or marine diesel oil (MDO) installations to operate on natural gas offers many benefits, and is becoming an increasingly attractive option throughout the industry

For new and existing installations, secondary methods that integrate additional equipment, and which contribute to emissions abatement are available. Wärtsilä Services provides an unparalleled sales channel for such environmental solutions, as well as the field experts needed for their installation and commissioning.

Services development in 2013

The overall service market development was stable during 2013. The demand for power plant related services remained at a good level throughout the year, and activity was healthy especially in Africa. The overall marine

service activity was satisfactory. At the end of 2013, Wärtsilä's installed base totalled 182,000 MW. The marine installed base decreased slightly due to the scrapping of merchant vessels with 2-stroke engines. This development was compensated for by the continued increase in the 4-stroke installed base, particularly in power plant installations.

In 2013, net sales from the Services business decreased by 3% to EUR 1,842 million, which represents 40% of Wärtsilä's total net sales. The Services' sales mix saw an increase in revenues from maintenance service and long-term contracts. Services' order intake decreased by 4% to EUR 1,885 million. The interest in service agreements continued during 2013. Wärtsilä signed important long-term operations and maintenance agreements with power plant customers in Africa, Australia and the USA. Wärtsilä was also awarded a service agreement by Viking Line for maintaining and servicing the gas-fuelled passenger ferry Viking Grace.

PowerTech

PowerTech serves both the Ship Power and Power Plants market areas, and comprises R&D and manufacturing for medium-speed engines, supply management and quality, as well as operational excellence. Manufacturing is focused mainly on the assembly, test running, and finishing of products. Our business model, which is strongly connected to a broad network of suppliers, guarantees flexibility in capacity. Being close to the customer is important, as is our focus on quality and the continuous emphasis we place on technology leadership in our R&D activities.

The focus on gas, environmental solutions, and Smart Power Generation drives the development of our operations. Our product portfolio consists of medium-speed engines, catalytic systems, and emission monitoring products. Other products sold to the marine markets are a part of Ship Power's product portfolio. We provide products that are reliable, cost efficient, functional, environmentally compatible, technologically leading, and able to be integrated into solutions or delivered as stand-alone equipment.

In the latter part of 2013 Wärtsilä initiated steps to integrate PowerTech into Ship Power's 4-stroke organisation. The aim is to further strengthen competitiveness and to serve customers more effectively through increased flexibility, faster decision making and the optimal utilisation of resources. The new set up became effective in the beginning of 2014.

Wärtsilä's global supplier network supports flexibility in manufacturing

Through close co-operation, excellent relations, and the sharing of information with our suppliers, the supply of components and market-conform lead times are secured. Wärtsilä has around 1,200 suppliers globally, and our network is being continuously further developed. Our sourcing strategy is to focus on carefully selected suppliers, with a strong emphasis on performance, innovation, and a presence close to our manufacturing units and joint ventures. Our aim is to continuously develop and strengthen our global supply chain with a strong emphasis on quality and cost competitiveness.

PowerTech footprint

Wärtsilä's manufacturing model follows market demand to ensure flexible global capacity. The manufacturing of our medium-speed main engines is concentrated at the delivery centres in Vaasa, Finland and Trieste, Italy. As structural changes continue in our end markets, we remain focused on strengthening our presence in key markets, such as China, Russia and Brazil. This enables us to better serve our customers locally, thus

strengthening our position in these emerging markets. Furthermore, local manufacturing allows savings to be achieved in both production and transportation costs.

PowerTech currently has four joint ventures globally. In China, the Wärtsilä Qiyao Diesel Company Ltd joint venture produces medium-speed auxiliary engines for local markets. We are also in the process of setting up a new production facility in Zhuhai, China with Yuchai Marine Power Co. The joint venture will focus on assembling medium-speed main engines in order to further strengthen our ability to serve the Chinese markets. In Korea, we manufacture dual-fuel engines for the LNG carrier markets in partnership with Hyundai Heavy Industries Co. In Russia our joint venture with Transmashholding manufacturing multipurpose diesel engines is in the ramp up phase. PowerTech has also initiated the construction of a fully owned manufacturing facility in Brazil to meet increasing market demand, particularly in the offshore segment. This modern multi-purpose diesel generating set packaging and propulsion equipment factory is located in Açu, Brazil, and is scheduled to start operations mid 2014.

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Wärtsilä and sustainability

As a global leader in complete lifecycle solutions for the marine and energy markets, Wärtsilä has a key role in providing sustainable solutions for the shipping and energy sectors. We support our solutions globally during their entire lifecycle. This creates the basis for our sustainability work, which is supported by our commitment to responsible business conduct.

Our commitment to sustainability and responsible business is based on our mission, vision and strategy, which along with our sustainable development objectives create the framework for developing the company's activities and products. Wärtsilä's strategy is based on three key growth areas, Smart Power Generation, gas as a fuel and environmental solutions, all of which contribute to a more sustainable future in both the energy and the shipping industry.

Our strength is our technological leadership and therefore technology plays a central role in our sustainability work. The Power Plants and Ship Power businesses focus on developing and providing sustainable solutions for the industries in which they operate, whereas Wärtsilä Services has a key role in supporting our solutions and providing the latest technologies for existing installations through upgrades and modernisation packages.

Wärtsilä identifies and assesses its sustainability risks on annual basis. Based on the current assessment, the sustainability risks are considered to be at low level. Generally speaking sustainability can be seen as an opportunity for Wärtsilä.

Wärtsilä's sustainability goals

Wärtsilä's sustainable development is based on three closely interrelated pillars: economic, environmental and social performance. In the field of sustainable development, Wärtsilä's overriding focus is on the following:

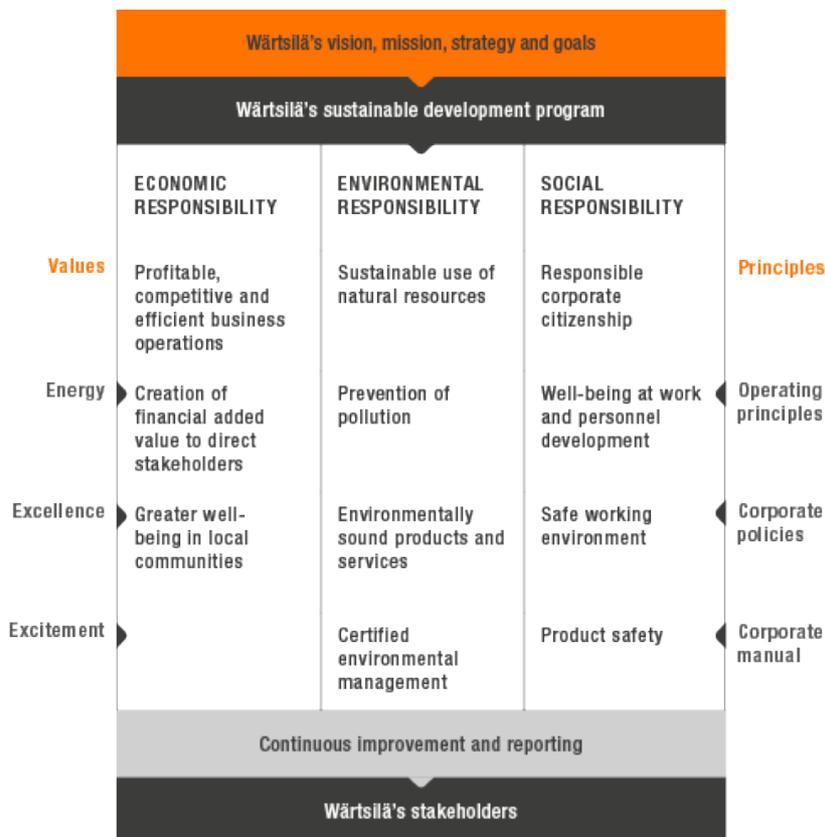
- Economic: **profitability**
- Environment: **environmentally sound products and services**
- Social: **responsible business conduct**

The other core areas of sustainability are presented in the picture Wärtsilä's sustainability approach. Wärtsilä's strategy for environmental and social responsibility is presented in the Strategy section. Wärtsilä sets corporate level sustainability targets for the core areas.

From a sustainability impact point of view, product-related environmental issues are the most significant for Wärtsilä. The use of Wärtsilä's products has an environmental impact both locally and globally. Other dimensions of sustainability mainly have a local impact.

Sustainability impact	Local	Global
Economic	X	
Environmental		
- Product related	X	X
- Operational	X	
Social	X	

Wärtsilä's sustainability approach



Sustainability targets

Wärtsilä's targets for reducing GHG and other emissions

Target	Schedule	Status
To reduce energy consumption by at least 10% in terms of absolute consumption (GWh) by 2016 compared to mean energy consumption in 2005.	2016	The Wärtsilä energy audit scheme was completed during 2013. The energy audits identified the savings potential and measures to improve energy efficiency. During 2013, Wärtsilä continued to conduct energy reviews for identifying energy saving potential for companies outside the audit scope. Energy saving actions are monitored on an annual basis. By 2013, energy savings of 35.6 GWh have been reached, which represents about 76% of the final target.
To create solutions for enabling medium-sized LNG to replace liquid fuel infrastructure.	2015	The operation of a biogas liquefaction plant producing biofuel for busses in Oslo has started. The plant can replace diesel in up to 135 busses, and reduce CO ₂ emissions by 10,000 tonnes a year. A turnkey contract signed for a LNG terminal to be built in Tornio.
To enable emission reductions through gas conversion projects.	2015	Since 2004, Wärtsilä has performed gas conversions for more than 23 power plants and one marine installation, totalling 886 MW. In 2013 several customer seminars were held regarding gas conversions as well as one global webinar concentrating on gas as a fuel and gas conversions.
To increase total net electrical efficiency in simple and combined cycle power plants in cyclic operations.	2015	Wärtsilä has continued developing fast starting and stopping capabilities of engines. Significant improvements in both starting and stopping times have been reached. Thereby also the cyclic efficiency of the power plants has increased, both in simple and combined cycle mode. Fast start up and loading released for W34 engine based plants. Start to full load now achieved in 2 minutes. Wärtsilä has also developed concepts for minimising the environmental impact depending on the amount of operating cycles per year. This has been achieved by minimising the stand by energy consumption through the utilisation of new technologies and improved engine control systems. Furthermore, major developments have been achieved in ramp up and ramp down rates, enabling optimal fuel economy at transient loads and maximum revenues from reserve markets.

To influence developing dynamic power markets in order to enable wide scale renewable integration.	2015	Wärtsilä has participated in many studies which have assessed the value of flexibility for the power systems. Wärtsilä has also assessed various power market models and their ability to secure adequate flexibility in the power systems. Wärtsilä has conducted an active dialogue with various stakeholders concerning dynamic power markets.
To enable the reduction of power losses by 3-5% in electrical propulsion using medium voltage system.	2015	A solution released for pilot sales. Full scale validation and verification of MV frequency converter will start in first-half of 2014, and of MV LLC in second-half of 2014.
To develop performance management solutions for different vessel types enabling better efficiency of the plant.	2012	Development of LNG carrier energy efficiency concept proceeding according to schedule. Concept piloting will be executed during 2014.
To develop 10 new Wärtsilä Optimiser solutions enabling customer to optimise the lifecycle performance.	2015	Global platform roll-out was delayed in 2013, but individual solution development continued. Platform development focus was placed on supporting W3C and other energy efficiency advisory applications and services, such as SEEMP reporting as part of Marine Agreements offering development.
To reduce GHG emissions by 3% through improving the engine efficiency.	2015	Technology has been tested in the laboratory during 2013. The release of the new technology is scheduled for 2014.
To expand the gas portfolio.	2015	LNGPac sold to 8 installations in 2013.
To stimulate growth for LNG-fuelled OSV's.	2015	Wärtsilä received: <ul style="list-style-type: none"> - additional orders for LNG powered OSVs in the Gulf of Mexico market - additional orders for LNG powered OSVs in the North Sea market - additional orders for LNG carriers for global trade - repeat order for Oil&Gas FPSO topside power module application.
To expand the field of LNG applications beyond present vessel types and to facilitate LNG re-engining.	2015	Orders for vessels for regional trade: <ul style="list-style-type: none"> - dual-fuel engines, propulsion equipment and cargo handling package for Evergas. Order for passenger ferries: <ul style="list-style-type: none"> - Societe des Traversies Quebec passenger ferries - first gas fuelled ferry for a domestic route in Denmark for Danish municipality Samsø Kommune.
To deliver environmental and energy efficiency consultancy projects: 10 projects.	2015	During 2013 Wärtsilä has focused mostly on consultancy projects related to reduction of air and water pollution. Altogether over 10 environmental and energy efficiency consultancy projects have been sold.

In addition to the targets presented above, Wärtsilä has set internal sales targets for its environmental products.

Wärtsilä's targets for reducing the emissions to the water

Target	Schedule	Status
To develop further dry concepts for high-efficiency combined cycle solutions.	2015	The dry concepts for high efficiency combined cycle solutions have been developed with promising results. The dry concept for Flexicycle has been developed and optimised. Cost and performance has been verified with information from latest Flexicycle projects. Efficient steam turbine performance has also been verified in delivered project.

Wärtsilä's targets for improving the overall performance

Target	Schedule	Status
To conduct 3 lifecycle assessments.	2015	The potential product categories for the lifecycle assessment have been reviewed. First lifecycle assessment started in 2013.

Wärtsilä's social targets

Target	Schedule	Status
To make Wärtsilä a workplace where all employees have the opportunity to show their best and develop their career – to build a company of equal opportunities. - Target 2013: More than 50% of the open vacancies* filled from	Continuous	Open vacancies filled: 54% internal selections and 46% external selections. 4.1 trainings days/employee during 2013.

<p>internal applicant pool including promotions and lateral moves.</p> <p>- Target 2013: An average of 5 training days/employee per year.</p>		
<p>To develop a new way of working in supplier relations, safeguarding Wärtsilä's sustainability commitment.</p> <p>- Target 2013: Implementation of revised model for supplier assessment and development.</p>	<p>2015</p>	<p>The model for supplier assessment and development was reviewed in 2012, and the process has been updated and applied in 2013. As a result of this review, periodical assessment of key suppliers is now required.</p> <p>In 2013, a Supplier Handbook was issued and communicated to suppliers better addressing Wärtsilä's requirements to suppliers. A notable part of this handbook describes sustainability related requirements for suppliers.</p>
<p>Development discussion coverage 100%.</p>	<p>Continuous</p>	<p>91% of all personnel have completed development discussions in 2013.</p>
<p>To implement certified EHS management systems in all subsidiaries (excluding purely sales offices).</p>	<p>Continuous</p>	<p>3 new OHSAS 18001 certified companies and 2 new ISO 14001 certified company during 2013. The management system coverage is presented in the management system section.</p>
<p>To reach the long-term goal for zero lost time injuries.</p>	<p>Continuous</p>	<p>In 2013, Wärtsilä continued improving, consolidating and spreading the safety culture. Over 6,900 employees completed the 4-hour e-learning focusing on Wärtsilä's Zero Injury approach. The positive trend continued, the lost-time injury frequency rate was 4.4 compared to the previous year's 5.5.</p>
<p>To ensure Code of Conduct commitment throughout the organisation.</p> <p>- Target 2012-2013: 95% coverage of participation in Code of Conduct learning module.</p>	<p>2013</p>	<p>At the end of 2013 16,950 employees covering 91% of total employees has successfully participated in the training.</p>
<p>To reinforce the Anti-corruption/broker training of key employee groups and obtaining anti-</p>	<p>2014</p>	<p>The Anti-Corruption ABC e-learning course was tailored and launched first in English and later in 10 additional languages both as online and offline versions in 2013.</p>

<p>corruption commitments from all key employees trained.</p> <p>- Target 2012: To identify the key employees (all sales personnel, company presidents and controllers) to be included in the training by each business.</p> <p>- Target 2013: Training of key employees to achieve 85% completion rate.</p> <p>- Target 2014: Training of all employees to achieve 80% completion rate.</p>		<p>A total of 11,321 employees had completed the e-learning course by the end of 2013.</p>
<p>To conduct three community support projects by 2015.</p>	<p>2015</p>	<p>Wärtsilä supported the building of school in South Sudan. The school was inaugurated in August 2013. Altogether 2 projects conducted. Wärtsilä ParticipAid framework was launched and first pilot company utilised the framework in UAE.</p>
<p>To improve well-being at work and increase productivity by reducing the sickness day cost.</p> <p>- Target 2012: To conduct analysis and action plans for improvement in Germany, Finland, Spain, Norway and Italy.</p>	<p>2015</p>	<p>Analysis done, action plan agreed, and implementation in progress. Examples of actions taken:</p> <ul style="list-style-type: none"> • Individual health situation analysis every second year • Co-operation with health care service provider.
<p>* Open vacancies in job levels 3-6</p>		

The value of sustainable innovation

Our most important contribution to sustainability is to supply environmentally sound solutions and services, which enable our customers to develop their business in a sustainable way. This requires us to continuously invest in technology development and in an ongoing search for new solutions that are more efficient and environmentally sound.

Investing in research and product development benefits Wärtsilä's customers as well as the environment, both in the short-term and over a longer time span. The growth in the world's energy needs, combined with increasingly stringent environmental requirements and the scarcity of natural resources create a challenging operating climate for companies in Wärtsilä's line of business. Wärtsilä has responded to these challenges by improving the energy efficiency of its products while simultaneously reducing their emissions. As part of sustainable innovation approach Wärtsilä has also assessed the benefits of its existing solutions on the system level, e.g. for power systems.

Wärtsilä gives strong priority to developing and applying technologies that reduce the environmental impact of its products. In order to meet the needs of our customers, to be prepared for future requirements and to remain an industrial frontrunner, Wärtsilä's product development must be at all times innovative, determined and willing to explore new technologies. We strive to develop environmentally sound products and solutions across a wide front, including technologies related to efficiency improvement, the reduction of gaseous and liquid emissions, waste reduction, noise abatement as well as effluent and ballast water treatment. With a proactive approach to meeting future demands, Wärtsilä has developed both primary and secondary abatement technologies and broadened the range of usable fuels.

Key features of Wärtsilä's environmentally sound solutions include:

- Reliability, safety and long lifetime
- Solutions to reduce emissions
- Alternatives to heavy fuel oil
- Flexibility in fuel use
- Solutions to maximise efficiency with lowest lifecycle cost
- Solutions to minimise water consumption
- Optimisation of vessel design and operations

By combining the key features and by understanding system level benefits of our offering, we are able to provide solutions for enabling the development of sustainable shipping and sustainable power systems.

Creating new solutions

Enabling gas operations in ships

Wärtsilä's dual-fuel (DF) technology offers both flexibility in fuel choice and environmental advantages when operated in gas mode. Emissions of CO₂, NO_x, SO_x and particulates are significantly reduced, while the DF technology provides the possibility to run the engine on liquid fuel should gas not be available. It also allows a choice of fuel based on cost and availability. The use of DF technology with gas as a fuel option is an optimal solution for vessels that spend a lot of time in ECA zones, and for vessels that carry gas with them, such as LNG carriers. Wärtsilä is developing a complete portfolio of medium-speed gas engines and related fuel

handling systems for LNG tankers and gas-fuelled ships. In 2013, Wärtsilä introduced its 2-stroke dual-fuel engine technology. The Danish tanker operator Terntank Redri A/S selected Wärtsilä's new 2-stroke, low pressure, dual-fuel engine to power their two new tankers.

Enabling LNG as fuel on LPG carriers combined with an onboard cargo handling system lowers fuel consumption

Wärtsilä is developing a combined LNG fuel and cargo handling system for Liquefied Petroleum Gas carriers. The system utilises the cold energy from the LNG fuel to liquefy the cargo boil off vapor during the voyage. The expected emission reductions from the auxiliary engines alone are in the region of 3.5-4.5 tons/day/ship. Wärtsilä has also developed a solution to utilise associated gases, previously considered as waste, to be converted into a valuable resource of energy. This solution is based on patented Wärtsilä Gas Reformer technology.

Developing groundbreaking technology to cut emissions

Wärtsilä and ABB Turbo Systems are co-operating in a joint programme to develop a new and groundbreaking application for two-stage turbocharging on large diesel engines. This advanced engine technology, together with two-stage turbocharging, offers significant advantages in fuel consumption and engine emissions. In this programme, Wärtsilä is focusing on developing an advanced engine technology, which with the turbocharger, is able to reach the highest possible performance, thus creating a cost-effective commercial solution for its customers. ABB Turbo Systems is delivering the turbocharging technology with defined performance parameters in terms of airflow, pressure ratios and efficiency. The technology will be implemented in specific market segments where lifecycle costs are of the highest importance. In 2012, first industrialised engine was delivered from the Vaasa factory where the engine's performance, as well as the manufacturing process, were validated. In order to fully utilise the potential of two-stage turbocharging, Wärtsilä has further developed technologies that enable engine optimisation over a wide load range.

Technologies such as variable valve and fuel systems have been developed, and during 2013 plans for industrialising these technologies were initiated. By ensuring optimum engine operation at part load Wärtsilä's customers can further reduce improve their operational costs.

Enabling liquefied biogas to be available for public transportation

Wärtsilä delivered the first biogas liquefaction plant to the Municipality of Oslo in November 2013. The production of liquid biogas commenced at start-up, indicating a success first installation of the technology. The control of the system is fully automated, which is an important step developing a fully commercial product for industrial owners. The produced bio-LNG will be used in 135 city-buses, which reduces the CO₂ emissions by approximately 10,000 tons annually. Based on experience from the first delivery, extensive work has been carried out to standardise the biogas liquefaction technology and product. Wärtsilä currently offers three different capacity classes adapted to marked needs. Standardisation is vital for reducing cost and improving competitiveness.

Enabling ship power production from captured recovered emissions of Volatile Organic Compounds

Wärtsilä continues to improve the efficiency of power production by utilising ship based VOC recovery systems. This is achieved by closely integrating the VOC recovery plant with a dedicated combustion and power unit. The systems can be utilised effectively on shuttle tankers, floating storage units and oil terminals.

They are designed to recover up to 100% of the VOC emissions, and enable full usage of the recovered products replacing HFO and diesel.

Enabling re-liquefaction of LPG compositions from shale gas and with improved efficiency.

Very Large Gas Carriers, VLGC's, are the largest gas carriers transporting LPG. Their typical size is 84,000 cu.m. These ships are equipped with reliquefaction plants to handle the boil off from the cargo tanks. Wärtsilä has developed a new generation of reliquefaction plants with improved efficiency. The plants are capable of handling high ethane content propane compositions, which is a new requirement related to trading of LPG from US shale gas process plants. The new developed process cycle from Wärtsilä allows up to 8-9% ethane in the LPG, compared to a maximum of 5% previously. The plant enables a 15-20% reduction in power consumption, with a direct reduction in the fuel consumption of the auxiliary engines.

Expanding fuel flexibility

Wärtsilä's power plant solutions are fuel flexible. The plants can be designed as multi-fuel plants and can even be converted from one fuel to another during the plant's lifecycle. Wärtsilä sees an increasing demand for large scale multi-fuel power plant projects, especially in those markets where a natural gas infrastructure is under development. Wärtsilä multi-fuel power plants can provide electricity from day one with various liquid fuels, and then switch to gas when it becomes available. This approach maximises the plants' availability and efficiency over the lifecycle. Wärtsilä is devoting more resources to the use of alternative fuels as part of its proactive approach to providing cost-effective, flexible, and environmentally sound solutions for its customers. Wärtsilä is studying and testing different fuel sources, such as vegetable oils, animal fats and emulsions, in its fuel laboratory. Recently Wärtsilä has tested engines running on tyre based pyrolysis oil, oil from a rock burning refinery process, different kinds of condensates coming from oil and gas wells, jatropa oil, fish oil, chicken oil, traditional animal fats, and different kinds of synthetic oils. In addition Wärtsilä has tested and developed solutions for operating engines on condensates, which enables them to operate on locally available fuels in oil fields and to utilise flare gases, thereby reducing greenhouse gas emissions.

In 2013, Wärtsilä began constructing the world's largest tri-fuel power plant, IPP3 in Jordan. The plant will initially run on heavy fuel oil, but as soon as the new gas infrastructure has been built and gas is available, the plant will switch to gas with minimal modifications.

Enabling a global transition to a more sustainable electricity infrastructure

Wärtsilä develops its products and market approach to offer high value solutions for a more modern and sustainable energy infrastructure. Wärtsilä's flexible power solutions make it possible to install much larger quantities of variable, non-dispatchable wind and solar power capacity to the electrical systems without jeopardizing system stability. The same flexible power plant solutions offer unique value in grid contingency situations where dynamic features, such as extremely fast starting (<5 minutes to full load), loading and stopping, are of paramount importance. Additional benefits include a high energy efficiency level over a wide load range, multifuel operation, no water usage, and the ability to locate the power generation facility within the load pockets, i.e. in cities, even in California where they have the most stringent emission requirements. Combining wind power with Wärtsilä's dynamic gas power plants offers notable potential for dramatically reducing CO₂ emissions worldwide.

In order to ensure the security of the national power supply even in an emergency, Wärtsilä is delivering a grid reserve power plant for Estonia during 2013-2014. The plant will be able to start even in a scenario where all

power has completely been lost, and will reach full output in less than 10 minutes – either running on gas or light fuel oil.

Enabling efficient performance without water consumption

Standard Wärtsilä power plants are equipped with closed loop cooling systems. The system enables efficient performance without water consumption. This feature is available also for the Wärtsilä Flexicycle^[TM] plants, where waste heat, in form of steam, is used for additional power generation. Continuous work is ongoing in order to increase the electrical efficiency without water consumption. The Dominican Republic received a major addition to its grid in 2013, as Wärtsilä commissioned a multi-fuel Flexicycle power plant. Despite extreme tropical conditions, the power plant will efficiently cater for the needs of both the national utility and a closely located gold mine. In this power plant the steam turbine is cooled by cooling towers. The same plant technology is available with closed loop cooling system for places where water availability is limited.

Sustainability highlights 2013



10.1. The new P-63 FPSO vessel, featuring Wärtsilä 50DF dual-fuel engines, the first such ship to produce more than 100 MWe of power with gas engines, completed the full 100% load tests.



13.1. Maiden Voyage of M/S Viking Grace, the world's largest LNG-fuelled passenger vessel, powered by Wärtsilä.



4.2. Wärtsilä contracted to supply a 220MW natural gas fuelled power plant in Oregon, USA, to accommodate rapidly changing input levels of renewable energy sources to the grid.

ANNUAL REPORT 2012

8.2. Wärtsilä's Sustainability report 2012 published as part of the Annual Report.



18.3. Wärtsilä launches GasReformer product for turning oil production gas into energy.

DIVERSITY INITIATIVE



18.3. Wärtsilä Diversity Initiative launched.

Q2



12.4. Wärtsilä 34DF dual-fuel engines received certification of emission standard compliance from the US Environmental Protection Agency.



15.4. Wärtsilä contracted to supply total integrated solutions for new series of the most environmentally sustainable LNG carriers in the world for a Danish operator.



15.4. Wärtsilä Propulsion Wuxi exceeds 800 days with zero Lost Time Injuries.



6-9.5. Wärtsilä GasReformer product was recognised by the Offshore Technology Conference with the 2013 Spotlight award for reducing offshore oil and gas sector operating costs while benefiting the environment.



16.5. Wärtsilä AQUARIUS EC Ballast Water Management System received the IMO Final Approval status.



22.5. Wärtsilä contracted to supply Russia's largest engine power plant, running on natural gas.



28.-29.5. Wärtsilä discussed sustainable shipping with key stakeholders in Europe in two events - in the European parliament and with the members of the Sustainable Shipping Initiative.



4.6. "10 years of LNG operation" ceremony at Nor-Shipping in Oslo.



2.7. Wärtsilä, together with CEVA Logistics, were winners of the Lean & Green Star Award 2013 for their successful efforts to reduce CO2 emissions by 60 per cent at Wärtsilä's warehousing operations.



10.7. The largest power plant running exclusively on natural gas engines on the African continent, in Sasolburg, South Africa, was inaugurated.



25.7. Wärtsilä receives 'Excellent Partner 2013' award from Samsung Heavy Industries.



6.8. Wärtsilä Brazil listed as one of the 30 best companies to work for in Rio de Janeiro, Brazil, according to Great Place to Work® in 2013.



2.9. Wärtsilä Annual Report 2012 ranks high in Report Watch's global competition.



27.9. Wärtsilä Anti-corruption e-Learning course made available in 11 languages.

Q4



9.10. Wärtsilä launches new long life seal ring for use with Environmentally Acceptable Lubricants (EAL).



9.10. Wärtsilä 20DF, another ECA compliant dual-fuel engine released to the US market.



10.10. Wärtsilä Power Plants' two technical papers awarded - at Power-Gen Asia 2013 and the Asian Power Awards 2013.



17.10. Crisis Management Initiative (CMI) arranged a fund raising dinner at Wärtsilä.



18.10. South Sudanese school inaugurated with Wärtsilä support.



29.10. The first Wärtsilä closed loop scrubber, installed on Containership VII, received a compliance certificate.



15.11. Wärtsilä Valves Ltd., Hull, received OHSAS18001 certification.



18.11. United States Coast Guard grants AMS acceptance for Wärtsilä's AQUARIUS@UV Ballast Water Management System.



28.11. Wärtisilä employee satisfaction survey, MyVoice 2013, response rate hits a new record of over 78%.



2.12. New Terntank tankers will feature the first recently introduced Wärtisilä 2-stroke, low pressure, dual-fuel engines.



4.12. Wärtisilä launches 2-speed marine gearbox to significantly reduce fuel consumption.



4.12. Customer webinar "Flexibility brings value in energy market".



8.12. Manufacturing site in Grunnavågen, Norway exceeds 2000 days of zero Lost Time Injuries.



16.12. Wärtisilä AQUARIUS®EC Ballast Water Management System granted IMO Type Approval.



31.12. The annual Lost Time Injury frequency index reached record low again.

Wärtsilä in sustainable development indices



FTSE4Good Index



OMX GES Sustainability Nordic Index & OMX GES Sustainability Finland Index



ECPI Global Carbon Index & ECPI Global ESG Best in Class Equity index



Wärtsilä has also been rated a Prime company by oekom research

Sustainability management

Wärtsilä applies global guiding principles such as the Quality, Environmental, Health & Safety policy (QEHS policy) and the Code of Conduct, which together with the company's values ensure a harmonised way of working towards sustainable development. The Corporate Manual includes, in addition to those mentioned above, other policies and directives, a description of the company's operating procedures, responsibilities and the management system structure. Wärtsilä's governance and risk management principles, as well as the main sustainability risks, are described in the [Governance-section](#).

Roles and responsibilities

Wärtsilä's Board of Management has the overall responsibility for sustainability performance. The Board of Management approves the guiding principles and reviews the content on a regular basis. The Board of Management defines sustainability targets and monitors performance against these set targets. Performance is reviewed in connection to the management reviews on both Wärtsilä's Board of Management and Business Management Team levels.

Wärtsilä's sustainability function is responsible for providing the necessary information to management, identifying development needs as well as for coordinating sustainability programmes and preparing instructions. The function co-operates closely with the Businesses and the supporting functions such as Human Resources, Legal, Compliance, Quality, Wärtsilä Supply Management and Real Estate. It also collects and consolidates sustainability data from the subsidiaries.

Wärtsilä has clearly defined responsibilities supported by necessary instructions and training. This training covers for example the Code of Conduct, anti-corruption as well as environmental and occupational health and safety issues. Wärtsilä monitors sustainability performance by utilising the information provided by various sustainability tools and activities such as internal audits and compliance processes.

Guiding principles

Wärtsilä Corporate Manual gives a brief description of the Wärtsilä way of working and contains the core policies, guidelines and instructions that are applicable to the entire Wärtsilä Group. These policies complement the Code of Conduct which set out, among other things, the requirement to maintain the highest legal and ethical standards in the Wärtsilä business practices.



Voluntary commitments

Wärtsilä participates in the Sustainable Shipping Initiative and the UN Global Compact initiative. Wärtsilä has also signed an agreement in 2008, whereby the Finnish industry voluntarily endeavours to use energy more efficiently. Wärtsilä North America Inc. has joined the Customs Trade Partnership Against Terrorism (C-TPAT) agreement signed in 2003.

Wärtsilä Code of Conduct

Introduction

Wärtsilä is committed to carrying out its business in a sustainable way. In order to promote the long-term interests of Wärtsilä and its stakeholders, the company strives to maintain the highest legal and ethical standards in all its business practices. Each employee is expected to act responsibly and with integrity and honesty and to comply with this code and its underlying policies and instructions.

Compliance with laws

All business and other activities of Wärtsilä shall be carried out strictly in compliance with all applicable laws and under the principles of good corporate citizenship in each country where such activities take place. Each employee is expected to comply with the requirements of those laws and regulations that apply to Wärtsilä's operations and to his/her job and with the Wärtsilä principles of good corporate citizenship.

Openness

Wärtsilä promotes openness and transparency as well as continuous dialogue with its stakeholders, including customers and other business partners, shareholders, personnel, authorities, local communities and the

media. Stock exchange rules and competitive considerations may, however, in some cases restrict such openness and transparency.

Wärtsilä strives to be honest and accurate when communicating with its stakeholders, and also Wärtsilä employees shall make their statements in accordance with this principle.

Respect for human and labour rights

Wärtsilä supports and respects the protection of human rights as defined in the United Nation's Universal Declaration on Human Rights. No employee is allowed to take any action that violates these human rights principles, either directly or indirectly.

Wärtsilä supports basic labour rights as defined by the International Labour Organization. In this respect, Wärtsilä upholds the freedom of association and the effective recognition of the right to collective bargaining. In the case that these rights are restricted by local law, Wärtsilä endeavours to offer its employees alternative means to present their views. Wärtsilä does not accept any form of forced or compulsory labour or the use of child labour.

Fair employment practices

Wärtsilä promotes freedom from discrimination based on race, ethnic or national origin, colour, gender, family status, sexual orientation, creed, disability, age, political beliefs or other characteristics protected by law. Wärtsilä fosters equal opportunity and our employees are selected and treated on the basis of their abilities and merits.

Wärtsilä does not accept any form of discrimination, harassment or bullying from its employees.

Occupational health and safety

Wärtsilä endeavours to create hazard-free workplaces for its employees, contractors and others working in various locations by applying high standards of occupational health and safety. Wärtsilä strives to assure the safety of its products and solutions through its world-class product and solution development processes.

Each employee is responsible for complying with the safety instructions, for using personal protection equipment when required and for reporting on any shortcomings regarding safety instructions or protection measures.

Conflicts of interest

Wärtsilä expects full loyalty from its employees. Employees must avoid situations where their personal interests may conflict with those of Wärtsilä. This means, for instance, that employees are not allowed to accept gifts or entertainment from a stakeholder, except a gift or entertainment of a minor value given on an occasional basis, providing it does not create a conflict of interest situation.

Anti-corruption

No Wärtsilä company or any of its employees may, directly or indirectly, promise, offer, pay, solicit or accept bribes or kickbacks of any kind, including money, benefits, services or anything of value. Such payments and favours may be considered bribery, which violates local legislation and internationally recognised principles for combatting corruption and bribery.

Environment

Wärtsilä's target is to develop and produce for its customers environmentally advanced solutions and services that fulfil essential requirements, such as low emissions and high efficiency. Efforts are made to achieve sustainable development by means of raw material selection, processes, products, wastes and emissions through the use of the latest technical advances. Each employee shall comply with the policies and instructions regarding environmental protection.

Relationship with authorities and local communities

Wärtsilä maintains constructive co-operation with authorities and regulatory bodies, at both local and international levels. Wärtsilä seeks to play a role in serving the needs of the local communities whenever possible.

Innovation and protection of proprietary information

Wärtsilä supports and encourages innovation by its employees in all areas of its activities.

Wärtsilä's intellectual property is one of its most valuable assets, and the patents, trademarks, copyrights, trade secrets and other proprietary information of Wärtsilä must be protected. At the same time, each Wärtsilä employee must respect the intellectual property rights of others.

Accuracy of accounting records

Wärtsilä accounting records must be accurate and reliable in all material respects. Unrecorded funds are prohibited. The records must not contain any false, misleading, or artificial entries.

Competition and fair dealing

Competition laws aim to protect consumers and businesses against unfair business practices. Each employee shall comply with those laws. Actions such as participation in cartels, abuse of a dominant position in the market place or the exchange of price or other commercial information between competitors are prohibited. Wärtsilä employees should be sensitive to competition concerns when attending occasions where competitors, or potential competitors, can be present.

Anti-fraud

Wärtsilä does not tolerate fraudulent behaviour or activities, such as embezzlement, fraud or theft. Such violations will lead to immediate termination of employment and are subject to criminal sanctions.

Implementation

Wärtsilä takes an active approach to the application of this code and promotes its implementation through the effective communication of its contents to employees. Wärtsilä monitors the application of this code internally.

Suppliers and business partners are an important and integral part of the total value chain of the products and services of Wärtsilä. They are expected to conduct their businesses in compliance with the same high legal and ethical standards and business practices as Wärtsilä. Wärtsilä promotes the application of this code by monitoring the actions of its suppliers and business partners.

In the case that questions arise regarding the interpretation of, or compliance with, this code, Wärtsilä Legal Affairs should be contacted.

The application of the code will be reviewed from time to time by the Board of Management, which may decide on necessary revisions or interpretations.

Reporting violations

Any Wärtsilä employee becoming aware of a potential violation of this code must contact his or her superior or Wärtsilä Legal Affairs. The president of the respective subsidiary must be informed, unless he or she is party to the alleged violation, in which case the Group General Counsel of Wärtsilä Corporation must be contacted. Wärtsilä will investigate all reported matters with discretion. Wärtsilä shall not take any adverse actions as a result of such reporting against any employee reporting in good faith what he or she believes to be a violation of this code.

Sanctions

Violation of this code may lead to a warning, the termination of employment and the payment of damages. Additionally, certain violations of a criminal nature can lead to criminal sanctions, such as fines or imprisonment.

Wärtsilä Quality, Environmental and Health & Safety Policy

We provide lifecycle power solutions and services which meet or exceed our customers and other stakeholders' expectations being:

- Reliable and safe
- Efficient and Environmentally sound
- Compliant with the applicable legal requirements and regulations

We continually improve our performance and reduce adverse environmental impact, through objectives set by management, to satisfy our customers and other stakeholders.

Our business premises provide a safe and healthy working environment for our employees and partners.

Our skilled organisation acts as a responsible global citizen.

Approved by Wärtsilä Board of Management 15 March, 2012.

Employee Practices

Wärtsilä's corporate policy on equal opportunities and fair employment practices creates a common framework for employee practices in all Wärtsilä companies and contains the following sections: Equal opportunities, Human and labor rights, Well-being at work, No harassment accepted, Remuneration, Implementation and Violations.

Equal opportunities

Wärtsilä is committed to fostering equal employment opportunities, in which individuals are selected and treated on the basis of their job-relevant merits and abilities and are given equal opportunities within Wärtsilä.

Wärtsilä's policy is to treat all employees equally on the basis of their merits, without discriminating them on the basis of their race, ethnic or national origin, color, gender, family status, sexual orientation, creed, disability, age or political beliefs.

Employee benefits and remuneration

The basic principle for remuneration in the company is to pay the same wage for the same job and the same performance. The salary is meant to be just, fair and encouraging. Differences in individual salaries are based on how demanding the job is, on differences between competence, work experience and performance and not on gender.

In general, temporary and part time employees are offered the same benefits as permanent employees. In some countries, eligibility is linked to months or years of service – such differences being typically based on collective agreements according to local legislation.

Individual salaries are reviewed once a year in connection with the performance review and in the framework of annual salary increase guidance. The company may pay employees an annual bonus in accordance with company rules and based on separate bonus agreements. Based on financial and individual performance, bonus outcome is determined once a year. Employees may be paid a spot bonus based on exceptional performance. Benefits, such as a company car, service year awards and well-being, fitness and health services, are planned and implemented locally taking into account both company guidelines and national practices.

Minimum notice period

Wärtsilä complies with European Union directives, local acts of co-operation in the companies and corporations, collective agreements and equivalent regulations concerning consultation and local bargaining. Concerning the termination of employment, Wärtsilä respects national labor union agreements and employment legislation.

In the case of occurrences having significant business or social implications, such as personnel redundancies, the transfer in full or part of production facility location, structural changes, as well as transnational effects, the EWC Working Committee and/or local employee representatives are consulted before decisions about such matters are made or, if that is not possible, as soon as possible. The objective is to provide information about any significant operational change at the time of planning.

Competency management

Wärtsilä's Competency Management and Development frame is a structured way to carry out long-term competence development plans within our businesses and functions. Wärtsilä has defined sixteen global job families consisting of generic job descriptions for seven different demand levels. In the job description, the most critical competencies of the job are defined and used as a basis for individual position competence requirements. Typically in the connection of annual development discussion, individual competencies are assessed against the job requirements and position profile. Competence assessment of our employees and a comparison with competence targets allow us to analyse competence gaps and create development plans accordingly.

All training and development activities in Wärtsilä strive to develop, maintain and renew the short and long term skills and competencies required to fulfill our strategy. Having the right competencies available at the right time and being able to continuously adapt to a changing business environment are critical success factors for Wärtsilä.

Consultation and information procedures in Group companies

Wärtsilä's procedures for consultation and information within the Group are arranged in each country according to local legislation. Wärtsilä's Code of Conduct calls for ongoing and open dialogue between the company's management and employee representatives through co-determination bodies, and employees are kept informed of both the Group's situation and that of their particular company. Company management and personnel engage in an open discussion also in those countries where there are no formal co-determination bodies as such. Regular briefings for personnel are an integral part of the operating procedures of Wärtsilä companies. Employee participation in decision-making also extends to occupational health and safety (OHS). Most Wärtsilä units have an OHS committee with representatives from all personnel groups.

In addition to Wärtsilä's procedures for consultation and information for employees at the local level, the European Works Council (EWC) handles issues that affect at least two companies located in the EU and the Group as a whole. The EWC and its working committee play an active role in considering and pursuing corporate level issues.

Dialogue at the individual level is conducted through development discussions, which are held at least once a year. The subjects covered in these discussions range from the Group's and business unit's targets to the individual's job description, competence development, career alternatives, personal targets and feedback. Development discussions are by definition held with all employees.

Employees are able to have a direct impact on the company's operations and their development by making suggestions. Each Wärtsilä employee can offer suggestions for improvement in operations either through the continuous improvement process (CIP) or by submitting private initiatives. CIP-proposals are discussed jointly and need a common decision to be put into effect. Individual initiatives are evaluated by experts within the company and, if found to be feasible, are put into effect. Another global channel for new ideas is the MyDea tool in the Idea Management portal via which new ideas concerning products and solutions, operational development and business are proposed and channeled to the nominated substance owners for comments and further reviews.

Business performance updates are given to all personnel on a regular basis in connection with Wärtsilä interim reporting. The company intranet "Compass" and the employee magazine "Wattsup" are the common global channels for internal communication.

Recognition of excellent performance

Wärtsilä encourages its employees to be innovative by granting an annual Technology and Innovation Award either to an individual or to a team for the best technical innovation of the year. The award criteria are that the invention must be innovative and environmentally sound, it must represent leading technology, improve a product or process and offer potential for cost savings. Wärtsilä also grants annually a Customer Care Award for a team or individual who actively participated in the initiatives leading to development of business operations, quality improvements in how we serve and partner with customers, customer satisfaction or Wärtsilä values demonstration.

Tools and processes

Wärtsilä utilises various tools and processes to manage and to further develop its sustainability. The key tools for sustainability are presented in the table below.

Wärtsilä tools for Sustainability

Basic principles	Systems and processes	Others
Vision, Mission and Strategy	Quality Management System	Sustainability target setting.
Corporate Governance	Environmental Management System	Sustainability management reviews.
Corporate policies and principles: Code of Conduct, QEHS policy, Policy on Equal Opportunities and Fair Employment Practices, Anti-Corruption Policy, Compliance Reporting Policy etc.	Occupational Health and Safety Management System	Business development tools: Due diligence, Environmental surveys.
Corporate Manual	Supplier Management System	Stakeholder dialogue.
Corporate requirements for suppliers	Risk management process	Sustainability reporting.

Wärtsilä's management system

Wärtsilä's management system aims to generate added value for Wärtsilä's various stakeholders, achieve the company's strategic objectives, support sustainability performance, manage operating risks and enhance Wärtsilä's performance through the continuous improvement process. The system includes a range of tools, such as systems for managing quality, the company's environmental responsibilities and occupational health and safety. Management reviews are conducted at various levels of the organisation to monitor the effectiveness of the system, the achievement of targets and the development of key performance indicators. Wärtsilä's processes are developed in the Businesses, the Business lines, the Division and the Functions. These development projects are governed by the Wärtsilä Controllers' meeting and OD Portfolio Management Team, Wärtsilä Presidents' Quality Review and Quality Reviews and the Functional Management Teams.

Wärtsilä's Board of Management is responsible for defining the company's main strategies, principles and policies and for the management system itself. The Board of Management regularly monitors the effectiveness and performance of the management system. Responsibilities are distributed to the line organisation at all levels of the company, and the management system defines a specific sphere of responsibility for each Wärtsilä employee. Work groups for developing the management system are appointed at the corporate level and in most Wärtsilä subsidiaries. At the Group level, the following work groups coordinate the development of product and operational issues:

Work group	Focus	Main tasks
Wärtsilä Presidents' Quality Review	Quality	Overall responsibility for Wärtsilä quality, quality process improvement and achievement of strategic quality goals.
Wärtsilä Controllers' Meeting	Strategic Operational development	Overall responsibility for Wärtsilä's operational development and the operational development plans and governing the work of IM and Process development.
Business Line Quality Reviews	Quality	Support and oversee quality development based on customer perception of our quality and full end-to-end life cycle view. Platform for focusing on the key improvement areas with biggest impact to our customers. Cross functional decision making to increase efficiency and shorten resolution lead time.
Wärtsilä OD Portfolio Management Team	Operational development	Operational development road map, targets and guidelines based on business strategies and targets and overall operational development process responsibility for the approval of the Wärtsilä Controllers' Team. Cross-divisional operational development alignment and harmonisation.
Wärtsilä EHS Management Team	Environmental, health and safety (EHS)	Overall responsibility for Wärtsilä EHS, EHS management system development, corporate level overall responsibility for Wärtsilä quality measuring and target setting and monitoring of legislation developments.

Management systems

Proportion of Wärtsilä companies with certification	
ISO 9001	79%
ISO 14001	65%
ISO 18001	62%

Supply chain management

Wärtsilä has defined its processes for choosing suppliers, determining their requirements and developing the supply relationship. Wärtsilä offers its suppliers a partnership that strengthens the competitiveness of both parties. A precondition of this partnership is an open and continuous dialogue. Partnership thinking is also applied in Wärtsilä's research and development activities, where the company often collaborates with universities and key suppliers.

Wärtsilä's supplier requirements address both general features and issues relating to quality, product-specific requirements, environmental management, occupational health and safety, social responsibility and legal compliance. These requirements are included in standard supply contracts. Wärtsilä controls regularly that suppliers comply with these requirements by using performance indicators and audits. Suppliers must demonstrate their compliance with these requirements in order to receive approved supplier status. The main priorities in Wärtsilä's supplier evaluations are supplier selection, conformance with requirements and performance reviews.

Wärtsilä assesses and manages its suppliers through its Supplier Management System. Wärtsilä regularly conducts supplier evaluations. These are divided into three categories: pre-assessment, auditing and performance review. A pre-assessment is made of potential new suppliers before the supplier relationship begins. Audits are conducted for new suppliers and for suppliers whose performance does not meet Wärtsilä's requirements. Performance reviews are carried out to identify and solve deviations from requirements. In the evaluation of a supplier, Wärtsilä focuses on several critical indicators in which Wärtsilä expects the suppliers to have high standards and performance: compliance with relevant legislation; environmental, occupational health and safety and quality management; process mapping, risk management; quality plans and social performance.

Local community approach

Wärtsilä aims to contribute towards the well-being of local communities in which the company is present. This can be reached for example by creating employment, by paying taxes and social dues, by providing training and education to employees, by co-operating with local stakeholders and by supporting local development.

The guiding principle of Wäartsilä's Code of Conduct is to promote openness and good interaction with its stakeholders locally. This applies as much to the families of personnel, our neighbours, educational institutions and the media as to local authorities and officials. The methods used towards this end include Open Door days, press briefings and different modes of communication for different target groups.

As a truly international company, Wäartsilä has delivered solutions to more than 160 countries. Wäartsilä supports its solutions globally during their entire lifecycle, often spanning up to 30 years. Thus, Wäartsilä can at times be present in countries facing various uprisings, ethnic conflicts, area disputes or violations of human rights. Conducting business locally emphasises the importance of responsible business practices. Governments and the international community define the proper framework for companies to conduct their business. Wäartsilä complies with relevant legislation and international conventions. Wäartsilä complies with all relevant guidelines of the OECD and the International Chamber of Commerce and with the sanctions set by the United Nations and the European Union, by supporting their implementation. In addition, the Wäartsilä Code of Conduct applies to all Wäartsilä employees. We are committed to sustainable development and responsible business conduct, and we promote the Ten Principles of the UN Global Compact within the sphere of our influence.

Wäartsilä's impact on employment, the public sector and the company's activities for charitable purposes are described in the Economic Performance section of this report. Measures to evaluate the impacts on local communities in case of operational changes of Wäartsilä subsidiaries are determined case by case.

Security management

Wäartsilä has a corporate security policy and different guidelines, which incorporate human rights considerations and international best practices. Wäartsilä's security management principles and strategies are reviewed and analysed in the Corporate Security Management Committee (CSMC). CSMC consists of business representatives, security and risk management professionals and is chaired by the Executive Vice President. Wäartsilä security risk management actions are reported to the Board of Management by the committee chairman. Security management in Wäartsilä is divided into four specific security areas: personnel, premises (physical), information and automation security. Operational security management in these areas is conducted on the business and local level.

Through its network companies Wäartsilä has received C-TPAT and AEO certifications for supply chain security management. Wäartsilä deploys security professionals who are members of ASIS International and CSO Roundtable.

Product design principles

Wäartsilä strives to develop environmentally sound, safe and reliable products and solutions for its customers. By providing lifecycle maintenance, reconditioning and retrofitting services for its products Wäartsilä is able to support its' customers operations throughout the entire life of service of Wäartsilä products. Reconditioning of engines and components increases the reliable service life of the products. Modernizing can improve current operational performance of installations and enables customers operations to meet tightening future regulative requirements.

The majority of the international environmental policies and requirements for Wärtsilä's products and solutions are set by the International Maritime Organization (IMO), the UNECE (United Nations Economic Commission for Europe) and the World Bank. In national or regional level organisations such as the U.S. EPA, the European Commission and market areas such as Germany, Japan and India are considered most important policy and regulatory directors for Wärtsilä products.

The IMO is responsible for adopting its own standards for the safety and security of shipping and the prevention and control of marine pollution and emissions from vessels. IMO regulates nitrogen and sulphur oxide emissions as well as ballast water treatment procedures and limitations. World Bank/IFC (International Finance Corporation) provides general and industry specific instructions of good international practices such as the thermal power plants' EHS (Environmental, Health and Safety) guideline, which is today the minimum environmental standard in global power plant projects. It is adhered to in most of the finance activities for projects in emerging markets. In the European Union, the EU Industrial Emissions Directive (IED) sets the requirements to minimise pollution from different industrial sources throughout the EU.

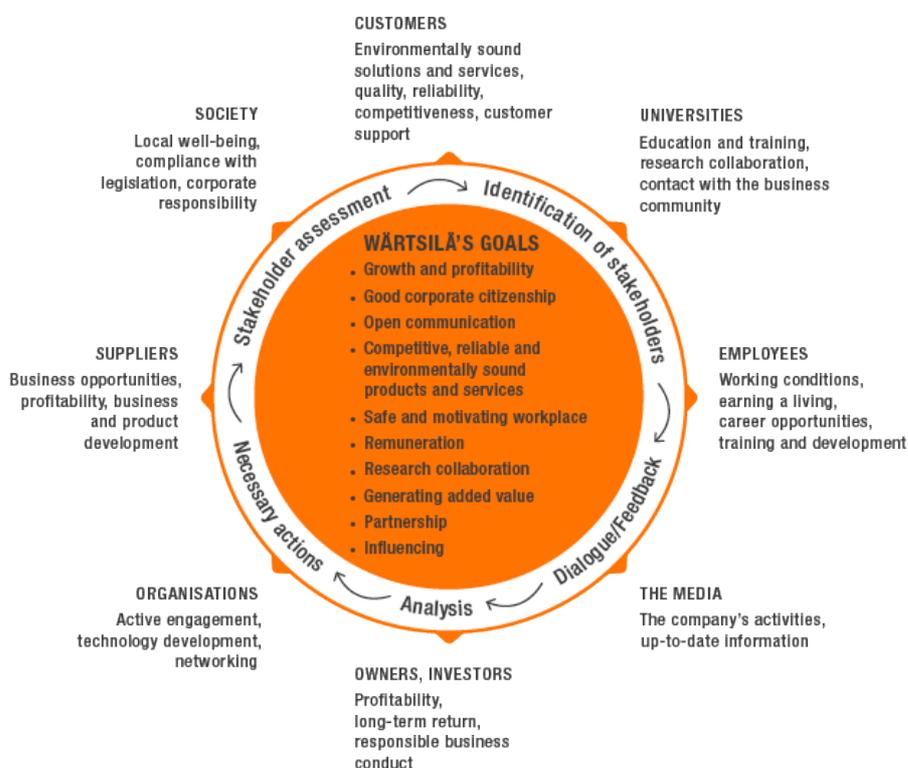
Wärtsilä's engines are designed to meet the requirements of the European Commission's Machinery Directive, the SOLAS Convention and other relevant safety directives, while Wärtsilä's propulsion systems are designed to comply with the SOLAS and the safety requirements of relevant classification bodies. New types of engines must also meet international safety requirements. Type approval is acquired from classification societies before new products are launched. Wärtsilä's Ship Design follows class society and flag state rules in the design process to secure safe and compliant designs for its clients. Class approval is required for drawings and calculations to be delivered to the client before construction of the vessel starts. Wärtsilä's products are delivered with appropriate user guides that include basic information about the products and full instructions for their use. In addition, Wärtsilä provides appropriate specific training to ensure environmentally sound and safe utilisation of Wärtsilä's products at customers' daily operations.

In order to ensure Wärtsilä's ability to respond to future regulation requirements, the company actively monitors legislative initiatives and changes in environmental legislation. As a result, Wärtsilä has focused its R&D activities for development of new environmental sound products and solutions that meet the future demands of the changing operating environment.

Stakeholder relations

Wärtsilä takes actively care of its relations with stakeholders by engaging in an open and constructive dialogue with its various stakeholders. Wärtsilä believes that open dialogue with stakeholders is essential when developing operations, products and services. At the corporate level, Wärtsilä has defined its most important stakeholders to be its customers, owners, suppliers, employees and the society. Wärtsilä's subsidiaries define their own primary stakeholders which, in addition to the ones mentioned above, include local residents close to production plants, educational institutes and public authorities. The priorities in managing stakeholder relations vary within Wärtsilä from one subsidiary to another. Wärtsilä continuously enhances its reporting performance both on its own initiative and in response to feedback from its stakeholders.

Main expectations of Wärtsilä's stakeholders and Wärtsilä's goals



In order to facilitate active dialogue with customers Wärtsilä arranges Customer Days for existing and potential customers at locations in various parts of the world. These events are used to review subjects of topical interest from both local and global perspectives, and to discuss existing and future needs and challenges. In addition to customer days Ship Power and Power Plants businesses arranged or participated in some 260 industry-related events globally, including international and national seminars, exhibitions, and conferences in 2013. These events were visited by customers, potential customers, and other stakeholders such as investors, consultants, suppliers, students, and other interested parties.

Employee dialogue takes place in many formats. More information about the procedures and processes to support active and engaging dialogue with Wärtsilä employees is described in the section of [Consultation and information procedures in Group companies](#).

The aim of open dialogue and discussion with local and international public authorities and officials is to share information and support authorities to improve the quality of regulation. Wärtsilä participates in public consultations in the areas of importance to the company.

Activities in organisations

In 2013, Wärtsilä participated in several relevant activities organised by various national and international organisations and associations. The key organisations for Wärtsilä and the nature of Wärtsilä's activities are shown in the table below.

Stakeholder	Organisation	Nature of activity
Interest groups	Confederation of Finnish Industries (EK), Finland Chamber of Commerce (ICC Finland), The Federation of Finnish Technology Industries	Membership and participation in activities.
Industrial organisations	Cogen Europe, Cruise Line International Association (CLIA), EnergyVaasa, Engine Manufacturers Association (EMA), EURELECTRIC, European Sustainable Shipping Forum (ESSF), European Cruise Council (ECC), European Association of Engine Manufacturers (Euromot), Exhaust Gas Cleaning System Association (EGCSA), International Council on Combustion Engines (CIMAC), World Alliance for Decentralized Energy (WADE), Verband Deutscher Maschinen- und Anlagenbau (VDMA), Indian diesel engine manufacturers association (IDEMA), Confederation of Indian Industry (CII), WaterBorne TP, Brazilian Association of Flexible Energy Generation (ABRAGEF), The Brazilian Thermoelectric Generators Association (ABRAGET), Hong Kong Shipowner Association, Association of Singapore Marine Industries, Brazilian Institute of Oil and Gas (IBP)	Board membership and participation in activities of specific working groups (CIMAC, WADE, Euromot, VDMA, CogenEurope, Italcogen, Cogen Turkey). Membership and participation in activities (CII, CLIA, ESSF, EURELECTRIC, EMA, EGSA, ECC, WaterBorne TP, ABRAGEF, ABRAGET, Association of Singapore Marine Industries, IBP).
Standardisation organisations	European Committee for Standardisation (CEN), International Organisation for Standardisation (ISO)	Participation in activities.
International organisations	International Maritime Organisation (IMO), United Nations Economic Commission for Europe (UNECE)	Participation in activities through national delegations (IMO). Participation in activities (UNECE).
Other	European Federation for Quality Management (EFQM), European Energy Forum (EEF), Global Reporting Initiative (GRI), UN Global Compact Nordic Network	Participation in activities (EFQM, EEF, UN Global Compact Nordic Network). Organisational stakeholder (GRI).

Creating economic added value

Wärtsilä's purpose is to create value for its various stakeholders. The focus is on profitability and raising shareholder value. Achieving this depends on our ability to satisfy the expectations of our other stakeholders as well. These include providing customers with high-quality and environmentally sound products, solutions and services, building long-term partnerships with suppliers, offering employees competitive compensation and working conditions and contributing to the well-being of the local communities in which we operate. Good economic performance establishes a platform for the other aspects of sustainability – environmental and social responsibility.

Despite the difficult conditions in the global economy during 2013, Wärtsilä has performed well. Profitability remained resilient and totalled EUR 520 million, 11.2% of net sales. Wärtsilä's net sales amounted to EUR 4,654 million, a decrease of 1% compared to the previous year. Asia's share of net sales was 38%, Europe's 29%, the Americas' 23% and others' 11%. Our long-term target is to grow faster than global GDP, and our operating profit margin (EBIT%) target is 14% at the peak of the cycle. Even at the trough of the cycle, our target is to keep the operating profit margin above 10%.

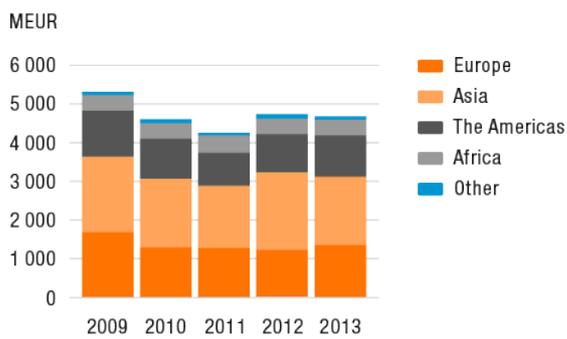
Added value to Wärtsilä's stakeholders

MEUR		2013	2012	2011	2010	2009
Customers	Net sales	4 654	4 725	4 209	4 553	5 260
Suppliers	Cost of goods, materials and services purchased	-2 901	-3 007	-2 694	-2 927	-3 593
	Value added	1 753	1 717	1 514	1 626	1 667
Distribution of value added	Distributed to stakeholders					
Employees	Wages and salaries	903	887	770	773	735
Public sector	Taxes and social dues	314	317	322	326	337
Creditors	Net financial items	19	30	16	13	34
Shareholder	Dividends	207	197	178	271	173
Communities	Donations given	1	1	1	1	1
For business development		310	285	228	242	388

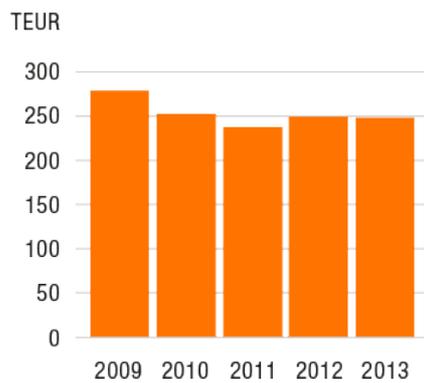
Customers

Wärtsilä creates added value for its customers by providing products, solutions and services that fulfil their needs and expectations. The development of high-quality, reliable and environmentally sound solutions and services depends on long-term collaboration and continuous interaction with customers. We provide our customers with service throughout the product lifecycle, thus ensuring optimal performance during the product’s lifetime. The modernisation of installed products can also extend their service life.

Net sales by market area



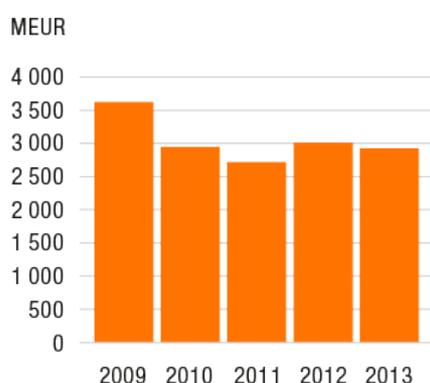
Net sales/employee



Suppliers

Suppliers play a significant role in our delivery process. We aim to have close and excellent relationships with our key suppliers in order to ensure that both parties have a mutual understanding of and are able to respond to our strict process and product requirements. Apart from financial benefits, close relationships create added value for suppliers through the knowledge and development support we offer them, and at the same time Wäartsilä gains from the supplier competence. Successful relationships can also help a local supplier to expand internationally by becoming a part of our global supply chain. In 2013, the value of goods, materials and services purchased by Wäartsilä was EUR 2,901 million. Wäartsilä has more than 3,700 active suppliers, most of whom are located in Europe, where we have our main production units. We are also continuously investing in developing a strong supply chain network in Asia.

Cost of all goods, materials and services purchased



Employees

At the end of 2013, Wäartsilä had 18,663 employees worldwide. We also employed thousands of people indirectly through our supply chain. In order to be able to recruit competent and motivated people, we endeavour to offer employees competitive salaries, opportunities for continuous personal development and a good working environment. Developing employee skills and competences is of critical importance both for our business performance and for the development of our employees. Wages and salaries totalled EUR 903 million in 2013. This figure includes basic salaries as well as payments based on various profit sharing and incentive schemes, which cover some 65% of the total workforce.

Pension cover

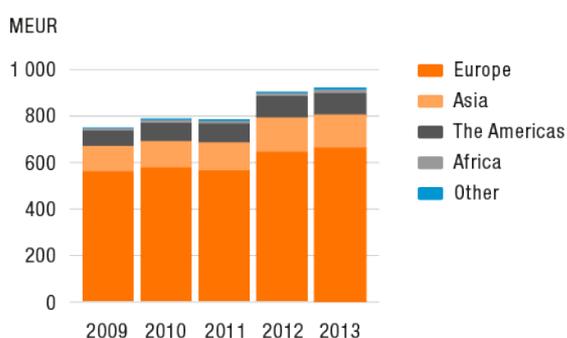
The pension cover is based on the legislation and agreements in force in each country. In Finland, most of the pension obligations are covered by the Employee Pensions system (TyEL). The largest defined benefit plans are used in the Netherlands, Switzerland and the United Kingdom. Most of these defined benefit pension plans are managed by pension funds, and their assets are not included in the Group's assets. Wäartsilä's

subsidiaries make their payments to pension funds in accordance with the local legislation and practices in each country. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans. More information on the Group's pension obligations can be found in the Financial Review, [Note 20. Pension obligations](#).

Wage levels

Wärtsilä applies and follows the local employment legislation in all countries and respects the local collective labour agreements, which often define the minimum wage levels. In addition, entry level salaries are benchmarked against the market references by function and educational qualification. Laws and regulations give the minimum level, but often the actual salaries exceed these levels. A total compensation package is tailored for each country on the basis of corporate rewarding guidelines and local market practices. The base salary is set to meet market conditions, the demands of the job and individual competence and performance.

Salaries and wages by market area



Hiring principles

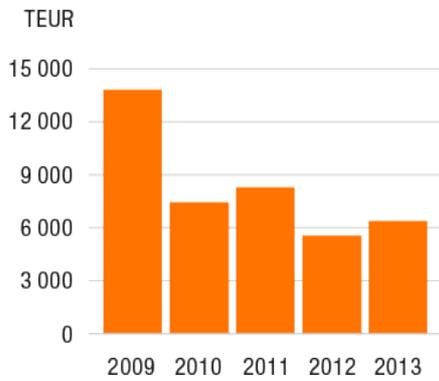
In principle, all open vacancies are published both externally and internally ensuring equal opportunity to apply for Wärtsilä positions. If there is no specific reason like a competence transfer need from other countries to hire expatriates to the position, local residents are hired. This principle also applies to senior management. Senior management includes global business and corporate management and local company management positions.

Public sector

Wärtsilä pays various social dues and taxes to the governments of different countries. Income taxes and social dues in the financial period 2013 were EUR 314 million. The social costs for employees contribute to the funding of pensions, unemployment and other social benefits that provide security and improve the quality of life for the company's employees and their families.

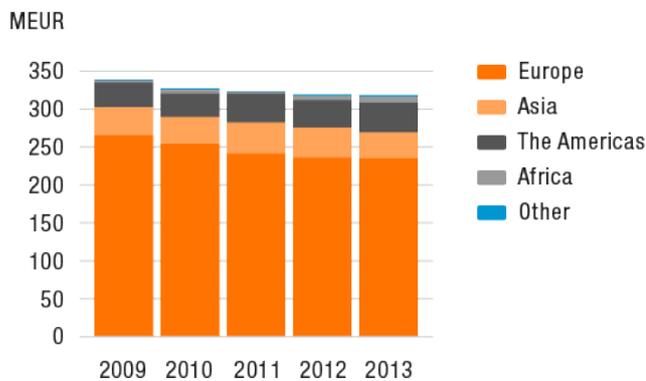
Wärtsilä companies also receive subsidies from the public sector. The value of the subsidies received in 2013 was EUR 6 million, and they were among others related to R&D projects.

Subsidies received from the public sector



The figures contain information from the 15 largest Wärtsilä companies and the parent company.

Taxes and social costs by market area



Creditors and shareholders

Creditors

In 2013, Wärtsilä's net financial items totalled EUR -19 million. At the end of the year, Wärtsilä's net interest bearing debt amounted to EUR 276 million, the solvency ratio was 43.9% and gearing was 0.15.

Shareholder value

Dividends totalling EUR 207 million are proposed to be paid to the company's shareholders. Our dividend policy is to pay a dividend equivalent to 50% of the operational earnings per share. The dividends paid per share are presented in the notes to the financial statements. At the end of 2013 earnings per share (EPS) was EUR 1.98 and Wärtsilä's market capitalisation was EUR 7,055 million.

Community support

At the national level, we provide financial support for a number of national, cultural and social activities. The Board of Directors has supported activities focused on children and youth, nature conservation, national defence, disabled war veterans and medical and technical research. Wärtsilä's Board of Directors contributed altogether EUR 111,200 to these activities in 2013. Additionally, many Wärtsilä companies provide support to local organisations for similar activities in their countries of operation.

Donations to good causes by the Board of Directors

TEUR	2013	2012	2011	2010	2009
Total	111	104	60	670	70

Donations to local organisations¹

TEUR	2013	2012	2011	2010	2009
Total	609	456	940	421	527

¹ The figures include the data from 15 major Wärtsilä companies and the parent company.

Wärtsilä and emission trading

Wärtsilä Italia S.p.A is the only subsidiary that falls into the scope of the EU Emission Trading Scheme (ETS) because of the heating plant of the factory. The EU ETS has not had any impact on the company's profitability. Wärtsilä's response to climate change is to develop and provide products, solutions and services that enable our customers to reduce their greenhouse gas emissions. We also advise and support our customers in utilising the Kyoto Protocol's Flexibility Mechanisms (JI and CDM) in their power plant projects. More information about Wärtsilä's solutions for climate change can be found in the [Environmental Performance](#) section. The potential business risks related to climate change and Wärtsilä's products are presented under the sustainability and climate change risks in the Risk Management chapter of the [Governance](#) review.

Environmental performance

The environment is the key element in Wärtsilä's approach to sustainability. For us, environmental responsibility has two dimensions: products and operations. Most of our efforts to improve our environmental performance, also within our operations, are conducted as part of product development and improvement. This work is supported by operational measures, which are based on achieving high environmental standards and continuous improvement.

To continually improve environmental performance within the company's operations requires the organisation to constantly work in a systematic way. This work is guided by our strategy and its environmental targets, the Code of Conduct and the company's policies relating to Quality, Environmental, Health and Safety, and it is co-ordinated and monitored by the EHS Management team and the Quality Board. In developing our operations, processes and products, we endeavour to use the latest technologies available for improving efficiency in areas such as material and energy consumption as well as for reducing and managing emissions and waste.

Wärtsilä has defined a process for the development of a product environmental strategy and its targets. The process includes the identification of aspects and impacts of the products, the means to influence these impacts, the identification of enabling and restricting boundary conditions and the analyses of the information and the preparation and implementation of the strategy and the targets.

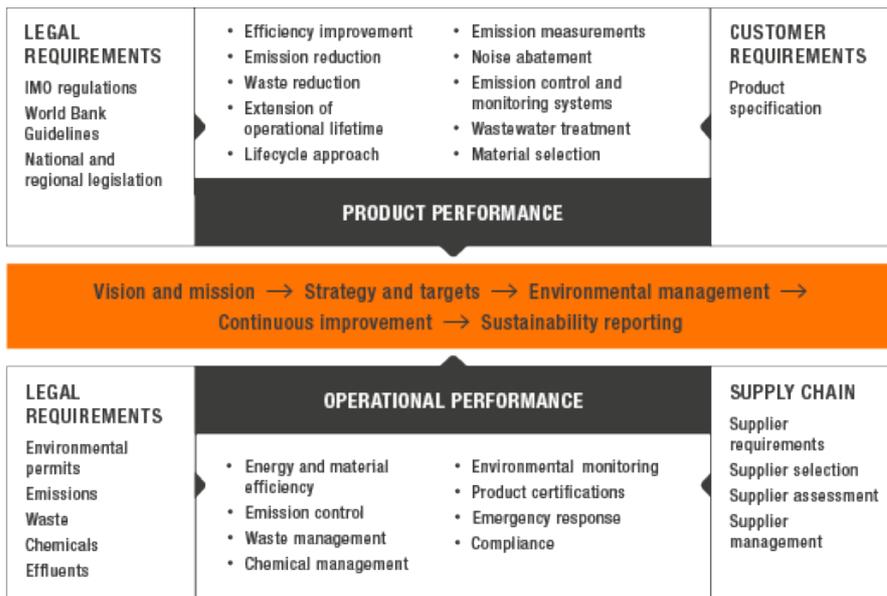
Wärtsilä continuously develops and improves its operations and products with the help of certified environmental management systems. Our principle is to apply the certified EHS (Environmental, Health and Safety) management systems based on ISO 14001 and OHSAS 18001 in all Group companies, excluding those companies focusing purely on sales. These units are required to apply Wärtsilä's internal EHS model. Our EHS management systems cover all the operations of our subsidiaries, which means that we are able to promote environmental protection and reduce adverse impacts on a wide front.

The company's EHS management system focuses especially on complying with legal requirements, identifying and reducing environmental aspects, impacts and risks, training personnel and clearly defining their responsibilities, full documentation of activities and procedures, action in emergencies and continuous improvement of environmental performance. The company's subsidiaries set their own targets covering significant environmental aspects of their operations and monitor the overall performance of the management systems. At the end of 2013, 50 Wärtsilä companies operated with a certified environmental management system. These certified environmental management systems cover roughly 91% of Wärtsilä's total workforce.

Wärtsilä's environmental strategy – a continuous process



Environmental management in Wärtsilä

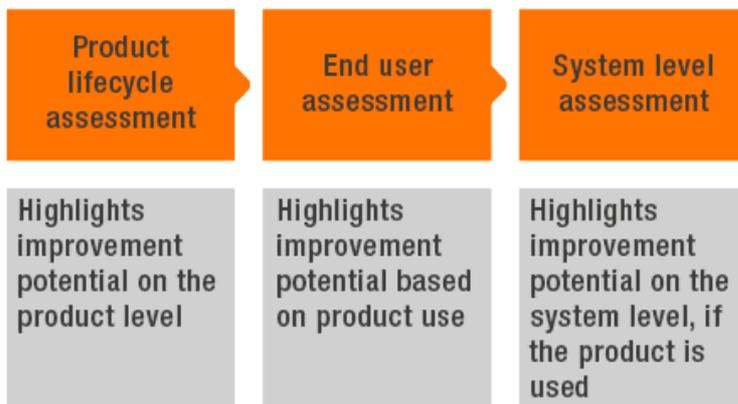


Lifecycle approach

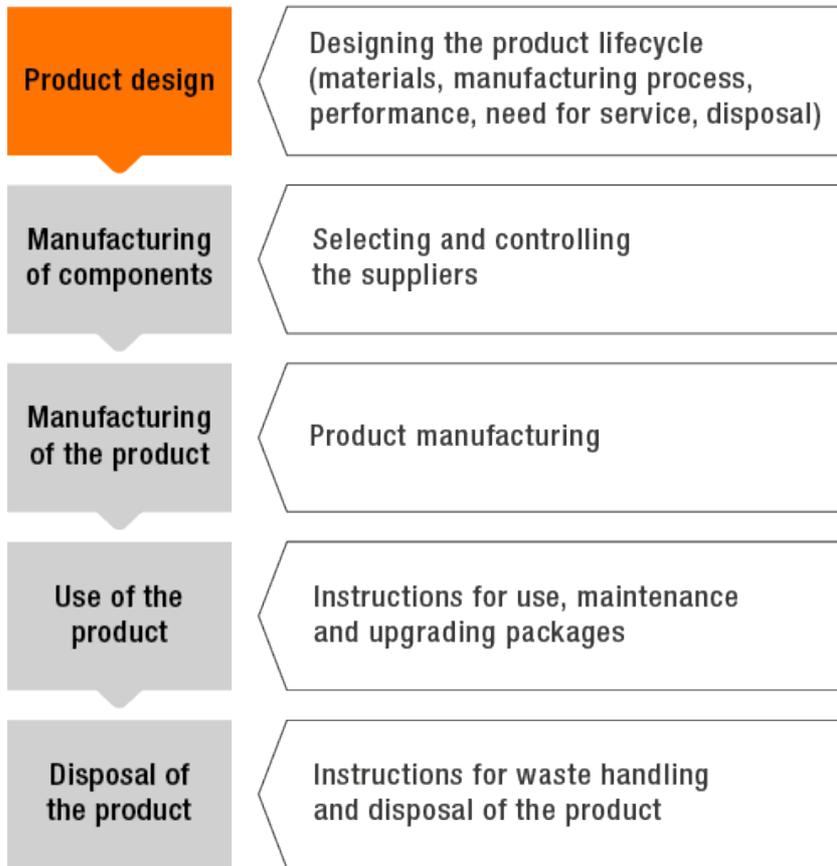
Since Wärtsilä's products have such a long operational life, identifying their lifecycle impacts is essential for understanding their total environmental impact. Based on the results of these lifecycle assessments, the majority of the environmental impacts of a diesel engine arise during the operation of the engine. These derive from the exhaust emissions and from the fuel supply chain relating to its operation. Wärtsilä manages the lifecycle of its products through product design, careful selection of suppliers, production methods, optimising transportation, maintenance and repair during the products' operational lifetime and by training and advising customers in using products and systems in the most efficient way. Wärtsilä offers service agreements and introduces products that help customers to optimise their operations. Furthermore, Wärtsilä actively supports customers in selecting suitable solutions in the early phase of projects.

In addition to lifecycle assessments, Wärtsilä has also utilised other assessment levels, such as end-user and system level assessments, in order to identify the improvement potential of existing technologies in new application areas and the development needs for the solutions offered.

Multilevel assessment approach



Environmental impacts – product lifecycle



Research & Development focus

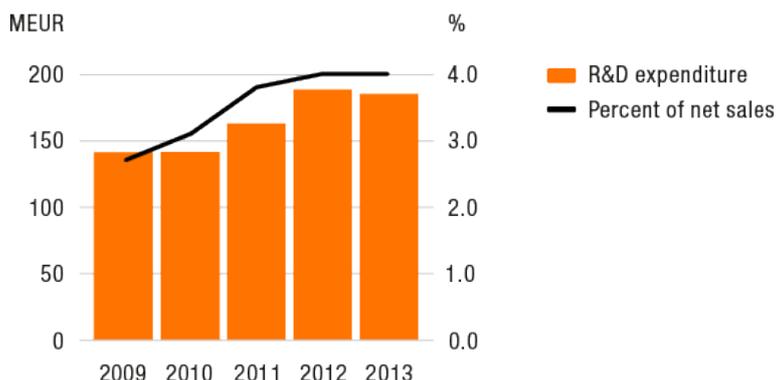
Wärtsilä continuously strives for technological leadership. This is achieved by developing products addressing customer needs which are based on reliable, efficient, and cost-competitive technologies. Wärtsilä's R&D activities focus on technologies, products, and solutions that are fuel-efficient, reliable, safe, self-diagnostic, cost-efficient to operate, and that produce minimal environmental impacts throughout their lifecycles. At Wärtsilä, we protect innovation and competitiveness through close attention to Intellectual Asset Management and continuous development of our internal key competences. We build networks and clusters to further extend our know-how, skills and capacity by committing to long-term relationships with suppliers, engineering companies, university partners, and licensees and other OEMs (Original Equipment Manufacturers).

Our R&D resources are dedicated and invested into products and technologies development and design with an increased focus on both simulation and virtual testing and validation. Wärtsilä actively develops product platform concepts and design products that are easy to manufacture and to service. A substantial proportion of the company's investments in product development are targeted at securing environmental compliancy providing short- and long-term benefits for whole value chain and ultimately for the environment.

R&D Costs

MEUR	2013	2012	2011	2010	2009
	185	188	162	141	141

Research and development expenditure



Ensuring reliability and safety

The long operational lifetime and the application of Wärtsilä products highlight the importance of reliability and safety. Wärtsilä's development process is geared to ensuring the reliability and safety features of the end product, and extensive validation and testing programmes are undertaken before the product is fully released. New technologies are validated before they are introduced into products. Validation is done both in the R&D laboratories and or with partners in existing installations.

By focusing on the initial stages of the development process, the development time for new solutions can be reduced without compromising the emphasis on reliability and safety. Individual components are validated already in the design phase by using advanced calculations and simulation tools. This approach enables us to identify areas of improvement at an early stage in the process and further reduces the amount of component testing. The actual component and technology testing allows efficient validation of the system, which results in faster development and market introduction for new products.

Validation testing on site with existing installations in cooperation with our customers enables us to further improve performance of existing solutions as well as to find new and better solutions. The customer benefits by getting the first insight into new technologies, while Wärtsilä gains long-term experience under controlled conditions. A typical field installation operates for 6,000 hours per year. When the product has successfully passed all the process steps and its performance meets Wärtsilä's high standards, it can be delivered to the market.

Product development process



Improving efficiency

Energy efficiency has always been a priority for Wärtsilä, and remarkable gains in the efficiency of our products and solutions have been achieved over the years.

Total ship efficiency

Improving total ship efficiency reduces lifecycle costs and emissions. By combining our knowledge of automation, machinery, propulsion and the control of them with an optimised ship design into a single integrated solution, a truly efficient ship operation can be achieved. From a long-term perspective, the potential for improving energy efficiency has been estimated to be 30-50%. This will be achieved by optimising component performance, ship design, waste heat recovery and the recovery of other losses, weather and voyage routing and by taking advantage of potential new technologies.

The efficiency of the ship can be improved also by using concepts, such as:

- the Low Loss Concept, which reduces the losses in the electrical power train by 30-50%
- optimisation of the hull design

Several joint development programmes with customers are currently ongoing and aimed at significantly reducing their operating costs.

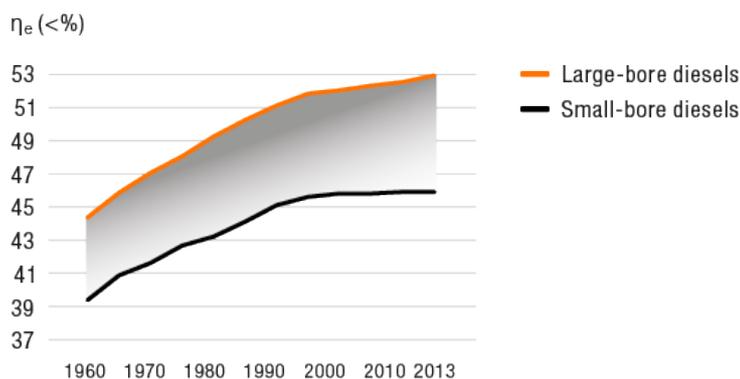
System integration enables further efficiency improvements, while customers benefit from having proven solutions from a single supplier. With lifecycle support, yards can better optimise their building schedules and owners get proven solutions that are easier to manage.

Engine efficiency improvements

The efficiency of Wärtsilä diesel and gas engines ranges between 42-52%, depending on the engine type. The peaking efficiency of 52% for the best engines is one of the highest efficiency ratings among existing prime movers. The improvement in efficiency is becoming more challenging as the emission requirements are getting increasingly stringent. Wärtsilä has several ongoing programmes targeting simultaneously to ensure the high efficiency of its engines, and to reduce engine emissions.

One key success factor in this field has been the development of integrated engine functionalities that enable low emissions and high engine efficiency. The air and fuel admissions are controlled by an automated system that provides optimal combustion under all operative conditions. Wärtsilä's extensive experience in component design has led to the development of combustion chambers capable of withstanding higher cylinder pressures and temperatures. This contributes to engine efficiency directly and positively. The research and development of two-stage turbocharging is another important part of aiming to achieve our goals in environmentally sound solutions of engine fuel efficiency development.

Wärtsilä engine fuel efficiency development



Wärtsilä marine diesel engines 1960-2013 - η_e for production engines, 5% tolerance.

However, improving the efficiency of a single component does not necessarily guarantee the best overall outcome. In marine, more can be achieved through comprehensive ship design, system integration and machinery optimisation. Similarly, in power plant applications, by combining various technologies an overall efficiency rating of 90% is possible.

Heat recovery and energy conversion improvements

The utilisation of fuel energy can be further improved by using heat recovery concepts and secondary cycles. Steam-based combined cycles are applied widely in diesel engine applications and are expected to gain a foothold also in bigger gas engine plants. Further improvements can be expected by designing engines for secondary cycles.

Propeller efficiency upgrades

The propeller's efficiency, amongst other parameters, is an important consideration for achieving economic sailing. Fouling, surface roughening and leading edge damage to the propeller, when in service, can result in efficiency losses of 3-7%. Also, by replacing outdated existing propellers with new ones designed based on the latest knowledge, propeller designs and operating profile of the vessel, significant savings with short payback periods can be achieved. For ships such as oil tankers and container vessels with annual fuel costs exceeding EUR 5 million, propulsion degradation can easily cost several hundred thousands of euros a year. The results of ongoing projects investigating the efficiency loss of propellers in service will improve the performance based maintenance of a ship's propeller and will thus increase the vessel's overall efficiency throughout its lifecycle. Wärtsilä provides several solutions such as EnergoproFin propeller cap with fins, Energopac rudders and HR nozzles, that can also be retrofitted.

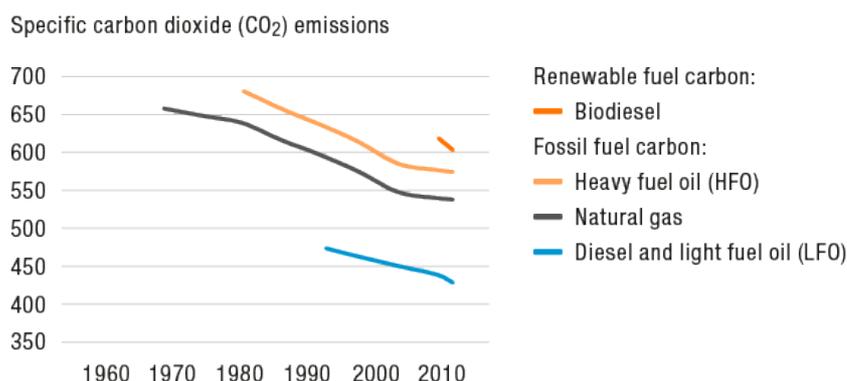
Reducing emissions to air

Reducing greenhouse gas emissions

Green House Gas (GHG) emissions are proven to be the dominant factor for climate change. The most important of such emissions are carbon dioxide (CO₂), nitrogen oxides (NO_x) and methane (CH₄). In addition to improving the efficiency of its solutions, Wärtsilä continuously develops technologies for reducing greenhouse gas linked emissions from both diesel and gas engines. For gas engines, Wärtsilä is developing technologies such as Ultra Low THC (Total Hydro Carbons) emission reduction, which reduces the THC levels by 30-90% by utilising both primary and secondary technologies.

The long-term investments in research and the strive for more environmental sound solutions have resulted in materialisation of many benefits and success especially at low load where the methane slip has reduced by as much as 75%. Many of the engine optimisations can also be retrofitted on existing older engines. These measures can include optimising combustion space, updating the software that is controlling the combustion, and a general optimisation of the machinery power management.

Development of specific carbon dioxide emissions of Wärtsilä engines



Reducing sulphur dioxide emissions

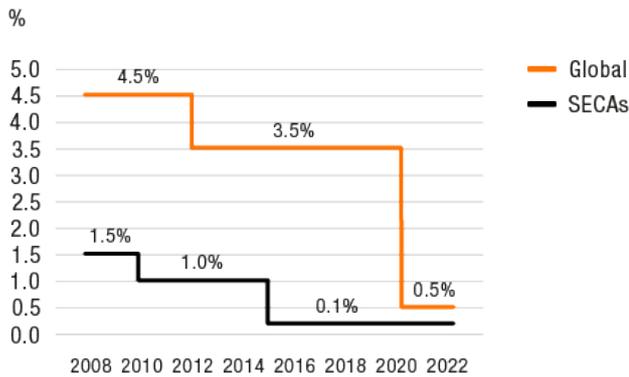
In 2008, the UN International Maritime Organization (IMO) revised its standards on the sulphur content of marine fuels (contained in MARPOL Annex VI). The current limit for sulphur content in the fuel is 1.0% m/m (by weight), and from 2015 onwards vessels sailing in Sulphur Emission Control Areas (SECAs) will have to comply with emission levels equivalent to a sulphur content of 0.1% m/m. Outside SECA's, the limits are 3.5% m/m and from 2020 onwards 0.5% m/m.

Marine sulphur emissions can be reduced in three different ways:

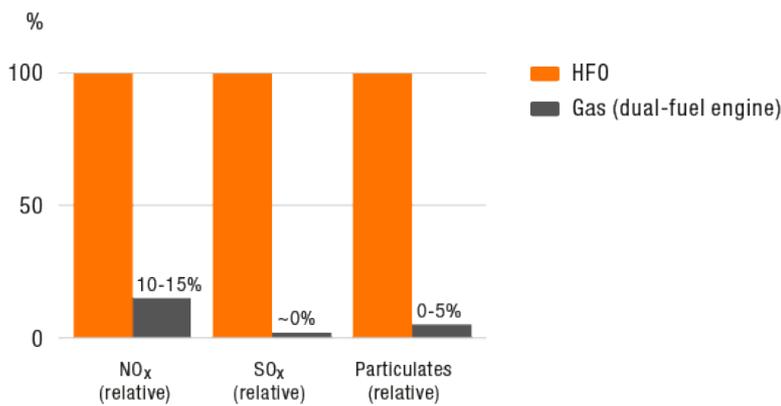
- by decreasing the sulphur content of the fuel used
- by removing sulphur from the exhaust gas
- by changing fuel, for example through the use of natural gas

Several methods can be used for de-sulphurising exhaust gases. Wet scrubbing is an obvious alternative for ships, as the scrubbing medium is readily available and the technology has been used for Inert Gas Systems onboard ships for 50 years. Development of a new, more space efficient design for the cruise and ferry segment has led to orders from several ferry companies during 2013. Wärtsilä has also invested further in increasing its engineering and installation capabilities, and can now offer additional services, including basic engineering and a complete turnkey Exhaust Gas Cleaning solution.

Emission legislation – IMO fuel sulphur cap



Comparison of typical NO_x, SO_x and particulate emissions – influence of fuel type



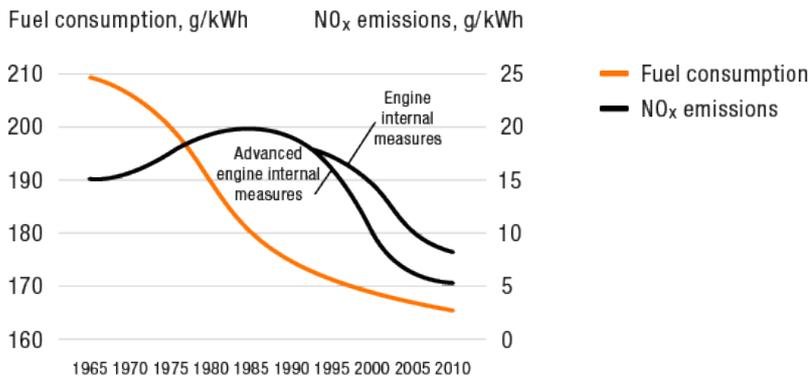
Reducing nitrogen oxide emissions

The IMO NO_x Tier II rules have been in force as of 2011. The Tier II NO_x limit is 20% below the 2010 emissions levels. All Wärtsilä portfolio products are IMO NO_x Tier II compliant. The next NO_x emissions level, IMO Tier III, will be valid from 2021, at the latest. This is expected to demand a reduction of 80% in NO_x levels from Tier I levels in the NO_x Emission Control Areas. An 80% NO_x reduction requires a step change in terms of engine technology and product offerings. Wärtsilä is looking into different solutions involving:

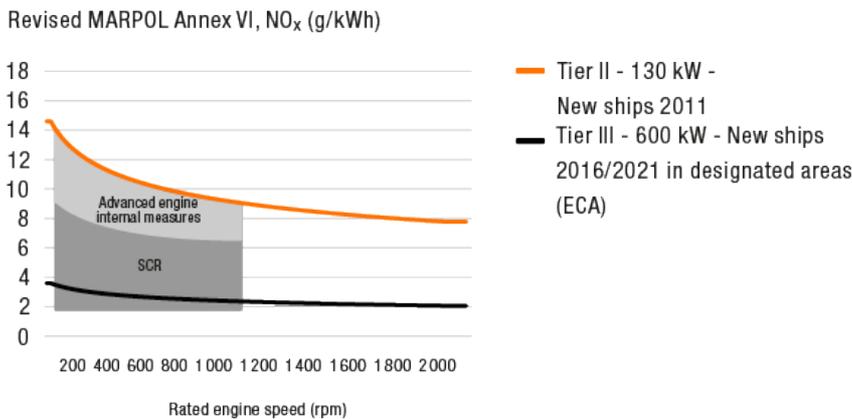
- Engine internal technologies
- After treatment technologies
- Fuel (gas) related technologies

Gas engines already comply with IMO NO_x Tier III, but development of other technologies will be needed, as will the integration between them. A driving factor in this work is the lifecycle cost of the solution. There will be two basic engine technologies that enable diesel engines to reach Tier III NO_x emissions requirements: Selective Catalytic Reduction (SCR) and Exhaust Gas Recirculation (EGR). Selective Catalytic Reduction will play an important role in the future, and it is essential to ensure that combinations of SCR and scrubbers are applicable. Wärtsilä has experience in SCR systems with a wide range of fuels. Wärtsilä is able to deliver also SCR solutions for high sulphur applications, thus ensuring the compatibility of SCR solutions with scrubbers. However, further development and commercialisation work will be carried out to optimise the system for a wider scope of applications and will take into consideration various side effects and boundary conditions.

Development of diesel engine specific fuel consumption and NO_x emissions



Emission legislation – marine application (IMO)



Sulphur and nitrogen emission control areas (SECA and NECA)



Sulphur emission control areas (SECA)



Reducing emissions to water

In 2004, the International Maritime Organization (IMO) adopted the Global Ballast Water Convention, which mandates the management of ballast water and sediments on both new builds and existing vessels. The Convention aims to protect local biodiversity from the threat of non-indigenous invasive species that may in turn cause a negative economic impact on society, reduce output from fisheries, and add substantial costs associated with control and clean up measures. It is estimated that around USD 1.4 trillion per year is spent on clean-ups, economic losses, and environmental damage related to ballast water transportation from one ecological zone to another. Wärtsilä expects the Convention to be ratified in 2014. In addition, December 2013 saw the introduction of EPA legislation (VGP 2013) which requires ballast water treatment to be in compliance with US Coast Guard (USCG) regulations in 33 CFR Part 151 for ships operating in US waters (excluding recreational and military vessels). USCG performance requirements are identical to those set out in the IMO Convention, but require equipment to be assessed on more stringent test protocols based on U.S. EPA (US Environmental Protection Agency) Equipment Test Validation (ETV) protocol.”

The AQUARIUS® range of ballast water management systems (BWMS) available from Wärtsilä was obtained through the acquisition of Hamworthy in 2012. This offers customers a choice of treatment technology. The Wärtsilä AQUARIUS® UV BWMS was granted IMO Type Approval in December 2012 and received USCG Alternate Management System (AMS) acceptance in October 2013, the first step towards full USCG Type Approval. This will allow all US and foreign flag ships fitted with the Wärtsilä AQUARIUS®UV BWMS to operate in US territorial waters, and to discharge its treated ballast water for an interim period of up to 5 years from the ship specific implementation date.

The Wärtsilä AQUARIUS®EC BWMS gained IMO Type Approval in December 2013. This provides ship owners with a greater choice of cost effective BWMS technologies. The modular design approach and installation flexibility of this technology further reaffirms the company's commitment to developing sustainable environmental solutions for the marine industry.

Long-term research activities

The HERCULES programme

The long-term HERCULES R&D programme was conceived in 2002, and has been set up within the context of the EU's sixth and seventh Framework programmes. In sharing a joint vision, the two major low- and medium-speed engine manufacturers, Wärtsilä and MAN Diesel & Turbo, have been collaborating with universities, research institutions, and other industrial partners to develop new technologies for marine engines. In the third phase that started in 2012, the HERCULES-C project aims at taking marine engine technology a step further towards improved sustainability in energy production and total energy economy. This is to be achieved through extensive integration of the new technologies developed in the first two phases, HERCULES-A and HERCULES-B. This challenge is being addressed by adopting a combined approach for engine thermal process optimisation, systems integration, engine reliability, and extended lifetime. The particular objectives are:

- Further substantial reductions in fuel consumption, while optimising power production and usage
- Near-zero emissions
- Maintaining the technical performance of engines throughout their operational lifetime

HERCULES-C comprises 47 sub-projects under 10 work packages, involving the complete spectrum of marine diesel engine technology. It is planned to run for three years, from 2012 to 2014, with a total budget of EUR 17 million. The project has been made possible by a EUR 9.4 million funding through the European Commission Framework Programme 7.

CLEEN – Cluster for Energy and the Environment

CLEEN Ltd. maintains and develops a world-class open innovation platform for market-driven joint research between industry and academia, and is part of SHOK (Strategic Centres for Science, Technology and Innovation). Wärtsilä participates in the Future Combustion Engine Power Plant (FCEP) research programme under CLEEN, which was started on 1 January 2010. The programme focuses on research topics and development efforts in the areas of reciprocating engine technologies and related power plant technologies. The key areas of research include improvements in the combustion process, energy efficiency, emission reduction methods, heat recovery systems, and power conversion technologies. Other central research areas include automation & control, fuel flexibility, and the use of renewable fuels in combustion engines. The programme objectives and scope have been set jointly by the industry and research institutions, thereby enabling deep co-operation in executing the programme, and promoting breakthrough innovations across broad interfaces.

The total FCEP programme budget is EUR 37.8 million. This is covered by the participating companies (EUR 12.9 million) and research institutes (EUR 5.1 million), with the remaining EUR 19.8 million coming from the Finnish Funding Agency for Technology and Innovation (Tekes). This programme has been successfully underway for four years, with a special emphasis on the final year to utilize the established research network and infrastructure to facilitate new results and technical solutions. The FCEP consortium consists of the leading combustion engine and power equipment manufacturers, supported by local research institutes and universities. The 17 consortium partners represent a very high level of technical and scientific excellence in this field.

Environmental performance indicators

The environmental impacts of Wärtsilä's operations largely relate to manufacturing. The main environmental aspects of manufacturing relate to the use of energy and natural resources and thus also to the emissions that are produced by the manufacturing processes. Product development also requires the testing of products and individual components which, alongside manufacturing, loads the environment. However, the positive impacts of product improvements on the environment far outweigh the negative impacts of testing when taking the product's entire lifecycle into account.

The main reasons for significant fluctuations in certain reported environmental performance indicators from year to year are:

- changes in production volumes
- changes in R&D testing programmes
- changes in company structure (divestments, mergers & acquisitions)
- changes in the reporting scope and coverage.

The environmental indices used in connection with performance indicators are linked to the development of net sales. It should be noted, that e.g. increased investments in R&D during any particular year do not impact net sales but may increase the absolute value of an indicator and the related index.

Monitoring environmental impacts

Within Wärtsilä, environmental impacts caused by operational activities are monitored as follows:

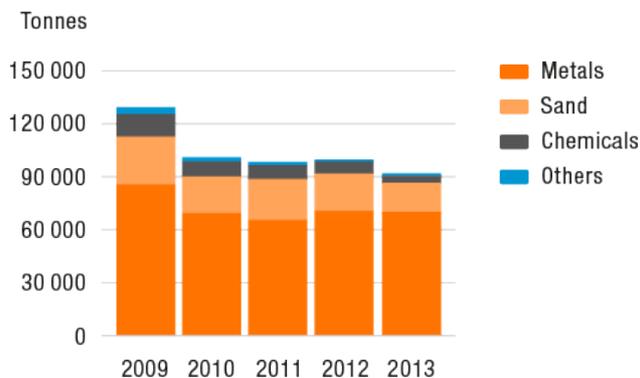
- participation in the monitoring of air quality with other local stakeholders
- measurement of air emissions
- charting of noise levels
- periodical effluent analysis
- soil analysis
- dispersion analyses and bio-indicator surveys.

Materials, energy and water

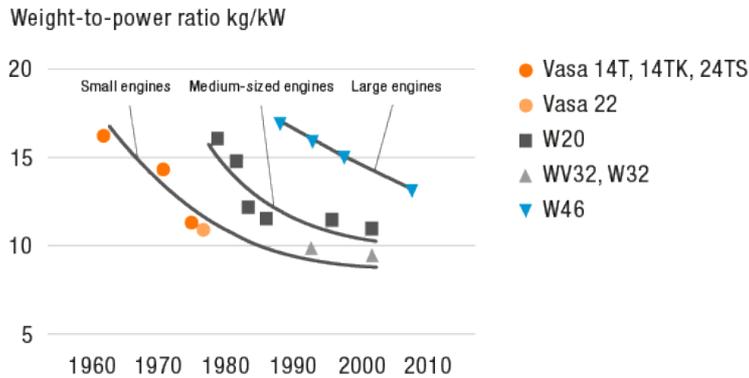
Materials

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys and bronze. Recycled material content of these metals vary depending on the material and supplier in question. Recycled material, such as end-of-life coins and bronze propellers, is used for example in the casting of new propellers. In 2013, the total material usage was 91,720 tons (99,570). The major material groups were various metals 76% (71), sand 18% (21) and various chemicals 4% (7).

Materials



Weight-to-power ratio of Wärtsilä's medium-speed engines for 6-cylinder in-line engines

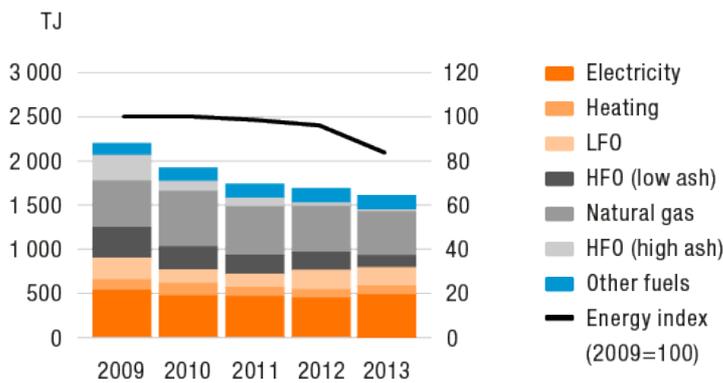


Energy

Total energy consumption

The total energy consumption (in terajoules, TJ) includes the electricity, heat and fuels used in Wärtsilä companies in recent years. The fuels are used mainly in engine testing, but also in heating, production and transportation.

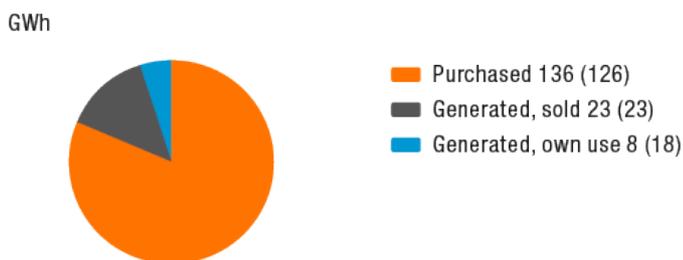
Annual energy consumption



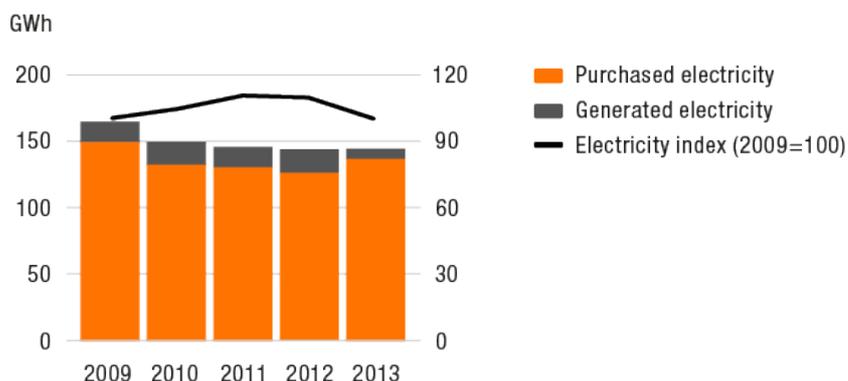
Electricity

Wärtsilä uses electricity in its manufacturing operations - for example in machining components - and in service workshops and offices. Both the electrical and the heat energy generated during engine test runs can be utilised. Wärtsilä's aim is to use the electrical energy for its own purposes while also selling part of this electrical energy to local power companies. Due to the nature of engine test runs, the production of electricity and the company's electricity demand are not equivalent; this allows the surplus energy to be sold to local power companies.

Electricity balance 2013



Annual electricity consumption



Heat

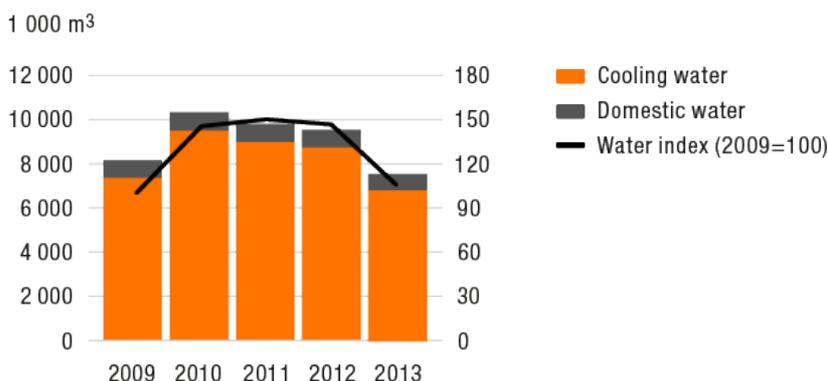
Heating for factories and offices accounts for most of Wärtsilä's consumption of heat energy. In several factories, the heat generated in engine test runs is used for heating. Some factories and offices are connected to a local district heating network, some have their own heating plant and some use electricity for heating.

Water

Wärtsilä's water consumption can be divided into two categories: domestic use and cooling use. Domestic water is used mainly for sanitary purposes and by industrial equipment, such as machine tools and washing machines. Some factories also use domestic water to produce moulds or to fill in their closed-loop cooling system needs. Wärtsilä uses seawater for its engine and process cooling needs, in which case the cooling water system is kept separate so that only heat is released into the natural water system. Wastewater is seweraged and piped to the local wastewater treatment plant or treated on site before being discharged. If the effluent is not suitable for sewage treatment, it is taken away for appropriate processing, for example to a special treatment plant for hazardous wastes.

Annual water consumption

Total annual water consumption split by the purpose of use. Out of cooling water about 99% comes from local surface watercourses where only heat is released along with clean water, and about 1% of cooling water comes from municipal water utilities. Out of Wärtsilä’s total water consumption in 2013 about 89% was seawater for cooling purposes, about 11% was from municipal water supplies, about 0.08% was rainwater collected and stored, about 0.06% was waste-water re-used from another organisation, and about 0.01% was directly withdrawn groundwater.



Emissions and wastes

Emissions to the air

The primary sources of manufacturing noise are the engine test runs and the ventilation machinery on factory roofs. This noise is mostly low frequency and is therefore not easily detected by the human ear. Wärtsilä has specifically addressed the issue of noise protection using technical means and has succeeded in lowering noise levels considerably. However, noise abatement is a continuous need and requires regular monitoring.

Air emissions are mainly caused by test runs and the painting of completed engines or other Wärtsilä products. Test run emissions consist of nitrogen oxides (NO_x), sulphur dioxide (SO₂), carbon dioxides (CO₂) and particles, as well as small amounts of other emission components. The painting of engines and other Wärtsilä products generates VOC emissions (volatile organic compounds). Engine emissions are reduced through research and development, as well as product development and testing. These measures also generate emissions, but their results reduce the future emissions of manufactured engines.

In addition to direct CO₂ emissions, Wärtsilä’s operations generate indirect CO₂ emissions. In 2013, the calculated secondary CO₂ emissions were 57,040 tons (54,011) (from purchased electricity and heat) and the CO₂ emissions from flights totalled 40,596 tons (39,033).

Wärtsilä has taken several measures to reduce its indirect CO₂ emissions. The energy efficiency commitment aims to reduce energy consumption and emissions. In addition, Wärtsilä’s focus lies on reducing travelling by implementing a strict travel policy and by using three main virtual meeting concepts: Office Communicator,

which enables live chats between two people or more; Live meetings allowing multi-person meetings from personal computers, in which presentation material can be shared and the Telepresence videoconferencing system. Wärtsilä Live and Telepresence are in everyday use. Approximately 3,000 Live-meetings are arranged daily, and there are 35 Telepresence rooms established in Wärtsilä premises in 18 countries.

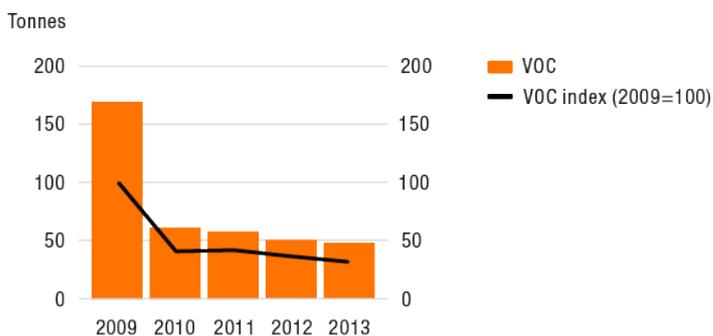
Waste management

Manufacturing activities cause various wastes. These are divided into two main categories: hazardous and non-hazardous wastes. Hazardous wastes include cutting fluids, various types of waste oil, paints and solvents, oily wastes, solid wastes etc. Non-hazardous wastes include scrap metal, metal swarf, waste plastics, waste wood, domestic waste, cardboard and paper waste. All Wärtsilä companies sort their waste according to local municipal regulations. Generally speaking, the main sorting categories are waste to be incinerated, waste for landfills, and waste for recycling.

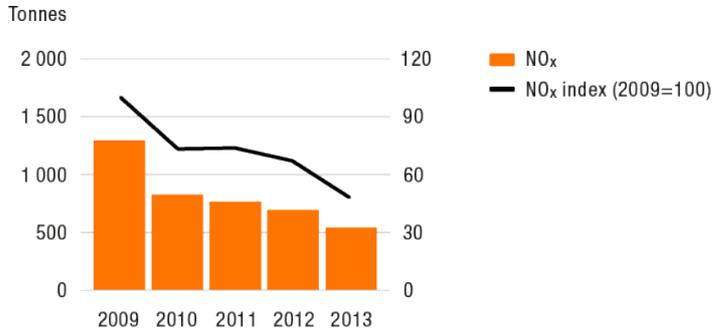
Waste management in Wärtsilä has four aims, listed in their order of priority:

- to reduce the amount of waste generated in processes
- to use waste as a material
- to use waste as energy
- to dispose of waste in an environmentally sound way.

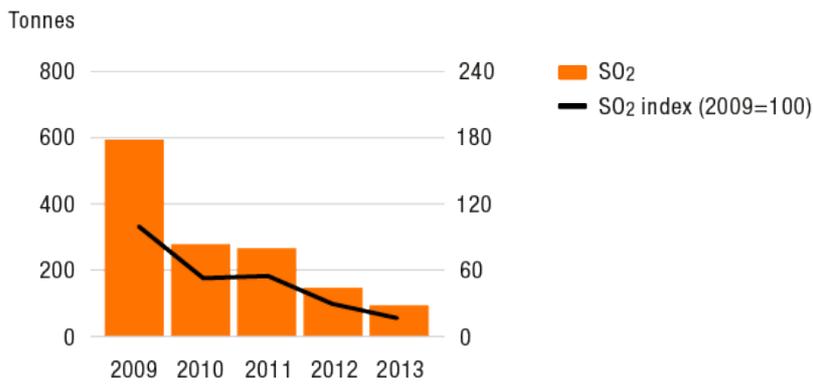
Annual VOC emissions



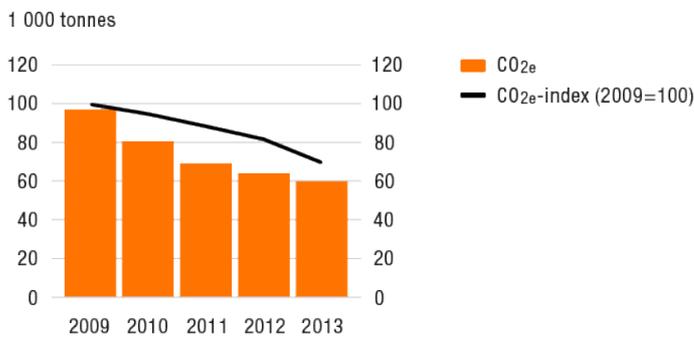
Annual NO_x emissions



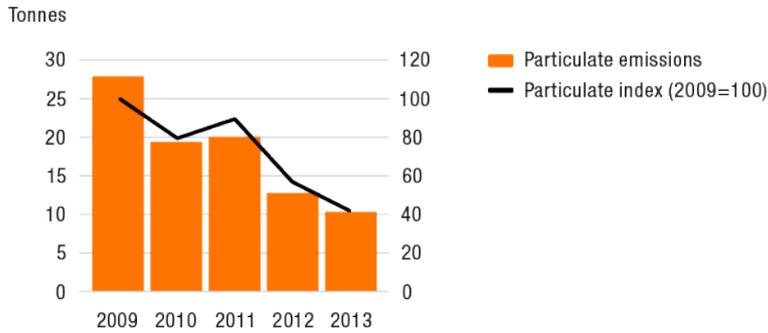
Annual SO₂ emissions



Annual CO_{2e} emissions



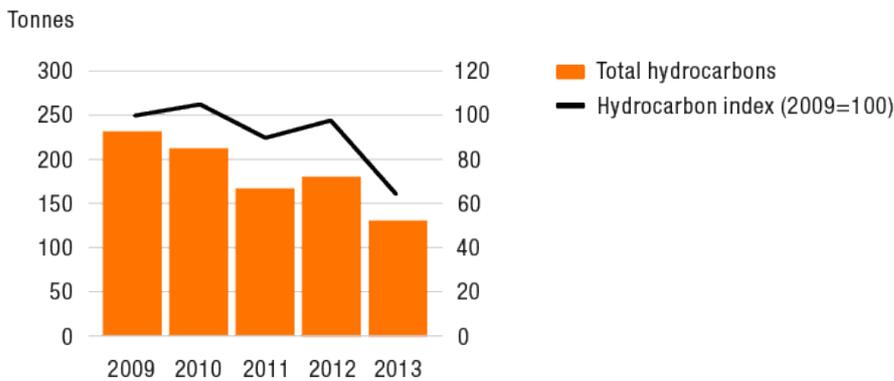
Annual particulate emissions



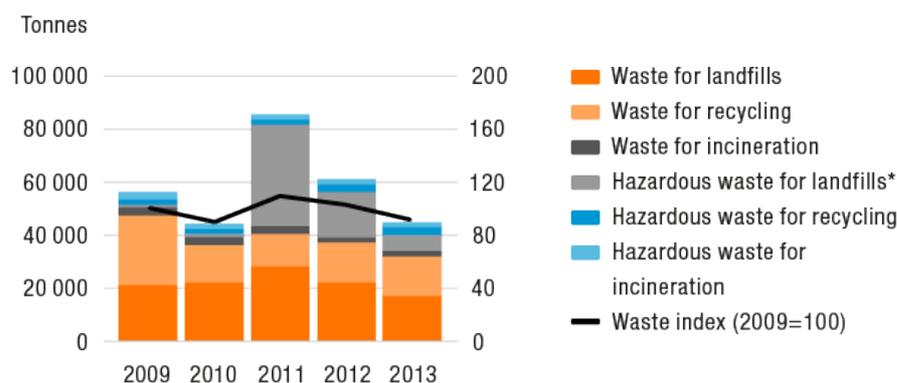
Indirect CO₂ emissions



Total hydrocarbons



Annual waste



* The hazardous waste for landfills 2011 includes 36,269 t, for 2012 it includes 16,541 t, and for 2013 it includes 4,517 t of contaminated soil, which is not considered as operational waste.

Compliance with legislation

Wärtsilä companies comply with the local environmental legislation. The operations of Wärtsilä's manufacturing companies require a valid environmental permit. Wärtsilä companies have the required environmental permits, the terms of which are generally met. Incidents of non-compliance are described in the following chapters.

Environmental disturbances and complaints

The number of disturbances, complaints and incidents of non-compliance are presented below.

Reported disturbances cover incidents in which the Wärtsilä company concerned has usually been obliged to report the disturbance to the authorities. The following main environmental disturbances occurred in Wärtsilä's business locations in 2013:

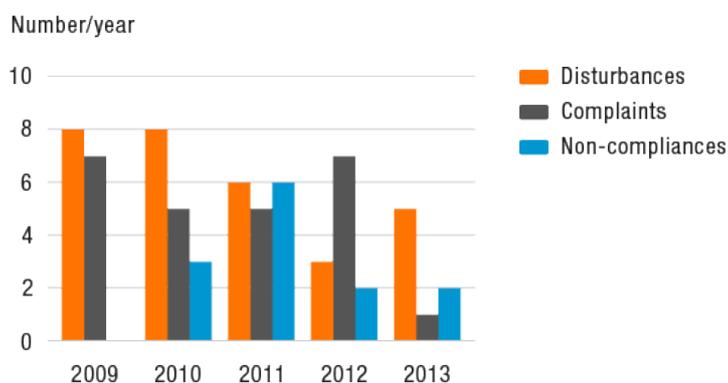
- 2 fires
- 3 oil spills

All the above disturbances were investigated and appropriate corrective actions were taken in each case. The complaint made by occupants of neighbouring property was related to smoke. The complaint was investigated and discovered unfounded.

Cases of non-compliance

Wärtsilä Azerbaijan LLC missed the deadline for renewing their Ecological Passport. The document was arranged promptly after this was discovered. Wärtsilä de Mexico S.A. was found missing the Environmental Impact Statement required to operate in the protected natural area of Cd. Del Carmen. A fine of EUR 3,328 was paid, and the statement will be arranged during the first quarter of 2014.

Disturbances, complaints and non-compliances



Non-compliance cases presented in previous reports

Wärtsilä India Ltd. has reached compliance with the permitted water consumption limits.

Environmental costs and liabilities

Concerning Wärtsilä's operations, we have defined expenditures as environmental expenditures if they are related to soil, water and air pollution control, waste management, environmental management or noise control.

Wärtsilä real estate and environmental responsibilities

The real estate that Wärtsilä owns or leases is mainly located in urban areas. The company is not aware of any properties that are situated in areas where biodiversity could be endangered. Environmental risks and liabilities are identified and reviewed as part of the overall risk management. In Wärtsilä's operations, potential liabilities are primarily related to the company's real estate. Environmental liabilities are systematically scrutinised in conjunction with every acquisition or sale of real estate. Wärtsilä has recognised certain cases where potential environmental liabilities may exist, but these are not expected to have a significant financial impact on Wärtsilä.

Environmental capital expenditures and operating expenses

MEUR	2013	2012	2011	2010	2009
Environmental capital expenditures	0.6	0.8	0.9	2.9	1.1
Environmental operating expenditures	5.1	6.3	6.1	5.5	4.2

Personnel and social performance

Wärtsilä's aim is to provide the best value and service to our customers by continuously developing our competencies and way of working. The strategic goal of Wärtsilä's social responsibility and people strategy is to bring the business strategy alive by developing Wärtsilä's organisation and competencies to meet the evolving business needs.

Our aim is to have energetic, competent and motivated personnel with exciting and meaningful jobs and career opportunities led by excellent leaders. We recognise good performance and respect diversity. We also endeavour, by applying high standards of occupational health and safety, to offer a hazard-free workplace to our employees, contractors and others working in different parts of the corporation.

Good corporate citizenship is accomplished through active co-operation, open communication and good relationships with our stakeholders. Wärtsilä's operations and relations with its stakeholders are based on the company's Code of Conduct, with which each Wärtsilä company and individual is required to comply.

Personnel in figures 2013

Number of employees at 31 Dec. 2013		18 663
Number of nationalities		120
Change in number of employees (net employment creation)		-477
Average age of employees	years	39.7
Male/female ratio	%	85/15
Executive positions globally: male/female ratio	%	90/10
Employee turnover (resigned)	%	7.7
Total payroll costs	MEUR	903
Aggregate coverage of different bonus schemes	%	65
Development discussions held annually	%	91

Personnel

Structural changes in 2013

Wärtsilä opened a new services workshop in Niterói, Rio de Janeiro, Brazil on 27 February 2013. The new facilities will strengthen Wärtsilä's presence in Brazil and enable Wärtsilä to support its customers by offering a wide range of workshop services with rapid response times. The new workshop will replace the company's current premises in São Cristóvão, Rio de Janeiro, and is designed to bring logistical advantages for the company and its customers. It will feature, among other things, a laboratory for automation and electronic fuel injection, as well as a dedicated marine thruster facility. The scope of services will also be expanded to include repairs to large engines, and the maintenance of propulsion systems for ships. About 200 employees will work in the new workshop, 120 of whom are able to work offshore. The team will be connected to Wärtsilä's worldwide technical support and will join a network of international technicians able to support local projects all around the world.

On 29 August 2013, Wärtsilä announced the combination of the PowerTech and Ship Power 4-stroke organisational structures into one business unit. The new organisation became effective 1 January 2014. Ship Power's new 4-stroke organisation consists of all 4-stroke R&D and production both for the Ship Power and the Power Plant markets, as well as engineering, project management and 4-stroke sales for the Ship Power market. The former PowerTech delivery centres continue within the new product companies.

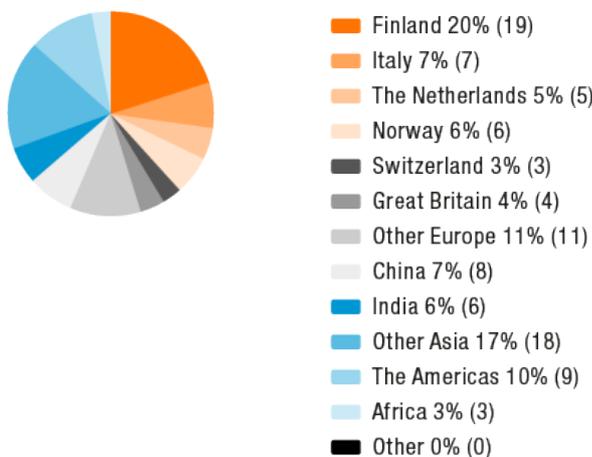
In September 2013 following years of deteriorating business performance, Ship Power's Environmental Solutions announced the restructuring of the Wärtsilä Serck Como company, which is located in Geesthacht, Germany. Plans have been developed to reduce the activities to focus solely on the strategic core business, i.e. fresh water generation for marine and offshore segments, new system deliveries and after sales.

Wärtsilä inaugurated its new test facility for future propulsion products and technology in November 2013. The Wärtsilä Propulsion Test Centre was established and funded by Wärtsilä with strong support from VTT Technical Research Centre of Finland, who will provide the resources to operate the facility. The test centre is located in Tuusula, southern Finland, and will enhance the company's capabilities in product validation and research activities. The new facility enables Wärtsilä to speed up the development of new, high quality and environmentally sound propulsion products together with research institutes, universities and suppliers. It will have a central role in propulsion related research and development activities carried out by the company. In particular, the test centre will be used for functional and endurance testing with an emphasis on mechanical power transfer. With the new test centre Wärtsilä will remain at the forefront of propulsion technology advancement as the demands of the marine industry evolve.

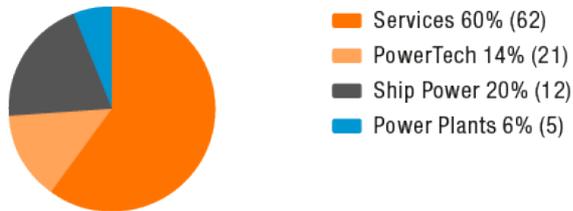
Personnel

In addition to direct employment, Wärtsilä employed also indirectly an external workforce totalling 2,813 man-years in subcontracting at its factories and units. The units located in Finland had a total personnel of 3,662 employees.

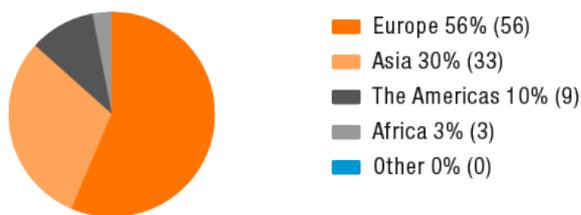
Personnel by country



Personnel by business



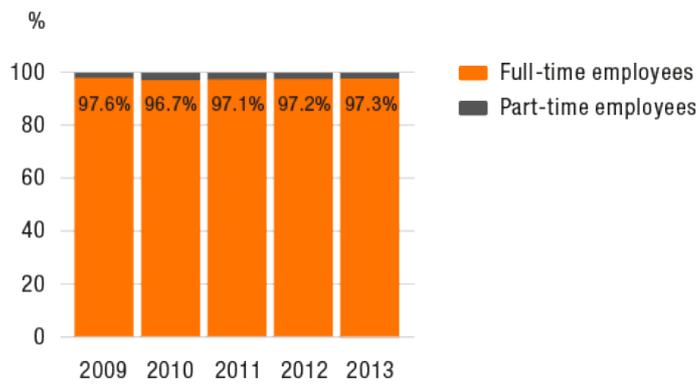
Personnel by market area



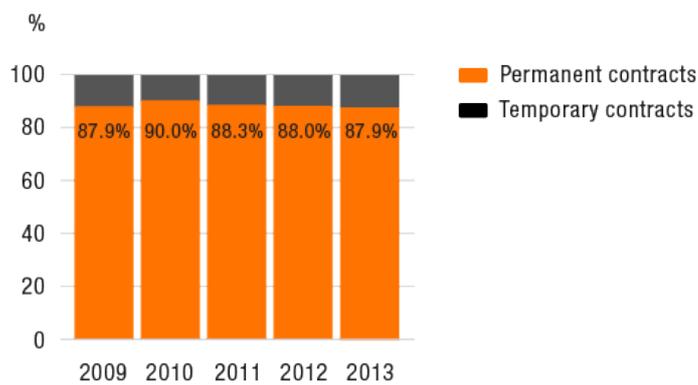
Number of employees per business

	No. of employees	Change
Power Plants	1 053	121
Ship Power	3 612	1 473
Services	10 785	-378
PowerTech	2 449	-1 362
Other	764	-79

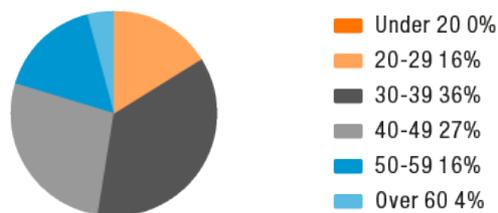
Full-time/part-time employees



Permanent/temporary employees



Age structure



All in all, 2,531 employees left Wärtsilä globally during 2013 for different reasons.

In addition, part of the expired temporary employment, voluntary leavers and retirements was not replaced. At the same time, Wärtsilä continued focused recruitments in the critical competence areas. Major part of open vacancies was filled by Wärtsilä employees.

In December, at Wärtsilä's Product Company Trieste in Italy, Management and union representatives defined and agreed a plan for a temporary lay-off program following the temporary reduction of the workload in the factory. In the period between Monday, January 13 and Friday, April 11, 2014, there will be temporary lay-offs focusing on Fridays and Mondays.

Wärtsilä had 18,663 employees at the end of 2013 (18,887).

People management in 2013

The main goal of Wärtsilä's Human Resource strategy is to support the group business strategies and to bring them alive by developing Wärtsilä's organisation and competencies to meet the business needs. The key focus areas of the people strategy continues to be further development of leadership and leadership culture in the company as well as a high-performance culture throughout the organisation by promoting true employee engagement through a culture of open communication, integrity and innovation and finally by ensuring that the businesses have the requisite resources and skilled and motivated people at their disposal. This means supporting organisational design and changes, continuous competence development and stronger performance management processes with target setting, proper feedback, evaluation of overall performance and recognition of strong performance.

In 2013, Wärtsilä Hamworthy integration continued according to plan. The merger of the Ship Power and PowerTech organisations have been major projects, and a strong focus for human resources as well. In addition to these global changes, many local change initiatives have been concluded.

Wärtsilä Human Resources continued to develop its common people management processes and tools and common ways of working across national and organisational boundaries. Strong focus and effort has been made to further develop managerial skills in people management by launching Management Focus, a modular training program for all line managers. During 2013, 80% of all line managers participated this three module training. Wärtsilä Human Resources continued to invest in technologies and tools that enable quick access to online reports, employee information and annual compensation planning both local and multi country teams.

Diversity initiative

A diverse workforce generates higher profits, better complex problem-solving skills and access to a larger talent pool. Wärtsilä's Diversity Initiative began in 2012 and aims to drive an inclusive corporate culture at all levels to meet global requirements in the corporation. By investing in diversity and supporting employees of varied gender, age, personality and educational background, Wärtsilä becomes a more innovative business partner as well as a more attractive employer.

The Diversity Initiative is a means to ensure that Wärtsilä continuously develops a proactive approach to diversity. Gender balance was identified as the first aspect of diversity to focus on, and one of the initiative's first goals became to increase the number of female employees to 20% by 2015 (2013: 15%). Wärtsilä's President & CEO Björn Rosengren has stated that measures should be taken to reach this goal, to assist women in their career progress, and to support their attainment of managerial positions in the corporation. Research shows a correlation between women in management and higher profits.

As part of the Diversity Initiative, a Gender Diversity Survey was conducted in all of Wärtsilä's subsidiaries during 2013. There were almost 5,000 responses globally, showing that improving gender balance is seen as important throughout the organisation. Organisational culture and career development for women were identified as key focus areas for the future development.

A Diversity Forum was established to discuss, brainstorm and develop methods and tools to increase diversity in the corporation. The forum consists of ten Wärtsilä employees of varied genders, nationalities and educational as well as professional backgrounds. Regular Diversity Forum meetings were established and the initiative was promoted both internally and externally. The Diversity Forum also undertook benchmarking with other companies that had taken part in similar initiatives.

Since the Diversity Initiative was initiated, awareness of diversity-related questions has risen. Follow-up analysis shows that overall feedback towards the initiative is positive, and diversity has become a key topic for Wärtsilä. The Diversity Forum will continue developing actions both on global and local levels internally and externally, to work towards a more diverse and balanced corporation.

Performance management

The performance management process supports Wärtsilä in reaching its business targets by translating business strategies to team and individual objectives. Each Wärtsilä employee needs to know and understand Wärtsilä's business strategies and their goals. More importantly, everybody needs to know the targets set for their own units and the main target areas related to their own work. As part of the performance management process, each employee has a proper performance evaluation based on their overall job performance. Overall performance evaluation is one of the inputs for the compensation decisions following the principle of performance-based rewarding.

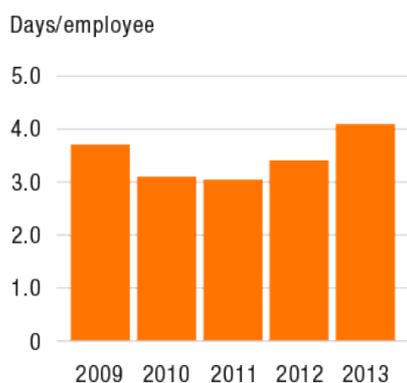
Learning and development

Wärtsilä continued its leadership development activities in many areas. New learning solutions for line managers have been developed to support the managers in their people management and leadership roles. An annual executive development programme was held in November, and six other global leadership development programmes for senior managers were carried out during 2013. The number of managerial training days is also followed regularly as one of the HR KPIs. In 2013 Wärtsilä Learning & Development delivered totally 6,743 training man days for managers.

Continuous development of new learning solutions for core competence areas in sales, project management and technology have been developed and delivered, and they continue to be part of the learning offering in 2014 as well.

Learning at work, self-learning, mentoring, coaching, job rotation and assignments designed to enable the competence development and the transfer of competence and skills from experienced to younger employees are integral parts of the development of learning and competence within the company. Employees are given formal classroom training at all organisational levels: from induction training for new employees to training courses for the company's top executives. Wärtsilä employees attended 75,177 training days in total which gives 4.08 training days per employee on average. Many of the training programs are tailored to the specific strategic competence development needs of the businesses.

Training days



Training days

Days/employee	2013	2012	2011	2010	2009
Managers and superiors	4.6	3.3	3.4	3.2	3.9
Other white-collar employees	4.1	3.9	2.5	2.9	3.8
Blue-collar employees	3.6	3.0	3.4	3.3	3.5

Engagement

The positive trend in development discussion compliance has continued. The average coverage of annual development discussions was 91% globally. Strengthening engagement through active strategy communication has been a main target for all Wärtsilä entities. Positive impact of the different communication initiatives was also visible in the seventh global employee engagement survey, MyVoice, which was conducted in October 2013. The MyVoice Survey response rate was at an all time high of 78% during 2013. Overall satisfaction continued to be strong across Wärtsilä, although there are differences between geographies and organisational entities.

Occupational health and safety

Wärtsilä's occupational health and safety principles are defined in the Code of Conduct, the company's QEHS policy and in the directive on environment, health and safety (EHS). Wärtsilä's subsidiaries are required to have a management system in use that conforms to the QEHS policy and the EHS directive. The main aspects of the management system relate to compliance with legislation, identifying and minimising occupational health and safety risks, personnel training, implementing effective health and safety programmes and instructions, recording and investigating occurred incidents and the continual improvement of occupational health and safety performance.

The coverage of OHSAS 18001 certifications in Wärtsilä subsidiaries increased during 2013. At the end of 2013, 48 Wärtsilä companies operated with a certified occupational health and safety management system. These certified occupational health and safety management systems cover roughly 82% of Wärtsilä's total workforce.

In addition to the management system, Wärtsilä companies apply occupational health and safety programmes as required by local legislation, which are normally developed by occupational health and safety committees consisting of representatives of the companies' management and personnel. Altogether 82% of Wärtsilä companies have an occupational health and safety committee.

The indicators used to measure occupational health and safety performance include the number of accidents, the time of absence due to sickness and the frequency of accidents. Wärtsilä has set a corporate level target of achieving zero lost time injuries. This target is a long-term commitment from the company to strengthen safety culture, and it requires actions from all Wärtsilä companies and employees. The safety performance of the companies is monitored on a monthly basis and the results are reviewed in the Board of Management.

In 2013, Wärtsilä has continued the global implementation of Zero Injury training programme comprised of a 4-hour e-learning and 4-hour practical training session. The target group for the training consists of Wärtsilä's front-line personnel working in factories, workshops and customer premises. The e-learning has been translated into 11 major languages in order to ensure effective training in various countries. Over 3,700 employees completed the e-learning and over 1,000 the practical training during the year 2013.

To strengthen Wärtsilä's safety culture, the Board of Management decided in 2012 to start a safety walk practice, which requires members of the Board of Management, division management teams and the managing directors or Wärtsilä subsidiaries to carry out regular visits to Wärtsilä's workplaces and discuss with employees about safety related topics. Full implementation of safety walk practice has taken place in 2013, and over 400 safety walks were conducted by the end of 2013.

Wärtsilä's first ever Safety Webinar was held 16 April 2013. The webinar targeted Wärtsilä subsidiaries' Managing Directors, selected business leaders and the QEHS organisation. Live webinar concluded around 180 attendees all around the Wärtsilä network. The theme of the webinar was "Manager's role in Safety" and that concluded of presenting Wärtsilä's and customers' expectations towards safety, practical examples of successful safety leadership and tips on how to conduct safety walks.

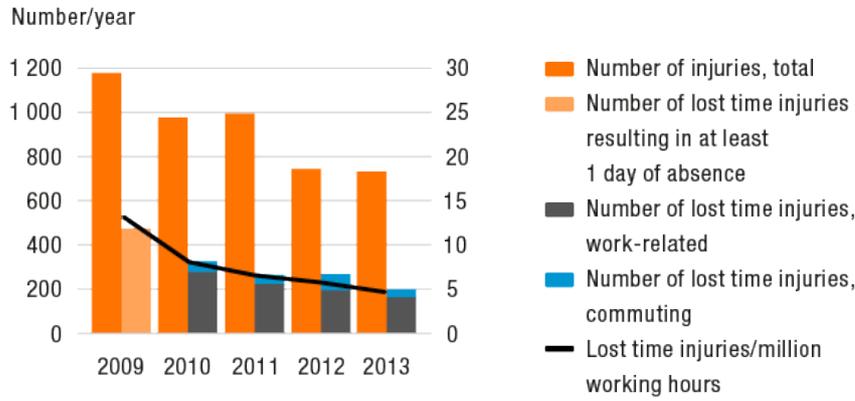
In 2013, Wärtsilä initiated a project, named WeCare, to activate and harmonise hazard and near miss reporting within the whole Wärtsilä. As part of the project, Wärtsilä purchased and customised software which is globally used for incident reporting, investigation and action handling. At the end of the year 2013, pilot implementation has started in Wärtsilä Norway, Wärtsilä Shanghai Services and Wärtsilä India. Full roll out will follow in the first half of 2014.

The positive trend in reducing lost time injuries continued. Wärtsilä achieved a good result in 2013, with a lost time frequency index of 20% below that of the previous year.

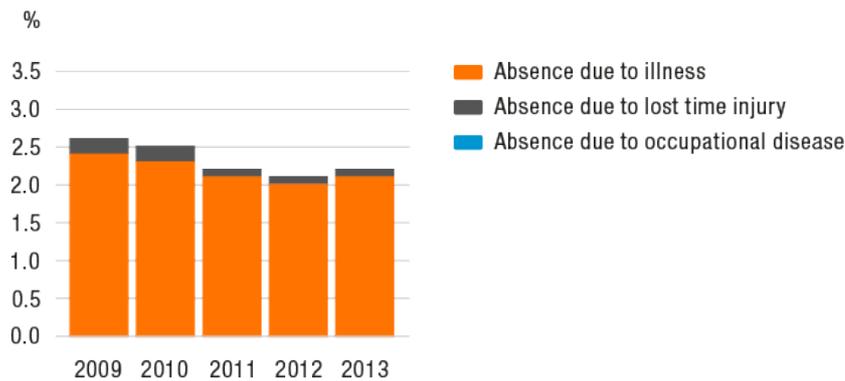
Wärtsilä regrets to report one fatal occupational accident during the review period. A Wärtsilä employee had a fatal road accident in France while returning back home from a meeting with a customer.

During the report period there was one non-compliance discovered in a Wärtsilä subsidiary. Wärtsilä Moss AS had a non-compliance case related to noise protection regulations. Required actions have been taken, and a confirmation from the authorities has been received.

Injuries



Absence rate



Human and labour rights

Wärtsilä supports and respects basic human values as outlined in the UN's Universal Declaration of Human Rights. Wärtsilä also supports the Ten Principles of UN Global Compact, of which six principles are related to Human and Labour rights.

Wärtsilä's employees represent 120 nationalities. The company supports fair and equal treatment of all its employees. Wärtsilä supports the work-related rights defined by the International Labour Organization (ILO). Therefore the company works to ensure that there is freedom of association and right to collective bargaining in the company. In those countries where local legislation does not recognise these rights, Wärtsilä endeavours to give employees other channels for expressing their opinions.

Wärtsilä does not accept the use of forced labour or child labour in any form. Wärtsilä is unaware of any cases of breach of human rights, discrimination, infringements of rights at work or the use of forced or child labour. During the reporting period the following misconducts were realised:

- Wärtsilä Service (Shanghai) Ltd., Co. had a single case of exceeding the legal overtime working hours in November 2012, and was required by the authorities to limit overtime work from January 2013. Processes were put in place to ensure no more non-compliances will occur.
- Wärtsilä India Ltd. and its subcontractor company failed to register under the provisions of BOCWA at O&M Power Plant situated at Tuticorin, South India. The registration for both Wärtsilä India and subcontractor for the above O&M plant was obtained. EUR 148 was paid as a fine.
- Wärtsilä Korea Ltd. was charged a penalty fee of EUR 9,639 for not fulfilling its legal obligation to hire disabled persons covering a minimum of 5% of the total headcount. The company has mainly hired blue collar employees, which limits the suitable job offerings to disabled persons.

Since Wärtsilä expects its partners and suppliers to act in compliance with its Code of Conduct, similar measures will also apply to them. The company sets common requirements for its suppliers and regularly monitors conformance with these requirements through numerous performance indicators and audits. All the company's main suppliers are required to comply with Wärtsilä's requirements, in order to gain approved supplier status. Wärtsilä assesses all companies in conjunction with mergers and acquisitions. An integral part of these due diligence assessments is compliance with relevant legislation. More information on supplier performance is presented in [Suppliers section](#).

Preventing corruption and bribery

Wärtsilä's Code of Conduct, Anti-Corruption Policy and Broker Directive expressly prohibit the company and its employees from offering or accepting any kind of benefit considered to be a bribe and from taking actions that could give rise to a conflict of interest or breach of loyalty. The instructions make it compulsory to comply with anti-corruption laws of all the countries in which Wärtsilä does or intends to do business and urge to reporting any cases of corruption and bribery. The company continues to rendering an extensive training programme for its personnel on anti-corruption principles and applicable legislation as well as the relevant company policies and procedures.

In May 2009, a former senior manager of Wärtsilä Finland Oy was charged before a court of first instance in Finland with bribery allegedly committed in aggravated circumstances. The charges related to a consulting agreement concluded in 1997 in connection with a power plant project in Kenya. Subsequently, in October 2009, Wärtsilä Finland Oy, which was the Wärtsilä contracting party and the former employer of the senior manager, was charged for aggravated giving of bribe (corporate criminal liability), for which prosecution demanded that Wärtsilä Finland Oy be ordered to pay a corporate fine. Both the senior manager and Wärtsilä Finland regarded the charges as unfounded. Wärtsilä cooperated with the investigation authorities throughout the investigation. On 18 December 2009, the court of first instance in Finland dismissed all the charges and demands. After a lengthy appeals process for reasons of procedural law, the case was referred back to the court of first instance for a new hearing as no evaluation of the evidence had been conducted earlier. On 21 March 2013, the Pohjanmaa district court, being the court of first instance to hear the case for the second time, rendered its verdict. The court dismissed the charges against Wärtsilä Finland Oy but condemned the former senior manager to prison on probation for a period of 1 year 6 months on account of aggravated bribery. The former senior manager has appealed as regards the judgment against him and prosecution has appealed as regards the dismissal of the charges against Wärtsilä Finland Oy. The appeal is currently

pending before the Vaasa Court of Appeal: the hearings concluded on 21 January 2014 and the Court of Appeal decision is expected within 30 days.

Political lobbying

Wärtsilä's policy is to engage in an open dialogue and discussion with both local and international public authorities and officials. The aim of the dialogue is to share information and improve the quality of regulation. Wärtsilä participates in public consultations in the areas of importance to the company. During 2013, Wärtsilä did not make any contributions to political parties.

Competition regulation

Wärtsilä has a compliance programme for managing risks relating to competition law in place, and the company's corporate management is strongly committed to implementing this programme. The cornerstone of the programme is a competition law manual, which is kept up-to-date, providing information on competition rules and instructions for Wärtsilä's internal procedures. As before, Wärtsilä arranged a number of competition law training seminars in 2013 for the relevant personnel in order to further promote knowledge of competition laws and thus ascertain full compliance with them.

Suppliers

Wärtsilä has implemented measures to regularly track its suppliers' performance. As part of the supplier evaluation, Wärtsilä conducts a rating based upon Wärtsilä's supplier requirements. This rating includes an evaluation of compliance with Wärtsilä's sustainability requirements related to legal compliance, environmental, occupational health and safety management and social performance. This rating is a result of pre-qualification questionnaires and conducted audits.

Based on this rating, the suppliers can be approved, approved with limitations or remarks, or banned. During 2013, 209 suppliers were rated for the first time, and 239 suppliers received a renewal of their rating. By the end of 2013, Wärtsilä has rated 793 of its key suppliers (1,124 overall), and this covers 95% of the total spent on Wärtsilä Supply Management supplies.

This rating is part of the quarterly supplier reviews conducted by Wärtsilä Supply Management. The rating is reviewed regularly, as are the results of conducted audits.

In 2013, one supplier was banned because of non-compliance with Wärtsilä's requirements for environmental, health and occupational safety management, or through non-compliance with legislation.

Wärtsilä Supplier Development activities are implemented continuously on a global basis. A global action item in 2013 has been the communication of the new Supplier Handbook to suppliers. The handbook clarifies

Wärtsilä's expectations. There is a major emphasis on introducing sustainability related supplier requirements. As a new requirement, Wärtsilä is introducing a list of substances that are either prohibited or restricted in Wärtsilä's products, materials and processes. This list is named as Wärtsilä's Black and Grey list, and is based on international regulations, conventions and European REACH legislation (Registration, Evaluation, Authorisation & Restriction of Chemicals).

Product liability

Wärtsilä's occupational health and safety policy defines procedures for ensuring product safety. Further information about issues relating to product safety is given in the [Product design principles section](#). During the review period, no instances of non-compliance related to product liability were identified.

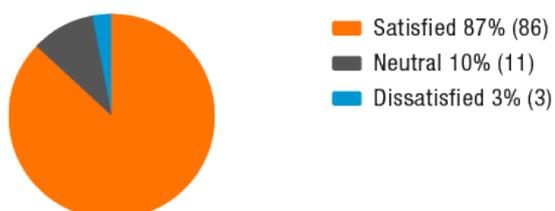
Customer satisfaction

In order to strengthen our customer-focused mindset, Wärtsilä uses an integrated customer feedback process. Wärtsilä's aim is to achieve excellent long-term relationships with its customers by listening to and acting upon customer feedback. While challenges may arise in our kind of business, by listening to our customers, taking a pro-active approach, and addressing their needs, relationships will develop.

Our customers provide us with important feedback during project deliveries, as well as during the operation of their installations. To ensure that we meet our customers' expectations, their feedback is systematically reviewed and the needed actions are taken accordingly, at both the operative and management levels. In addition, Wärtsilä collects feedback during different events, activities and interactions with our customers. In 2013, Wärtsilä received more than 3,900 specific feedback forms. More than 480 of these triggered a corrective action, which involved front-line personnel taking immediate rectifying steps.

Customer satisfaction results

Overall satisfaction key performance indicator



The average results of the customer satisfaction survey

	2013	2012	2011	2010	2009
Power Plants	8.5	8.5	8.4	8.3	8.1
Ship Power	8.2	8.1	8.1	7.6	7.4
Services	8.5	8.4	8.3	7.9	7.9
Sample	3 911	3 022	2 188	1 933	1 859

Our figures

The operational performance data in this report has been compiled from the economic, environmental and social records of the Wärtsilä companies. Whilst every effort has been made to ensure that the information is neither incomplete nor misleading, it cannot be considered as reliable as the financial information published in the [Financial review](#).

Economic data

	2013	2012	2011	2010	2009
Customers					
Net sales (MEUR)	4 654	4 725	4 209	4 553	5 260
Net sales by market area (MEUR)					
Europe	1 329	1 202	1 249	1 266	1 654
Asia	1 759	2 009	1 594	1 754	1 937
Americas	1 068	994	845	1 034	1 176
Africa	405	398	443	390	399
Other	93	122	77	109	94
Suppliers					
Cost of goods, materials and services purchased (MEUR)	2 901	3 007	2 694	2 927	3 593
Employees					
Salaries and wages (MEUR)	903	887	770	773	735
Salaries and wages by market area (MEUR)					
Europe	649	631	552	565	549
Asia	138	145	119	111	106
Americas	91	91	80	78	66
Africa	14	12	11	12	9
Other	10	8	7	6	4
Net sales / employee (TEUR)	248	250	238	253	279
Public sector					
Taxes and social dues (MEUR)	314	317	322	326	337
Taxes and social costs by market area (MEUR)					
Europe	232	234	240	253	264
Asia	34	39	41	35	37
Americas	39	36	38	31	32

Africa	8	6	2	5	3
Other	2	2	1	2	1
Subsidies received (TEUR)	6 331	5 543	8 263	7 406	13 725
Net financial items (MEUR)	-19	-30	-16	-13	-34
Community					
Donations given, Board of Directors (TEUR)	111	104	60	670	70
Donations given, Wärtsilä companies (TEUR)	609	456	940	421	527
Expenditure					
R&D costs (MEUR)	185	188	162	141	141
Environmental costs					
Environmental capital expenditures (MEUR)	0.6	0.8	0.9	2.9	1.1
Environmental operating expenditures (MEUR)	5.1	6.3	6.1	5.5	4.2

Environmental data

	2013	2012	2011	2010	2009
Materials					
Total material usage (t)	91 720	99 570	98 142	100 896	129 320
Metals (t)	69 991	70 323	65 263	69 194	85 351
Sand (t)	16 537	21 279	23 072	20 739	27 157
Chemicals (t)	3 865	6 730	7 963	8 500	12 932
Others (t)	1 327	1 238	1 844	2 462	3 880
Energy					
Total energy consumption (TJ)	1 613	1 691	1 735	1 916	2 194
Electricity consumption (MWh)	143 833	143 810	145 078	149 047	164 022
Purchased electricity (MWh)	136 098	125 761	129 885	131 562	148 780
Generated electricity (MWh)	7 735	18 007	15 109	17 485	15 242
Sold electricity (MWh)	23 527	22 568	36 893	39 958	60 881
Heat consumption (MWh)	29 077	27 910	31 805	41 401	37 060
Light fuel oil (t)	4 765	5 096	3 409	3 623	5 662
Heavy fuel oils (t)	3 755	5 920	7 652	9 020	15 652
Natural gas (t)	9 806	9 767	10 486	12 347	11 792
Other fuels (t)	4 214	4 025	4 173	3 729	3 326
Water					
Total water consumption (1 000 m ³)	7 534	9 546	9 775	10 292	8 128
Consumption of domestic water (1 000 m ³)	744	799	830	840	808
Consumption of cooling water (1 000 m ³)	6 790	8 747	8 945	9 452	7 320
Emissions					
Emissions of nitrogen oxides (t)	549	697	765	826	1 290
Emissions of carbon dioxide (t) (direct)	59 631	63 762	68 897	80 234	96 749
Emissions of carbon dioxide (t) (indirect)	57 040	54 011	56 610	58 002	62 211
Emissions of carbon dioxide (t) (indirect - flights)	40 596	39 033	37 459	35 060	37 882
Emissions of sulphur oxides (t)	91	145	265	277	595
Emissions of total hydrocarbons (t)	130	180	166	211	230
Particulates (t)	10	13	20	19	28
Emissions of VOC (t)	49	51	58	61	170
Waste					
Total waste (t)	44 741	62 517	85 153	43 566	55 803
Non-hazardous waste (t)	33 623	39 512	42 865	38 391	49 946
Hazardous waste (t)	11 118	23 005	42 288	5 175	5 857

Waste for landfills (t)	16 875	21 988	27 808	21 682	20 752
Waste for recycling (t)	14 622	15 423	12 444	14 221	26 332
Waste for incineration (t)	2 125	2 101	2 614	2 542	2 862
Hazardous waste for landfills (t)	6 360	17 376	38 054	1 127	852
Hazardous waste for recycling (t)	2 796	3 200	2 082	2 161	2 305
Hazardous waste for incineration (t)	1 963	2 429	2 152	1 887	2 699
Compliance with legislation					
Disturbances	5	3	6	8	8
Non-compliance	2	2	6	3	0
Complaints	1	7	5	5	7

Social data

	2013	2012	2011	2010	2009
Personnel					
Number of employees at the end of the year	18 663	18 887	17 913	17 528	18 541
Personnel by business					
Services	10 785	11 163	11 168	11 150	11 219
Ship Power	3 612	2 139	999	969	1 140
Power Plants	1 053	932	855	835	835
PowerTech	2 449	3 811	4 091	4 210	4 911
Other	764	842	800	364	436
Personnel by market area					
Europe	10 507	10 490	9 813	9 790	10 889
Asia	5 628	6 084	5 830	5 503	5 610
Americas	1 876	1 693	1 700	1 700	1 610
Africa	563	533	484	443	410
Other	89	87	86	92	78
Average age of employees	39.7	39.4	38.8	38.9	38.8
Permanent employees (%)	88	88	88	90	88
Temporary employees (%)	12	12	12	10	12
Full-time employees (%)	97	97	97	97	98
Part-time employees (%)	3	3	3	3	2
Employee turnover (resigned) (%)	7.7	6.9	8.6	9.8	10.5
Net employment creation	-477	-416	-191	-814	-310
Training days (days/employee)	4.1	3.4	3.0	3.1	3.7
Managers and superiors	4.6	3.3	3.4	3.2	3.9
Other white-collar employees	4.1	3.9	2.5	2.9	3.8
Blue-collar employees	3.6	3.0	3.4	3.3	3.5
Development discussions held annually (%)	91	84	89	72	78
Gender diversity					
Male/female ratio (%)	85/15	84/16	86/14	86/14	86/14
Executive positions globally: male/female ratio (%)	90/10	91/9	90/10	90/10	87/13
Regional diversity					
Number of nationalities	120	107	114	109	110
Injuries					
Total number of injuries	730	742	987	971	1 169
Number of lost time injuries resulting in at least 1 day absence, total	199	238	267	333	470
Number of lost time injuries - work-related	162	194	221	274	

Number of lost time injuries - commuting	37	44	46	59	
Lost time injuries / million working hours	4.4	5.5	6.3	7.8	12.9
Absence rate					
Absence due to illness (% of total working hours)	2.1	2.0	2.1	2.3	2.4
Absence due to lost time injury (% of total working hours)	0.1	0.1	0.1	0.2	0.2
Absence due to occupational diseases (% of total working hours)	0.0	0.0	0.0	0.0	0.0
Fatalities					
Number of fatalities, total	1	0	1	1	2
Employees	1	0	1	0	1
Contractors	0	0	0	1	1
Non-compliances					
Number of non-compliance cases	4	3	4	2	4
Fines of non-compliance cases (EUR)	9 787	45 079	7 869	26 157	17 659
Customer satisfaction					
Ship Power	8.2	8.1	8.1	7.6	7.4
Services	8.5	8.4	8.3	7.9	7.9
Power Plants	8.5	8.5	8.4	8.3	8.1
Sample	3911	3022	2 188	1 933	1 859

Report scope

Wärtsilä's Sustainability Reporting 2013 is prepared according to the GRI (Global Reporting Initiative) sustainability Reporting Guidelines (G3).

Wärtsilä reports those core indicators which are of most relevance to its operations, products and stakeholders. The Sustainability section of the Annual Report examines the company's economic, environmental and social performance. The core indicators chosen are of importance at the corporate level and are based on the core indicators of the G3 guidelines. Reporting of the product performance, which is done mainly on the internet (www.wartsila.com), describes the environmental aspects and impacts of Wärtsilä's products, the measures taken by Wärtsilä to reduce these impacts and the environmentally advanced solutions that Wärtsilä has developed.

Coverage of the report

This report covers Wärtsilä's businesses. At the company level, the report includes the parent company and its subsidiaries as well as its manufacturing, service and sales units. The report excludes Wärtsilä's associated companies, joint ventures and supply chain companies.

Wärtsilä's businesses comprise of the Ship Power, Power Plants and Services businesses and PowerTech. The first three of these generate external net sales while the fourth is an internal function. The economic performance data covers all Wärtsilä companies. The data on environmental and social performance covers all Wärtsilä companies except the following:

Wärtsilä Tanzania Ltd.
Cedervall Söner AB
Wärtsilä Egypt Power S.A.E
Wärtsilä Mocambique Lda

Antique Energy Operators Ltd.
Wärtsilä Operations Guyana Inc.

These companies will be included in Wärtsilä's sustainable development reporting in the forthcoming years. Wärtsilä's Sustainability Reporting is an integrated part of its annual reporting, and therefore Wärtsilä publishes its sustainability data annually.

Significant changes in Group structure

The structural changes that apply to Wärtsilä are described in the Business review.

Coverage of operational data

Operational data, % of Wärtsilä companies

	2013	2012	2011	2010	2009
Economic	100	100	100	100	100
Environmental	93	79	92	93	84
Social	93	79	92	93	84

Operational data, % of personnel

	2013	2012	2011	2010	2009
Economic	100	100	100	100	100
Environmental	99	94	98	98	98
Social	99	94	98	98	98

Operational data, % of product manufacturing

	2013	2012	2011	2010	2009
Economic	100	100	100	100	100
Environmental	99	93	100	100	100
Social	99	93	100	100	100

Reporting profile

Data collection

The data on the products' environmental performance is based on measured test results. Performance data on the environmental and social aspects of sustainability has been collected from the Wäertsilä companies using a detailed questionnaire. Economic performance data is based mainly on audited financial accounts.

The sustainability data is collected and reported according to Wäertsilä's specific internal reporting guidelines that include all the definitions and instructions necessary for this purpose. Environmental expenditure and investments are reported applying the Eurostat instructions.

Each company has a nominated individual responsible for collection and consolidation of the data, and for its quality and reliability. The management of each company approves the data before it is consolidated at the Group level. The companies report their sustainability data using Wäertsilä's CSM reporting system. The reported data is checked at both local and Group levels before its consolidation.

The content of this Sustainability Report was reviewed and approved by Wäertsilä's Board of Management.

KPMG Oy Ab has independently assessed the report against GRI principles for defining content and quality. As part of the assurance process, KPMG assesses local level data management and processes, evaluates the relevance and reliability of the data reported to headquarters and assesses whether the reporting guidelines of Wäertsilä are well understood and applied. This is achieved through conducting site visits and video conferencing. Site assurance was carried out in Wäertsilä Water Systems in Poole, England. CME Zhenjiang Propeller Co, Wäertsilä China, Wäertsilä Switzerland and Wäertsilä Japan were assessed through video conferencing.

Wäertsilä self-declares an Application level of "A+" according to the GRI G3 guidelines for this report. KPMG has checked our reporting and has confirmed it to be Application level "A+".

Additional sources of information

Wäertsilä has previously published the following reports:

Wäertsilä Environmental Report 2000
Wäertsilä Sustainability Report 2002
Wäertsilä Sustainability Report 2004
Wäertsilä Sustainability Report 2005
Wäertsilä Annual Report 2006
Wäertsilä Annual Report 2007
Wäertsilä Annual Report 2008
Wäertsilä Annual Report 2009
Wäertsilä Annual Report 2010
Wäertsilä Annual Report 2011
Wäertsilä Annual Report 2012

These reports and their sustainability data are available on Wäertsilä's website: www.wartsila.com.

Sustainability Report Project Team

Marko Vainikka Director, Corporate Relations and Sustainability (contact person:
marko.vainikka@wartsila.com)

Harri Mäkelä Sustainability Officer

Natalia Valtasaari Director, Investor Relations
Minna Kröger Manager, Corporate Relations



Reporting principles

Economic performance data

The economic performance data is based on audited financial accounting and covers all Wärtsilä subsidiaries unless otherwise stated.

Donations: The data of this indicator included 15 major Wärtsilä subsidiaries and the parent company in 2013.

Subsidies: The data of this indicator included 15 major Wärtsilä subsidiaries and the parent company in 2013.

Environmental performance data

Total energy consumption includes both direct and indirect energy usage. The direct energy usage includes the fuels used by Wärtsilä subsidiaries. The indirect energy usage includes the purchased electricity and heat. Since the efficiency of purchased electricity and heat generation is not known, the energy conversion is done directly from the purchased values.

Heat and electricity data is based on either invoices or measured values.

Water consumption: The reported figures are based on either measured values or invoices. The cooling water usage might also be calculated from the heat load in some units.

Emissions: The reported figures are mainly based on measured values, based on which specific emission factors are determined. The specific emission factors are determined for various fuels and engine types. The emissions of the heating boilers are either measured or calculated. The emissions of vehicles are calculated by using the VTT (Technical research centre of Finland's) Lipasto database emission factors. The indirect CO₂ emissions (scope 2) are calculated by using the emission factors from the GHG Protocol. The CO₂ emissions of air travel are based on calculations by Wärtsilä's travel agency and are based on DEFRA (the UK government Department for Environment, Food and Rural Affairs) defined factors.

Environmental hazards: As such are considered major incidents, which generally require communication to local authorities.

Social performance data

Injuries: The reported figures include all types of reported cases other than lost time injuries.

Lost time injuries: The reported figures include all the reported injuries resulting in absence from work of at least one day.

LTI frequency is expressed as reported lost time injuries per million working hours. The working hours are actual paid working hours. The lost time injury rate does not include commuting injuries.

Employee turnover is calculated from permanent employees. The number of resigned permanent employees is divided by the headcount of permanent employees at the beginning of the reporting period.

Independent Assurance Report

To the Board of Management of Wärtsilä Corporation

We have been engaged by the Board of Management of Wärtsilä Corporation (hereafter: Wärtsilä) to provide limited assurance on Wärtsilä's Sustainability Information in the electronic Wärtsilä Annual Report 2013 from the reporting period 1.1.–31.12.2013.

The sustainability information subject to the limited assurance engagement (hereafter: the Sustainability Information) includes the data and text presented in the "Sustainability" -section and its sub-sections in the Report, as well as the following sub-sections of the "Business" section: "Ship Power and Sustainability", "Power Plants and Sustainability", and "Services and Sustainability". The Sustainability Information also includes data and text in the Inside Stories specifically marked with "Sustainability Assured 2013".

The Board of Management of Wärtsilä is responsible for the presented Sustainability Information as well as for preparing and presenting the Sustainability Information in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0. The Board of Management of Wärtsilä has approved the presented Sustainability Information.

Our responsibility is to carry out a limited assurance engagement and to express a conclusion on the Sustainability Information subject to the assurance based on the work performed. We have conducted the engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000): Assurance engagements other than audits or review of historical financial information, issued by the International Auditing and Assurance Standards Board. We do not accept or assume responsibility to anyone other than Wärtsilä for our work, for this assurance report, or for the conclusions we have reached.

The evaluation criteria used for our assurance are the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0.

Limitations of the engagement

Sustainability related data and information are subject to inherent limitations in data accuracy and completeness, which are to be taken into account when reading our assurance report. The presented Sustainability Information is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by Wärtsilä. Our assurance report is not intended for use in evaluating Wärtsilä's performance in executing the sustainability principles Wärtsilä has defined. To assess the financial state and performance of Wärtsilä, the Wärtsilä audited Financial Statements for the year ended 31 December 2013 is to be consulted.

The work performed in the engagement

Our assurance procedures are designed to obtain limited assurance on whether the information subject to the assurance engagement is presented in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative 3.0 in all material respects. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the sustainability information presented, and applying analytical and other evidence gathering procedures, as appropriate. The evidence gathering procedures mentioned above are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

In our engagement we have performed the following procedures:

- Interviews with two members of senior management to reassert our understanding of the connection between Wärtsilä's sustainability procedures and Wärtsilä's business strategy and operations as well as sustainability objectives;
- An assessment of data management processes, information systems and working methods used at the Head Office to gather and consolidate the presented Sustainability Information, and a review of Wärtsilä's related internal documents and guidelines;
- Comparison of Sustainability Information to underlying rules of procedure, management and reporting systems as well as documentation;
- An assessment of the presented Sustainability Information against the GRI reporting principles;
- A review of the presented Sustainability Information, including the performance data and assertions, subject to the engagement, and an assessment of information quality and reporting boundary definitions;
- Assessment of data accuracy and completeness through a review of the original numerical information received from Wärtsilä's subsidiaries as well as through samples the Group's information systems;
- Assessment of the local reporting processes of Wärtsilä's subsidiaries on a sample basis through a site visit and four video conferences, conducted to Wärtsilä sites selected on the basis of a risk analysis taking into account both qualitative and quantitative information.

Conclusions

Based on the assurance procedures performed, nothing has come to our attention that causes us to believe that the information subject to the assurance engagement is not presented in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative 3.0 in all material respects.

Helsinki, 10. February 2014
KPMG OY AB

Virpi Halonen
Authorized Public Accountant

Nathalie Clément
Senior Manager, Advisory

GRI and UNGC index

1 Strategy and analysis

GRI content	Links	Remarks	GRI / UNGC	
1.1 CEO's statement	Message to the Shareholders		•	•
1.2 Key impacts, risks and opportunities	Risk and risk management Corporate strategy Power Plants and sustainability Ship Power and sustainability Services and sustainability Wärtsilä and sustainability	See also Business Strategy sections	•	•

2 Organisational profile

2.1 Name of the organisation	This is Wärtsilä		•	
2.2 Primary brands, products and services	This is Wärtsilä Operating environment Power Plants review Ship Power review Services review PowerTech review		•	
2.3 Operational structure	This is Wärtsilä Operating environment Notes to the Consolidated Financial Statements		•	
2.4 Location of organisation's headquarters	Shares and shareholders	Helsinki, Finland	•	
2.5 Number of countries and location of operations	This is Wärtsilä Operating environment Notes to the Consolidated Financial Statements, Note 30	www.wartsila.com	•	
2.6 Nature of ownership and legal form	Shares and shareholders		•	
2.7 Markets served	This is Wärtsilä Operating environment		•	
2.8 Scale of reporting organisation	This is Wärtsilä Shareholders Operating environment		•	
2.9 Significant changes	Board of Directors' report		•	
2.10 Awards received in the reporting period	Sustainability highlights 2013		•	

3 Report parameters

3.1 Reporting period	Report scope		•	
3.2 Date of most recent report	Report scope		•	
3.3 Reporting cycle	Report scope		•	

3.4 Contact point for questions regarding the report	Report scope		•	
3.5 Process for defining report content	Report scope		•	
3.6 Boundary of the report	Report scope		•	
3.7 Limitations on the report's scope or boundary	Report scope		•	
3.8 Basis for reporting subsidiaries and joint ventures	Report scope		•	
3.9 Data measurements techniques and bases of calculations	Report scope Reporting principles		•	
3.10 Explanation of re-statements	Report scope		•	
3.11 Significant changes from previous reporting periods	Report scope		•	
3.13 Assurance policy and practice	Report scope		•	

4 Governance, Commitments and Engagement

4.1 Governance structure	Governance		•	
4.2 Position of the Chairman of the Board	Board of Directors		•	
4.3 Independence of the Board members	Board of Directors		•	
4.4 Mechanism for shareholder and employee consultation	Annual General Meeting		•	
4.5 Executive compensation and linkage to organisation's performance	Salary and remuneration report 2013		•	
4.6 Processes for avoiding conflicts of interest	Governance		•	
4.7 Processes for determining expertise	Governance		•	
4.8 Implementation of mission and values statements; code of conduct	Corporate strategy Wärtsilä and sustainability Guiding principles Code of Conduct		•	•
4.9 Procedures of the Board for overseeing risk management	Governance Board of Directors' report		•	
4.10 Processes for evaluating the Board's performance	Governance Board of Directors' report		•	
4.11 Precautionary principle	Risks and risk management Wärtsilä and sustainability Environmental performance		•	•
4.12 Voluntary charters and other initiatives	Strategy: Sustainability Guiding principles		•	•

4.13 Memberships in associations	Stakeholder relations		●	●
4.14 List of stakeholder groups	Stakeholder relations		●	
4.15 Identification and selection of stakeholders	Stakeholder relations		●	●
4.16 Approaches to stakeholder engagement	Stakeholder relations		●	●
4.17 Key topics raised through stakeholder engagement	Stakeholder relations Wärtsilä and sustainability		●	●

5 Management Approach and Performance Indicators

Economic Performance Indicators				
Disclosure on management approach	Economic performance Financial targets			●
EC1 Direct economic value generated and distributed	Economic performance		●	
EC2 Risks and opportunities due to climate change	Risks and risk management Wärtsilä and emission trading		●	●
EC3 Coverage of defined benefit plan obligations	Employees		●	
EC4 Significant subsidies received from government	Public sector		●	
EC5 Entry level wage compared to minimum wage	Employees		●	●
EC6 Spending on local suppliers	Suppliers		●	
EC7 Local hiring	Employees		●	●
EC8 Infrastructure investments provided for public benefit	Community support Sustainability highlights 2013		●	
EC9 Significant indirect impacts	Economic performance Local community approach		●	
Environmental Performance Indicators				
Disclosure on management approach	Wärtsilä's sustainability goals Environmental performance	www.wartsila.com/sustainability		●
EN1 Materials used by weight or volume	Materials, energy and water		●	●
EN2 Recycled materials used	Materials, energy and water	Reporting system under development	●	●
EN3 Direct energy consumption	Materials, energy and water		●	●
EN4 Indirect energy consumption	Materials, energy and water		●	●

EN5 Energy saved due to conservation and efficiency improvements	Wärtsilä's sustainability goals		●	●
EN6 Initiatives to provide energy efficient or renewable energy based products and services	The value of sustainable innovation	www.wartsila.com/sustainability	●	●
EN7 Initiatives to reduce indirect energy consumption	Wärtsilä's sustainability goals Wärtsilä's R&D focus Improving efficiency Emissions and wastes		●	●
EN8 Total water withdrawal	Materials, energy and water		●	●
EN9 Water sources significantly affected	Materials, energy and water		●	●
EN10 Percentage and total volume of water recycled and reused			-	●
EN11 Location and size of land holdings in biodiversity-rich habitats	Environmental costs and liabilities		●	●
EN12 Description of significant impact of activities, products and services on biodiversity	Environmental costs and liabilities	Not applicable	●	●
EN13 Habitats protected or restored		Not applicable	-	●
EN14 Managing impacts on biodiversity		Not applicable	-	●
EN15 Species with extinction risk with habitats in areas affected by operations		Not applicable	-	●
EN16 Total direct and indirect greenhouse gas emissions	Emissions and wastes		●	●
EN17 Other relevant indirect greenhouse gas emissions	Emissions and wastes	Reporting system under development	●	●
EN18 Initiatives to reduce greenhouse gas emission	Emissions and wastes Wärtsilä's sustainability goals Wärtsilä's R&D focus Improving efficiency	www.wartsila.com/sustainability	●	●
EN19 Emissions of ozone-depleting substances		Not applicable	-	
EN20 NO _x , SO _x , and other significant air emissions	Emissions and wastes		●	●
EN21 Total water discharge	Materials, energy and water		●	●
EN22 Total amount of waste	Emissions and wastes		●	●
EN23 Significant spills	Compliance with legislation		●	●
EN24 Transported, imported, exported or treated hazardous waste		Not applicable	-	●

EN25 Water bodies and habitats affected by discharges of water		Not applicable	-	•
EN26 Mitigating environmental impacts of products and services	Power Plants review Ship Power review Services review Environmental performance	www.wartsila.com/sustainability	•	•
EN27 Reclaimable products and reuse		www.wartsila.com/sustainability	•	•
EN28 Significant fines and sanctions for non-compliance with environmental regulations	Compliance with legislation		•	•
EN29 Environmental impacts of transportation			-	
EN30 Total environmental protection expenditures and investments	Environmental costs and liabilities		•	•
Social Performance Indicators				
Labor Practices and Decent Work				
Disclosure on management approach	Personnel and social performance Wärtsilä's sustainability goals			•
LA1 Breakdown of workforce	Personnel		•	
LA2 Breakdown of employee turnover	Employee practices		•	•
LA3 Employee benefits	Employee practices		•	
LA4 Coverage of collective bargaining agreements	Employee practices	www.wartsila.com/sustainability	•	•
LA5 Minimum notice period regarding operational changes	Employee practices		•	•
LA6 Representation in joint health and safety committees	Occupational health and safety	57% of Wärtsilä employees were covered by collective bargaining agreements in 2013.	•	•
LA7 Injury, lost time injury, fatalities, absence rates	Occupational health and safety		•	•
LA8 Education and prevention programmes regarding serious diseases	Occupational health and safety	Part of the OHS management systems which cover Wärtsilä employees	•	•
LA9 Health and safety topics covered in formal agreements with trade unions			-	
LA10 Average training hours per year	Personnel		•	
LA11 Programmes for skills management	Personnel		•	
LA12 Employees receiving regular performance and	Employee practices Social data		•	

career development reviews				
LA13 Composition of governance bodies and breakdown of employees	Governance Personnel Employee practices		●	●
LA14 Ratio of basic salary of men to women by employee category	Employees Employee practices		●	●
Human rights				
Disclosure on management approach	Personnel and social performance Wärtsilä's sustainability goals			●
HR1 Investment agreements that include human rights clauses	Human and labour rights		●	●
HR2 Suppliers and contractors that have undergone human rights screening	Suppliers		●	●
HR3 Human rights related training for employees	Code of Conduct	Part of Code of Conduct training	-	●
HR4 Incidents of discrimination and actions taken	Human and labour rights		●	●
HR5 Supporting right to freedom of association and collective bargaining in risk areas	Human and labour rights		●	●
HR6 Measures taken to eliminate child labour in risk areas	Wärtsilä and sustainability Human and labour rights		●	●
HR7 Measures taken to eliminate forced labour in risk areas	Wärtsilä and sustainability Human and labour rights		●	●
HR8 Human rights related training for security personnel	Security management		●	●
HR9 Incidents involving rights of indigenous people and actions taken	Human and labour rights		●	●
Society performance				
Disclosure on management approach	Personnel and social performance Wärtsilä's sustainability goals			●
SO1 Managing impacts of operations on communities	Local community approach		●	
SO2 Business units analysed for corruption risks	Preventing corruption and bribery Risks and risk management		●	●
SO3 Anti-corruption training	Preventing corruption and bribery Wärtsilä's sustainability goals		●	●
SO4 Actions taken in response to incidents of corruption	Preventing corruption and bribery		●	●

SO5 Public policy positions and participation in public policy development and lobbying	<u>Political lobbying</u>		●	●
SO6 Contributions to politicians and related institutions	<u>Political lobbying</u>		●	●
SO7 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	<u>Competition regulation</u>		●	
SO8 Fines and sanctions for non-compliance with laws and regulations	<u>Social data</u>		●	
Product responsibility				
Disclosure on management approach	<u>Personnel and social performance</u> <u>Product liability</u>			●
PR1 Assessment of health and safety impacts of products	<u>Product liability</u> <u>Ensuring reliability and safety</u>		●	●
PR2 Non-compliance with regulations concerning health and safety impacts of products	<u>Product liability</u>		●	●
PR3 Product information required by procedures	<u>Product liability</u>		●	●
PR4 Non-compliance with regulations concerning product information and labelling	<u>Product liability</u>		●	●
PR5 Customer satisfaction	<u>Customer satisfaction</u>		●	
PR6 Adherence to marketing communications laws, standards and voluntary codes	<u>Product liability</u>		●	
PR7 Non-compliance with marketing communications regulations and voluntary codes	<u>Product liability</u>		●	
PR8 Complaints regarding breaches of customer privacy	<u>Product liability</u>		●	●
PR9 Fines for non-compliance concerning the provision and use of products and services	<u>Product liability</u>		●	

● = Fully reported ○ = Partly reported - = Not reported ● = UNGC reported
 □ = Core indicator ■ = Additional indicator

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Corporate governance

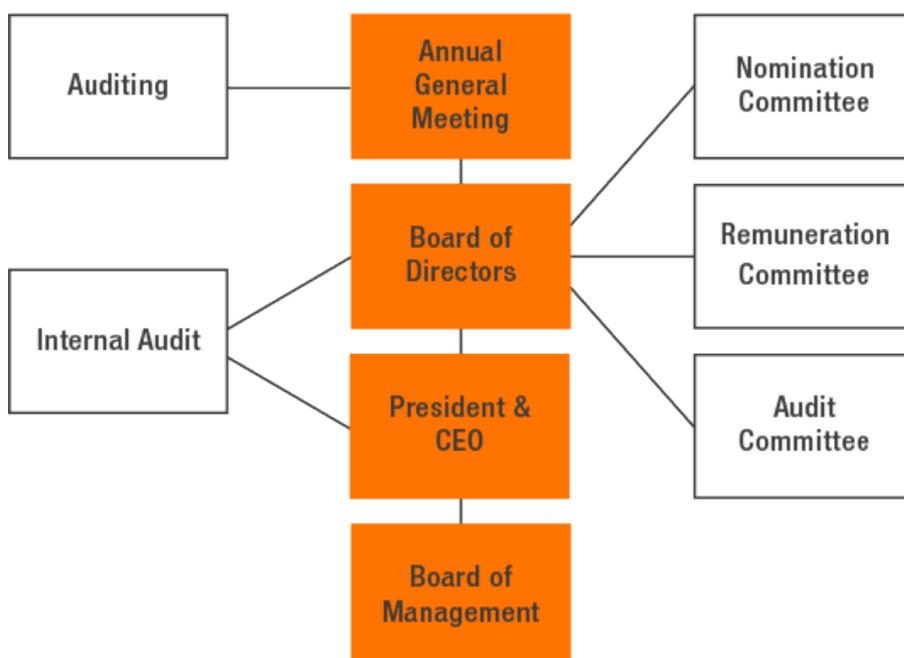
Wärtsilä Corporation complies with the guidelines and provisions of its Articles of Association, the Finnish Limited Liability Companies Act, and the rules and regulations of NASDAQ OMX Helsinki Stock Exchange. Wärtsilä also complies with the Corporate Governance Code 2010 issued by the Finnish Securities Market Association. The Code is publicly available on www.cgfinland.fi/en. Wärtsilä has not deviated from any of the Code's recommendations.

Wärtsilä's Corporate Governance Statement, prepared in accordance with recommendation 54 of the Finnish Corporate Governance Code, is also published as a separate statement on Wärtsilä's website as well as in this Annual Report. The content of this Corporate Governance section corresponds fully to Wärtsilä's Corporate Governance Statement. Wärtsilä's Audit Committee has reviewed the Corporate Governance Statement, and the company's external auditor has monitored the issuing of the statement and verified that the description of the main features of the internal control and risk management section, as related to the financial reporting process included in the statement, matches the Financial Statements.

Governing bodies

Wärtsilä implements a single-tier governance model, in which the management of the Wärtsilä Group is the responsibility of the General Meeting of shareholders, the Board of Directors, and the President and CEO. Their duties are for the most part defined by the Finnish Companies Act. The General Meeting of shareholders elects the Board of Directors and auditors. The Board of Directors is responsible for the strategic management of the company. The Board appoints the President and CEO, who is in charge of the operative, day-to-day management of the company. He is assisted in his work by the Board of Management.

Governing bodies



Annual General Meeting

Wärtsilä's ultimate decision-making body is the General Meeting of shareholders. It resolves issues as defined for General Meetings in the Finnish Companies Act and the company's Articles of Association. These include:

- approving the financial statements
- deciding on the distribution of dividends
- discharging the company's Board of Directors and CEO from liability for the financial year
- electing the company's Board of Directors and auditors and deciding on their remuneration

A General Meeting of Wärtsilä Corporation shareholders is held at least once a year, at no later than the end of June. If needed, the company may also hold an Extraordinary General Meeting. An invitation to the General Meeting is published in at least two daily newspapers in common circulation in Finland, as decided by the Board of Directors. The invitation shall be published no earlier than two months, and no later than three weeks, before the General Meeting. It shall, however, be published at least nine days prior to the shareholders' record date. Wärtsilä also publishes invitations to its General Meetings as stock exchange releases, as well as on its website, together with the documents and draft resolutions to be submitted to the General Meeting. The invitation to the General Meeting contains the proposed meeting agenda.

Shareholders have the right to add items falling within the competence of the Annual General Meeting to the meeting's agenda. The request must be submitted to the Board of Directors in writing well in advance of the meeting so that the item can be added to the Notice of the General Meeting. Wärtsilä publishes well in advance on the company website the date by which a shareholder shall notify the Board of Directors of his or her demand, and the address or email address to which it shall be sent. The demand is always deemed to have arrived in sufficient time if the Board has been notified of the demand at the latest four weeks before the delivery of the Notice of the General Meeting.

All shareholders registered by the record date in the company's list of shareholders maintained by Euroclear Finland Ltd have the right to attend the Annual General Meeting. Each share entitles the holders to one vote. The General Meeting is organised in such a manner that shareholders can participate in the meeting as extensively as possible. The Chairman of the Board of Directors and a sufficient number of members of the Board attend the General Meeting. A person proposed for the first time as a Board member is to participate in the General Meeting that decides on his or her election unless there are well-founded reasons for absence. The President & CEO and members of the Board of Management are also in attendance.

Annual General Meeting 2013

Wärtsilä's Annual General Meeting was held on 7 March 2013. A total of 1,330 shareholders representing 105,191,509 votes participated in person or by proxy. The Annual General Meeting 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 2012. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.00 per share. The dividend was paid on 19 March 2013. The minutes of the meeting and other related documents can be found on Wärtsilä's website www.wartsila.com > Investors > Governance > Shareholder meetings > [Annual General Meeting 2013](#).

The Board of Directors

Responsibility for the management of the company and the proper organisation of its operations is invested in the company's Board of Directors, which is composed of five to ten members. Board members serve for one year at a time and are elected by the General Meeting. According to the Corporate Governance Code's recommendation 14, the majority of board members shall be independent of the company and at least two of the members representing this majority shall be independent of significant shareholders of the company.

The proposal for board composition is included in the Notice of the General Meeting. The same applies to a proposal for the composition of the board made by shareholders with at least 10% of the votes carried by the company shares, provided that the candidates have given their consent to the election and the company has received information on the proposal sufficiently in advance as to be included in the Notice of the General Meeting. The candidates proposed shall be disclosed separately in corresponding order. Wärtsilä publishes the biographical details of the candidates for the board on its website in connection with publication of the Notice of the General Meeting.

The Board elects a chairman and a deputy chairman from among its members. The Board steers and supervises the company's operations and decides on policies, goals and strategies of major importance. The principles applied by the Board to its regular work are set out in the Board Charter. The Board has also approved the rules of procedure applied by the Board's committees setting out their main tasks and working principles. In addition to matters requiring its decision, the Board is also given updates at its meetings on the Group's operations, financial position and risks.

The Board conducts an annual self-evaluation of its operations and working methods. The purpose of this evaluation is to assess how the Board has executed its tasks during the year and to act as a basis for developing Board functions.

The Board of Directors convenes 7-10 times a year following a pre-determined schedule. In addition to these meetings, the Board convenes as necessary. All meetings are documented.

Board of Directors in 2013

As of 7 March 2013, the Board consisted of the following nine members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh (deputy chairman), Mr Sune Carlsson, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Mikael Lilius (chairman), Ms Gunilla Nordström, Mr Markus Rauramo and Mr Matti Vuoria.

Until 7 March 2013, the Board consisted of the following nine members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Lars Josefsson, Mr Mikael Lilius (chairman), Ms Gunilla Nordström, Mr Markus Rauramo and Mr Matti Vuoria (deputy chairman).

During 2013, the strategic development of Wärtsilä and its position in the growth markets was a major item on the Board's agenda. In addition to all other Board responsibilities, other matters on the agenda have been the monitoring of developments related to Wärtsilä's operational environment and financial position.

Independence of the Board of Directors

All nine Board members were determined to be independent of the company and five members were determined to be independent of significant shareholders. The four members determined to be dependent of significant shareholders are Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth and Mr Paul Ehrnrooth due to their positions on the Board of Directors of Fiskars Corporation, as well as Mr Sune Carlsson due to his position on the board of Investor AB. During 2013, Fiskars Corporation and Investor AB completed the legal combination

of their respective Wärtsilä ownership interests into a joint venture. When formed, the joint company Avlis AB and its wholly owned subsidiary Avlis Invest AB's total ownership was 42,948,325 or 21.77% of Wärtsilä's share capital and votes. Fiskars owned 59.7% of Avlis AB and Investor 40.3%.

Meeting attendance of the Board of Directors

During 2013, Wärtsilä's Board of Directors held 12 meetings. The average attendance of all directors was 97%.

Board member meeting participation in 2013

	Number of meetings	% of meetings
Mikael Lilius, Chairman	11/12	92
Kaj-Gustaf Bergh, Deputy Chairman	12/12	100
Maarit Aarni-Sirviö	11/12	92
Sune Carlsson	10/10	100
Alexander Ehrnrooth	12/12	100
Paul Ehrnrooth	12/12	100
Gunilla Nordström	11/12	92
Markus Rauramo	12/12	100
Matti Vuoria	12/12	100
Until 7 March 2013		
Lars Josefsson	2/2	100

Responsibilities of the Board of Directors

The Board considers all the matters stipulated to be the responsibility of a board of directors by legislation, other regulations, and the company's Articles of Association. The most important of these are:

- the annual and interim financial statements
- the matters to be put before the General Meetings of shareholders
- the appointment of the President and CEO, the Executive Vice President and the CEO's deputy, if any
- the organisation of financial supervision within the company

The Board is also responsible for considering any matters that are so far-reaching with respect to the area of the Group's operations, that they cannot be considered to fall within the scope of the Group's day-to-day administration. Examples of such matters include:

- approval of the Group's strategic plan and long-term goals
- approval of the Group's annual business plan and budget
- decisions concerning investments, acquisitions or divestments that are significant or that deviate from the Group's strategy
- approval of product development projects and development programmes with strategic importance
- decisions to raise loans and the granting of security or similar collateral commitments when their size is significant

- approval of risk management principles
- the Group's organisational structure
- appointment of the company's Board of Management and approval of their remuneration and pension benefits
- monitoring and assessing the performance of the President and CEO
- approval of the company's management principles and steering systems
- appointment of the Board of Director's committees
- the granting of donations to good causes

Board of Directors CVs

Mikael Lilius



Independent of the company and significant shareholders. Chairman of the Board of Wärtsilä Corporation. Born 1949, B.Sc. (Econ.). Member of the Board of Wärtsilä Corporation since 2010, Chairman of the Board since 2011.

Primary working experience

Fortum Oyj, President and CEO, 2000-2009; Gambro AB, President and CEO, 1998-2000; Incentive AB, President and CEO, 1991-1998; KF Industri AB (Nordico), President & CEO, 1989-1991 and Huhtamäki Oy, President of the Packing Division, 1986-1989.

Other positions of trust

Metso Corporation, Mehiläinen Oy, Chairman of the Boards; Ambea AB, Evli Bank Ltd., Member of the Boards; Ab Kelonia Oy, Member of the Supervisory Board, East Office of Finnish Industries, Deputy Member of the Board.

Kaj-Gustaf Bergh



Independent of the company, dependent of significant shareholders due to a position on the Board of Directors of Fiskars Corporation. Born 1955, B.Sc., LL.M. Managing Director of Föreningen Konstsamfundet r.f. Member of the Board of Wärtsilä Corporation since 2008, Deputy Chairman of the Board since 2013.

Primary working experience

Skandinaviska Enskilda Banken, Member of management, 2000-2001; SEB Asset Management, Director; 1998-2000; Ane Gyllenberg Ab, Chief executive officer, 1986-1998; Oy Bensow Ab, Director, Executive vice president, 1985-1986; Ane Gyllenberg Ab, Administrative manager, 1984-1985 and Ky von Konow & Co, Administrative manager, 1982-1983.

Other positions of trust

Sponda Oyj, Finaref Group Ab, Fiskars Corporation, Ab Forum Capita Oy and KSF Media Holding Ab, Chairman of the Boards; Julius Tallberg Oy Ab, and Ramirent Group, Member of the Boards.

Relevant prior positions of trust

Board chairmanships: Ålandsbanken Abp 2011-2013 and Aktia Abp 2005-2009. Board membership: Stockmann Oyj Abp 2007-2013.

Maarit Aarni-Sirviö



Independent of the company and significant shareholders. Born 1953, M.Sc. (Tech.), eMBA. Secretary General of Directors' Institute of Finland – Hallitusammattilaiset ry; Managing Director of Boardview Oy; Senior Adviser at Eera Oy. Member of the Board of Wärtsilä Corporation since 2007.

Primary working experience

Mint of Finland Ltd., President and CEO 2008-2010; Borealis Group 1994-2008, several senior positions of which the most recent was Vice President BU Phenol 2001-2008; Vice President BU Olefins 1997-2001 in Copenhagen, Denmark and Neste Oy 1977-94.

Other positions of trust

Member of the Board of Directors' Institute of Finland – Hallitusammattilaiset rt; ecoDa (The European Confederation of Directors Associations), Member of the Board.

Relevant prior positions of trust

Board memberships: Rautaruukki Oyj, 2005-2012; Ponsse Oyj, 2007-2010 and Vattenfall AB, Sweden, 2004-2007.

Sune Carlsson



Independent of the company, dependent of significant shareholders due to a position on the Board of Directors of Investor AB. Born 1941, M.Sc. (Eng.). Vice Chairman of the Board of Investor AB. Member of the Board of Wärtsilä since 2013.

Primary working experience

AB SKF, President & CEO 1998-2003; ABB Ltd, Executive Vice President 1988-1998 and ASEA AB, Executive Vice President 1977-1988.

Other positions of trust

Atlas Copco AB, Chairman of the Board.

Relevant prior positions of trust

Board chairmanships: Stena AB, 2009-2011; Autoliv Inc, 2003-2011 and Scania AB, 2004-2006.

Alexander Ehrnrooth



Independent of the company, dependent of significant shareholders due to a position on the Board of Directors of Fiskars Corporation. Born 1974, M.Sc. (Econ.), MBA. President & CEO of Virala Oy Ab. Member of the Board of Wärtsilä Corporation since 2010.

Primary working experience

President & CEO of Virala Oy Ab 1995-.

Other positions of trust

Fiskars Corporation, Vice Chairman of the Board; Aleba Corporation and Belgrano Investments Oy, Chairman of the Boards.

Relevant prior positions of trust

Board chairmanships: Oral Hammaslääkärit Oyj, 2006-2007; Turvatiimi Oyj, 2008-2010.

Paul Ehrnrooth



Independent of the company, dependent of significant shareholders due to a position on the Board of Directors of Fiskars Corporation. Born 1965, M.Sc. (Econ.). President & Chairman of the Board of Turret Oy Ab. Member of the Board of Wärtsilä Corporation since 2010.

Primary working experience

Savox Oy, President and CEO, 1999-2007; several management positions in Wärtsilä Corporation 1994-1999 and Kone Corporation 1993-1994.

Other positions of trust

Fiskars Corporation and Ixonos Oyj, Deputy Chairman of the Boards; Savox Group, Chairman of the Board.

Gunilla Nordström



Independent of the company and significant shareholders. Born 1959, M.Sc. in Electronics, Industrial Marketing Management. President and CEO of Electrolux Major Appliances Asia/Pacific, based in Singapore, and Executive Vice President of Electrolux AB. Member of the Board of Wärtsilä Corporation since 2012.

Primary working experience

Senior management positions with Telefonaktiebolaget LM Ericsson and Sony Ericsson in Europe, Latin America and Asia, 1983-2007.

Other positions of trust

Member of the Board of Directors of Atlas Copco AB, Sweden.

Relevant prior positions of trust

Board memberships: Luleå University, Sweden 2007-2010 and Videocon Industries Limited, India 2009-2010.

Markus Rauramo



Independent of the company and significant shareholders. Born 1968, M.Sc. (Econ. and Pol. Hist.). Chief Financial Officer and Member of the Management team of Fortum. Member of the Board of Wärtsilä Corporation since 2011.

Primary working experience

Stora Enso Oyj Helsinki, CFO and Member of the GET 2008-2012; Stora Enso International London, SVP Group Treasurer 2004-2008; Stora Enso Oyj Helsinki, VP Strategy and Investments 2001-2004; Stora Enso Financial Services Brussels, VP Head of Funding 1999-2001 and Enso Oyj Helsinki, several financial tasks 1993-1999.

Other positions of trust

Oy Proselectum AB and Teollisuuden Voima Oyj, Member of the Boards.

Matti Vuoria



Independent of the company and significant shareholders. Born 1951, BA, LL.M. President & CEO of Varma Mutual Pension Insurance Company. Member of the Board of Wäertsilä Corporation since 2005.

Primary working experience

Full-time Chairman of the Board of Directors, Fortum Corporation 1998-2003; Secretary General, Ministry of Trade and Industry 1992-1998.

Other positions of trust

Sampo plc, Deputy Chairman of the Board; Stora Enso Oyj, The Federation of Financial Services and The Finnish Pension Alliance TELA, Member of the Boards; The Securities Market Association, Chairman of the Board.

Relevant prior positions of trust

Board memberships: Nordic Investment Bank, Danisco A/S, Orion Corporation and Nokian Tyres plc.

The Board's committees

The Board of Directors appoints annually an Audit Committee, a Nomination Committee and a Remuneration Committee, and may also nominate any other committees if considered necessary in its constitutive meeting following the Annual General Meeting. The Board appoints the members of these committees and their chairmen. The Board also has the right to remove a member from a committee. The members of each committee are appointed for the same term of office as the Board itself. In addition to the committee members, other Board members may participate in committee meetings, if they so wish. The purpose of the Board's committees is to prepare matters to be put before the Board for its decision. The committees have no decision-making authority of their own.

The Audit Committee

The Board of Directors appoints an Audit Committee to assist it in its work. The Board appoints from among its members at least three members to the Committee. These members shall have the qualifications necessary to perform the responsibilities of the Audit Committee.

The Board defines the duties of the Audit Committee in the charter confirmed for the Committee. The Audit Committee monitors the reporting process of financial statements, supervises the financial reporting process, and monitors the efficiency of the internal control, internal audit and risk management systems. Furthermore, the Committee reviews the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, monitors the statutory audit of the financial statements

and consolidated financial statements, evaluates the independence of the statutory audit firm, and prepares the proposal for resolution on the election of the auditor.

The Chairman of the Audit Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and regularly reports to the Board on the Committee's meetings.

Audit Committee in 2013

Chairman Markus Rauramo, members Maarit Aarni-Sirviö and Alexander Ehrnrooth. All members are independent of the company and two members are independent of significant shareholders. The Audit Committee met 5 times in 2013. The average attendance of all Committee members was 100%.

The Nomination Committee

The Board of Directors appoints a Nomination Committee to assist it in its work. The Board appoints at least three of its members to serve on the Committee. The majority of the members of the Committee shall be independent of the company.

The Board defines the duties of the Nomination Committee in the charter confirmed for the Committee. The Committee communicates, as necessary, with major shareholders in matters concerning the appointment of the Board of Directors. The Nomination Committee can also, as necessary, prepare proposals to be put before the General Meeting concerning the appointment of Board members. The Nomination Committee prepares matters concerning the remuneration that applies to Board members.

The Chairman of the Nomination Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and regularly reports to the Board on the Committee's meetings.

Nomination Committee in 2013

Chairman Mikael Lilius, members Kaj-Gustaf Bergh and Matti Vuoria. All members are independent of the company and two are independent of significant shareholders. The Nomination Committee met 2 times in 2013. The average attendance of all Committee members was 100%.

The Remuneration Committee

The Board appoints a Remuneration Committee to assist it in its work. The Board appoints at least three of its members to sit on the Committee. The majority of the members of the Committee shall be independent of the company.

The Board defines the duties of the Remuneration Committee in the charter confirmed for the Committee. The Remuneration Committee prepares, as necessary, matters concerning the nomination of the President and CEO, the CEO's deputy and other board of management members to be put before the Board. The Committee prepares proposals to be put before the Board of Directors concerning the incentive schemes and remuneration that apply to the President and CEO and the Board of Management members.

The Chairman of the Remuneration Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and regularly reports to the Board on the Committee's meetings.

Remuneration Committee in 2013

Chairman Mikael Lilius, members Paul Ehrnrooth and Matti Vuoria. All members are independent of the company and two are independent of significant shareholders. The Remuneration Committee met 2 times in 2013. The average attendance of all Committee members was 100%.

Board member committee meeting participation in 2013

	Audit Committee	Nomination Committee	Remuneration Committee
Mikael Lilius	-	2	2
Kaj-Gustaf Bergh	-	2	-
Maarit Aarni-Sirviö	5	-	-
Sune Carlsson	-	-	-
Alexander Ehrnrooth	5	-	-
Paul Ehrnrooth	-	-	2
Gunilla Nordström	-	-	-
Markus Rauramo	5	-	-
Matti Vuoria	-	2	2
Until 7 March 2013			
Lars Josefsson	1	-	-

Board of Management

The company's Board of Management comprises eight members: the President & CEO, the Senior Executive Vice President heading the Ship Power business, the Executive Vice Presidents heading the Power Plants and Services businesses, the Chief Financial Officer, and the Executive Vice Presidents heading the Communications & Branding, the Corporate Relations & Legal Affairs and Human Resources functions. Board of Management members are appointed by the company's Board of Directors, which also approves their remuneration and other terms of employment.

The Board of Management is chaired by the President & CEO. It considers strategic issues related to the Group and its businesses, as well as investments, product policy, the Group's structure and corporate steering systems, and it supervises the company's operations.

The Chief Financial Officer's main areas of responsibility include group control, treasury (including project and customer financing), taxation and process development, corporate planning, corporate real estate, and the information management support functions. The Executive Vice Presidents heading the businesses are each responsible for the sales volumes and profitability of their respective global businesses, employing the services of the Group's worldwide subsidiaries. The main areas of responsibility of the Executive Vice President, Corporate Relations & Legal are corporate relations and legal affairs, intellectual asset management and sustainability, as well as environmental and occupational health and safety. The Executive Vice President, Human Resources is responsible for people related processes. The main areas of responsibility of the Executive Vice President, Communications & Branding are external and internal communications, as well as branding. Information on the members of the Board of Management, their areas of responsibility and holdings can be found in the section [Board of Management CVs](#) and in the full [Governance statement](#).

The Board of Management in 2013

In 2013, the Board of Management met 14 times. The main issues addressed by the Board of Management included market development and business strategy, the growth and profitability of the company, as well as issues relating to developments regarding competitiveness and costs. Another focus area has been the further development of Wärtsilä's organisational structure and the implementation of organisational changes. The development of markets, the regulatory operating environment, order intake and production capacity, as well as supplier and other stakeholder relationships were also important matters addressed by the Board of Management. Other important considerations for the Board of Management included the development of the company's personnel and management resources worldwide. The Board of Management gave considerable attention to the integration of the acquired Hamworthy plc.

The President & CEO and the Senior Executive Vice President

The Board of Directors appoints a President for the Group who is also its Chief Executive Officer. The President & CEO is in charge of the day-to-day management of the company and its administration, in accordance with the company's Articles of Association, the Finnish Companies Act, and the instructions of the Board of Directors. He is assisted in this work by the Board of Management. The President & CEO's service terms and conditions are specified in writing in his service contract. The President & CEO of the company is Mr Björn Rosengren. The deputy to the President & CEO is Mr Jaakko Eskola, Senior Executive Vice President, Ship Power, following the retirement of the former deputy, Chief Financial Officer Mr Raimo Lind, on 31 July 2013.

Board of Management CVs

Björn Rosengren



President & CEO of Wärtsilä Corporation since 2011. Born 1959, M.Sc. (Tech.). Joined the company in 2011.

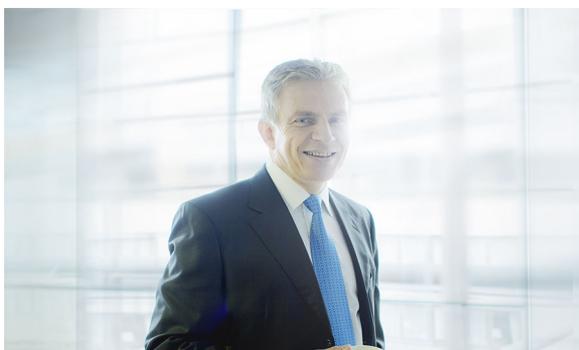
Primary working experience

Senior Executive Vice President Atlas Copco AB and Business Area President for Construction and Mining Technique 2002-2011; President of the Atlas Copco Rock Drilling Equipment division 2001-2002; President of the Atlas Copco Craelius division 1998-2001; GM of Nordhydraulic, Nordwin AB, Sweden 1995-1998; Various positions within ESAB Group 1985-1995.

Positions of trust

Danfoss A/S, Denmark, Member of the board.

Jaakko Eskola



Senior Executive Vice President and Deputy to the CEO since 2013. President, Ship Power since 2006. Born 1958, M.Sc. (Eng.). Joined the company in 1998.

Primary working experience

Wärtsilä Corporation, Vice President, Power Plants Sales & Marketing 2005-2006; Wärtsilä Development & Financial Services Oy, President 1998-2005; PCA Corporate Finance, Executive Director 1997-1998; National Banking Group, various managerial positions in international project finance 1986-1997; Industrialization Fund of Finland, Corporate Analyst 1984-1986; VTT Technical Research Centre of Finland, Researcher 1983-1984.

Positions of trust

ALMACO Group, Member of the Board; Finnish Marine Industries Association, Chairman of the Board.

Relevant prior positions of trust

European Marine Equipment Council (EMEC), President, 2008-2011.

Pierpaolo Barbone



President, Services & Executive Vice President since 1 October 2013. Born 1957, M.Sc. (Eng.). Joined the company in 1996.

Primary working experience

Wärtsilä Corporation, Vice President Services, South Europe & Africa January-September 2013; Wärtsilä Corporation, Vice President Services, Middle East & Asia 2010-2013; Wärtsilä Italia S.p.A., Executive Vice President 2000-2003; Ciserv Group, President 2001-2006; Wärtsilä Corporation, Vice President Field Service 1997-2009; Wärtsilä Italia S.p.A., Vice President Services 1997-2003; Fincantieri C.N.I. S.p.A., Isotta Fraschini diesel engines business unit, Sales manager 1989-1996.

Päivi Castrén



Executive Vice President, Human Resources since 2012. Born 1958, M.Sc. (Soc. Sc.). Joined the company in 2005.

Primary working experience

Wärtsilä Corporation, Vice President, Human Resources 2005-2011; Nokia Corporation, Director, Human Resources, Nokia Finland 2002-2005; Nokia Networks, HR Director 2000-2002; Nokia Networks, Networks Systems division, HR Director 1999-2000; Nokia Networks, HR manager 1995-1998; Valmet Paper Machinery, HR manager 1988-1995.

Positions of trust

Confederation of Finnish Industries, EK, Chairman of the Committee of Education, Work and Employment; Confederation of Technology Industries, Chairman of the Committee of Education and Employment; Wilhelm Wahlforss Foundation, Chairman of the Board; AinoActive Oy, Member of the Board.

Kari Hietanen



Executive Vice President, Corporate Relations and Legal Affairs since 2012, Company Secretary since 2002. Born 1963, LL.M. Joined the company in 1989.

Primary working experience

Executive Vice President, Human Resources and Legal Affairs, 2002-2011; Wärtsilä Power Divisions, Group General Counsel 2000-2002; Wärtsilä Diesel Group, General Counsel 1994-1999; Metra Corporation and Wärtsilä Diesel Group, Legal Counsel 1989-1994;

Positions of trust

German-Finnish Chamber of Commerce and Finnish-Korean Trade Association, Deputy Chairman of the Boards; East Office of Finnish Industries Ltd, Member of the Board; Confederation of Finnish Industries, Chairman of the Trade Policy Committee.

Atte Palomäki



Executive Vice President, Communications & Branding since 2008. Born 1965, M.Sc. (Pol.). Joined the company in 2008.

Primary working experience

Nordea Bank AB (publ.), Group chief press officer 2007-2008, Chief communication officer, Finland 2005-2006; Kauppalehti, Senior business correspondent 2002-2005; MTV3, Senior economic correspondent 2000-2002, News producer 1995-2000 and News anchor 1993-1995.

Positions of trust

Talentum Oyj, Member of the Board; Finnfacts, Member of the Advisory Board.

Vesa Riihimäki



President, Power Plants & Executive Vice President since 2009. Born 1966, M.Sc. (Eng.). Joined the company in 1992.

Primary working experience

Vice President, Power Plant Technology 2004-2009; General Manager, Electrical & Automation Systems 2002-2003; Wärtsilä Finland Oy, Design Manager Power Generation Systems 2000-2002, Wärtsilä NSD Finland Oy, Design Manager, Electrical Systems 1997-2000; Chief Design Engineer, Projects 1993-1997 and Wärtsilä Diesel Oy, Design Engineer, Projects 1992-1993.

Marco Wirén



Executive Vice President and Chief Financial Officer since 1 August 2013. Born 1966, M.Sc. (Econ.). Joined the company in 2013.

Primary working experience

SSAB, Executive Vice President and CFO 2008-2013; SSAB, Vice President Business control 2007-2008; Eitel Networks, CFO and VP Business Development 2002-2007; NCC, VP Business Development and Group Controller 1995-2001.

Lars Hellberg

President, PowerTech & Executive Vice President until 30 September 2013.

Raimo Lind

CFO, Senior Vice President and Deputy to the CEO until 31 July 2013.

Christoph Vitzthum

President, Services & Executive Vice President until 30 September 2013.

Corporate Management

The company's Corporate Management includes, in addition to the Board of Management, the following directors responsible for corporate functions:

Riitta Hovi

Deputy General Counsel, Corporate Legal Affairs
Born 1960, LL.M. MBA

Anu Hämäläinen

Vice President, Group Control
Born 1965, M.Sc. (Econ.)

Philip Maguire

Vice President, Group Quality
Born 1957, B.Sc. (Hons) in Electrical and Electronic Engineering

Johan Jägerroos

Vice President, Corporate Internal Audit
Born 1965, M.Sc. (Econ.)

Esa Kivineva

Chief Information Officer (CIO)
Born 1961, Ph.D. (Eng.)

Markus Pietikäinen

Vice President, Group Treasury & Financial Services
Born 1975, M.Sc. (Econ.)

Business Management teams

Each business head is supported by a Business Management team.

Power Plants

Vesa Riihimäki

President, Power Plants & Executive Vice President
Born 1966, M.Sc. (Eng.)

Tore Björkman

Vice President, Sales, Europe and Africa
Born 1957, B.Sc. (Mech. Eng.)

Minna Blomqvist

Vice President, Human Resources
Born 1969, M.Sc. (Eng.)

Frank Donnelly

Vice President, Sales, Americas
Born 1953, B.Sc. (Math.)

Jussi Heikkinen

Vice President, Marketing & Business Development
Born 1955, M.Sc. (Energy and Power Plant Technology)

Thomas Hägglund

Vice President, Power Plant Technology
Born 1962, M.Sc. (Eng.)

Antti Kämi

Vice President, Project Management
Born 1964, M.Sc. (Civil Eng.)

Caj Malmsten

Vice President, Finance & Business Control
Born 1972, M.Sc. (Econ.)

Markus Pietikäinen

Vice President, Group Treasury & Financial Services
Born 1975, M.Sc. (Econ.)

Rakesh Sarin

Vice President, Sales, Middle East and Asia
Born 1955, B.Sc. (Chemical Eng.)

Laura Susi-Gamba

Vice President, Legal Affairs
Born 1963, LL.M.

Niklas Åberg

Vice President, Quality Management
Born 1967, M.Sc. (Eng.)

Ship Power

Jaakko Eskola

President, Ship Power & Senior Executive Vice President and Deputy to the CEO
Born 1958, M.Sc. (Eng.)

Lars Anderson

Vice President, 4-stroke until 31 August 2013
Born 1968, B.Sc. (Mech. Eng.), MBA

Arjen Berends

Vice President, Finance & Control
Born 1968, MBA

Aaron Bresnahan

Vice President, Ship Power Sales
Born 1969, MBA & MA (Strategic Studies)

Per Hansson

Vice President, Strategy
Born 1967, M.Sc. (Eng.)

Roger Holm

Senior Vice President, 4-stroke as of 1 September 2013
Born 1972, M.Sc. (Econ.)

Sinikka Ilveskoski

Vice President, Legal & Contract Management
Born 1967, LL.M.

Timo Koponen

Vice President, Flow & Gas Solutions
Born 1969, M.Sc. (Econ.)

Juha Kytölä

Vice President, Environmental Solutions
Born 1964, M.Sc. (Eng.)

Arto Lehtinen

Vice President, Propulsion
Born 1971, M.Sc. (Eng.)

Magnus Miemois

Vice President, Solutions
Born 1970, M.Sc. (Eng.)

Minna Rahkamaa

Vice President, Human Resources as of 28 February 2013
Born 1968, M.Sc. (Econ.)

Mikael Simelius

Vice President, Marketing
Born 1964, M.Sc. (Econ.)

Martin Wernli

Vice President, 2-stroke
Born 1960, J.D. Attorney at Law

Services

Pierpaolo Barbone

President, Services & Executive Vice President as of 1 October 2013
Vice President, Area South Europe & Africa until 31 October 2013
Born 1957, M.Sc. (Min. Eng.)

Fred van Beers

Vice President, Area North Europe
Born 1962, B.Sc. (Merchant Eng.), B.Sc./BBA (BtB Marketing)

Peter Bjurs

Vice President, Finance
Born 1965, M.Sc. (Econ.)

Javier Cavada

Vice President, South Europe & Africa as of 1 November 2013
Born 1975, Ph.D. (Eng.)

Stefan Fant

Vice President, Contract and Project Management
Born 1955, B.Sc. (Mech.)

Tomas Hakala

Vice President, Area Americas
Born 1968, B.Sc. (Mech.)

Roger Holm

Vice President, Seals & Bearings until 31 August 2013
Born 1972, M.Sc. (Econ.)

Christer Kantola

Vice President, Solutions Management
Born 1952, B.Sc. (Mech.)

Michel Kubbinga

Vice President, Area Middle East & Asia
Born 1960, M.Sc. (Eng.)

Ralf Lindbäck

Vice President, Legal Affairs
Born 1958, LL.M.

Stefan Nysjö

Vice President, Delivery Management
Born 1970, B.Sc. (Mech.)

Philip Maguire

Vice President, Wärtsilä Group Quality
Born 1957, B.Sc. (Hons) in Electrical and Electronic Engineering

Nelli Paasikivi

Vice President, Strategy, QEHS & Operational Development
Born 1968, M.Sc. (Energy)

Sini Spets

Vice President, Human Resources
Born 1974, M.Sc. (Psychology)

PowerTech

Roger Holm

Head of PowerTech as of 1 October 2013
Senior Vice President, 4-stroke, Ship Power
Born 1972, M.Sc. (Econ.)

Hannu Mäntymaa

Vice President, Wärtsilä Operational Excellence
Born 1977, M.Sc. (Eng.)

Paolo Tonon

Vice President, Research & Development
Born 1970, M.Sc. (Eng.)

Sergio Razeto

Vice President, Product Centre 4-Stroke
Born 1950, M.Sc. (Eng.)

Stefan Damlin

Vice President, Finance & Business Development
Born 1968, M.Sc. (Econ.)

Kai Kamila

Vice President, Human Resources
Born 1960, M.Ed.

In the latter part of 2013 Wärtsilä initiated steps to integrate PowerTech into Ship Power's 4-stroke organisation. The new organisational set up became effective in the beginning of 2014.

Managing Directors of the subsidiaries

The Managing Directors of the Group's subsidiaries are responsible for ensuring that the local resources are correctly dimensioned to meet the needs of the businesses, that the subsidiary's personnel development needs are met, that the subsidiary's operations fulfill the requirements stipulated in the Group's quality system, that these operations comply with the respective country's legal requirements and with good business practice, and that communication in the subsidiary is conducted according to the targets of the Group.

Insider management

Wärtsilä complies with the legal provisions applying to the management of insiders, as well as the Guidelines for Insiders approved by NASDAQ OMX Helsinki Exchange for public listed companies and the stipulations and guidelines of the Finnish Financial Supervision Authority.

Wärtsilä's permanent insiders comprise the statutory insiders, i.e. the Board of Directors, the President & CEO, the Deputy to the CEO, the Principal Auditor, as well as the members of the Board of Management.

Certain members of the Corporate Management and other employees, as required by their duties, also belong to the company's own non-public insider register. When significant projects are at the preparation stage, the company also draws up insider registers for the projects concerned. Insiders are given written notification of their status as insiders as well as instructions on the obligations that apply to insiders.

The company's insiders are not permitted to trade in the company's shares for 14 days (however Wärtsilä recommends 30 days) prior to publication of the interim reports or the annual financial statements bulletin.

Wärtsilä's insider register is maintained by the parent company's legal affairs function, which is responsible for keeping the information updated. Information on the interests and holdings of the company's permanent insiders and related parties is available on Wärtsilä's website.

Audit

Internal

The Group's internal audit is handled by its Internal Audit unit, which reports to the President and CEO. The purpose of the Internal Audit is to analyse the company's operations and processes, as well as the effectiveness and quality of its supervision mechanisms. The internal auditor also participates, if necessary, in audits undertaken in conjunction with acquisitions and carries out special tasks when needed.

The Internal Audit function covers all of the company's organisational levels and subsidiaries. An internal audit is undertaken in the main subsidiaries on an annual basis, and in network companies at 3-year intervals. The Internal Audit function prepares an annual plan under which they independently audit different parts of the company, but it is also empowered to carry out special audits. The annual plan is approved by the Audit Committee, to which the Internal Audit function also reports at regular intervals. If required, the auditors also have the possibility to take direct contact with the Audit Committee or members of the Board of Directors.

External

The company has one auditor, which shall be an auditing firm authorised by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting to audit the accounts for the ongoing financial year, and its duties cease at the close of the subsequent Annual General Meeting. The auditor is responsible for auditing the consolidated and parent company financial statements and accounting records, and the administration of the parent company.

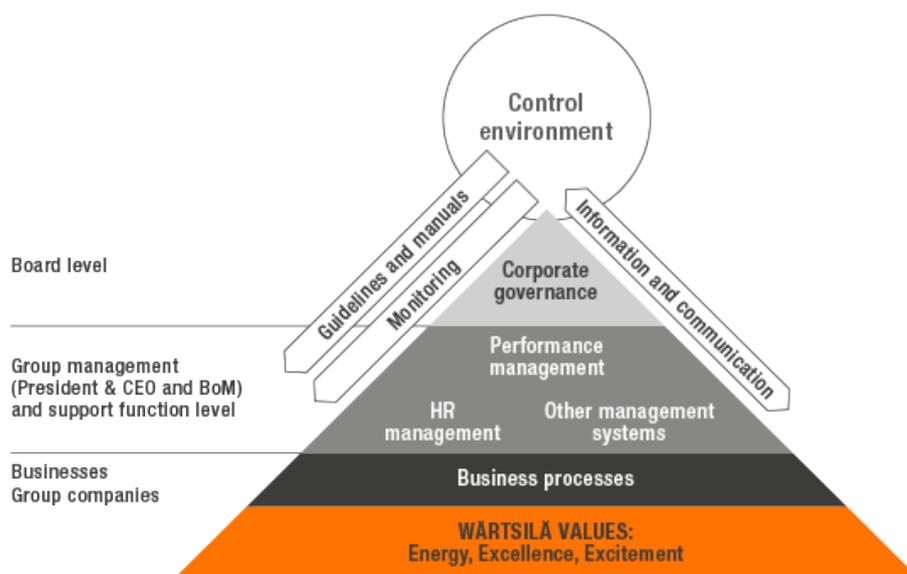
Following the closing of the annual accounts, the external auditor submits the statutory auditor's report to the company's shareholders and reports regularly also its findings to the Board of Directors' Audit Committee. An auditor, in addition to fulfilling general competency requirements, must also comply with certain legal independence requirements guaranteeing the execution of an independent and reliable audit.

Auditor in 2013

The Annual General Meeting appointed the firm of public auditors, KPMG Oy Ab, as Wärtsilä Corporation's auditor for the year 2013. The lead partner was Virpi Halonen. Auditing fees paid to all the auditors of the Group companies amounted to EUR 2.7 million in 2013. Consultancy fees unrelated to auditing duties paid to the auditors totalled EUR 1.5 million. These latter fees mainly concerned consultation on taxation matters.

Internal control

Main components of Wärtsilä's internal control



Wärtsilä has defined its objectives for internal control according to the international COSO framework. Wärtsilä defines internal control as a process implemented by Wärtsilä's Board of Directors, the Management, the Boards of Directors of Group companies, and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives.

Internal control covers all the policies, processes, procedures and organisational structures within Wärtsilä that help management, and ultimately the Board, to ensure that Wärtsilä is achieving its objectives, that the business conduct is ethical and in compliance with all applicable laws and regulations, that the company's assets, including its brand, are safeguarded, and that its financial reporting is correct. Internal control is not a separate process or set of activities, but is embedded within Wärtsilä's operations.

The system of internal control operates at all levels of Wärtsilä. Wärtsilä maintains and develops its internal control system with the ultimate aim of improving its business performance and, at the same time, of complying with laws and regulations in countries where it operates.

Performance management

Planning and target setting, an integral part of performance management in Wärtsilä, is a regular management activity and not part of Wärtsilä's internal control system. The establishment of objectives, however, is an important pre-requisite for internal control. Through the performance management process, financial and non-financial targets are set for Wärtsilä annually at the Group level. These Group level targets are then translated into targets for the Businesses, Group Companies, and eventually individuals.

The achievement of the annual targets is followed up through monthly management reporting. The performance of the Businesses and the achievement of the annual targets are reviewed on a monthly basis in the respective Management team meetings. The performance and the achievement of the targets of the Group and of the different Businesses are reviewed on a monthly basis by the Board of Management. The respective management teams and the Board of Management also address the reliability of Wärtsilä's financial reporting.

Wärtsilä's financial reporting is carried out in a harmonised way in all major Group Companies, using a single instance ERP system and a common chart of accounts. The International Financial Reporting Standards (IFRS) are applied throughout the entire Group. Wärtsilä's finance and control process is essential for the functioning of internal control. Adequate controls in the financial management and accounting processes are needed to ensure the reliability of financial reporting.

The Board of Directors regularly assesses the adequacy and effectiveness of Wärtsilä's internal controls and risk management. It is also responsible for ensuring that the internal control of accounting and financial administration is arranged appropriately. The Audit Committee of Wärtsilä Corporation's Board of Directors is responsible for overseeing the financial reporting process. The Group Finance & Control function is responsible for notifying relevant levels of management regarding deviations from plans, analysing the underlying reasons, and suggesting corrective actions. Group Finance & Control supports the Businesses in decision-making and analysis to ensure the attainment of financial targets. It maintains and develops the company's performance management processes, so that the management at different levels of the organisation is able to receive timely, reliable and adequate information regarding the achievement of the organisation's objectives. In addition, it is responsible for developing the financial reporting processes and respective controls.

Legal and compliance management

Legal and compliance management practices and processes occupy a central role in Wärtsilä's system of internal control. It is Wärtsilä's policy to act in accordance with the applicable laws and regulations in all countries where it operates.

Legal and compliance management acts predominantly in a proactive manner. Legal Affairs supports the President & CEO and the divisions in analysing and making decisions on matters involving contract policy, risk management and regulatory considerations. Another key activity is to lead compliance management and strengthen and ensure the culture of appropriate conduct and behaviour, both internally and in external business transactions. Compliance management is based on the Code of Conduct and relevant group level policies and directives. Company-wide control mechanisms and processes are a part of the overall internal control system.

HR management

Human resource management practices and processes play an active role in Wärtsilä's system of internal control. Wärtsilä's key human resource management processes with respect to internal control are compensation and benefits, HR development, recruitment and resourcing management, individual performance management, as well as processes for collecting employee feedback. The HR function is

responsible for maintaining and developing Wärtsilä's HR processes to enable effective internal control, also at the individual level.

Other management systems

The Board of Management is responsible for developing and implementing Wärtsilä's management system, continuously improving its performance, and ensuring that it operates effectively. The Wärtsilä management system covers all global processes and management procedures within Wärtsilä related to fulfilling customer requirements. The proper functioning of the management system highlighted below ensures, for their part, the attainment of Wärtsilä's internal control objectives.

Quality

The quality of Wärtsilä's solutions, and thus also quality management, is a top priority for Wärtsilä. Compliance with Wärtsilä's Quality Management System ISO 9001:2000 is compulsory throughout the Group, and compliance with the system is rigorously monitored.

Sustainability

Wärtsilä is strongly committed to sustainability. Wärtsilä's vision, mission and values, together with a solid financial performance, form the basis for sustainable development within Wärtsilä. Furthermore, significant attention is paid to the social and environmental sustainability of Wärtsilä's operations. Environmental, and occupational health and safety management systems, are in use globally to further develop performance.

Risk management

Internal control within Wärtsilä is designed to support the company in achieving its targets. The risks related to the achievement of targets need to be identified and evaluated in order for them to be managed. Thus, the identification and assessment of risks is a pre-requisite for internal control within Wärtsilä. Wärtsilä's internal control mechanisms and procedures provide management assurance that the risk management actions are carried out as planned.

Wärtsilä has defined and implemented entity level and process level control activities, as well as information system controls. Control activities at different levels are needed to directly mitigate risks at the respective levels. Wärtsilä's risk management processes consist of Group-wide risk assessment and management processes, as well as project-specific risk assessments and project risk management. The Group-wide risk assessment process results in the creation of action plans for the identified and prioritised risks.

Each Business reports its main risks to the Board of Management of Wärtsilä, which also follows up the execution of the defined risk management action plans on a regular basis. The Board of Directors of Wärtsilä Corporation is responsible for defining the Group's overall level of risk tolerance, and for ensuring that Wärtsilä has adequate tools and resources for managing risks. The President & CEO, with the assistance of the Board of Management, is responsible for organising and ensuring risk management in all of Wärtsilä's operations. Business management is responsible for defining action plans for managing the most important risks.

Wärtsilä's most important strategic, operative and financial risks can be found in the [Risks and risk management section](#).

Information management

Information management plays a key role in Wärtsilä's internal control system. Information systems are critical for effective internal control as many of the control activities are programmed controls.

Values and the control environment

The foundation of Wärtsilä's internal control system is its values: Energy, Excellence and Excitement. Wärtsilä's values are reflected in its day-to-day relations with its suppliers, customers and investors, and also in Wärtsilä's internal guidelines, policies, manuals, processes and practices. The control environment sets the tone for internal control in Wärtsilä, influencing the control awareness of its people. It provides discipline and structure for all the other components of internal control. The elements of Wärtsilä's control environment are included in the corporate culture, the integrity, ethical values and competence of Wärtsilä's personnel, as well as the attention and direction provided to the personnel by the Board of Directors of Wärtsilä. Wärtsilä's values and control environment provide Wärtsilä's Board of Directors and Management the basis for reasonable assurance regarding the achievement of the objectives for internal control. The President & CEO and the Board of Management define Wärtsilä's values and ethical principles (reflected in the Code of Conduct), and set an example for the corporate culture, which together create the basis for the control environment. They are, together with Business management, responsible for communicating Wärtsilä's values to the organisation.

Business processes

The controls embedded in Wärtsilä's business processes have a key role in ensuring effective internal control in the company. Controls in the business processes help ensure the achievement of all the objectives of internal control within Wärtsilä, especially those related to the efficiency of operations and safeguarding the company's profitability and reputation. Business management is responsible for ensuring that in their area of responsibility, the defined Group level processes and controls are implemented and complied with. Where no Group level processes and controls exist, Business management is responsible for ensuring that efficient Business level processes with adequate controls have been described and implemented.

Guidelines and communication

Guidelines and manuals

The components of Wärtsilä's internal control system, including for example, corporate governance, the management system, the performance management process, as well as the business and other processes, are described in various guidelines and manuals. The key Group level policies and guidelines are compiled in Wärtsilä's Corporate Manual. Wärtsilä's Group level Accounting Manual contains instructions and guidance on accounting and financial reporting to be applied in all Wärtsilä Group companies. The manual supports the achievement of the objectives regarding the reliability of Wärtsilä's financial reporting. Wärtsilä's Group level policies, and any changes to them, shall be approved by a member of the Board of Management.

In addition to the Group level guidelines and manuals, the Businesses have issued related guidelines and instructions for their own, specific purposes. The Business level guidelines and manuals are aligned with, and do not contradict, the Group level guidelines and manuals.

Information and communication

An effective internal control system needs sufficient, timely and reliable information to enable the management to assess achievement of the company's objectives. Both financial and non-financial information is needed, relating to both internal and external events and activities. Informal means by which employees can provide feedback to management, and to communicate suspected misconduct (e.g. directly to the Compliance, Legal Affairs or Internal Audit function) are used. All external communications are carried out in accordance with the Group Communications Policy.

Monitoring

Monitoring is a process that assesses the quality of Wärtsilä's system of internal control and its performance over time. Monitoring within Wärtsilä is performed both on an ongoing basis, and through separate evaluations that include internal, external and quality audits. Business management is responsible for ensuring that relevant laws and regulations are complied with in their respective responsibility areas. Wärtsilä's management in turn performs monitoring as part of its regular supervisory activities. The Audit Committee of the Board of Directors assesses and assures the adequacy and effectiveness of Wärtsilä's internal controls and risk management.

The Internal Audit function assists the Audit Committee in assessing and assuring the adequacy and effectiveness of Wärtsilä's internal controls and risk management by performing regular audits of Group legal entities and support functions according to its annual plan. Wärtsilä's external auditor and other assurance providers, such as quality auditors, conduct evaluations of Wärtsilä's internal controls. The Group Finance & Control function oversees the financial reporting processes and controls to ensure that they are being followed. It also monitors the correctness of all external and internal financial reporting. The Legal and compliance function monitors the adherence to the compliance policies of the group. The external auditors verify the correctness of the external annual financial reports.

Salary and remuneration report 2013

Remuneration of the Board of Directors

The Annual General Meeting decides annually on the fees to be paid to the members of the Board of Directors for one term of office at a time.

The Annual General Meeting approved the following fees to the members of the Board of Directors for 2013:

- to the ordinary members EUR 60,000/year
- to the deputy chairman EUR 90,000/year
- to the chairman EUR 120,000/year

Roughly 40% of the annual fee is paid in Wärtsilä shares. In addition, each member will be paid EUR 400/board meeting attended, the chairman's meeting fee being double this amount. Each member of the Nomination Committee and the Remuneration Committee will be paid EUR 500/committee meeting attended and each member of the Audit Committee will be paid EUR 1,000/committee meeting attended, the chairman's meeting fee being double these amounts. The nine members of Wärtsilä's Board of Directors

were paid altogether EUR 702,500.00 for the financial period that ended on 31 December 2013. The Board's members were not covered by the company's incentive schemes.

Fees paid to the Board of Directors (thousands of euros)

Board of Directors	Attendance fees		Yearly fees		Total	
	2013	2012	2013	2012	2013	2012
Mikael Lilius, Chairman	12	18	120	120	132	138
Kaj-Gustaf Bergh, Deputy Chairman	6	10	90	60	96	70
Maarit Aarni-Sirviö	8	8	60	60	68	71
Sune Carlsson	4	0	60	0	64	0
Alexander Ehrnrooth	9	11	60	60	69	71
Paul Ehrnrooth	6	8	60	60	66	68
Gunilla Nordström	4	2	60	60	64	62
Markus Rauramo	14	17	60	60	74	77
Matti Vuoria	6	8	60	90	66	98
Until 7 March 2013						
Lars Josefsson	2	10	0	60	2	70

Fees paid in Wärtsilä shares in 2013

Board of Directors	No. of shares
Mikael Lilius, Chairman	1 281
Kaj-Gustaf Bergh, Deputy Chairman	960
Maarit Aarni-Sirviö	640
Sune Carlsson	640
Alexander Ehrnrooth	640
Paul Ehrnrooth	640
Gunilla Nordström	640
Markus Rauramo	640
Matti Vuoria	640

Board of Directors' share ownership in Wärtsilä on 31 December 2013

Board of Directors	No. of shares
Mikael Lilius, Chairman	14 451
Change in 2013	1 281
Kaj-Gustaf Bergh, Deputy Chairman	6 742
Change in 2013	960
Maarit Aarni-Sirviö	7 830
Change in 2013	640
Sune Carlsson	640
Change in 2013	640
Alexander Ehrnrooth	3 854
Change in 2013	640
Paul Ehrnrooth	3 828
Change in 2013	640
Paul Ehrnrooth, through controlled corporations	730 000
Change in 2013	0

Gunilla Nordström	1 443
Change in 2013	640
Markus Rauramo	2 554
Change in 2013	640
Matti Vuoria	12 026
Change in 2013	640

Remuneration of the President & CEO and the Board of Management

The remuneration paid to the President & CEO and other members of the Board of Management, and the principles underlying it, are determined by the Board of Directors. The remuneration paid to the President & CEO and to the other members of the Board of Management consists of a monthly salary and a bonus. The Board of Directors determines on a yearly basis the terms for the bonus payment. The bonus payments for the President & CEO and the Board of Management are paid based on the achievement of the company's profitability and other financial targets for the financial year. The variable salary can be at most 43% of the maximum total salary for the President & CEO and one third of the maximum total salary for the other members of the Board of Management. Additionally, the Group has a long-term incentive scheme for senior management tied to the development of the company's share price.

The President & CEO is eligible to take retirement upon reaching the age of sixty. His pension scheme is determined according to a defined contribution based system. The retirement pension contribution is a relative part of his annual salary. Remuneration paid to the President & CEO if dismissed by the company corresponds to 18 months' salary plus a six months' period of notice salary.

The members of the Board of Management have a company specific pension scheme. The optional retirement age of certain Board of Management members is sixty years. Additional pension schemes are based on the retirement scheme of the national social security system to which the person in question belongs and is either defined benefit or defined contribution based.

Financial benefits of President & CEO Björn Rosengren:

- Salary and other short term benefits 2013: EUR 660 thousand
- Bonuses 2013: EUR 300 thousand
- Bonus schemes based on share price development: 138 thousand
- Optional retirement age: 60
- Period of notice: 6 months
- Compensation paid if dismissed by the company: 18 months' salary + 6 months' period of notice salary

Further information on Board of Management remuneration can be found in the Consolidated Financial Statements, [Note 27 Related party disclosures](#).

Board of Management's share ownership in Wärtsilä on 31 December 2013

Board of Management	No. of shares
Björn Rosengren	6 000
Change in 2013	0
Jaakko Eskola	0
Change in 2013	0
Pierpaolo Barbone	0

Change in 2013	0
Päivi Castrén	0
Change in 2013	0
Kari Hietanen	144
Change in 2013	0
Atte Palomäki	600
Change in 2013	0
Vesa Riihimäki	0
Change in 2013	0
Marco Wirén	0
Change in 2013	0

Monthly updated information on shares held by the President & CEO and other members of the Board of Management can be found on Wärtsilä's website at www.wartsila.com.

Incentive schemes

The Board of Directors determines the incentive schemes for the President & CEO and other members of the Board of Management and the principles underlying them. The Board of Directors also decides on other possible long-term incentive schemes for senior management, unless they are by law determined by the Annual General Meeting. The Board of Management decides on bonus schemes for other directors and managers.

Short-term management incentive schemes

The Group operates a bonus scheme, which is implemented globally in all Businesses. The bonus is based on the Group's profitability and agreed personal targets. Close to 2,000 directors and managers are covered by this bonus scheme.

The Group's white- and blue-collar employees are covered by various bonus or profit-based incentive schemes. These are applied in each country according to that country's legislation, or to agreements concerning profit-sharing schemes. All in all, some 65% of the company's employees are covered by the Group's bonus schemes and various other profit-related incentive schemes.

Long-term incentive scheme

The Board of Directors has decided on a long-term bonus scheme for senior management tied to the development of the company's share. The yearly bonus scheme applies to approximately 100 directors. The size of the bonus is based on the share price development during a pre-determined timeframe, and an upper limit is set for the bonus. The bonus scheme takes into account 50% of the dividends paid.

The 2010 bonus scheme came to a close at the end of 2012 and was paid in April 2013.

The 2011 bonus scheme comprises 1,765,250 bonus rights. The bonus payment is based on the share price development during a three-year period on the basis of a share price of EUR 23.34. The bonus cannot exceed EUR 10.00 per bonus right and it takes into account 50% of dividends paid. The 2011 bonus scheme will be due for payment in February 2015. Members of the Board of Management are obliged to use one third of the possible bonus payment to acquire Wärtsilä shares.

The 2012 bonus scheme comprises 1,979,000 bonus rights. The bonus payment is based on the share price development during a three-year period on the basis of a share price of EUR 33.28. The bonus cannot exceed EUR 10.00 per bonus right and it takes into account 50% of dividends paid. The 2012 bonus scheme

will be due for payment in February 2016. Members of the Board of Management are obliged to use one third of the possible bonus payment to acquire Wärtsilä shares.

Risks and risk management

Wärtsilä, such as any company, is exposed to risk through the normal course of its activities. No business can be conducted without accepting a certain level of risk, and any expected gain from a business activity is to be assessed against the risk that activity involves.

The purpose of risk management is to ensure that we are able to effectively execute our strategy and to reach our targets, in the short term as well as over the long run. The key is to identify the risks that have the potential to restrain us from reaching our goals, and thereafter to determine whether those risks are within the limits of our risk appetite. In any case, actions need to be taken to avoid, mitigate, transfer, or to purely monitor the risk. For this purpose our structured risk management process offers a set of reactive, proactive, protective, and preventive tools that are used not only to protect us against threats, but also to turn some of the risks into opportunities.

Risks can only be managed if they are identified and understood in advance, and plans have been made to manage them. Therefore, risk management is a central part of Wärtsilä's strategic and operational management.

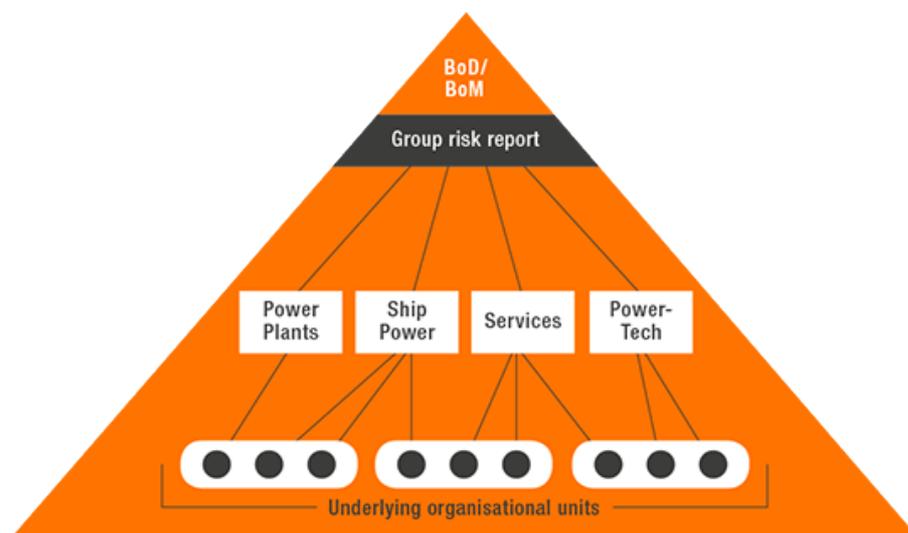
Risk management principles

Risk management at Wärtsilä is a continuous process of analysing and managing all the opportunities and threats faced by the company in its efforts to achieve its goals, and to ensure the continuity of the business. The basis for risk management is the lifecycle quality of Wärtsilä's operations and products, and the continuous, systematic, loss-prevention efforts at all levels of the Group based on the principle "everybody is responsible". In the long-term this is the only way to reduce the total risk related costs.

The Board of Directors and the Board of Management decide and give guidelines on strategic matters. The Businesses are responsible for achieving their set strategic goals and for mitigating and managing their risks. The Corporate Risk Management function is part of Group Treasury, which reports to the CFO. The function is responsible for the risk reporting process and conducting risk assessments with the Businesses, as well as with their underlying organisation. It co-ordinates risk management activities within the Group, reviews the business risk profile, prepares the risk management policy, and co-operates with the Businesses in the implementation of risk mitigation work. Furthermore, it develops and manages global and local insurance schemes for insurable risks.

The Audit Committee reviews and assesses the adequacy of this risk management. The Internal Audit function is responsible for reviewing the risk management process on an annual basis.

Risk reporting



Risk mitigation actions are decided in the normal course of business. At its meetings, the Board of Management conducts annual Management Reviews for each Business, including their risks and risk mitigation. The risk maps of the Group and all Businesses are then presented within the Finance Management Review prior to the budgeting round in the autumn.

The risks are identified as being either internal or external, they are quantified in euro, and their probabilities are estimated. The Group risk report is then prepared and presented to the Board of Directors.

Risk management is part of the Businesses' management process and risk management has been integrated into the Business Management teams' agenda. The Businesses are accountable for organising and reporting on risk management from their underlying geographical business areas, business lines and product centres. All follow-up actions are also the Businesses' responsibility.

Risk categories

Wärtsilä defines risk as the effect of uncertainty on our objectives. A failure to capitalise upon an opportunity is also recognised as a potential risk. The magnitude of a risk is determined based on the combination of the probability and the loss exposure of the occurrence. The relevant risks for Wärtsilä have been classified under four categories: strategic, operational, hazard, and financial risks. The outcome or potential loss expectancy is highest with strategic and operational risks and lowest with hazard and financial risks.

Risk radars are used to map the primary risks within the risk categories. Through annual risk assessment workshops between the Businesses and the Corporate Risk Management function, Business specific risk radars are generated for the use and evaluation of the Business Management teams, and are reviewed and updated on a regular basis by them. The Business specific radars are consolidated into a single Group Risk Radar, which is presented to the Board of Directors and the Audit Committee once a year. The purpose is to facilitate the discussion on risk and to give a quick overview of where priorities should lie in terms of risk management. In the next chapters Wärtsilä's current strategic, operational, and hazard risks are discussed in more detail. Financial risks are presented in the notes to the financial statements, [note 31](#).

Risk radar



Strategic risks

Strategic risk assessment is part of the strategic planning process within the Group. At Wärtsilä, strategic risks are defined as being such that they have a potential for imposing a long-term impact on the business.

Business environment risks

The business cycles in the global economy, and in customers' industries, influence the demand for Wärtsilä's products, as well as our financial condition and operating result. The flexible multi-product manufacturing model based on capacity outsourcing, together with a stable business mix with a large share of sales deriving from Services, brings Wärtsilä certain stability in a cyclical market. Important economic matters that indirectly affect Wärtsilä, its clients, and suppliers include inter alia, the liquidity and solvency of financial institutions - and thus not only their capability, but also their willingness to extend credit, the counter cyclical stimulus programmes adopted by governments - especially in the power and infrastructure sectors, the enhanced activities of multilateral institutions such as the IFC, the availability of export credit schemes and guarantees, and other such factors. However, Wärtsilä's relatively large order book gives the company time to adapt to market conditions.

The implementation of environmental regulations is important for Wärtsilä's future growth potential. Therefore, possible changes in the legislation timeline and scope are actively monitored.

Market and customer risks

In the Power Plants business, lower than expected GDP growth resulted in a decline in market activity during 2013. Macro-economic volatility and significant exchange rate fluctuations in emerging market currencies caused delays in investment decisions. In general, the non-OECD markets remained more active, but in the OECD countries slow growth continued to impact demand. Power Plants has three customer segments: industrial customers, IPPs and utilities. All customer types were represented in the order intake profile, but the share of industrial customers declined compared to the long-term average. Orders were received from all geographic markets.

Market activity in the shipping and ship building industry improved during 2013. However, the business environment remains challenging, and concerns over the global economy continue to cause uncertainty. Although the merchant shipping sector in general still suffers from overcapacity, competitive newbuilding prices and the increased fuel efficiency of modern vessels supported investments in merchant vessels. Contracting in the offshore industry and in various areas of specialised tonnage remained active. The shipbuilding market is dominated by Asian yards in South Korea and China. In addition, Brazil is an important market for Wärtsilä's offshore segment. Wärtsilä is well represented in all the major shipbuilding areas and is active in all the main vessel segments. This mitigates both single customer related, and geography related risks. The Ship Power market still continues to bear some consequences of the financial crisis. This, combined with the overcapacity in the shipping markets, is currently one of the major obstacles to a full recovery.

The Services business remained stable during 2013, and its mid- and long-term activities are expected to grow in line with the development of the existing installed base, as well as with general global economic developments. However, the prevailing conditions of the marine market segment continue to be challenging. Wärtsilä has more than ten thousand individual customers engaging in service and spare part sales annually, and the current active engine base is 182,000 MW. Thanks to this, dependency on any single customer or customer segment is minor.

During the last few years, Wärtsilä has increased its focus on credit management processes to better manage the increasing risks resulting from higher leverage and decreasing profitability in certain customer segments. Exposure to individual customers is limited, but an industry-wide impact might also affect the profitability of Wärtsilä's Services business.

Competitive situation and price risk

In the liquid fuels based power plant market, Wärtsilä's main competitors are MAN Diesel, Caterpillar (MAK), and Rolls-Royce. In natural gas based power generation, the main competitors are gas turbine manufacturers, such as GE and Siemens. During the first half of 2013, the overall market size of the natural gas and liquid fuel based power plants declined significantly. In this challenging market environment, Wärtsilä's market share increased to 5.8%. Wärtsilä's success in the market can be attributed to its flexible power generation solution, which can be used in a wide range of different applications and power plant sizes.

For Ship Power, price competition has continued to be intense. The competitive landscape remained largely unchanged in 2013. The most significant competitors in main engines markets are MAN Diesel, Caterpillar (MAK), and Hyundai Heavy Industries (HiMSEN). Wärtsilä has a strong position in medium-speed engines with a 52% market share in 2013. In low-speed and auxiliary engines Wärtsilä's market share was 10% and 4% respectively. In propulsion equipment, the competition is more fragmented and varies by product category. One of the main competitors for these products is Rolls-Royce. In environmental solutions, as well as in flow and gas products, the markets are very fragmented. Alfa Laval is one of the competitors in these product areas. The concept of selling packaged solutions, rather than only single products, reduces price volatility. The strategic move to becoming a systems integrator with automation and ship design capability has proven to be very important in the competition for new projects with larger and more value-added

scopes. However, larger projects may increase variations in business volume, depending on the timing of the projects.

In the Services business, Wärtsilä has no direct competitors capable of offering a similar portfolio of services from a single source. Excluding the networks of other engine manufacturers, there are few global players in the service market. Increased pressure on operating expenditure, especially in the marine merchant sector, can lead to a further increase in competition for service in that particular segment. Price competition continues to be present, especially among specific customer groups and application types. The size of this group has, however, not changed to any large degree.

Political and legislative risks

Wärtsilä is present in over 200 locations in nearly 70 countries and has delivered power plants to more than 169 countries. Political developments and changes in legislation can have a significant impact on Wärtsilä's business. Wärtsilä actively monitors political and legal developments in its markets, and engages in dialogue with various official bodies on projects of importance to Wärtsilä's operations. Much of this engagement takes place through interest groups and trade organisations. The company monitors political and legislative changes at both the corporate and subsidiary levels.

Climate change and sustainability risks

Wärtsilä has assessed its sustainability risks, including climate change risks, in both its strategic and operative risk assessments. However, the risks were not found to be significant. The potential business risks related to sustainability, climate change, and Wärtsilä's products are in the areas of regulatory emission restrictions and changes in customer attitudes to using combustion engines and fossil fuels. The risks in environmental legislation changes are related to the complexity of the overall field of different emissions, the balance between commercially available fuels and resulting emissions, available abatement technologies, the impact on overall energy efficiency, and the resulting financial feasibility of the various alternative ways to meet regulatory demands.

Being at the forefront of technological developments mitigates sustainability risks and gives Wärtsilä many opportunities arising from tightening environmental regulations. Over the years, Wärtsilä has worked continuously to improve the efficiency of its products while at the same time seeking ways to reduce emissions. The fuel flexibility of Wärtsilä's products enables the utilisation of various fuels, including gas and those from renewable sources, while their operational flexibility enables the installation of large capacity based wind and solar energy systems without hampering the reliability of the electricity grid. Wärtsilä's technology also enables energy to be generated with a minimum use of water. The lack of fresh water is expected to be one of the major challenges facing the world in the future. In shipping, Wärtsilä can reduce the carbon footprint of vessels through optimised ship design, and optimal propulsion solutions. Environmental Solutions offer alternative technologies to reduce SOx emissions and to treat waste and ballast water. In Power Plants, Wärtsilä's Smart Power Generation concept supports the increase in low carbon power generation, including wind, solar and natural gas fired plants. Wärtsilä offers several retrofit solutions for the after-sales market to reduce emissions and to increase fuel efficiency.

For more information, please see the separate [Sustainability report](#) included in this annual report.

Technology risks

Wärtsilä aims to increase the competitiveness of its solutions through solid R&D work and innovation. New products are developed based on Wärtsilä's strategic view of optimising lifecycle value for its customers with modern and sustainable power solutions and efficiency through, for example, environmental technologies, ship design, and electrical & automation solutions. As a technology leader, Wärtsilä also needs to maintain

the cost competitiveness of its products and places high emphasis on product efficiency and emissions control.

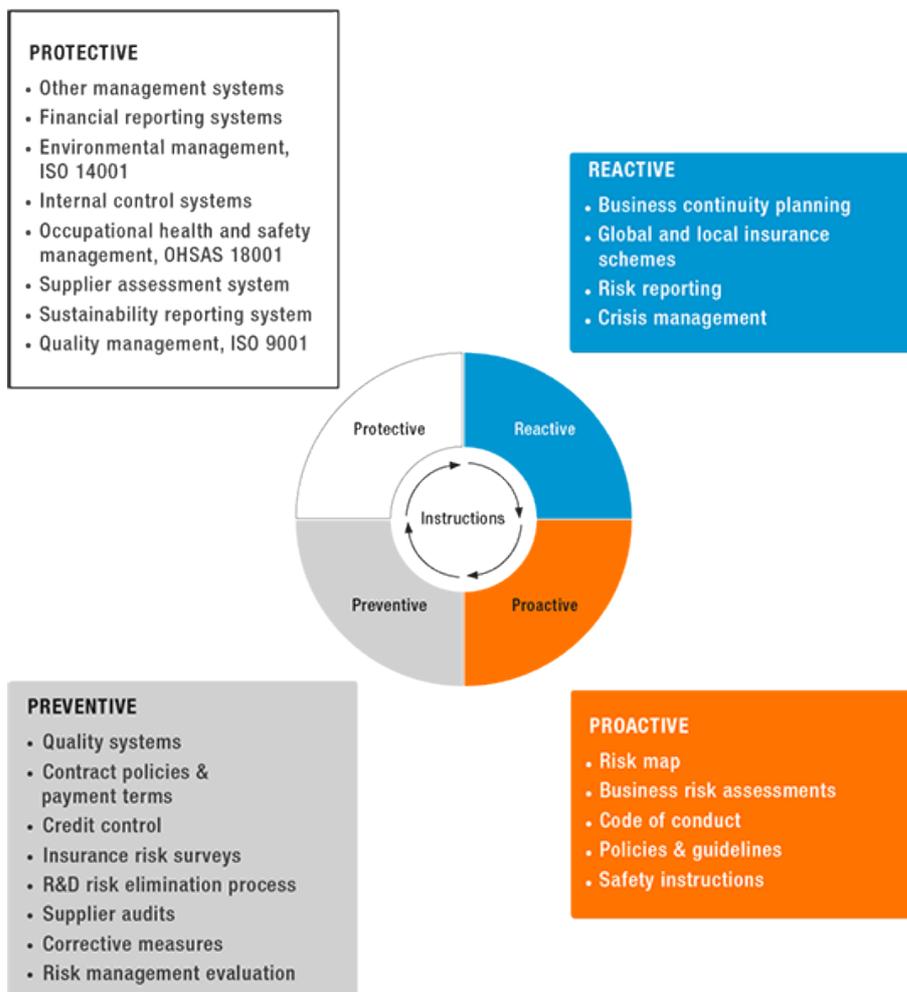
Operations, risks and opportunities



Operational risks

Operational risk management is part of the daily work of the Businesses. Opportunities and risks are identified, assessed, and managed on a daily basis and reported to, and managed by, the appropriate management level. On a periodic basis the status of the opportunities and risks are reviewed and appropriate further actions taken.

Risk management process



Manufacturing risk

Risk assessments have been made for all the main delivery centres, and significant safety and risk mitigation investments have been completed. Wärtsilä utilises management systems for quality, environmental, occupational health and safety, and other systems to improve productivity and safety. Wärtsilä has implemented business continuity plans for its key delivery centres. Wärtsilä constantly analyses its manufacturing footprint and capacity costs, including the supply chain.

Supplier and subcontractor risk

The centralised Wärtsilä Supply Management (WSM) function is responsible for all strategic sourcing activities. Within that responsibility, WSM manages and controls Wärtsilä’s supplier network to verify that the suppliers’ performance meet Wärtsilä’s expectations. Supplier performance is, therefore, also continuously measured. A key activity in managing business continuity planning is the continuous assessment of business interruption risks, which is made in co-operation with our suppliers. Several supplier risk audits have been completed jointly with the insurer as one means of mitigating risk. These audits are now part of the regular work for the WSM and Risk Management functions. To further mitigate risks, a comprehensive follow-up of suppliers’ creditworthiness has been established.

Wärtsilä Supply Management has developed its activities by creating close collaboration and long-term relationships with its main suppliers. Through these close relationships, WSM secures a common view with its suppliers on values and goals. These shared values and goals support Wärtsilä's management of strategic risks. In addition, WSM continues its supplier structuring programme in order to create and maintain a sustainable supplier base. As part of that programme, WSM is further developing its global sourcing activities. Furthermore, supplier related risks are also addressed by having double sourcing on key components.

Lifecycle quality of products and product liability risk

Launching new products always involves risks. In the R&D process, several risk management techniques are applied, including FMEA (Failure Modes and Effects Analysis), a risk elimination tool, and in-house validation testing. Wärtsilä seeks to control quality risks by monitoring the incoming quality from the supply chain, and by designing and manufacturing products with all due care. Wärtsilä applies a GATE model in order to control the product development process. First, only a limited release of new products is allowed, and via the gate approach, full release authority is given to the sales organisations only after testing and further validation has been completed. The 5S (meaning sort, shine, set, standardise and sustain) philosophy is implemented in all production sites to increase quality and to support lean operations.

Services is responsible for supporting the customers in all warranty issues, and offers a feedback loop from the field to production and R&D while taking care of customers' installations throughout their lifecycle. The company makes warranty provisions to cover any costs that may arise after product delivery. The product liability insurance covers unexpected damages.

Wärtsilä seeks to continuously improve the quality of its products and services through adoption of best industry practice and good governance, supported by a solid facts base. Leadership at all levels is responsible for the quality of output from their organisations, and is accountable for ensuring that appropriate review and feedback mechanisms are in place. The centralised Wärtsilä Quality function is responsible for co-ordinating quality activities across the businesses, and for ensuring that senior governance mechanisms are in place and effective.

Contractual risks

Wärtsilä's non-service sales consist of projects and equipment supply deliveries of various sizes. The most substantial orders concern turnkey power plants. However, in relation to the total volume of business, the risks from individual projects do not reach significant levels. The lifecycle quality of the products and work, from the initial design, throughout all stages of the production process, to the eventual field service work, plus the use of standard sales contracts including the establishment of a contract review process, together reduce the risk of product liability claims.

For Services, the target is to sign long-term service agreements aimed at keeping the customer's investment productive throughout its lifetime. This enables the customer to focus on his core business while Wärtsilä ensures optimal performance of the installation. Reliable performance and risk management are identified as key needs of our customers. An essential part of a service agreement is adequate preparation prior to the operational phase of the installation, including the recruitment and training of personnel, purchasing of safety stock and tools, establishment of the operational infrastructure, maintenance routines, and occupational health and safety systems. The target is to prevent the unexpected and to ensure cost efficiency and smooth operations for both the customers and Wärtsilä as the service provider.

Risk of non-compliance, corruption and fraud

Wärtsilä complies with the law and its own internal regulations everywhere the company does business. Wärtsilä's Code of Conduct is the key guideline for all employees globally. Wärtsilä is committed to high

ethical standards and integrity in its Businesses, preventing corruption, and violations of the principles set forth in the Code of Conduct, as well as in Wärtsilä's Anti-Corruption and Compliance Reporting policies. Compliance processes are embedded in all of the Businesses, and the responsibility for compliance and awareness of ethics and integrity is that of all Wärtsilä employees.

Wärtsilä is fully committed to compliance with the anti-corruption laws and statutes. Wärtsilä's Anti-Corruption Policy absolutely forbids any kind of corruption and bribery, and the top-management of the company has a zero-tolerance policy regarding corruption and fraud.

The Compliance function promotes Group wide compliance and continuously strives to raise awareness of the risk of corruption and bribery and other misconduct. It is primarily responsible for creating and enforcing Group level policies and procedures, training programmes, compliance investigations, managing the consequences of misconduct and reporting. Continuous development of Wärtsilä's compliance programme and nurturing the company's commendable ethical culture are pivotal tasks for the Compliance function. Moreover, Compliance supports and co-operates with the Businesses and other corporate functions in their risk management efforts.

While Wärtsilä is aware of the risk of being subject to fraud by external business parties, and that the risk of corruption and fraud is heightened in many markets where the company operates, Wärtsilä maintains its highly ethical practices at all times. Full compliance with its stringent anti-corruption regime, including policies to prevent the corruption and bribery risk of third parties, is demanded by Wärtsilä.

Commodity price risk

Oil

The direct effect of oil price changes on Wärtsilä's production is limited, with their impact being mainly demand related. Higher oil prices represent a risk for global economic growth and increase operating costs, especially in the shipping markets. However, they also stimulate investments in exploration and production for oil and gas, both on land and offshore. Furthermore, high oil prices increase investments in gas carriers, gas based power plants and, increasingly, also in gas fuelled vessels. Low oil prices can delay investment decisions in oil producing countries and regions. Wärtsilä is a global company involved in different shipping and power plant segments where oil price changes can have an opposite impact on demand drivers. This position is further diversified by the increasing importance of natural gas in Wärtsilä's business.

Metals

Metal prices have an indirect effect on the component costs of our products. Furthermore, some key components are sourced with long-term contracts, and thus raw material price volatility is limited.

Electricity

Electricity prices have no substantial impact on Wärtsilä's production costs. In the Power Plants business, high electricity prices support investments in new capacity from utility customers. Lower grid electricity prices do not favour industrial customers' investments in their own generating capacity.

Hazard risks

Occupational health and safety systems, travel safety instructions, and crises management guidelines are aimed at protecting Wärtsilä employees. Appropriate insurances are in place for the personnel, and to emphasise the importance of employee safety, the Board of Management has decided on a corporate level target for zero lost time injuries. A specific Zero Injury project exists for this purpose, and the target is a part of the company's sustainability programme.

Environmental management systems are in place to mitigate environmental hazard risks.

Wärtsilä's Real Estate unit maintains a register of all properties used and gives guidelines for the purchase, sale, rental and security of premises and uses external advisors for environmental audits.

None of Wärtsilä's major production plants are situated in natural disaster areas. Catastrophic peril related scenarios are identified, and where necessary, exposures are mitigated by, for example, elevating sites above the flood risk level or by constructing flood dikes.

For Wärtsilä's main production sites, business impact analyses have been conducted and continuity plans created to cover both property and business interruption risks.

The risks that Wärtsilä is unable to influence through its own efforts are transferred whenever possible to insurance companies. Wärtsilä uses appropriate insurance policies to cover indemnity risks related to its personnel, assets, and business interruptions, including supplier triggered interruptions, as well as third-party and product liability.

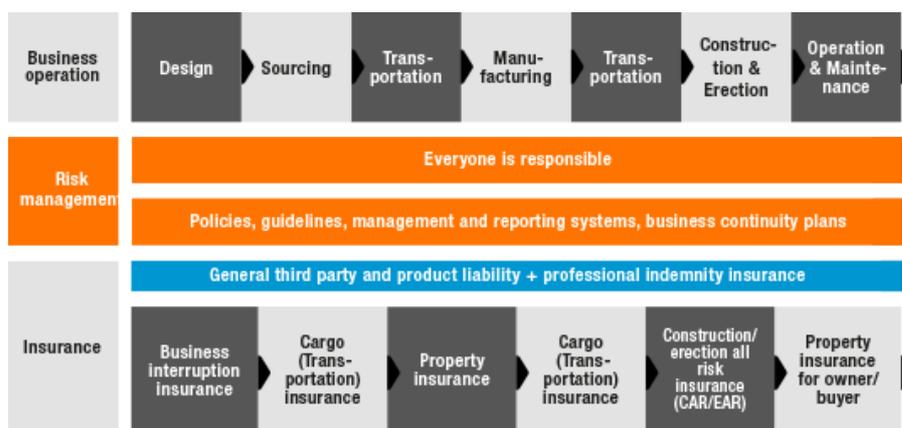
Wärtsilä has established its own captive insurance company, Vulcan Insurance PCC Ltd, as a risk management tool.

Information & cyber security related risks

Information security risks are continuously identified and mitigation activities have been executed in network security, endpoint protection, and access risk management. The Wärtsilä Security Operations Centre (SOC) and vulnerability scanning capabilities for cyber security threats have been established in 2013. The focus will move towards improving common information security capabilities, such as enabling the use of mobile and cloud technology, continuity, and information risk management for corporate applications.

Cyber security risks are extensively assessed, and it appears that information and automation system related risks have exceeded the physical and personnel risks. Therefore, a cyber security strategy has been created and will be implemented throughout the coming years. The strategy addresses both the internal operations and Wärtsilä customer deliveries.

Which insurances cover our business?



Both risk management work and property & casualty insurance cover Wärtsilä's products over their entire lifecycle.

Financial risks

Wärtsilä's financial risks are presented in the notes to the financial statements, [Note 31](#).

Wärtsilä's risk profiles & responsibilities

Risks	Risk profile	Policy or other guideline	Responsible body
Strategic risks		Wärtsilä's strategy and business plan	Wärtsilä Board of Directors (BoD), Board of Management (BoM) and Wärtsilä's Businesses (Businesses)
Business environment risk	■ ■ ■ ■ ■	Wärtsilä's strategy and business plan	BoM and Businesses
Market and customer risk	■ ■ ■ ■ ■	Wärtsilä's strategy and business plan	BoM and Businesses
Competitive situation and price risk	■ ■ ■ ■ ■	Wärtsilä's strategy and business plan	BoM and Businesses
Political and legislative risk	■ ■ ■	Various guidelines and risk management policy	Businesses, R&D, Risk management (RM) and Legal functions

Climate change and sustainability risk		QHSE policy, Code of Conduct, management systems (ISO 14001 & OHSAS 18001)	Businesses, R&D and Sustainability function
Technology risk		Patents and industrial rights, product guarantees	Businesses and R&D function
Operational risks		Wärtsilä's strategy and business plans	BoM and Businesses
Manufacturing risk		Production systems, Business Continuity Plan	Manufacturing and Businesses
Supplier and subcontractor risk		Supplier requirement and supplier management system, Business Continuity Plan	Businesses and Supply Management
Lifecycle quality of products and product liability risk		Management systems (ISO 9001), safety instruction and manuals, risk management policy, R&D risk elimination instructions	Manufacturing, R&D function, Businesses, RM and Legal functions
Contractual risks		Standard contracts	Legal function and Businesses
Commodity price risk		Production cost control	Businesses and Treasury function
Data security risk		Data security principles and Cyber Security Strategy	Businesses and IM fuction
Non-compliance risk		Code of Conduct, Anti-corruption policy, Compliance policy	Businesses and Compliance function
Hazard risks		Risk management policy and guidelines	Businesses and RM function
Personnel risk		Management system (OHSAS 18001), travel safety instructions, crises management guidelines and premises safety plans	Businesses, Human Resources (HR), RM and security functions
Natural catastrophes		Crises management guidelines, Business Continuity Plan	Businesses and RM fuction
Fire, cargo and other accidents		Management systems (ISO 14001 & OHSAS 18001), premises safety plan	Businesses, RM and Real Estate functions
Financial risks		Wärtsilä's strategy and business plans	Businesses and Treasury function
Foreign exchange risk		Treasury policy	Businesses and Treasury function
Interest rate risk		Treasury policy	Businesses and Treasury function

Liquidity and refinancing risk		Treasury policy	Businesses and Treasury function
Credit risk		Credit and Treasury policy	Businesses and Treasury function

Low      High

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Shares and shareholders

Wärtsilä Corporation's shares are listed on the NASDAQ OMX Large Cap list on the Helsinki Stock Exchange under the trading code WRT1V. At the end of the financial period 2013 Wärtsilä's total number of shares was 197,241,130 and the share capital entered in the trade register was EUR 336,002,138.50. Wärtsilä has one share series and each share entitles its holder to one vote at the General Meeting and to an equal dividend.

Key figures for the Wärtsilä share

		2013	2012	2011	2010	2009
Earnings per share (EPS)	EUR	1.98	1.72	1.44	1.96	1.97
Book value of equity per share	EUR	9.35	8.95	8.30	8.30	7.59
Dividend per share	EUR	1.05 ¹	1.00	0.90	1.38	0.88
Dividend per earnings	%	53.0	58.1	62.7	70.3	44.4
Dividend yield	%					
WRT1V		2.94	3.06	4.03	4.82	6.23
Price per earnings (P/E)						
WRT1V		18.1	19.0	15.5	14.6	7.1
Price to book-value (P/BV)						
WRT1V		3.1	3.7	2.7	3.4	1.9
Adjusted number of shares	x 1 000					
end of financial year		197 241	197 241	197 241	98 621	98 621
on average		197 241	197 241	197 241	98 621	98 621

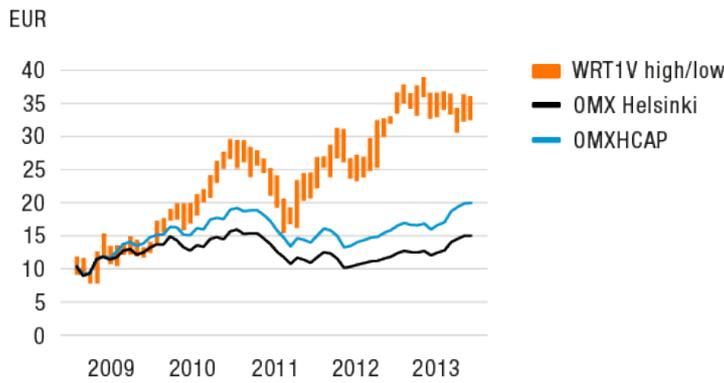
¹ Proposal of the Board of Directors.

The Wärtsilä share on the Helsinki Stock Exchange

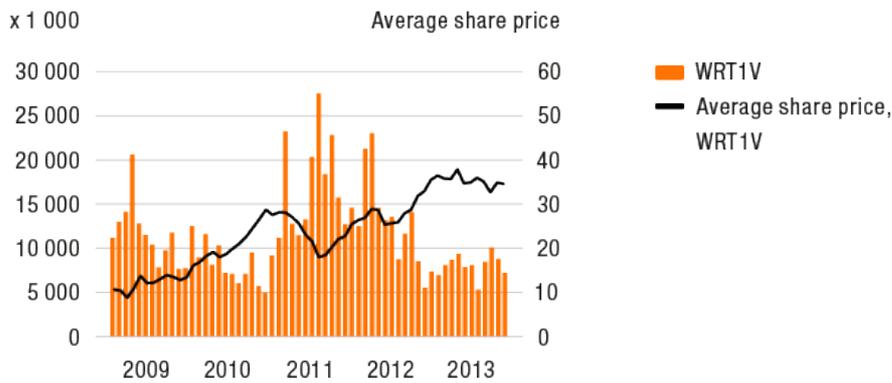
Wärtsilä's share price has increased by 6.5% during 2013, while the Nasdaq OMX Helsinki Cap index increased by 21.2%. The highest quoted price for Wärtsilä's share during the financial period was EUR 39.00 and the lowest EUR 30.66. The closing price on 31 December 2013 was EUR 35.77 and the volume weighted average price for the year was EUR 35.00. At year-end, Wärtsilä's market capitalisation was EUR 7,055 million. The volume of trades on the Nasdaq OMX exchange was 95,127,366 shares, equivalent to a turnover of EUR 3,328 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 54,651,206 shares.

Further information on share price development can be found on the Wärtsilä IR pages www.wartsila.com/investors.

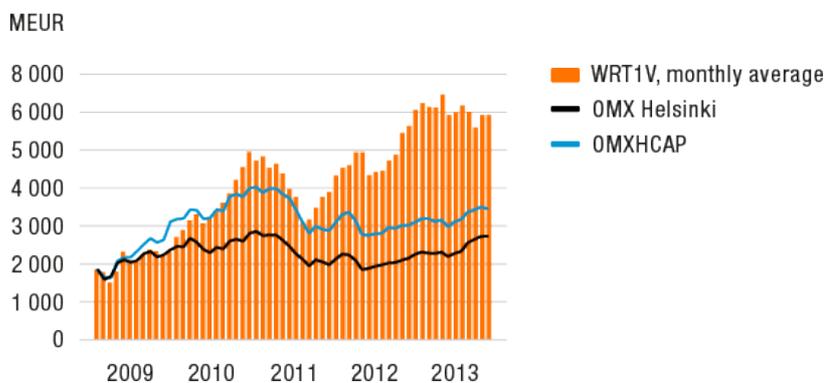
Share price development



Traded shares/month



Market capitalisation



The Wärtsilä share on the Nasdaq OMX Helsinki Stock Exchange

		2013	2012	2011	2010	2009
Trading volume	MEUR					
WRT1V		3 328.4	4 380.1	5 016.5	3 912.5	3 215.8
Number of traded	x 1 000					
WRT1V		95 127	159 853	197 186	98 076	137 102
Stock turnover	%					
WRT1V		48.2	81.0	100.0	99.4	139.0
Average share price	EUR					
WRT1V		35.00	27.31	25.44	19.93	11.73
Trading low/high	EUR					
WRT1V	low	30.66	22.30	15.50	14.10	7.91
	high	39.00	33.11	29.55	29.63	15.46
Share price at the year-end	EUR					
WRT1V		35.77	32.72	22.32	28.55	14.04
Year-end market capitalisation	MEUR	7 055	6 454	4 402	5 631	2 768

Shareholders

Wärtsilä had approximately 40,850 shareholders at the end of the financial period 2013. Foreign shareholding, including nominee-registered shares, represented 51% (52) at the end of the period, and Finnish retail investors held 21% of the share capital (21). The largest shareholders were Fiskars Corporation and Investor AB, who merged their Wärtsilä ownership into a joint venture during 2013. The total ownership of the joint company, Avlis AB, and its wholly owned subsidiary, Avlis Invest Ab, was 42,948,325 shares.

Further information concerning Wärtsilä shareholder base developments can be found on the IR pages www.wartsila.com/investors.

Ownership structure 31 December 2013



Ownership structure on 31 December 2013

Group	Number of shareholders	%	Number of shares	%
Private corporations	1 637	4.0	6 081 195	3.1
Banks and insurance companies	98	0.2	8 456 823	4.3
Public sector entities	47	0.1	21 384 321	10.8
Non-profit organisations	877	2.2	18 770 019	9.5
Households	37 875	92.7	41 439 935	21.0
Outside Finland	314	0.8	46 769 706	23.7
Nominee registered			54 339 131	27.6
Total	40 848	100.0	197 241 130	100.0

Division of shares on 31 December 2013

Number of shares	Number of shareholders	%	Number of shares	%
1-100	10 699	26.2	603 755	0.3
101-1 000	21 173	51.8	8 651 374	4.4
1 001-10 000	8 102	19.8	22 371 331	11.3
10 001-100 000	787	1.9	19 257 161	9.8
100 001-1 000 000	72	0.2	20 053 063	10.2
1 000 001-10 000 000	12	0.0	18 756 816	9.5
10 000 001-	3	0.0	53 208 499	27.0
Nominee registered			54 339 131	27.5
Total	40 848	100.0	197 241 130	100.0

Wärtsilä's 50 major shareholders on 31 December 2013, excluding nominee registered

Owner	Shares	%
1 Avlis AB	25 641 347	13.00
2 Avlis Invest AB (a subsidiary of Avlis AB)	17 306 978	8.77
3 Varma Mutual Pension Insurance Company	10 260 174	5.20
4 Ilmarinen Mutual Pension Insurance Company	3 128 914	1.59
5 Svenska Litteratursällskapet i Finland	2 743 352	1.39
6 The Social Insurance Institution of Finland	1 935 910	0.98
7 State Pension Fund	1 800 000	0.91
8 Jenny and Antti Wihuri Foundation	1 263 216	0.64
9 Kuntien eläkevakuutus	1 211 204	0.61
10 Lähitapiola Keskinäinen Eläkevakuutusyhtiö	1 200 000	0.61
11 The Finnish Cultural Foundation	1 166 989	0.59
12 Schweizerische Nationalbank	1 114 212	0.56
13 Mutual Insurance Company Eläke-Fennia	1 104 000	0.56
14 Sigrid Jusélius Foundation	1 170 900	0.54
15 Mandatum Henkivakuutusosakeyhtiö	1 018 119	0.52
16 Sijoitusrahasto Nordea Fennia	870 000	0.44
17 Op-Focus Erikoissijoitusrahasto	805 000	0.41
18 Savox Investments S.A.	730 000	0.37
19 OP-Delta Equity Fund	681 397	0.35

20 The Signe and Ane Gyllenberg foundation	674 888	0.34
21 Folketrygdfondet	669 912	0.34
22 Livsränteanstalten Hereditas	605 498	0.31
23 Samfundet Folkhälsan i Svenska Finland rf	581 948	0.30
24 Folkhälsan i Svenska Finland rf Inez och Julius Polins Fond	551 162	0.28
25 Ingman Finance Oy Ab	540 000	0.27
26 Rantanen Tuula Anneli	505 066	0.26
27 Brita Maria Renlund Foundation	500 000	0.25
28 Sijoitusrahasto Nordea Pro Suomi	452 892	0.23
29 Suomi Keskinäinen Henkivakuutusyhtiö	450 000	0.23
30 Sijoitusrahasto Aktia Capital	440 000	0.22
31 Svenska Kulturfonden i Björneborg	394 010	0.20
32 Louise och Göran Ehrnrooths Stiftelse	377 630	0.19
33 Sr Danske Invest Suomi Yhteisöosake	360 714	0.18
34 Sijoitusrahasto SEB Finlandia	342 932	0.17
35 William Thuring's Stiftelse	336 300	0.17
36 Ella and Georg Ehrnrooth Foundation	333 280	0.17
37 Blåberg Olli Edvard	320 000	0.16
38 Von Fieandt Johan	308 492	0.16
39 Åbo Akademi Foundation	301 110	0.15
40 Fromond Elsa	300 956	0.15
41 Folkhälsans Forskningsstiftelse - Kansanterveyden tutkimussäätiö	299 286	0.15
42 Sr Danske Invest Suomi Osake	282 191	0.14
43 Stockmann Marita	271 226	0.14
44 Tallberg Carl Johan	260 581	0.13
45 Nordea Nordenfonden	246 643	0.13
46 Sijoitusrahasto Seligson & Co	246 330	0.12
47 Odin Finland	232 780	0.12
48 Blomberg Anne-Sofie Marie	221 266	0.11
49 Relander Harald	200 000	0.10
50 Keskinäinen Vakuutusyhtiö Kaleva	188 853	0.10
Total	86 847 659	44.03

Changes in ownership – flagging notifications

During 2013, Wärtsilä was informed of the following changes in ownership:

On 25 September 2013, BlackRock, Inc. decreased its holding in Wärtsilä. Following the transaction BlackRock, Inc. owned 9,824,523 shares or 4.98% of Wärtsilä's share capital and total votes.

On 7 February 2013, Wärtsilä was informed that Fiskars Corporation and Investor AB had completed the legal combination of their Wärtsilä ownership into a joint venture in accordance with a release published on 24 April 2012. At the time of the announcement, the total ownership for the joint company, Avlis AB, and its wholly owned subsidiary, Avlis Invest AB (formerly Instoria AB), was 42,948,325 or 21.77% of Wärtsilä's share capital and votes. Fiskars owned 59.7% of Avlis AB and Investor 40.3%.

Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy, and the corporations under their control, owned altogether 789,368 Wärtsilä Corporation shares at the end of 2013, which represents 0.4% of the stock and voting rights.

The Board of Directors' share ownership in Wärtsilä on 31 December 2013

Authorisations granted to the Board of Directors

The Annual General Meeting, held on 7 March 2013, authorised the Board of Directors 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 8 March 2012. 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.

The Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 1.05 euro per share is to be distributed for the financial period that ended on 31 December 2013.

Wärtsilä on the capital markets

Investor Relations activities in 2013

Investor interest in Wärtsilä was high in 2013 and the IR team, consisting of Wärtsilä's CEO, CFO, IR Director and IR Officer, participated in 280 investor meetings during the year. Meetings were conducted in the Scandinavian countries, the UK, France, Germany, the Netherlands, Italy, Switzerland, Austria, and in the USA. In addition to one-on-one meetings and conference calls, several group meetings were hosted at Wärtsilä's offices in Helsinki and Vaasa, as well as in Shanghai and Kampen during the year. The IR team also participated in several investor conferences targeting institutional investors, in Finland and abroad. During the year, Wärtsilä's foreign ownership represented 51% (52) of the total shareholder base. The biggest percentage of foreign shares was held by investors in the UK and USA.

Wärtsilä's Capital Markets Day was held in November in Helsinki. Presentation topics covered the company's strategic focus areas and growth opportunities for the coming years, and the organisational changes initiated during the year. The event was well-appreciated by more than 65 institutional investors, equity analysts, and bankers in attendance. A further 100 persons participated via webcast.

Wärtsilä participated in events aimed at domestic private investors during the year, including an Investment Morning organised by the Finnish Foundation for Share Promotion, and a retail investment fair arranged by Arvopaperi. Of Wärtsilä's shareholders, approximately 21% (21) consisted of retail investors during 2013.

Wärtsilä's Investor Relations policy

The ultimate objective of Wärtsilä's Investor Relations is to produce accurate, sufficient, and up-to-date information about the development of Wärtsilä's business operations, strategy, markets, and financial position. This is to ensure that the capital markets have relevant information concerning Wärtsilä in order to determine the fair value of the company's shares. To achieve this objective, Wärtsilä publishes annually three interim reports, a financial statements bulletin, an annual report, and stock exchange releases. Furthermore, Wärtsilä's management conducts regular discussions with analysts and investors, both in Finland and abroad. Wärtsilä's web pages serve as an archive for all current and historical data on factors affecting the value of our shares.

Prospects

Guidance on Wärtsilä's prospects is published in the Financial Statements bulletin and in the Interim reports. The most recently published prospects statement is repeated in the Annual Report. The published prospects consist of the net sales and profitability (EBIT%) forecasts, which are approved by the Board of Directors. Wärtsilä does not publish quarterly result forecasts.

Should there be a change in business circumstances that could affect the prospects, Wärtsilä will publish changes to the prospects in accordance with prevailing regulations.

Analyst reports

Wärtsilä will review, upon request by an analyst, his or her earnings model or report only for factual accuracy or information that is in the public domain. Wärtsilä does not comment or take any responsibility for estimates or forecasts published by capital market representatives.

Silent period

Wärtsilä observes a three-week silent period preceding the publication of its results to prevent revealing unpublished financial information. During this period, the company's representatives do not meet with investors or analysts or comment on the company's financial position.

Disclosure policy and financial communications

Wärtsilä discloses information on its goals, financial position, and business operations in an open, timely, truthful, and systematic manner so as to enable stakeholders to form a true and fair view of the company. Wärtsilä publishes stock exchange releases, general press releases, and trade press releases. Our subsidiaries publish press releases with local relevance.

Stock exchange releases give information on news that could affect the share price. Press releases provide information on business-related news or other news of general interest to our stakeholders. Releases to the trade press provide more detailed information on our products and technologies. All stock exchange releases are published in Finnish, Swedish and English. Press releases are published in English and can also be published in Finnish and Swedish. Trade press releases are only published in English. The stock exchange releases and press releases are available on Wärtsilä's website immediately following publication.

Contacts

Relations with the company's investors and analysts are handled by IR Director Natalia Valtasaari together with the IR team. General inquiries can be sent to investor.relations@wartsila.com.

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On maternity leave:
Pauliina Tennilä
Director, Investor Relations

Wärtsilä's corporate communications and media relations are the responsibility of Atte Palomäki, Executive Vice President, Communications & Branding.

Atte Palomäki
Executive Vice President, Communications & Branding
Tel. +358 (0)10 709 5599
atte.palomaki@wartsila.com

Analysts

To our knowledge at least the following brokers and financial analysts have followed Wärtsilä's development during the last 12 months on their own initiative. They have analysed Wärtsilä and drawn up reports and comments and they are able to evaluate the company as an investment target. Wärtsilä takes no responsibility for the opinions expressed.

Company	Analyst	Contact
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Danske Bank A/S, Helsinki Branch	Antti Suttelin	antti.suttelin@danskebank.com +358 10 236 4708
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DNB Bank ASA	Christer Magnergård	christer.magnergard@dnb.no +47 22 94 82 26
Espirito Santo	Nick Wilson	nick.wilson@espiritob.co.uk +44 20 3364 6766
Evli Bank plc	Elina Riutta	elina.riutta@evli.com +358 9 4766 9204
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FIM	To be confirmed	To be confirmed
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Handelsbanken Capital Markets	Tom Skogman	tom.skogman@handelsbanken.fi +358 10 444 2752
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JPMorgan Cazenove	Glen Liddy	glen.liddy@jpmorgan.com +44 20 7134 4570
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Pareto Öhman	Jari Harjunpää	jari.harjunpaa@ohmangroup.fi +358 9 8866 6021
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Swedbank Markets	Anders Roslund	anders.roslund@swedbank.se +46 8 5859 0093
UBS Deutschland AG	Sven Weier	sven.weier@ubs.com +49 69 1369 8278

Information for shareholders

Annual General Meeting

The Annual General Meeting of Wärtsilä Corporation will take place on Thursday, 6 March 2014, beginning at 3 p.m., in the Congress Wing of the Helsinki Fair Center, address: Messuaukio 1, 00520 Helsinki, Finland.

Right to attend

Shareholders registered no later than 24 February 2014 in the company's list of shareholders maintained by Euroclear Finland Ltd have the right to attend the Annual General Meeting.

Notification of attendees

Shareholders wishing to attend the Annual General Meeting are required to inform the Company thereof no later than 4 p.m. on 3 March 2014 either by letter, e-mail, fax or telephone.

Registration:

Wärtsilä Corporation
Share Register
P.O. Box 196
FI-00531 Helsinki
Finland
Telephone: +358 10 709 5282
Between 9 a.m. and 12 p.m. (noon) on weekdays
Fax: +358 10 709 5701
E-mail: yk@wartsila.com
Internet: www.wartsila.com/agm_register

Letters, e-mails and faxes informing of participation must reach the Company before the notification period expires at 4 p.m. on 3 March 2014. Letters authorising a proxy to exercise a shareholder's voting right at the Annual General Meeting should also reach the Company before the notification period expires.

Payment of dividend

The Board of Directors proposes that a dividend of 1.05 euro per share be paid for the financial year 2013. The dividend will be paid to the shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date, which is 11 March 2014. The dividend payment date proposed by the Board is 18 March 2014.

Stock exchange releases

Wärtsilä's stock exchange releases are available in English, Finnish and Swedish on Wärtsilä's website.

Financial information 2014

Annual Report 2013

The electronic Annual Report 2013 is published in English, Finnish and Swedish at www.wartsilareports.com and is also available on Wärtsilä's website, www.wartsila.com.

Interim Reports and Financial Statements Bulletin 2014

- January-March on Thursday, 24 April 2014
- January-June on Friday, 18 July 2014
- January-September on Thursday, 23 October 2014
- Financial Statements Bulletin January-December on Thursday, 29 January 2015

Interim Reports and the Financial Statements Bulletin are available in English, Finnish and Swedish on Wärtsilä's website, www.wartsila.com.

Annual summary of stock exchange releases

24 October 2013

Wärtsilä Interim Report January-September 2013

10 October 2013

Wärtsilä's Interim Report January-September 2013 to be published 24 October 2013 at 8.30 a.m. local time

27 September 2013

Notification in accordance with the Finnish Securities Market Act Chapter 9 § 5: BlackRock, Inc. decreased holding in Wärtsilä Corporation

29 August 2013

Wärtsilä appoints Roger Holm to lead new 4-stroke organisation

18 July 2013

Correction to Wärtsilä's Interim report January-June 2013

Appointments in Wärtsilä's Board of Management

Wärtsilä Interim Report January-June 2013

4 July 2013

Wärtsilä's Interim Report January-June 2013 to be published 18 July 2013 at 8.30 a.m. local time

25 June 2013

President of PowerTech Lars Hellberg to leave Wärtsilä

16 May 2013

President of Services Christoph Vitzthum to leave Wärtsilä

18 April 2013

Interim Report January-March 2013

4 April 2013

Wärtsilä's Interim Report January-March 2013 to be published 18 April 2013 at 8.30 a.m. local time

15 March 2013

Wärtsilä to set up new manufacturing plant in Brazil

7 March 2013

Constitutive meeting of the Board of Directors of Wärtsilä Corporation

Decisions of Wärtsilä's Annual General Meeting 7 March 2013

5 March 2013

Wärtsilä has sold its stake in Sato Oyj

8 February 2013

Wärtsilä Corporation's annual report 2012 published

7 February 2013

Notification in accordance with the Finnish Securities Market Act Chapter 9 § 5: Fiskars and Investor complete the legal combination of their Wärtsilä holdings

25 January 2013

Marco Wirén appointed CFO and Executive Vice President at Wärtsilä

Notice to convene the Annual General Meeting of Wärtsilä Corporation

Financial Statements Bulletin January-December 2012

11 January 2013

Wärtsilä's Financial Statements Bulletin 2012 to be published 25 January 2013 at 8.30 a.m. local time

2 January 2013

Wärtsilä wins EUR 184 million power plant project from Jordan

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Highlights of 2013

Wärtsilä's performance in 2013 was impacted by the continued uncertainty in the global economy.

In the power plant markets, global economic policies and fluctuations in emerging market currencies delayed customer decision-making. As a result, power generation investments declined for the second consecutive year. Activity in the marine markets on the other hand improved significantly during the year. Competitive new building prices, combined with the increased fuel efficiency of modern vessels, attracted investments in the merchant segment and oil price levels sustained activity in the offshore industry. This resulted in stronger vessel contracting and a more balanced order mix compared to recent years. Due to the continued good demand for power plant related services, service markets remained stable.

Wärtsilä's order intake developed in line with its end markets, with stronger orders in Ship Power partly compensating for the weaker development in Power Plants. Group order intake declined by 1% to EUR 4,872 million. The order book at the end of the review period stood at EUR 4,426 million, a decrease of 1%. Supported by a strong fourth quarter, profitability remained resilient. However, net sales development was slightly weaker than expected due to unfavourable exchange rates and some delayed deliveries at the end of the year. Wärtsilä's full year net sales decreased by 1% to EUR 4,654 million and profitability reached 11.2%. The cash flow from operating activities developed well, increasing to EUR 578 million during the year.

During the year, Wärtsilä continued to develop its business by expanding its product offering and by strengthening its manufacturing capabilities in key emerging markets.

Net sales

MEUR	2013	2012	Change %
Power Plants	1 459	1 498	-3%
Ship Power	1 325	1 301	2%
Services	1 842	1 908	-3%
Other	28	17	
Group	4 654	4 725	-1%

Strategy

Wärtsilä aims to be the leader in complete lifecycle power solutions for the global marine markets and selected energy markets worldwide. We see growth opportunities in gas power plants as part of our Smart Power Generation concept, in gas-fuelled engines and related systems for the marine market, as well as in medium-scale LNG infrastructure development. We also seek growth in environmental solutions, including exhaust gas cleaning systems for SOx removal and ballast water management systems. Our strengths are our technological leadership, an integrated product and service offering, our close and long-standing customer relationships, and our unparalleled global presence. With our production and supply chain management we constantly seek ways to maintain cost efficiency and high quality – often in co-operation with leading industrial partners in our key growth markets. Our strong focus on R&D allows us to stay at the

forefront of technology and innovation in our industry. We are determined to capture growth opportunities within our end markets, while maintaining a solid profitability.

Wärtsilä's long-term financial target is to grow faster than global GDP and to maintain its operating profit margin between 14% at the peak of the cycle and 10% at the trough. Furthermore, the target is to maintain gearing below 50%, and to pay a dividend equivalent to 50% of earnings per share.

Strategy realisation in 2013

Although overall power plant market activity was on a lower level, there was continued demand for gas based power generation. Gas based orders represented 82% of Power Plants' order intake. Noteworthy orders included a 274 MW dual-fuel power plant from Jordan and a 220 MW natural gas fuelled power plant from Oregon, USA. In the shipping industry, the regulatory environment is driving interest in gas as a marine fuel. Ship Power received several orders for dual-fuel engines and gas handling systems, including the first order for Wärtsilä's newly launched 2-stroke, low pressure, dual-fuel engines. Upcoming emission regulations are driving activity in the environmental solutions market. Wärtsilä made good progress in receiving type approvals for its ballast water systems during 2013 and the ordering of exhaust gas cleaning systems continued.

In order to strengthen its manufacturing footprint in key emerging markets, Wärtsilä announced the set up of a new, fully-owned manufacturing facility in Brazil to meet increasing market demand, particularly in the offshore market. Wärtsilä also began construction of production facilities for Wärtsilä Yuchai Engine Co. Ltd, the company's latest joint venture in China. Wärtsilä continued to place strong emphasis on R&D activities during 2013, the key focus areas being efficiency improvement, fuel flexibility, and the reduction of environmental impact. The R&D related expenditure totalled EUR 185 million, which represents 4.0% of net sales.

Wärtsilä's performance in 2013 was largely in line with the company's long-term targets. Net sales decreased by 1%, while global GDP is estimated to have increased by 2.9%. Profitability reached 11.2%, well within the targeted range. Gearing was 0.15 and the Board of Director's proposed dividend of 1.05 euro per share represented 53% of operational earnings.

Long-term financial targets

Target	Development in 2013	Development in 2012
Net sales growth faster than global GDP	1% decline	12% growth
Operating profit margin between 10% and 14%	11.2%	10.9%
Gearing below 0.50	0.15	0.32
Dividend payment equivalent to 50% of earnings	53% ¹	58%

¹ Proposal of the Board of Directors.

Market development

Moderate activity in power generation markets

Activity in the overall power generation markets declined during 2013, as macro-economic volatility continued to cause delays in investment decisions throughout the year. Customer decision-making was further impacted by the significant exchange rate fluctuations seen in multiple emerging market currencies during the second and third quarters. Still, economic growth in the emerging markets continued to support demand for new power generation capacity. Wärtsilä's power plant quotation activity was higher in 2013 than during the previous year. Activity remained focused on natural gas based generation.

Power Plants market share

During the first half of 2013, global orders for natural gas and liquid fuel based power generation (including all prime mover units of over five MW) totalled 18.8 GW, a decrease of 35% compared to first half 2012 (28.8). Wärtsilä's share represents 5.8% of the market (4.9).

Improvement in marine market activity

During 2013, the total number of new registered vessel contracts was 2,201. Market activity improved significantly compared to 2012, when the volume for known contracts was 1,090 vessels. Ordering was active in all major vessel segments, resulting in a more evenly spread contracting mix compared to the previous year.

Counter-cyclical ordering played an important role in 2013. Competitive new building prices and the increased fuel efficiency of modern vessels attracted investments in merchant vessels. Notable activity was seen in the product tanker, LPG carrier, and large containership segments. The gas carrier market (LNG carriers and LPG carriers) recorded 158 contracts during 2013. The contracting of mobile drilling units was positive, with active ordering of jack-up rigs. Contracting activity in the anchor handling tug supply and platform supply vessel segments was lower than in recent years.

China and South Korea captured respectively 41% and 33% of the contracts confirmed during 2013 in terms of compensated gross tonnage, while Japan secured 15%.

Ship Power market shares

Wärtsilä's share of the medium-speed main engine market increased to 52% (49% at the end of the third quarter). The market share in low-speed engines remained at 10%, while in auxiliary engines the market share decreased slightly to 4% (10% and 5% respectively at the end of the third quarter).

Stable development in the service markets

During 2013, the overall service market development was stable. The pick-up in activity during the fourth quarter compensated for the slightly slower beginning of the year. The demand for power plant related services remained at a good level throughout the year, and activity was healthy especially in Africa. The overall marine service activity was satisfactory.

At the end of 2013, Wärtsilä's installed base totalled 182,000 MW. The marine installed base decreased slightly due to the scrapping of merchant vessels with 2-stroke engines. This development was compensated for by the continued increase in the 4-stroke installed base, particularly in power plant installations.

Order intake and order book

Order intake

Wärtsilä's order intake for the financial period was EUR 4,872 million (4,940), which represents a decrease of 1% compared to the corresponding period in 2012. The book-to-bill ratio was 1.05 (1.05).

The Power Plants order intake totalled EUR 1,292 million (1,515), a decrease of 15% compared to the previous year. This development is in line with the decline in the global power generation markets. 82% of the orders received, measured in MW, were for gas based power plants. In 2013, major orders were received for a 274 MW power plant from Jordan and a 220 MW power plant from Oregon, USA. Other important orders were received from Finland, Russia and Indonesia.

Ship Power's order intake increased by 14% to EUR 1,662 million (1,453), reflecting the improvement in the marine market. Ordering was active in the offshore and special tonnage segments, as well as in the merchant segment. In line with the Ship Power strategy, Wärtsilä received several orders for the delivery of integrated solutions, including ship design, propulsion machinery, automation and other equipment. The ordering of environmental solutions picked up somewhat and Wärtsilä was awarded an order for its AQUARIUS UV ballast water management system by Carboflotta Group, as well as exhaust gas cleaning system orders by TT-Line, Color Line and Messina among others. A total of 41 exhaust gas cleaning systems for 17 vessels were ordered during 2013. The interest in gas as a marine fuel continued throughout the year, and Ship Power received many orders for dual-fuel engines and gas related systems. Among these was the strategically interesting contract to supply a comprehensive solutions package, including the cargo handling system, the gas supply system, and the propulsion machinery, for a series of LNG carriers being built for the Danish operator Evergas. The order for Wärtsilä's new low-speed, low pressure dual-fuel engine to two environmentally advanced tankers was another key achievement. In the offshore segment, notable orders included supplying propulsion solutions for six new offshore pipe laying vessels being built for Subsea 7 and Seabras Sapura, as well as several orders for platform support vessels. The offshore segment represented 42% of the financial period order intake, while the merchant segment's share was 34% and cruise & ferry accounted for 8%. The special vessels segment's share was 7% and navy represented 6% of the order intake. Other orders accounted for 3%.

Services' order intake decreased by 4% to EUR 1,885 million (1,961). During 2013, Wärtsilä signed important long-term operations and maintenance agreements with power plant customers in Africa, Australia and the USA. Wärtsilä was also awarded a service agreement by Viking Line for maintaining and servicing the gas-fuelled passenger ferry Viking Grace.

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, producing auxiliary engines, totalled EUR 222 million (242) during the financial period. Wärtsilä's share of ownership in these companies is 50%, and the results are reported as a share of result of associates and joint ventures.

Order book

The total order book at the end of the financial period stood at EUR 4,426 million (4,492), a decrease of 1%. The Power Plants order book amounted to EUR 1,367 million (1,561), a decrease of 12%. The Ship Power order book stood at EUR 2,289 million (2,127), which is 8% higher than at the same date last year. The Services order book decreased by 7% to EUR 751 million (804).

Net sales and profitability

Net sales

Net sales decreased by 1% during the financial period, totalling EUR 4,654 million (4,725). The development was slightly weaker than the expected 0-5% net sales growth, mainly due to unfavourable exchange rates and some delayed deliveries during the fourth quarter. Power Plants' net sales totalled EUR 1,459 million (1,498), a decrease of 3%. Ship Power's net sales increased by 2% and totalled EUR 1,325 million (1,301). Net sales from the Services business totalled EUR 1,842 million (1,908), a decrease of 3%. The Services' sales mix saw an increase in revenues from maintenance service and long-term contracts. Of the total net sales, Power Plants accounted for 31%, Ship Power for 28% and Services for 40%.

Of Wärtsilä's net sales for January-December 2013, approximately 59% was EUR denominated, 24% USD denominated, with the remainder being split between several currencies.

Group net sales development



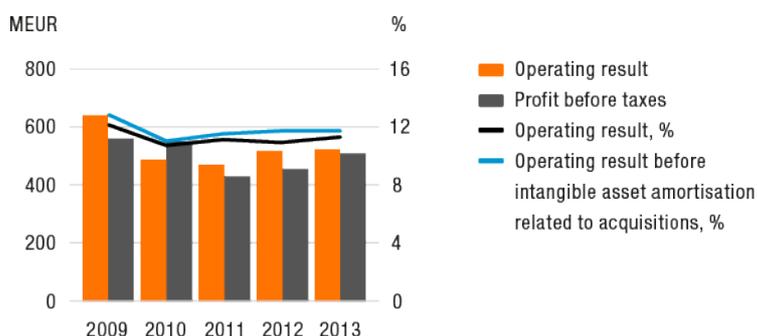
Operating result and profitability

The operating result (EBIT) before non-recurring items was EUR 520 million (517) for the financial period. This represents 11.2% of net sales (10.9), which is in line with the guidance of around 11% profitability. Joint venture profitability developed well, which had a positive impact on the Group's operating result. Including non-recurring items, the operating result was EUR 500 million (483) or 10.7% of net sales (10.2). The operating result (EBITA) excluding non-recurring items and intangible asset amortisation related to acquisitions was EUR 552 million (552) or 11.9% of net sales (11.7). During the financial period January-December 2013, Wärtsilä recognised intangible asset amortisation related to acquisitions of EUR 32 million (35) and EUR 20 million of non-recurring items (34). Non-recurring items related to restructuring measures and discontinued operations.

In March, Wärtsilä sold its holding of 1,987,940 shares in Sato Oyj, for EUR 27 million. Wärtsilä recorded a capital gain of EUR 25 million on this sale. The tax on the capital gain is EUR 6 million.

Financial items amounted to EUR -19 million (-31). Net interest totalled EUR -14 million (-18). Dividends received totalled EUR 1 million (2). Profit before taxes amounted to EUR 507 million (453). Taxes amounted to EUR 113 million (109), implying an effective tax rate of 22%. The profit for the financial period amounted to EUR 393 million (344). Earnings per share were 1.98 euro (1.72) and equity per share was 9.35 euro (8.95). Return on investment (ROI) was 21.2% (20.4). Return on equity (ROE) was 21.4% (20.1).

Result



Operating result before non-recurring items.

Balance sheet, financing and cash flow

For January-December 2013, the cash flow from operating activities was EUR 578 million (153). The improvement in cash flow is mainly due to the favourable development in working capital, which totalled EUR 313 million at the end of the period (465). Advances received at the end of the period totalled EUR 913 million (695). Cash and cash equivalents at the end of the period amounted to EUR 388 million (225).

Wärtsilä had interest-bearing debt totalling EUR 665 million (794) at the end of December 2013. The total amount of short-term debt maturing within the next 12 months was EUR 94 million. Funding programmes included Finnish Commercial Paper programmes totalling EUR 800 million, of which EUR 14 million was in use. Net interest-bearing debt totalled EUR 276 million (567).

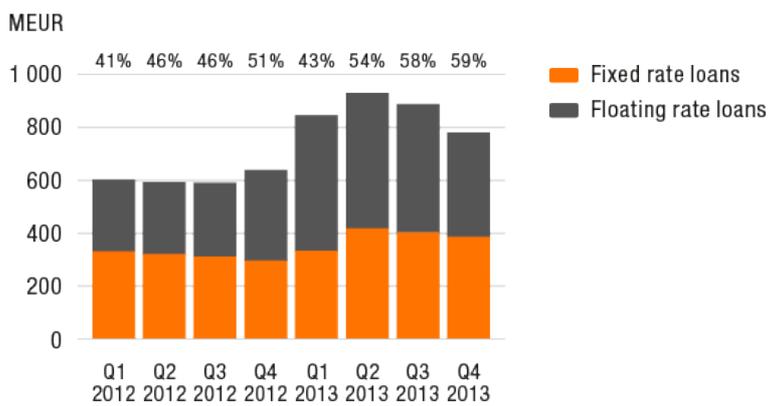
The funding programmes at the end of December 2013 included long-term loans of EUR 571 million, committed undrawn long-term loans totalling EUR 100 million, and unutilised Committed Revolving Credit Facilities totalling EUR 599 million.

The solvency ratio was 43.9% (41.3). Gearing decreased to 0.15 (0.32) as a result of good cash flow development. Key figures for the comparison period have been restated due to changes in pension accounting (IAS 19 Employee benefits). The impact is described in the IFRS amendments section.

Interest-bearing loan capital

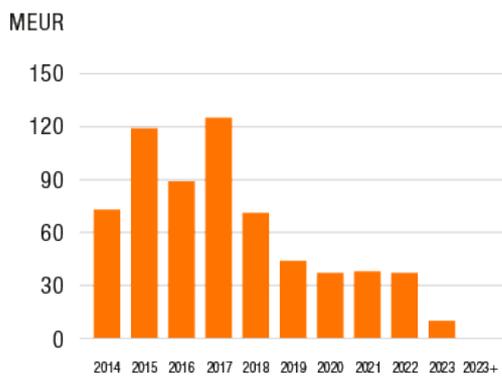
MEUR	2013	2012
Long-term liabilities	571	545
Current liabilities	94	249
Loan receivables	-1	-2
Cash and cash equivalents	-388	-225
Net	276	567

Loans

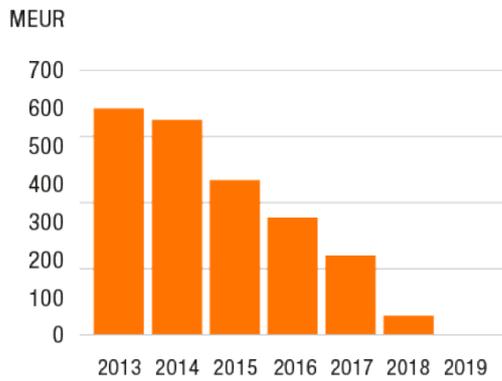


% = Fixed portion of loans (incl. derivatives).

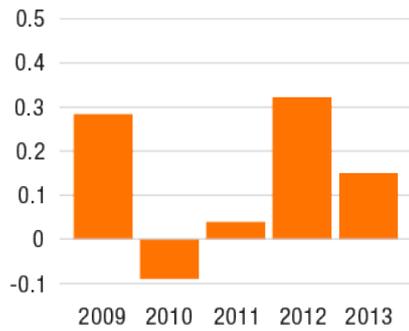
Maturity profiles of long-term loans



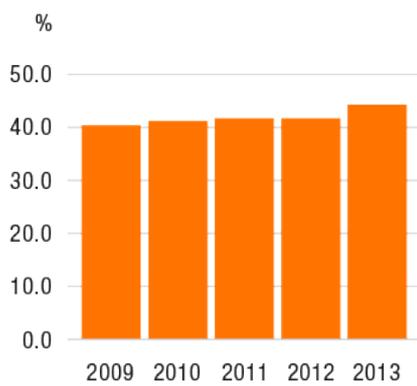
Committed revolving credit facilities (end of period)



Gearing



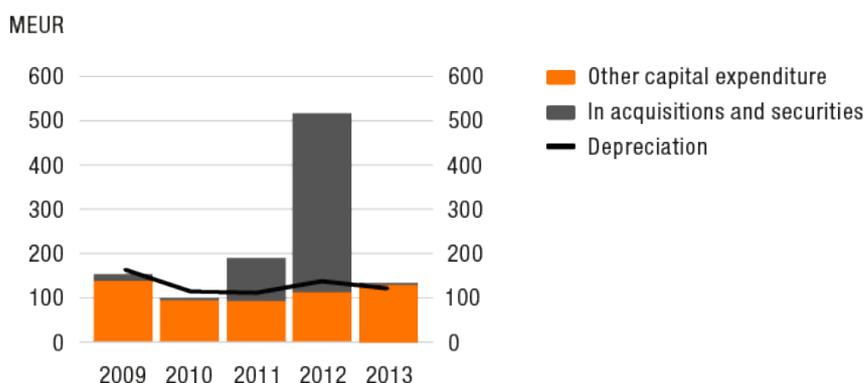
Solvency ratio



Capital expenditure

Capital expenditure for 2013 was in line with depreciation and amortisations. Gross capital expenditure in the financial period totalled EUR 134 million (513), comprising EUR 5 million (402) in acquisitions and investments in securities, and EUR 129 million (111) in intangible assets and property, plant and equipment. Investments related mainly to product development and expansion of manufacturing capacity in key emerging markets. The comparison period's gross capital expenditure includes the acquisition of Hamworthy plc. Depreciation, amortisations and impairment amounted to EUR 123 million (139).

Gross capital expenditure



Strategic projects, joint ventures and expansion of the network

Construction of the new production facilities for Wärtsilä Yuchai Engine Co. Ltd, the joint venture owned 50/50 by Wärtsilä and Yuchai Marine Power Co. Ltd, is proceeding according to plan. The company will manufacture Wärtsilä 20, Wärtsilä 26 and Wärtsilä 32 medium-speed marine engines to serve the increasingly dominant Chinese shipbuilding industry. Production is planned to begin in mid 2014.

The Wärtsilä TMH Diesel Engine Company LLC factory is expected to begin production during the first quarter of 2014.

In March, Wärtsilä announced the set up of a new, fully-owned manufacturing facility in Brazil to meet the increasing market demand, particularly in the offshore market. The manufacturing premises will be based on a multi-product factory concept for the assembly and testing of Wärtsilä's generating sets and propulsion products. In the initial phase, activities will focus on medium sized, medium-speed generating sets and steerable thrusters, with the possibility to flexibly expand the product range to respond to market needs. The value of Wärtsilä's investment is approximately EUR 20 million and the facility is scheduled to be fully operational by mid 2014.

In February, Wärtsilä continued to expand its service network by opening a new service workshop in Niterói, Rio de Janeiro, Brazil.

Research and development, product launches

Research and development

Wärtsilä continued to place strong emphasis on R&D activities during 2013, the key focus areas being efficiency improvement, fuel flexibility, and the reduction of environmental impact. The R&D related expenditure totalled EUR 185 million, which represents 4.0% of net sales.

During 2013, Wärtsilä was granted a 10-year loan totalling EUR 150 million from the European Investment Bank and a 10-year loan totalling EUR 50 million from the Nordic Investment Bank for research and development financing. With these loans, Wärtsilä will further develop its medium-speed engine technology in terms of efficiency, reliability and environmental performance, as well as for reducing lifecycle costs.

Wärtsilä currently has the widest portfolio of exhaust gas cleaning systems for the removal of SO_x, and the most extensive reference list on the market. The portfolio consists of open-loop, closed-loop, and hybrid systems. Wärtsilä has to date a total of 88 exhaust gas cleaning systems delivered or on order, for a total of 41 vessels.

Progress with regards to type approvals for ballast water management systems continues. In November, the Wärtsilä AQUARIUS UV (ultraviolet) system received United States Coast Guard Alternate Management System acceptance. In addition, Wärtsilä's AQUARIUS EC (electro-chlorination) system was granted IMO Type Approval in December.

Product launches

In December, Wärtsilä expanded its engine portfolio with two new auxiliary engines, the Wärtsilä Auxpac 16 and the Wärtsilä Auxpac 32. The new engines offer a high level of reliability and are compliant with the IMO's Tier II environmental regulations. Their launch is an important step in strengthening Wärtsilä's presence in the auxiliary engine market. Also in December, Wärtsilä launched its new 2-speed marine gearbox. The product, which will serve vessels with multiple operational modes or reduced transit speeds, offers notable economic and environmental benefits. Compared to a single mechanical propulsion system, a fuel consumption reduction of eight percent was verified with Wärtsilä's 2-speed gearbox during sea trials.

In November, Wärtsilä introduced its new low-speed dual-fuel engine technology. The benefits of this technology include capital expenditure reductions through a substantially simpler and lower cost LNG and gas handling system. Furthermore, the new engines are IMO Tier III emissions compliant in gas mode. The first engine utilising this technology, the Wärtsilä RT-flex50DF, will be available for delivery in the third quarter of 2014.

In October, Wärtsilä released its Wärtsilä 20DF dual-fuel engine for sale in the US market. The engine meets the United States Environmental Protection Agency's strict Tier 4 emissions requirements. A new series of steerable and transverse thrusters was also introduced. The new thrusters have been developed in response to changing market demand, which requires competitive products that are more efficient and that cover a wider power range. Wärtsilä also launched a new Bio Seal Ring™ product for maritime stern tube seal applications. The seal ring is the first in the market that works with environmentally acceptable lubricants for a lifetime of at least five years.

A new version of the Wärtsilä 34DF engine was launched in June. The engine offers increased power output and increased efficiency in both liquid and gas operating modes, as well as lower fuel consumption and improved environmental performance.

In March, Wärtsilä launched a unique product, the Wärtsilä GasReformer, which uses steam reforming technology to convert associated gas to a quality that can be used as fuel in Wärtsilä's range of gas fuelled engines. Traditionally such gases would be flared and wasted.

Megawatts delivered

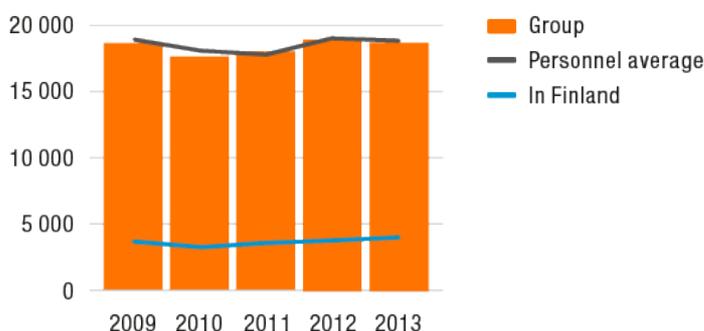
	2013	2012	Change %
Power Plants engines	2 710	3 078	-12%
Ship Power, own engines	1 777	1 701	4%
Wärtsilä total	4 487	4 778	-6%
By licensees	1 430	2 826	-49%
By joint ventures	1 135	746	52%
Engine deliveries total	7 052	8 350	-16%

Personnel

Wärtsilä had 18,663 (18,887) employees at the end of December 2013. On average, the number of personnel for January-December 2013 totalled 18,749 (18,930). Power Plants employed 1,053 (932) people. Ship Power employed 3,612 (2,139) people, Services 10,785 (11,163) and PowerTech 2,449 (3,811). The increase in the number of Ship Power employees and decrease in the number of PowerTech employees relates mainly to changes in the organisational set up, which became effective in 2012.

Of Wärtsilä's total number of employees, 20% (19) were located in Finland and 36% (36) elsewhere in Europe. Personnel employed in Asia represented 31% (32) of the total.

Personnel



Changes in the organisational structure

In August 2013, Wärtsilä announced the combination of PowerTech and Ship Power's 4-stroke organisation into a single business unit. The reorganisation is a continuation of the changes implemented in 2012. It aims to further strengthen competitiveness, and to serve customers more effectively with increased flexibility, faster decision making, and the optimal utilisation of resources. Mr Roger Holm (41), MSc (Econ.), was appointed Senior Vice President, 4-stroke, and a member of the Ship Power management team as of 1 September 2013. Holm also headed the PowerTech organisation until the changes in the organisational structure became effective on 1 January 2014.

Changes in management

Mr Pierpaolo Barbone (56) M.Sc. (Eng.) was appointed President of Services, Executive Vice President and a member of the Board of Management.

Mr Jaakko Eskola (55) M.Sc. (Eng.) was appointed Senior Executive Vice President and Deputy to the CEO. He assumed this responsibility in addition to his existing position as President of Ship Power.

Mr Marco Wirén (47), M.Sc. (Econ.), was appointed Chief Financial Officer, Executive Vice President and a member of the Board of Management.

The previous heads of Services and PowerTech, Mr Christoph Vitzthum and Mr Lars Hellberg, have left Wärtsilä to pursue careers outside the company. The previous Chief Financial Officer and Deputy to the CEO, Mr Raimo Lind, reached his contractual retirement age and retired in August 2013.

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-December 2013, the volume of trades on the Nasdaq OMX exchange was 95,127,366 shares, equivalent to a turnover of EUR 3,328 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 54,651,206 shares.

31.12.2013			Number of shares and votes	Number of shares traded 1-12/2013
WRT1V			197 241 130	95 127 366
1.1. - 31.12.2013	High	Low	Average ¹	Close
Share price	39.00	30.66	35.00	35.77
¹ Trade-weighted average price				
Market capitalisation			31.12.2013	31.12.2012
EUR million			7 055	6 454
Foreign shareholders			31.12.2013	31.12.2012
%			51.3	51.0

Flagging notifications

During the financial period, Wärtsilä was informed of the following changes in ownership:

On 25 September, BlackRock, Inc. decreased its holding in Wärtsilä. Following the transaction BlackRock Inc. owned 9,824,523 shares or 4.98% of Wärtsilä's share capital and total votes.

On 7 February, Wärtsilä was informed that Fiskars Corporation and Investor AB had completed the legal combination of their Wärtsilä ownership into a joint venture in accordance with a release published on 24 April 2012. At the time of the announcement, the total ownership for the joint company, Avlis AB, and its wholly owned subsidiary, Avlis Invest AB (formerly Instoria AB), was 42,948,325 or 21.77% of Wärtsilä's share capital and votes. Fiskars owned 59.7% of Avlis AB and Investor 40.3%.

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 7 March 2013 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 2012. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.00 per share. The dividend was paid on 19 March 2013.

The Annual General Meeting decided that the Board of Directors has nine members. The following were elected to the Board: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Sune Carlsson, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Mikael Lilius, Ms Gunilla Nordström, Mr Markus Rauramo and Mr Matti Vuoria.

The firm of public auditors KPMG Oy Ab was appointed as the company's auditor for the year 2013.

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 8 March 2012. 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, Matti Vuoria

Remuneration Committee:

Chairman Mikael Lilius, Paul Ehrnrooth, Matti Vuoria

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. Lack of demand for commodities, e.g. minerals, can affect industrial customers' investment decisions.

The business environment for the shipping and shipbuilding industry remains challenging, and concerns over the global economy continue to cause uncertainty. Overcapacity is still a concern, as the large order book accumulated during the shipbuilding boom has been delivered. In addition, financing remains under pressure as banks continue to be cautious. Investments in offshore exploration and production are highly sensitive to changes in oil prices. However, current oil prices continue to support the offshore industry's operational activities in harsher conditions and deeper waters.

Continued risks in the global economy and political instability in certain areas 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 which arise out of, or are incidental to, the ordinary course of its business. These lawsuits concern mainly 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. The claims received in 2013 include two unusually sizable ones. 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 loss can be reasonably estimated.

The annual report's Risk and risk management section contains a more specific description of Wärtsilä's risks and business uncertainties.

Events after the reporting period

On 29 January 2014, Wärtsilä announced plans to realign its organisation to secure future profitability and competitiveness. The Group-wide efficiency programme is expected to lead to a reduction of approximately 1,000 employees globally, of which about 200 are planned to be in Finland. The reductions will impact all businesses and support functions. With these actions Wärtsilä seeks annual savings of EUR 60 million. The effect of these savings is expected to materialise fully by the end of 2014. The non-recurring costs related to the restructuring measures will be EUR 50 million. Of these costs EUR 11 million was recognised in 2013, as certain measures were initiated at the end of the year.

Market outlook

Power generation markets closely follow global macro-economic development. Uncertainty in the macro economy, combined with slow global growth projections, has impacted the power generation markets, leading to two consecutive years of decline. Based on the forecasted GDP growth in 2014, the overall market for liquid and gas fuelled power generation is expected to improve slightly. Ordering activity remains focused on emerging markets, which continue to invest in new power generation capacity. In the OECD countries, there is still pent-up power sector demand, mainly driven by CO₂ neutral generation and the ramp down of older, mainly coal-based generation.

The main drivers supporting activity in the shipping and offshore sectors are in place. World seaborne trade and the world economy are showing signs of improvement, which benefits the merchant shipping market. Furthermore, the current oil price level supports activity in the offshore industry, including operations in harsh and deep water areas. The importance of fuel efficiency and the regulatory environment are clearly visible, and the interest in gas as a fuel is increasing. Overall contracting is expected to remain at improved levels, keeping in mind the prevailing overcapacity and the market's limited capacity to absorb new tonnage. Due to the relatively high level of contracting in the traditional merchant segment during 2013, a small downturn in merchant ordering activity may be seen in 2014.

The overall service market outlook remains stable. An increase in the installed base partly balances the slower service demand for older installations and the continued focus of merchant marine customers on reducing operating expenses. The outlook for services to offshore and gas fuelled vessels remains positive. 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 slightly more positive, supported by interest in power plant related services. The outlook is also good in the Americas and Africa.

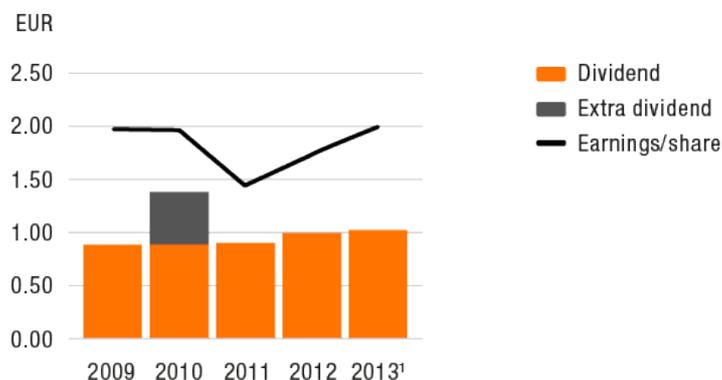
Wärtsilä's prospects for 2014

Wärtsilä expects its net sales for 2014 to grow by 0-10% and its operational profitability (EBIT% before non-recurring items) to be around 11%.

Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 1.05 euro per share be paid for the financial year 2013. The parent company's distributable funds total 1,027,025,847.20 euro, which includes 174,475,007.05 euro in net profit for the year. There are 197,241,130 shares with dividend rights. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date, which is 11 March 2014. The dividend payment date proposed by the Board is 18 March 2014.

Earnings/share, dividend/share



¹ Proposal by the Board 2013.

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Five years in figures

MEUR		Restated				2009*
		2013	2012	2011*	2010*	
Net sales		4 654	4 725	4 209	4 553	5 260
of which outside Finland	%	99.0	98.8	99.3	99.4	99.3
Exports from Finland		2 306	2 349	2 458	2 584	3 114
Personnel on average		18 749	18 930	17 708	18 000	18 830
of which in Finland		3 662	3 599	3 421	3 326	3 506
Order book		4 426	4 492	4 007	3 795	4 491
From the consolidated statement of income						
Depreciation, amortisation and impairment		123	139	113	116	165
Share of result of associates and joint ventures		22	9	8	5	6
Operating result before non-recurring items		520	517	469	487	638
as a percentage of net sales	%	11.2	10.9	11.1	10.7	12.1
Operating result		500	483	445	412	592
as a percentage of net sales	%	10.7	10.2	10.6	9.1	11.2
EBITA		552	552	485	503	672
as a percentage of net sales	%	11.9	11.7	11.5	11.0	12.8
Financial income and expenses		-19	-31	-16	-13	-34
as a percentage of net sales	%	-0.4	-0.7	-0.4	-0.3	-0.6
Net income from available-for-sale financial assets		25	1	-	149	-
Profit before taxes		507	453	429	548	558
as a percentage of net sales	%	10.9	9.6	10.2	12.0	10.6
Profit for the financial period		393	344	293	397	396
as a percentage of net sales	%	8.5	7.3	7.0	8.7	7.5
From the consolidated statement of financial position						
Non-current assets		1 935	2 000	1 577	1 483	1 548
Current assets		3 274	3 036	3 023	3 213	3 108
Total equity attributable to equity holders of the parent company		1 844	1 766	1 636	1 638	1 496
Non-controlling interests		40	26	30	26	16
Interest-bearing debt		665	794	652	628	664
Non-interest-bearing liabilities		2 660	2 451	2 282	2 404	2 479
Total equity and liabilities		5 209	5 036	4 600	4 696	4 655
Gross capital expenditure		134	513	187	98	152
as a percentage of net sales	%	2.9	10.9	4.4	2.2	2.9
Research and development expenses		185	188	162	141	141
as a percentage of net sales	%	4.0	4.0	3.8	3.1	2.7
Dividends paid		207**	197	178	173	173
Extra dividend		-	-	-	99	-
Dividends total		207**	197	178	271	173
Financial ratios						
Earnings per share, basic and diluted (EPS)***	EUR	1.98	1.72	1.44	1.96	1.97
Dividend per share***	EUR	1.05**	1.00	0.90	1.38	0.88
Dividend per earnings	%	53.0**	58.1	62.7	70.3	44.4
Interest coverage		17.2	13.9	14.6	18.9	16.4
Return on investment (ROI)	%	21.2	20.4	20.4	26.0	29.9
Return on equity (ROE)	%	21.4	20.1	17.5	25.0	29.2
Solvency ratio	%	43.9	41.3	41.3	40.8	40.0
Gearing		0.15	0.32	0.04	-0.09	0.28
Equity per share***	EUR	9.35	8.95	8.30	8.30	7.59
Working capital (WCAP)	EUR	313	465	235	118	486

* The figures in the comparison years 2009–2011 have not been restated according to the revised IAS 19.

** Proposal of the Board of Directors.

*** Free share issue approved by Wärtsilä Corporation's Annual General Meeting on 3 March 2011 increased the total number of Wärtsilä shares to 197,241,130. The figures in the comparison years have been adjusted to reflect the increased number of shares.

Calculations of financial ratios

Return on investment (ROI)

Profit before taxes + interest and other financial expenses	
<hr/>	
Total equity and liabilities – non-interest-bearing liabilities – provisions, average over the financial year	x 100

Return on equity (ROE)

Profit for the financial year	
<hr/>	
Equity, average over the financial year	x 100

Interest coverage

Profit before taxes + depreciation, amortisation and impairment + interest and other financial expenses	
<hr/>	
Interest and other financial expenses	

Solvency ratio

Equity	
<hr/>	
Total equity and liabilities – advances received	x 100

Gearing

Interest-bearing liabilities – cash and cash equivalents	
<hr/>	
Equity	

Earnings per share (EPS)

Profit for the financial year attributable to equity holders of the parent company	
<hr/>	
Adjusted number of shares, average over the financial year	

Equity per share

Equity attributable to equity holders of the parent company	
<hr/>	
Adjusted number of shares at the end of the financial year	

Dividend per share

Dividends paid for the financial year	
<hr/>	
Adjusted number of shares at the end of the financial year	

Dividend per earnings

Dividend per share	
<hr/>	
Earnings per share (EPS)	x 100

Effective dividend yield

Dividend per share	
<hr/>	
Adjusted share price at the end of the financial year	x 100

Price/earnings (P/E)

Adjusted share price at the end of the financial year	
<hr/>	
Earnings per share (EPS)	

Price/carrying amount per share (P/BV)

Adjusted share price at the end of the financial year

Equity per share

Working capital (WCAP)

(Inventories + trade receivables + current tax receivables + other non-interest-bearing receivables)

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

Non-recurring items

Non-recurring items are related to restructuring measures and one-time charges for events or activities, which are not part of the normal business operations

EBITA

Operating result – non-recurring items – intangible asset amortisation related to acquisitions

Consolidated statement of income

MEUR	Note	Restated			
		2013	%	2012	%
Net sales	<u>1</u> , <u>3</u>	4 654	100.0	4 725	100.0
Change in inventories of finished goods & work in progress		187		-30	
Work performed by the Group and capitalised		19		15	
Other operating income	<u>4</u>	85		68	
Material and services	<u>5</u>	-2 696		-2 527	
Employee benefit expenses	<u>6</u>	-1 104		-1 094	
Depreciation, amortisation and impairment	<u>7</u>	-123		-139	
Other operating expenses		-543		-543	
Share of result of associates and joint ventures	<u>13</u>	22		9	
Operating result		500	10.7	483	10.2
Dividend income	<u>8</u>	1		2	
Interest income	<u>8</u>	3		4	
Other financial income	<u>8</u>	15		9	
Interest expenses	<u>8</u>	-17		-22	
Other financial expenses	<u>8</u>	-22		-25	
Net income from available-for-sale financial assets	<u>14</u>	25		1	
Profit before taxes		507		453	
Income taxes	<u>9</u>	-113		-109	
Profit for the financial period		393	8.5	344	7.3
Attributable to:					
Equity holders of the parent company	<u>10</u>	391		339	
Non-controlling interests		3		5	
		393		344	

Earnings per share attributable to equity holders of the parent company:

Earnings per share (basic and diluted), EUR 1.98 1.72

The notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

MEUR	2013	Restated 2012
Profit for the financial period	393	344
Other comprehensive income, net of taxes:		
Items that will not be reclassified to the statement of income:		
Remeasurement of defined benefit liability	-9	-2
Tax on items that will not be reclassified to the statement of income	-1	1
Total items that will not be reclassified to the statement of income	-10	-1
Items that may be reclassified subsequently to the statement of income:		
Exchange rate differences on translating foreign operations	-72	-14
Available-for-sale financial assets		
measured at fair value	1	3
transferred to the statement of income	-25	-1
Cash flow hedges		
measured at fair value	-22	9
transferred to the statement of income	-2	9
Tax on items that may be reclassified to the statement of income:		
Available-for-sale financial assets		
transferred to the statement of income	6	
Cash flow hedges		
measured at fair value	7	-2
transferred to the statement of income	1	-2
Total items that may be reclassified to the statement of income	-107	1
Other comprehensive income for the financial period, net of taxes	-117	
Total comprehensive income for the financial period	276	344
Total comprehensive income attributable to:		
Equity holders of the parent company	275	339
Non-controlling interests	2	5
	276	344

The notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position, assets

MEUR	Note	31.12.2013	%	Restated 31.12.2012	%
Non-current assets					
Goodwill	<u>11</u>	914		942	
Intangible assets	<u>11</u>	321		317	
Property, plant and equipment	<u>12</u>	434		456	
Investment properties	<u>12</u>	15		14	
Investments in associates and joint ventures	<u>13</u>	103		90	
Available-for-sale financial assets	<u>14, 16</u>	15		44	
Interest-bearing investments	<u>16</u>	1		1	
Deferred tax assets	<u>19</u>	128		112	
Other receivables	<u>17</u>	5		24	
		1 935	37.2	2 000	39.7
Current assets					
Inventories	<u>15</u>	1 367		1 322	
Interest-bearing receivables	<u>16</u>	1		1	
Trade receivables	<u>16</u>	1 146		1 128	
Current tax receivables		33		27	
Other receivables	<u>17</u>	339		334	
Cash and cash equivalents	<u>18</u>	388		225	
		3 274	62.8	3 036	60.3
Total assets		5 209	100.0	5 036	100.0

The notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position, equity and liabilities

MEUR	Note	31.12.2013	%	Restated 31.12.2012	%
Equity					
Share capital	<u>21</u>	336		336	
Share premium	<u>21</u>	61		61	
Translation differences	<u>21</u>	-85		-12	
Fair value reserve	<u>21</u>	-13		21	
Actuarial gains and losses		-43		-34	
Retained earnings		1 587		1 393	
Total equity attributable to equity holders of the parent company		1 844	35.4	1 766	35.1
Non-controlling interests		40	0.8	26	0.5
Total equity		1 884	36.2	1 791	35.6

Liabilities

Non-current liabilities

Interest-bearing debt	<u>16, 23</u>	571		545	
Deferred tax liabilities	<u>19</u>	84		95	
Pension obligations	<u>20</u>	107		99	
Provisions	<u>22</u>	40		38	
Advances received		86		88	
Other liabilities	<u>24</u>	4		3	
		892	17.1	868	17.2

Current liabilities

Interest-bearing debt	<u>16, 23</u>	94		249	
Provisions	<u>22</u>	204		228	
Advances received		827		607	
Trade payables	<u>16, 23</u>	375		385	
Current tax liabilities		81		40	
Other liabilities	<u>24</u>	853		868	
		2 434	46.8	2 377	47.2

Total liabilities		3 325	63.8	3 245	64.4
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Total equity and liabilities		5 209	100.0	5 036	100.0
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The notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

MEUR	Note	2013	Restated 2012
Cash flow from operating activities:			
Profit for the financial period		393	344
Adjustments for:			
Depreciation, amortisation and impairment	<u>7</u>	123	139
Financial income and expenses	<u>8</u>	19	31
Gains and losses on sale of fixed assets and other changes		-29	-16
Share of result of associates and joint ventures	<u>13</u>	-22	-9
Income taxes	<u>9</u>	113	109
Cash flow before changes in working capital		598	598
Changes in working capital:			
Assets, non-interest-bearing, increase (-) / decrease (+)		-64	-234
Inventories, increase (-) / decrease (+)	<u>15</u>	-88	-6
Liabilities, non-interest-bearing, increase (+) / decrease (-)		211	-38
Changes in working capital		60	-278
Cash flow from operating activities before financial items and taxes		658	320

Financial items and taxes:		
Interest and other financial income	23	14
Interest and other financial expenses	-7	-71
Income taxes paid	-97	-110
Financial items and paid taxes	-81	-167
Cash flow from operating activities	578	153
Cash flow from investing activities:		
Acquisitions	<u>2</u>	-392
Investments in associates and joint ventures	<u>13</u>	-7
Investments in available-for-sale financial assets	<u>14</u>	-3
Investments in property, plant and equipment and intangible assets	<u>11, 12</u>	-111
Proceeds from sale of property, plant and equipment and intangible assets	7	12
Proceeds from sale of shares in associates and joint ventures	<u>13</u>	23
Proceeds from sale of available-for-sale financial assets	<u>14</u>	3
Loan receivables, increase (-) / decrease (+), and other changes	13	2
Dividends received	1	2
Cash flow from investing activities	-79	-471
Cash flow after investing activities	499	-318
Cash flow from financing activities:		
Contribution by non-controlling interests	16	
Proceeds from non-current borrowings	<u>23</u>	158
Repayments and other changes in non-current loans	<u>23</u>	-92
Loan receivables, increase (-) / decrease (+)		4
Current loans, increase (+) / decrease (-)	-135	69
Dividends paid	-202	-186
Cash flow from financing activities	-324	-47
Change in cash and cash equivalents, increase (+) / decrease (-)	176	-365
Cash and cash equivalents at the beginning of the financial year	225	592
Exchange rate changes	-13	-2
Cash and cash equivalents at the end of the financial year	388	225

The notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

MEUR	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Actuarial gains and losses	Retained earnings	Total		
Equity at 31 December 2011	336	61	2	5		1 233	1 636	30	1 666
Change in accounting policy (IAS19)					-33		-33		-33
Equity at 1 January 2012, restated	336	61	2	5	-33	1 233	1 604	30	1 633
Translation differences			-14				-14		-14
Available-for-sale financial assets									
net change in fair value, net of taxes				3			3		3
transferred to the statement of income, net of taxes				-1			-1		-1
Cash flow hedges									
net change in fair value, net of taxes				7			7		7
transferred to the statement of income, net of taxes				7			7		7
Defined benefit plans					-1		-1		-1
Other comprehensive income			-14	16	-1		1		1
Profit for the financial period						339	339	5	344
Total comprehensive income for the financial period			-14	16	-1	338	340	5	344
Total transactions with the owners of the company									
dividends paid						-178	-178	-9	-186
Equity at 31 December 2012	336	61	-12	21	-34	1 393	1 766	26	1 791

MEUR	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Actuarial gains and losses	Retained earnings	Total		
Equity at 1 January 2013	336	61	-12	21	-34	1 393	1 766	26	1 791
Translation differences			-73				-73	-1	-74
Available-for-sale financial assets									
net change in fair value, net of taxes				1			1		1
transferred to the statement of income, net of taxes				-19			-19		-19
Cash flow hedges									
net change in fair value, net of taxes				-14			-14		-14
transferred to the statement of income, net of taxes				-2			-2		-2
Defined benefit plans					-9		-9		-9
Other comprehensive income			-73	-34	-9		-116	-1	-117
Profit for the financial period						391	391	3	393
Total comprehensive income for the financial period			-73	-34	-9	391	275	2	276
Total transactions with the owners of the company									
dividends paid						-197	-197	-4	-201
contribution by non-controlling interests								16	16
Equity at 31 December 2013	336	61	-85	-13	-43	1 587	1 844	40	1 884

Additional information on share capital, translation difference and fair value reserve is presented in Note 21. Equity.

Accounting principles for the consolidated financial statements

Basic information

Wärtsilä Corporation is a Finnish listed company organised under the laws of Finland and domiciled in Helsinki. The address of its registered office is John Stenbergin rantaa 2, 00530 Helsinki. Wärtsilä Corporation is the parent company in Wärtsilä Group.

Wärtsilä is a global leader in complete lifecycle power solutions for the marine and energy markets. By emphasising technological innovation and total efficiency, Wärtsilä maximises the environmental and economic performance of the vessels and power plants of its customers.

In 2013, Wärtsilä's net sales totalled EUR 4.7 billion with approximately 18,700 employees. The company has operations in over 200 locations in nearly 70 countries around the world. Wärtsilä is listed on the NASDAQ OMX Helsinki, Finland.

These consolidated financial statements were authorised for release by the Board of Directors of Wärtsilä Corporation on 28 January 2014, after which, in accordance with the Finnish Corporate Act, the shareholders have a right to approve or reject the financial statements in the Annual General Meeting. The Annual General Meeting also has a possibility to decide upon changes in the financial statements.

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force as at 31 December 2013. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedures stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation.

Reporting is based on the historical cost convention. Exceptions are the available-for-sale financial assets, the financial assets and liabilities at fair value through the statement of income, hedged items under fair value hedging and the cash-settled share-based payment transactions which are measured at fair value. The figures are in millions of euros.

IFRS amendments

Of the amended International Financial Reporting Standards (IFRS) and interpretations mandatory as of 1 January 2013 the following are applicable on the Group reporting:

- *Amendment to IAS 19 Employee benefits:* The amendment eliminates the possibility to use the corridor approach in recognising the actuarial gains and losses from defined benefit plans. In the corridor approach the actuarial gains and losses were recognised only when they exceeded by more than 10% the greater of the present value of the defined benefit obligation and the fair value of the plan assets. The excess was recognised in the statement of income over the expected average remaining working lives of employees participating in the plan.

The revised IAS 19 standard requires the actuarial gains and losses to be recognised immediately in the statement of other comprehensive income. This change in accounting principles leads to faster recognition of actuarial gains and losses than the corridor approach. As a result of the change the Group now determines the net interest expense on the net defined benefit plan by applying the discount rate used to measure the defined benefit obligation. Previously the Group applied a long-term rate of expected return on the plan assets. The Group reports the service cost in employee benefit expenses and the net interest in financial expenses.

The amendments to IAS 19 have been applied retrospectively. The impact on comparison figures presented in the condensed statement of financial position, condensed statement of income and statement of other comprehensive income in this annual report are the following. The impact on the equity in the opening balance 2012 was EUR -33 million. Pension obligations increased by EUR 43 million and working capital reduced by EUR 43 million. The impact on profit for the reporting period 2012 was EUR 0 million. A table showing the impact is presented below.

31 December 2012	Reported balance	Balance according to the new accounting policy	Effect of the change in accounting policy
Assets			
Deferred tax assets	104	112	8
Other non-current assets	34	24	-9
Equity	1 824	1 791	-33
Liabilities			
Pension obligations	65	99	34
Deferred tax liabilities	98	95	-3
Consolidated statement of income 2012			
Employee benefit expenses	-1 096	-1 094	2
Operating result	481	483	2
Financial income and expenses	-45	-46	-1
Profit for the financial period	344	344	

- *IFRS 13 Fair value Measurement*: The standard defines fair value. It sets out in a single standard a framework for measuring fair value and requirements for disclosures about fair value measurements. The standard does not introduce any new requirements to measure at fair value. It provides guidance for fair value measurement required or permitted by other standards.

The adaption of the revised standards and interpretations have an effect on the information reported.

Management judgement and use of estimates

The preparation of the financial statements in accordance with the IFRS requires management to make judgements, estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent assets and liabilities and the recognition of income and expenses in the statement of income. Although these estimates and assumptions are based on management's best knowledge of current events and actions, actual results may differ from the estimates. The most important items in the consolidated statements, which require management's judgements and which may include uncertainty, comprise the following:

Sales revenue is typically recognised when the product or service has been delivered, its value has been determined and it is probable that the trade receivable will be collected. These estimates affect the amount of sales revenue recognised. Revenue from long-term projects and long-term operations and maintenance agreements is recognised according to their percentage of completion when the profit on the project or agreement can be reliably determined. The percentage of completion and the profit are based on management's estimates as to the realisation of the project or agreement. These estimates are reviewed regularly. Recognised sales revenue and costs recorded are adjusted during the project when assumptions concerning the outcome of the entire project are updated. Changes in assumptions relate to changes in the project's or agreement's schedule, scope of supply, technology, costs and any other relevant factors.

Warranty provisions are recorded on the recognition of sales revenue. The provision is based on the accumulated experience of the level of warranty needed to manage future and current cost claims. Products can contain new and complex technology that can affect warranty estimates with the result that earlier recognised provisions are not always sufficient.

The Group is a defendant in several legal cases arising from its business operations. A provision for a court case is recorded when an unfavourable result is probable and the loss can be determined with reasonable certainty. The final result can differ from these estimates.

The recoverable amounts of goodwill are determined for all cash-generating units annually, or more often if there is an indication of an impairment, where its value in use is determined. The value in use is determined using estimates of future market development, such as growth and profitability as well as other significant factors. The most important factors underlying such estimates are the net sales growth in the market area, the operating margin, the useful life of the assets, future investment needs and the discount rate. Changes in these assumptions can significantly affect the expected future cash flows.

Estimates of pension obligations regarding defined benefit plans are based on actuarial estimates of factors including future salary increases, discount rates and return on plan assets. Changes in these assumptions can significantly affect the Group's pension obligations and pension costs.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the parent company Wärtsilä Corporation and all subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or in which Wärtsilä is otherwise in control on the reporting date. Being in control means the power to govern the financial and operating policies of the company to obtain benefits from its activities.

Acquired and established companies are accounted for using the purchase method of accounting. Accordingly, the purchase price and the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. In the acquisition of non-controlling interests, if the Group already has control, the non-controlling interest is measured either at fair value or at the non-controlling interests' proportionate share of the identifiable net assets. The difference between the purchase price, possible equity belonging to the non-controlling interests and the acquired company's net identifiable assets, liabilities and contingent liabilities measured at fair value is goodwill. Goodwill is tested for impairment at least annually. The purchase price includes the consideration paid, measured at fair value. The consideration does not include transaction costs, which are recognised in the statement of income. The transaction costs are expensed in the same reporting period in which they occur, except the costs resulting from issued debt or equity instruments.

Any contingent consideration (additional purchase price) related to the combination of businesses is measured at fair value on the date of acquisition. It is classified either as a liability or equity. Contingent consideration classified as a liability is measured at fair value on the last day of each reporting period, and the

resulting loss or gain is recognised through profit or loss. Contingent consideration classified as equity is not remeasured.

For the acquisitions occurred before 1 January 2010, the accounting principles valid at the time of the acquisition have been applied.

The acquired subsidiaries are included in the consolidated financial statements from the day the Group has control, and disposed subsidiaries until the control ends. All intragroup transactions, dividend distributions, receivables and liabilities as well as unrealised margins are eliminated in the consolidated financial statements. In the consolidated statements of income and comprehensive income, non-controlling interests have been separated from the profit and the total comprehensive income for the financial period. In the consolidated statement of financial position, non-controlling interests are shown as a separate item under equity.

Associated companies and joint ventures

Companies, in which the Group usually holds voting rights of between 20% and 50% and on which the Group has a significant influence but no control over the financial and operating policies, are consolidated as associated companies. In joint ventures, the Group has joint control with another party, established by contractual agreement.

Associated companies and joint ventures are included in the consolidated financial statements using the equity method from the date the Group's significant influence or joint control commences until the date it ceases. The Group's share of the associated company's or joint venture's profit for the financial period are shown as a separate item before the Group's operating result, on the line Share of result of associates and joint ventures. The Group's share of the associated company's or joint venture's changes recorded in other comprehensive income is recorded in the Group's other comprehensive income. Wärtsilä's proportion of the associated company's or joint venture's post-acquisition accumulated equity is included in the Group's equity. If the Group's share of the associated company's or joint venture's losses exceeds its interest in the company, the carrying amount is written down to zero. After this, losses are only recognised if the Group has incurred obligations from the associated company or joint venture.

Translating the transactions in foreign currencies

The items included in the financial statements are initially recognised in the functional currency, which is defined for each group company based on its primary economic environment. The presentation currency of the consolidated financial statements is the euro, which is also the functional and presentation currency of Wärtsilä Corporation.

Foreign subsidiaries

The income and expenses for statements of income and statements of comprehensive income of foreign subsidiaries are translated into euros at the quarterly average exchange rates. Statements of financial position are translated into euros at the exchange rates prevailing at the end of the reporting period. The translation of the profit for the financial period and other comprehensive income using different exchange rates in the statement of comprehensive income and the statement of financial position causes translation differences, which are recognised in equity and in other comprehensive income as change. Translation differences of foreign subsidiaries' acquisition cost eliminations and post-acquisition profits and losses are recognised in other comprehensive income and are presented as a separate item in equity. The goodwill generated in the acquisition of foreign entities and their fair value adjustments of assets and liabilities are considered as assets and liabilities of foreign entities, which are translated into euros using the exchange rates prevailing at the end of the reporting period.

Transactions in foreign currencies

Transactions denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Receivables and liabilities are translated at the exchange rate prevailing at the end of the reporting period. Exchange rate gains and losses related to trade receivables and liabilities are reported on the applicable line in the statement of income and are included in operating result. Exchange rate differences related to financial assets and financial liabilities are reported as financial items in the statement of income.

Net sales and revenue recognition

Sales are presented net of indirect sales taxes and discounts. Sales are recognised when the significant risks and rewards connected with ownership have been transferred to the buyer. This typically means that revenue recognition occurs when a product or service is delivered to the customer in accordance with the terms of delivery.

Revenue from long-term construction contracts and long-term operating and maintenance agreements is recognised in accordance with the percentage of completion method when the outcome of the contract can be estimated reliably. The percentage of completion is based on the ratio of costs incurred to total estimated costs to date for long-term construction contracts, whereas for long-term operating and maintenance agreements it is calculated on the basis of the proportion of the contracted services performed. When the final outcome of a long-term project cannot be reliably determined, the costs arising from the project are expensed in the same reporting period in which they occur, but the revenue from the project is recorded only to the extent that the company will receive an amount corresponding to actual costs. Any losses due to projects are expensed immediately.

Employee benefits

Pension and other long-term employee benefits

Pension plans

Group companies in different countries have various pension plans in accordance with local conditions and practices. These pension plans are classified either as defined contribution or defined benefit plans.

The fixed contributions to the defined contribution plans are expensed in the year to which they relate. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employee benefits. All other plans are defined benefit plans.

Defined benefit plans are funded through contributions to pension funds or pension insurance companies. Defined benefit plans may be unfunded or wholly or partly funded. The present value of the obligation arising from the defined benefit plans is determined per each plan using actuarial technique, the projected unit credit method. The Group recognises the defined benefit obligation net of fair value of the plan assets at the measurement date.

Actuarial gains and losses and other remeasurements of the net defined benefit obligation are recognised immediately in the statement of other comprehensive income. Current service cost is the present value of the post employment benefit, which is earned by the employees during the year. The Group determines the net interest expense on the net defined benefit plan by applying the discount rate used to measure the defined benefit obligation. Service cost is recognised in employee benefit expenses and the net interest in financial expenses. The defined benefit plans are calculated by qualified actuaries.

Other long-term employee benefits

In addition to defined benefit plans, Wärtsilä has other long-term employee benefits. They are presented separately from the defined benefit plans. Similarly to the accounting for a defined benefit plan, for any other long-term benefit the Group recognises a liability for the obligation net of the fair value of plan assets, if any. Changes in other long-term employee benefits are recognised in profit or loss.

Share-based payments

The company's bonus programme, which is fixed to share value, is measured at the fair value of the share on the reporting date and reported in the statement of income for the term-to-maturity of the bonus programme.

Goodwill and other intangible assets

Goodwill

Goodwill is the difference between the aggregate of the acquisition-date fair value of the consideration transferred and the acquirer's share of the company's net identifiable assets and liabilities measured at fair value on the acquisition date. The consideration transferred is measured at fair value, including also the acquirer's previously held equity interest.

Research and development costs

Research costs are expensed in the reporting period during which they occur. Development costs are capitalised when it is probable that the development project will generate future economic benefits for the Group and when the related criteria, including commercial and technological feasibility, have been met. These projects involve the development of new or significantly improved products or production processes. Earlier expensed development costs are not capitalised.

Capitalised development costs are measured at cost less accumulated amortisations and impairment. Capitalised development costs are amortised and the cost of buildings, machinery and facilities for development depreciated on a straight-line basis over their expected useful lives, 5-10 years. Amortisations are started when the asset is finished and can be taken into use. Before that, the asset is tested for impairment annually. Grants received for research and development are reported as other operating income.

Other intangible assets

Other intangible assets are recorded at cost if the cost is reliably measurable and the future economic benefits for the Group are probable. Wärtsilä's other intangible assets include patents, licenses, software, customer relations and other intellectual property rights that can be transferred to a third party. These are measured at cost, except for intangible assets identified in connection with acquisitions, which are measured at the fair value at the acquisition date. The cost of intangible assets comprises the purchase price and all costs that can be directly attributed to preparing an asset for its intended use.

Other intangible assets are amortised on a straight-line basis over their estimated useful lives. Intangible assets, for which the time limit for the right of use is agreed, are amortised over the life of the contract. Intangible assets identified in connection with acquisitions are amortised over their delivery times or estimated useful lives.

The general guidelines for scheduled amortisation are:

- Software 3–7 years

- Development expenses 5–10 years
- Other intangible assets 5–20 years

The estimated useful lives and the residual values are reviewed at least at the end of each financial year, and if they differ significantly from previous estimates, amortisation periods are adjusted accordingly.

A gain or loss arising from the sale of intangible assets is recognised in other operating income or other operating expenses in the statement of income.

Property, plant and equipment

Property, plant and equipment acquired by the Group are measured in the statement of financial position at cost less accumulated depreciation and impairment losses. The cost of an asset includes costs directly attributed to preparing an asset for its intended use. Grants received are reported as a reduction in costs. The property, plant and equipment of acquired subsidiaries are measured at their fair value at the acquisition date. The borrowing costs that are directly attributable to the asset acquisition, construction or production and to completion of the asset for its intended use or sale requiring necessarily a considerable length of time will be capitalised in the statement of financial position as part of the cost of the asset. Other than directly attributable borrowing costs are expensed in the period in which they are incurred.

Subsequent expenditure is included in the cost of an asset only if the future economic benefits for the Group are probable and the costs are reliably measurable. Expenditure related to regular, extensive inspections and maintenance is treated as an investment, capitalised and depreciated during the useful life. All other expenditure such as ordinary maintenance and repairs is recognised in the statement of income as an expense as incurred.

Depreciation is based on the following estimated useful lives:

- Buildings 10–40 years
- Machinery and equipment 5–20 years
- Other tangible assets 3–10 years

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated, as its useful life is considered as infinite. The estimated useful lives and the residual values are reviewed at least at the end of each financial year, and if they differ significantly from previous estimates, depreciation periods are adjusted accordingly.

A gain or loss arising from the sale of property, plant and equipment is recognised in other operating income or other operating expenses in the statement of income.

Impairment of intangible assets and property, plant and equipment

The carrying amounts of assets are reviewed regularly for signs of possible impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is estimated annually also for the goodwill whether or not there are signs of impairment. In order to define a possible impairment, the Group's assets are divided up into the smallest possible cash-generating units which are mainly independent of other units and the cash flows of which are separately identifiable and to a large extent independent of the cash flows of other similar units.

An impairment loss is recorded when the carrying amount of an asset is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value

in use is based on the expected discounted future net cash flows resulting from the asset or cash-generating unit. A pre-tax rate which reflects the markets' position on the time value of money and asset-specific risks is used as the discount rate.

An impairment loss is recognised immediately in the statement of income. In connection with the recognition of the impairment loss, the useful life of the amortisable / depreciable asset is reassessed. An earlier impairment loss recognised for an asset other than goodwill is reversed if the estimates used to determine the recoverable amount change. However, reversal of impairment shall not exceed the asset's carrying amount less impairment loss. An impairment loss recognised for goodwill is not reversed under any circumstances.

Determination of the fair value of assets acquired through business combinations

In significant business combinations, the Group has used external advisors when estimating the fair values of property, plant and equipment and intangible assets. For property, plant and equipment, comparisons have been made of the market prices of similar assets, and the depreciation of the acquired assets due to aging, wear and other similar factors has been estimated. The fair value measurement of intangible assets is based on estimates of the future cash flows associated with the assets.

Investment properties

Properties that are not used in the Group's operating activities or that are held to earn rental income or for capital appreciation, or both, are classified as investment properties. Investment properties are presented in the statement of financial position on a separate line in non-current assets and measured at cost less accumulated depreciations and impairment. A gain or loss arising from the sale of investment properties is recognised in other operating income or other operating expenses in the statement of income.

Leases

Leases related to property, plant and equipment in which all material rewards and risks of ownership have been transferred to the Group are classified as finance leases. Assets acquired under a finance lease are recognised as property, plant and equipment at the lower of the fair value of the leased asset and the estimated present value of the underlying lease payments. The corresponding rental obligation, net of finance charge, is included in interest-bearing debt with the interest element of the finance charge being recognised in the statement of income over the lease period. Assets acquired under a finance lease are depreciated over their estimated useful lives in accordance with the same principles that apply to Group's other similar property, plant and equipment. The shorter alternative of the following is selected: either the useful life of the leased asset or the lease term.

Leases in which the rewards and risks of ownership have not been transferred to the Group are classified as operating leases. Rental payments under operating leases are charged in the statement of income on a straight-line basis over the lease term.

Inventories

Inventories are carried at the lower of cost and net realisable value. Costs include allocated purchasing and manufacturing overhead costs in addition to direct manufacturing costs. Inventory valuation is primarily based on the weighted average cost.

Financial assets and liabilities

Financial assets

Financial assets are classified into the following categories: financial assets at fair value through the statement of income, investments held to maturity, loans and receivables and available-for-sale financial assets. Financial assets are classified on the basis of their purpose of use upon initial recognition.

At the end of the reporting period, the Group assesses whether objective indication exists of impairment of an individual financial asset other than those measured at fair value through the statement of income. There is impairment in a financial asset if objective indication exists thereof and if it has an effect on expected future cash flows from the financial asset that can be reliably evaluated. A significant decline in a counterparty's result, a debtor's breach of contract and, for equity instruments, a significant or persistent decline in value below its cost, for example, can be considered as objective indication of impairment.

Financial assets at fair value through the statement of income

The financial assets at fair value through the statement of income category includes derivatives that do not qualify for hedge accounting and are not financial guarantee agreements as well as other financial assets recognised at fair value through the statement of income, which are financial assets held for trading. Derivatives are initially recognised at cost in the statement of financial position and are thereafter measured at their fair value at the end of each reporting period. Realised and unrealised gains and losses from changes in fair values are recognised in the statement of income in the period in which they have arisen. Derivatives held for trading, as well as financial assets maturing within 12 months after the end of the financial period, are included in current assets.

Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments that mature on a fixed date and which the Group has the positive intention and ability to hold until maturity. They are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and that are not quoted on active markets. They arise when the Group provides a loan or delivers products and services directly to a debtor. Loans and receivables are measured at amortised cost using the effective interest rate method. They are included in non-current receivables, unless they have a maturity of less than 12 months from the reporting date. Such items are classified as current receivables.

Trade receivables are recognised at their anticipated realisable value, which is the original invoiced amount less an estimated valuation allowance for impairment. Trade receivables are measured individually. Credit losses are expensed immediately when indication exists that the Group is not able to collect its trade receivables according to initial agreements. Examples of events giving rise to impairment include a debtor's serious financial problems, a debtor's probable bankruptcy or other financial arrangement. The Group may sell undivided interests in trade receivables on an ongoing and one-time basis to other lending institutions. Financial assets sold under these arrangements are excluded from trade receivables in the Group's consolidated statement of financial position at the time of payment from acquirer, considering that substantially all risks and rewards have been transferred. If acquirer has not settled the payment to the extent that the ownership, risk and control over the receivable have been substantially transferred then such financial assets sold are re-recognised in the consolidated statement of financial position at the end of the reporting period.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets allocated to this category. They are included in non-current assets unless the Group intends to dispose of the investment within 12 months from the reporting date.

Wärtsilä's investments in other companies are classified as available-for-sale financial assets, including investments in listed and unlisted shares. Listed shares are measured at fair value, based on their market value. Unlisted shares for which the fair value cannot be reliably measured are valued at cost less impairment. Changes in the fair value of shares measured at fair value are recognised in other comprehensive income and reported in fair value reserve in equity with the tax impact, until the shares are disposed of or written down, at which point the accumulated fair value changes are released from equity to the statement of income.

Gains and losses on disposal and impairments of shares that are attributable to operating activities are included in operating income, while gains and losses on disposal and impairments of other shares are included in financial income and expenses.

Cash and cash equivalents

Cash comprises cash in hand, deposits held at call with banks and similar investments. Cash equivalents comprise short-term highly liquid investments that are subject to only minor fluctuations in value. Cash equivalents have a maturity of up to three months on the date of acquisition. Credit accounts related to the Group cash pool accounts are included in current financial liabilities.

Financial liabilities

The Group's financial liabilities are classified either into financial liabilities recognised at amortised cost or financial liabilities recognised at fair value through the statement of income. Financial liabilities are classified as current unless the Group has the unconditional right to defer the payment of the debt to at least 12 months from the end of the reporting period. Financial liabilities (or parts thereof) are only derecognised once the debt has extinguished, i.e. once the contractually specified obligation is discharged or cancelled or expires.

Financial liabilities recognised at amortised cost

The loans raised by the Group are included in financial liabilities recognised at amortised cost. They are measured at their initial recognition at fair value using the effective interest rate method. After the initial recognition, loans are measured at amortised cost. Interests on loans are expensed through the statement of income over the maturity of the debt using the effective interest rate method.

Financial liabilities recognised at fair value through the statement of income

In the Wärtsilä Group, financial liabilities recognised at fair value through the statement of income include derivatives that are not eligible for hedge accounting. Realised and unrealised gains and losses from changes in fair values of derivatives are recognised in the statement of income in the period in which they have arisen.

Derivatives and hedge accounting

Derivatives are measured at fair value. Gains and losses from fair value measurement are treated as determined by the purpose of the derivatives. The effects on results of changes in the value of derivatives that are eligible for hedge accounting and that are effective hedging instruments are presented consistently with the hedged item.

For derivatives eligible for hedge accounting, the Group documents the relationship between each hedging instrument and the hedged asset upon entering into a hedging arrangement, along with the risk management objective and the strategy applied. Through this process, the hedging instrument is linked to the relevant assets and liabilities, projected business transactions or binding contracts. The Group also documents its ongoing assessment of the effectiveness of the hedge regarding to the relationship between a change in the derivative's fair value and a change in the value of the hedged cash flows or transactions.

Hedging of sales and purchases

Wärtsilä hedges its sales and purchases in foreign currencies with foreign exchange derivatives or currency options. Certain foreign exchange derivatives are eligible for hedge accounting. Changes in the fair value of derivative contracts designated to hedge future cash flows are recognised in other comprehensive income and presented in the fair value reserve in equity, provided that the hedging is effective. The ineffective portion is immediately recognised in the statement of income in the reporting period. Changes in fair value due to interest rate differences are recognised in the statement of income. Any gain or loss in the fair value reserve accumulated through other comprehensive income is reported as an adjustment to net sales or material and services in the same period as any transactions relating to the hedged obligations or estimates. Currency forwards are measured at forward rates at the end of the reporting period and currency options at their market value at the end of the reporting period.

Hedges of net investments in foreign operations (equity hedging)

Equity in foreign subsidiaries situated outside the euro zone and goodwill amounts in foreign currency may be hedged against exchange rate fluctuations, mainly through foreign exchange derivatives using the equity hedging method to reduce the effect of exchange rates on the Group's equity. Wärtsilä decided to discontinue hedging the net assets in its foreign subsidiaries and joint ventures in June 2012. Until that, the changes in the fair values of instruments determined as equity hedging were recognised in other comprehensive income, provided that the hedging was effective, and the ineffective portion of the change in the fair value of the hedge and the interest rate difference were immediately recognised in the statement of income in the financial items. Currency forwards were valued at existing forward rates at the end of the reporting period and currency options at their market value at the end of the reporting period.

Derivatives not included in hedge accounting

For derivatives not included in hedge accounting, changes in fair value are immediately recognised in financial income or expenses in the statement of income. For example, interest rate swap hedges belong to this group. The fair value of interest rate swaps is calculated by discounting the future cash flows.

Fair value hierarchy

Financial instruments measured at fair value are classified according to the following fair value hierarchy: instruments measured using quoted prices in active markets (level 1), instruments measured using inputs other than quoted prices included in level 1 observable either directly or indirectly (level 2) and instruments measured using inputs that are not based on observable market data (level 3). Financial instruments measured at fair value include financial assets and liabilities at fair value through the statement of income and available-for-sale financial assets.

Provisions and contingent liabilities

Provisions are recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions can arise, for example, from warranties, environmental risks, litigation, foreseeable losses on projects and restructuring costs. The amount to be recognised as provisions corresponds to the

management's best estimate of the expenses that will be necessary to meet the existing obligation at the end of the reporting period.

Estimated future warranty costs relating to products supplied are recorded as provisions. The amount of future warranty costs is based on accumulated experience.

Provisions for restructuring costs are made once the restructuring plan has been approved and the implementation started or the personnel concerned have been informed of the terms. The plan must indicate which activities and personnel will be affected and the timing and cost of implementation.

Contingent liabilities are possible obligations resulting from previous events, the existence of which will only be ascertained once the uncertain event that is beyond the Group's control materialises. Existing obligations that are not likely to require the fulfilment of a payment obligation or the amount of which cannot be reliably determined are also considered contingent liabilities. Contingent liabilities are presented in the notes.

Income taxes

The statement of income includes taxes on the Group's consolidated taxable income for the reporting period in accordance with local tax regulations, tax adjustments for previous reporting periods and changes in deferred taxes. Tax effects related to transactions recognised through the statement of income and other events are recognised in the statement of income. Tax effects related to transactions or other events to be presented as components of other comprehensive income or directly in equity are also recognised, respectively, in other comprehensive income or directly in equity.

Deferred tax liabilities and assets are calculated on temporary differences arising from the difference between the tax basis of assets and liabilities and the carrying values using the enacted tax rates at the end of the reporting period. The statement of financial position includes deferred tax liabilities in their entirety and deferred tax assets at their estimated probable amount.

Dividends

The dividend proposed by the Board of Directors is deducted from distributable equity when approved by the company's Annual General Meeting.

Adoption of new and updated IFRS standards

In 2014, the Group will adopt the following new and amended standards and interpretations issued by the IASB.

- *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 (effective for periods beginning or after 1 January 2014): The standards will have no significant impact on the Group's consolidated financial statements. IFRS 12 will expand the information, which Wärtsilä discloses about interests in other entities.
- Amendments to *IAS 32 Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 January 2014): 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 are not expected to have a significant impact on the Group's consolidated financial statements.

The standards have been approved for application in the EU.

1. Segment information

In 2013, the business of Wärtsilä consists of one business area, the Power Business. The Power Business is subdivided into two mutually supportive market areas, Ship Power and Power Plants. These offer customers the same product concept modified for specific applications. The main products for both these markets are gas and diesel engines and related services. The market segments are highly dependent on each other.

In the Power Business, the design-related research and development and manufacturing required for the engines sold to both markets take place in the same R&D centres and factories. The manufacturing process is the same for each market. Similarly, the same Group companies are responsible for the distribution of these products and the services related to them. Capacity costs cannot be reliably allocated to the two different markets. These costs are significant and vary between the two units in different years. Customers in both markets are capital-intensive corporations with global operations. The development of the two market areas is strongly linked to global economic trends.

As geographical information, Wärtsilä reports the geographical areas Finland, other European countries, Asia, the Americas and other continents. In the geographical information net sales is split by the customer's destination and non-current assets by origin.

Geographical information

2013

MEUR	Finland	Other European countries	Asia	The Americas	Other	Total
Net sales	44	1 285	1 759	1 068	498	4 654
Non-current assets*	306	1 292	125	57	7	1 787

2012

MEUR	Finland	Other European countries	Asia	The Americas	Other	Total
Net sales	54	1 148	2 009	994	520	4 725
Non-current assets*	267	1 362	134	50	7	1 819

* Non-current assets consist of goodwill, intangible assets, property, plant and equipment, investment properties and investments in associates and joint ventures.

Business area information

Internal management reporting is used to monitor the development of operations on the basis of market-based business areas. Reporting serves internal goal setting and budget control and is thus a management tool rather than an actual external economic indicator.

Wärtsilä's highest operative decision maker (CODM, Chief Operating Decision Maker according to IFRS 8) is the President and CEO with the support of the Board of Management and, in some cases, the Board of Directors. The President and CEO assesses the Group's financial position and its development as a whole, not based on the results of the business areas. As the Group's level of integration is high, the reported indicators from business areas do not give a true picture of the business areas' financial position and development. It is also considered that they are of limited value to an external reader due to poor comparability, for example.

Against this background, Wärtsilä's business cannot be divided into separate operating segments with individual reporting.

During the financial year 1 January–31 December 2013 and 1 January–31 December 2012, Wärtsilä did not have any individual significant customers or countries according to the definition of IFRS 8.

Net sales

MEUR	2013	2012
Power Plants	1 459	1 498
Ship Power	1 325	1 301
Services	1 842	1 908
Other	28	17
Total	4 654	4 725

2. Acquisitions

Acquisitions 2013

In 2013, there were no acquisitions.

Acquisitions 2012

Overall impact on performance

MEUR	Recognised in the statement of income 2012	On full-year pro forma performance
Net sales	331	4 750
Operating result	38	482

Hamworthy plc

On 31 January 2012 Wärtsilä acquired all the shares of and obtained control of Hamworthy plc, listed on the London Stock Exchange-AIM, through a recommended cash offer.

The total consideration of the transaction was EUR 456 million, 825 pence in cash for each Hamworthy share.

Hamworthy is a global provider of specialist equipment and services to the marine, oil & gas and industrial sectors. The acquisition of Hamworthy will enable Wärtsilä to strengthen its position as a total solutions provider, and to be the most valued partner for its customers with a complete range of products, integrated solutions, and services to the marine and offshore industries. The combination of Wärtsilä's and Hamworthy's strengths will speed up and ease the means for customers to reduce operating costs and achieve compliance with environmental legislation.

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

	MEUR
Total consideration	
Cash	456
Total consideration transferred	456

	MEUR
Cash flow from the acquisition	
Consideration paid in cash	456
Cash and cash equivalents of the acquired companies	-67
Total cash flow from the acquisition	389

	MEUR
The assets and liabilities arising from the acquisition at fair value	
Intangible assets	118
Property, plant and equipment	19
Inventories	91
Trade and other receivables	81
Cash and cash equivalents	67
Total assets	376
Provisions	33
Trade payables and other liabilities	156
Deferred tax liabilities	35
Total liabilities	224
Total net assets	152
Goodwill	304

The fair values of acquired identifiable intangible assets at the date of acquisition (including technology, customer relationships and trademarks) amounted to EUR 116 million.

The fair value of current trade receivables and other receivables is approximately EUR 81 million and includes trade receivables with a fair value of approximately EUR 49 million. The fair value of trade receivables does not include any significant risk.

The goodwill of EUR 304 million reflects the value of know-how and expertise in marine, oil & gas and industrial sectors. The combined resource and competence base creates an exciting platform for long term growth in the offshore, marine gas and environmental solutions markets to the benefit of shareholders, customers and employees alike. The goodwill recognised for Hamworthy is not tax deductible.

The Group incurred during 2012 acquisition-related costs of EUR 3 million related to external legal fees and due diligence costs. The costs have been included in the other operating expenses in the consolidated statement of income. The total acquisition-related costs are EUR 3 million.

In the eleven months to 31 December 2012 Hamworthy contributed net sales of EUR 331 million and operating result of EUR 38 million to the Group's results. If the acquisition had occurred on 1 January 2012, management estimates that consolidated net sales would have been EUR 4,750 million, and consolidated operating result for the period would have been EUR 482 million. In determining these amounts, management has assumed that the fair value adjustments, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

Other acquisitions

On 1 April 2012 Wärtsilä acquired the business of MMI Boiler Management Pte Ltd., a Singapore based company specialising in the service and maintenance of boilers for marine and industrial applications. The purchase price is approximately EUR 3 million resulting in a goodwill of approximately EUR 1 million.

3. Long-term construction contracts and operating and maintenance agreements

Net sales recognised for the financial year

MEUR	2013	2012
From long-term constructions contracts	845	782
From long-term operating and maintenance agreements	303	271

Long-term construction contracts in progress

MEUR	2013	2012
Aggregated amount of costs incurred and recognised profits	1 891	1 776
Advances received at 31 December	1 576	1 581
Receivables from the revenue recognition netted with the advances received at 31 December	315	196

4. Other operating income

MEUR	2013	2012
Gains on sale of shares		8
Gains on sale of property, plant and equipment and intangible assets	4	4
Government grants	8	7
Sale of by-products	1	1
Sale of scrapped material	4	4
Income related to cancelled orders*	47	26
Other	21	17
Total	85	68

* Expenses related to cancelled orders are recorded on respective expense accounts.

5. Material and services

MEUR	2013	2012
Purchases during the financial year	-1 454	-1 447
Change in inventories	-112	57
External services	-1 130	-1 138
Total	-2 696	-2 527

6. Employee benefit expenses

MEUR	2013	Restated 2012
Wages and salaries	903	887
Pension costs		
Defined benefit plans	9	21
Defined contribution plans	65	60
Other compulsory personnel costs	127	126
Total	1 104	1 094

Management remuneration is specified in Note 27. Related party disclosures.

Long-term incentive plan

Wages and salaries include bonus salaries paid, based on the bonus scheme 2010 and a provision for expenses arising from bonus schemes 2011 and 2012, totalling EUR 13 million (6). These bonus schemes are tied to the price development of the company's share.

The 2010 bonus scheme comprised 1,606,000 bonus rights, the 2011 bonus scheme comprises 1,765,250 bonus rights and the 2012 bonus scheme 1,979,000 bonus rights. The bonus payment for the bonus scheme 2010 was based on the share price development during a two-year period on the basis of a share price of EUR 30.01 with the maximum bonus amount per bonus right being EUR 7.50. In the 2011 bonus scheme and 2012 bonus scheme, the bonus payment is based on the share price development during a three-year period. For the bonus scheme 2011 the basis of a share price is EUR 23.34 and for the bonus scheme 2012 EUR 33.28. Both bonus schemes 2011 and 2012 are taking into account a 50% dividend payout. The paid bonuses in bonus scheme 2011 and bonus scheme 2012 cannot exceed EUR 10.00 per bonus right.

	2013	2012
Personnel on average	18 749	18 930
Personnel at the end of the year	18 663	18 887

7. Depreciation, amortisation and impairment

MEUR	2013	2012
Intangible rights	5	5
Other intangible assets	53	56
Buildings and structures	12	14
Machinery and equipment	50	56
Other tangible assets	3	4
Impairments		4
Total	123	139

8. Financial income and expenses

MEUR	2013	Restated 2012
Dividend income on available-for-sale financial assets	1	2
Interest income on loans and receivables	3	
Interest income on financial assets at fair value through the statement of income	9	3
Interest income on investments held to maturity		4
Changes in fair values of financial assets/liabilities at fair value through the statement of income		6
Exchange rate differences*	2	
Other financial income	5	
Total financial income	20	16
Interest expenses on financial liabilities recognised at amortised cost	-17	-22
Interest expenses on financial liabilities at fair value through the statement of income	-5	-7
Net interest from defined benefit plans	-3	-1
Changes in fair values of financial assets/liabilities at fair value through the statement of income	-2	
Write-down of loan receivables		-2
Exchange rate differences*		-9
Other financial expenses	-13	-5
Total financial expenses	-39	-47
Total financial income and expenses	-19	-31

* In 2013, the result from the ineffective portion of cash flow hedges, EUR 1 million, was included in other financial income in the consolidated statement of income. In 2012, the result from the ineffective portion of cash flow hedges was not significant.

9. Income taxes

MEUR	2013	Restated 2012
Income taxes		
for the financial year	-130	-101
for prior financial years	2	1
Change in deferred tax		
origination and reversal of temporary differences	9	-6
change in Finnish tax rate	2	
change in tax rates in other countries	4	-2
Total	-113	-109
Profit before taxes	507	453

Tax calculated at the domestic corporate tax rate 24.5%	-124	-111
Effect of changed tax rates	6	-2
Effect of different tax rates in foreign subsidiaries	6	2
Effect of income not subject to tax and non-deductible expenses	-7	5
Utilisation of previously unrecognised tax losses carried forward	14	7
Unrecognised taxes on losses carried forward	-10	-5
Other taxes*	-10	-15
Other temporary differences	10	9
Income taxes for prior financial years	2	1
Tax charge in the consolidated statement of income	-113	-109
Effective tax rate (%)	22.3	24.1

* Other taxes consist mainly of withholding taxes not utilised and taxes not related to income.

Income taxes related to other comprehensive income are presented in Consolidated statement of comprehensive income. Changes in deferred tax assets and liabilities are presented in Note 19. Deferred taxes.

Wärtsilä is subject to tax audits in some countries, which can result in tax reassessment decisions and obligations to pay additional taxes and related payments. In the opinion of the management, the taxes have been reported properly.

10. Earnings per share

Earnings per share is calculated by dividing the profit for the financial period attributable to shareholders by the weighted average number of the shares outstanding. During the financial years there were no programmes with dilutive effect.

MEUR	2013	Restated 2012
Profit for the financial period attributable to equity holders of the parent company	391	339
Thousands of shares		
Weighted average number of shares outstanding*	197 241	197 241
Earnings per share (basic and diluted), EUR	1.98	1.72

* Additional information on the number of shares is presented in Note 21. Equity.

11. Intangible assets

Impairment testing of goodwill

Goodwill from acquisitions is allocated to the Group's cash-generating units (CGUs). CGUs are the lowest level of assets for which there are separately identifiable cash flows. Currently Wärtsilä identifies 2 (2012: 2) separate independent cash inflow CGUs to which goodwill can directly be linked as per the below table.

Cash-Generating Units

MEUR	Goodwill	
	2013	2012
Hamworthy	304	311
Power Business, other	609	631
Total	914	942

The recoverable amounts from the CGUs are determined based on value-in-use calculations. The calculations are on a discounted cash flow method basis, derived from the order book and 5-year cash flow projections from management approved strategic plans. The estimated performances of the CGUs are based on utilisation of the existing property, plant and equipment in their current condition with normal maintenance capital expenditure, excluding any potential future acquisitions. Cash flows beyond the 5-year period are calculated using the terminal value method. The terminal growth rate used in projections is based on management's assessment on conservative long term growth. The terminal growth rate used is 2%.

The key driver for the valuation is the growth in the global economy and in particular the development of the global power market, the global shipbuilding industry and the demand for related services. The projected development of total costs in the market affects the profitability, whereas no single cost item is considered to have a material impact. The valuation driver for the new equipment sales is the growth in the global economy, whereas for after sales the drivers are also the demand for related services and the projected development in labour cost.

The applied discount rate is the weighted average pre-tax cost of capital (WACC) as defined by Wärtsilä. The components of the WACC are risk-free rate, market risk premium, industry specific beta, cost of debt and debt equity ratio. When defining the WACC for 2013, it has been considered that the general interest rate is currently on a lower level. Wärtsilä has used a WACC of 8.4% (2012: 8.8%) in the calculations.

As a result of the impairment test, no impairment loss for any of the CGUs was recognized for the financial years ended 31 December 2013 and 2012 respectively. The recoverable amounts from all CGUs exceeded their carrying values remarkably.

Sensitivity analysis

Sensitivity analyses have been carried out for the valuation of the recoverable amounts for each CGU by changing the assumption used in the calculation. A change in an assumption that would cause the recoverable amount to equal the carrying amount is presented in the table below.

	Change
Pre-tax discount rate:	
Hamworthy	increase more than 15%
Power Business, other	increase more than 25%
Terminal growth rate:	
Hamworthy	decrease more than 15%
Power Business, other	decrease more than 50%
Profitability:	
Hamworthy	decrease more than 60%
Power Business, other	decrease more than 80%

The Group estimates that no theoretically possible change in the assumptions can cause the carrying amount to exceed the recoverable amount in any of the CGU's. As a result of the performed impairment tests, there is no need for write-downs of the goodwill in a particular CGU.

In management's opinion, the changes in the basic assumptions shall not be seen as an indication that these factors are likely to materialise. The sensitivity analyses are hypothetical and should therefore be treated with caution.

2013

MEUR	Intangible rights	Construction in progress and advances paid	Other intangible assets	Goodwill	Total
Cost at 1 January 2013	92	33	601	947	1 673
Changes in exchange rates		-2	-14	-29	-45
Additions		35	18		53
Disposals and reclassifications	4	6	6		16
Cost at 31 December 2013	96	72	610	918	1 696
Accumulated amortisation and impairment at 1 January 2013	-56		-352	-4	-414
Changes in exchange rates			8		9
Accumulated amortisation on disposals and other changes			1		1
Amortisation during the financial year	-5		-53		-58
Accumulated amortisation and impairment at 31 December 2013	-61		-396	-4	-462
Carrying amount at 31 December 2013	35	72	215	914	1 235

Development costs for internally generated assets amounting to EUR 33 million (24) were capitalised during the financial year, and the carrying amount was EUR 99 million (66).

Amortisations related to the purchase price allocations from acquisitions were EUR 33 million (35) and the carrying amount of them was EUR 156 million (190).

2012

MEUR	Intangible rights	Construction in progress and advances paid	Other intangible assets	Goodwill	Total
Cost at 1 January 2012	80	25	452	621	1 177
Changes in exchange rates			7	18	26
Acquisitions	1		118	307	426
Additions		22	18	1	41
Disposals and reclassifications	11	-14	7		3
Cost at 31 December 2012	92	33	601	947	1 673
Accumulated amortisation and impairment at 1 January 2012	-51		-298	-4	-352
Changes in exchange rates			-2		-3
Accumulated amortisation on disposals and other changes			2		2
Amortisation during the financial year	-5		-56		-61
Accumulated amortisation and impairment at 31 December 2012	-56		-352	-4	-414
Carrying amount at 31 December 2012	35	33	249	942	1 259

12. Property, plant & equipment

2013

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Investment properties	Total
Cost at 1 January 2013	29	319	782	46	62	14	1 250
Changes in exchange rates	-1	-9	-20	-2	-1		-33
Additions	8	3	29	33		2	76
Disposals	-1	-13	-9			-1	-22
Reclassification	-3	8	17	-41	1		-16
Cost at 31 December 2013	32	307	800	38	62	15	1 254
Accumulated depreciation and impairment at 1 January 2013		-149	-586		-46		-780
Changes in exchange rates		4	16		1		21
Accumulated depreciation on disposals		11	8				19
Depreciation during the financial year		-12	-50		-3		-66
Accumulated depreciation and impairment at 31 December 2013		-147	-612		-48		-806
Carrying amount at 31 December 2013	32	160	188	38	15	15	449

Value of finance-leased assets included in carrying amount 1 1

Investment properties include land areas not used by the Group. Their estimated fair value is around EUR 28 million (29). During the year, investment properties were sold totalling EUR 3 million (4) generating a gain of EUR 2 million (2).

2012

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Investment properties	Total
Cost at 1 January 2012	30	294	745	38	70	9	1 186
Changes in exchange rates		2	2				3
Acquisitions		13	6				19
Additions		4	26	34	1	6	70
Disposals	-1		-19		-1	-1	-22
Reclassification		7	24	-26	-8		-3
Cost at 31 December 2012	29	319	782	46	62	14	1 250
Accumulated depreciation and impairment at 1 January 2012		-134	-530		-51		-714
Changes in exchange rates		-1	-2				-2
Accumulated depreciation on disposals			14		1		15
Depreciation during the financial year		-14	-56		-4		-74
Reclassification			-9		7		-1
Impairments		-1	-3				-4
Accumulated depreciation and impairment at 31 December 2012		-149	-586		-46		-780
Carrying amount at 31 December 2012	29	171	196	45	17	14	470
Value of finance-leased assets included in carrying amount		1					1

13. Investments in associates and joint ventures

MEUR	2013	2012
Carrying amount at 1 January	90	87
Investments	1	7
Share of result	22	9
Dividends	-7	
Translation differences	-3	2
Disposal of shares		-15
Carrying amount at 31 December	103	90

In 2013, no shares in associates or joint ventures were sold. In 2012, EUR 8 million gain was recognised in the consolidated statement of income related to the sale of the associated company MW Power Oy's shares.

Summary of financial information (100%):

2013

MEUR		Holding %	Assets	Equity	Liabilities	Net sales	Profit for the financial period
Joint ventures							
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	36	25	11	31	2
Wärtsilä Hyundai Engine Co Ltd.	South Korea	50.0	332	125	207	272	53
Wärtsilä TMH Diesel Engine Company LLC	Russia	50.0	28	21	7	2	-1
Reprodel Sociedad de reparacao de helices	Portugal	50.0	1	1		1	
Associated companies							
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		-2	2		
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	5	3	2	7	
Neptun Maritime AS	Norway	40.0	1	1		1	
Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co Ltd.	China	33.8	199	42	157	36	-17

2012

MEUR		Holding %	Assets	Equity	Liabilities	Net sales	Profit for the financial period
Joint ventures							
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	38	26	11	43	4
Wärtsilä Hyundai Engine Co Ltd.	South Korea	50.0	280	83	197	176	18
Wärtsilä TMH Diesel Engine Company LLC	Russia	50.0	23	22	1		
Reprodel Sociedad de reparacao de helices	Portugal	50.0	1	1	1	1	
Associated companies							
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		-2	2	1	
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	5	2	2	5	
Neptun Maritime AS	Norway	40.0	2	1		2	
Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co Ltd.	China	33.8	223	61	162	86	-8
WD Power Investment Ky	Finland	21.7	2	2			

14. Available-for-sale financial assets

Available-for-sale financial assets includes listed and unlisted shares. The listed shares are measured at fair value, and the valuation is included in fair value reserve. For the unlisted shares the fair value cannot be measured reliably, in which case the investment is carried at cost.

MEUR	2013	2012
Carrying amount at January 1	44	39
Acquired shares	4	3
Fair value adjustments*	-24	3
Disposal of shares	-9	-1
Carrying amount at December 31	15	44

MEUR	2013		2012	
	Cost	Market value	Cost	Market value
Listed shares (level 1)				
Lyxor ETF MSCI Emerging Markets			2	2
Unlisted shares (level 3)				
Sato Oyj			2	26
Other shares	15	15	16	16
Total shares	15	15	20	44

In 2013, EUR 25 million gain was recognised in the consolidated statement of income related to the sale of Sato Oyj shares. In addition, Lyxor ETF MSCI Emerging Markets shares were sold in 2013, but the impact was not significant. In 2012, EUR 1 million gain was recognised in the consolidated statement of income related to the sale of Ekokem Oy Ab shares.

* Additional information on fair value adjustments is presented in Note 21. Equity.

15. Inventories

MEUR	2013	2012
Materials and consumables	420	532
Work in progress	873	685
Finished products	47	48
Advances paid	28	57
Total	1 367	1 322

In 2013, EUR 12 million (23) impairment for obsolete inventories has been recognised in the consolidated statement of income.

16. Financial assets and liabilities by measurement category

2013

MEUR	Cash flow and net investment hedges	Financial assets/liabilities at fair value through the statement of income	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets							
Available-for-sale financial assets				15		15	15
Interest-bearing investments			1			1	1
Other receivables			5			5	5

Current financial assets						
Interest-bearing receivables			1		1	1
Trade receivables			1 146		1 146	1 146
Derivatives	20				20	20
Other receivables		10			10	10
Cash and cash equivalents			388		388	388
Carrying amount by category	20	10	1 541	15	1 586	1 586
Non-current financial liabilities						
Interest-bearing debt					571	576
Current financial liabilities						
Interest-bearing debt					94	94
Trade payables					375	375
Derivatives	21				21	21
Other liabilities					13	13
Carrying amount by category	21				1 053	1 074

2012

MEUR	Cash flow and net investment hedges	Financial assets/liabilities at fair value through the statement of income	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets							
Available-for-sale financial assets				44		44	44
Interest-bearing investments			1			1	1
Other receivables			22			22	22
Current financial assets							
Interest-bearing receivables			1			1	1
Trade receivables			1 128			1 128	1 128
Derivatives	16					16	16
Other receivables		12				12	12
Cash and cash equivalents			225			225	225
Carrying amount by category	16	12	1 377	44		1 449	1 449
Non-current financial liabilities							
Interest-bearing debt					545	545	555
Current financial liabilities							
Interest-bearing debt					249	249	249
Trade payables					385	385	385
Derivatives	9					9	9
Other liabilities					11	11	11
Carrying amount by category	9				1 190	1 199	1 209

Fair values of available-for-sale financial assets per hierarchies is presented in Note 14. Available-for-sale financial assets, Other financial assets and liabilities are included in level 2. Additional information on financial liabilities is presented in Note 23. Financial liabilities.

17. Other receivables

MEUR	2013	Restated 2012
Derivatives	20	16
Interest and other financial items	10	12
Insurance receivables	5	5
Rental accruals	5	4
Project accruals	19	16
Accruals from long-term contracts	152	142
Other accruals	28	29
Loan receivables	5	22
Defined benefit plan		2
VAT receivables	45	61
Other	55	48
Total	344	358
Non-current	5	24
Current	339	334

18. Cash and cash equivalents

MEUR	2013	2012
Cash and bank balances	373	217
Current deposits	15	8
Total	388	225

19. Deferred taxes

Change in deferred taxes during 2013

MEUR	1 January 2013	Recognised in the consolidated statement of income	Other compre- hensive income	Translation differences	Acquisitions	31 December 2013
Deferred tax assets						
Tax loss carry- forwards	28	11		-2		36
Pension obligations	17			1		19
Provisions	20	-1		-1		18
Intragroup margin in inventories	6	-1				6
Other temporary differences	42	7	5	-3		50
Total	112	16	6	-6		128

Deferred tax liabilities					
Intangible assets and property, plant and equipment	53	-9		-2	43
Fair value reserve	15		-8		6
Other temporary differences	27	10	2	-3	36
Total	95	1	-6	-6	84
Net deferred tax assets/liabilities	17	15	12		45

Change in deferred taxes during 2012

MEUR	1 January 2012	Recognised in the consolidated statement of income	Other comprehensive income	Translation differences	Acquisitions	31 December 2012
Deferred tax assets						
Tax loss carry-forwards	45	-17				28
Pension obligations	12			4	1	17
Provisions	19					20
Intragroup margin in inventories	7					6
Other temporary differences	43	-1	-1	-4	4	42
Total	127	-18	-1		5	112
Deferred tax liabilities						
Intangible assets and property, plant and equipment	31	-10			31	53
Fair value reserve	11		3			15
Other temporary differences	25	-1	-1	1	4	27
Total	67	-10	3	1	35	95
Net deferred tax assets/liabilities	60	-8	-4	-1	-30	17

At 31 December 2013, the Group had temporary differences on which no deferred tax assets were booked totalling EUR 21 million (35), as it is uncertain if they will be realised. Most of them were related to cumulative losses.

Comparison figures have been restated due to changes in pension accounting.

20. Pension obligations

MEUR	2013	Restated 2012
Net defined benefit assets at 31 December		2
Net defined benefit liabilities at 31 December	104	77
Liability for other long term employee benefits at 31 December	3	22

Wärtsilä has defined benefit plans for its employees mainly in Europe and Asia. The major plans are located in Switzerland, the Netherlands, Great Britain, Sweden and Norway. The Swiss defined benefit plans account for 59% of the Group's total defined benefit obligations and 71% of plans'

assets. Most of the plans provide lifetime pension to the members at the normal retirement age. However, there are also plans, which provide lump sum payment at the retirement date. Most of these defined benefit pension plans are managed by pension funds, and their related assets are not included in the Group's assets. The plans' assets are typically invested according to the investment strategies approved by the funds' Board of Trustees or in some cases they are completely administered by insurance companies. Group companies make their payments to pension funds in accordance with the local legislation and practice. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans.

The Swiss Plans

Wärtsilä operates two defined benefit plans in Switzerland in accordance with the local pension laws and regulations. The plans provide benefits to the members in the form of a pension payable after retirement. The level of benefits provided depends on the accrued retirement savings capital, which is a result of contributions paid up to retirement plus respective interest. The plans are run as a pension fund by the Board of Trustees separately from the company.

Contributions to the plans are paid both by the employees as well as by the employers based on a percentage of the insured salary as defined in the pension fund regulations. Contributions of the employers vary depending on the age of the employee and cover on average two thirds of the total contributions.

The investment strategy for a pension fund's asset is the responsibility of the Board of Trustees. Assets are invested in accordance with the strategy for different investment categories as defined by local laws. In addition to investment strategy, other risks of the plan are longevity of plan members as well as death or disability of employees before their retirement. The pension plan is reinsured for the risk of death and disability as of 31 December 2013. Inflationary increases for pensions in payment are at the discretion of the Board of Trustees when benefits paid by the plan are exceeding the minimum level required by law.

MEUR	2013	2012
Present value of unfunded defined benefit obligations	65	44
Present value of funded defined benefit obligations	311	338
Fair value of plan assets	-272	-307
Net liability in balance sheet	104	75

%	Present value of defined benefit obligations	Fair value of plan assets
Switzerland	59	71
Other Europe	37	25
Asia	4	4
Total	100	100

MEUR	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance at 1 January 2012	319	-269	50
Changes in exchange rates	4	-3	1
Other adjustments	28	-10	18
Recognised in the statement of income:			
Current service cost	21		21
Interest cost (+) / interest income (-)	9	-7	2
Remeasurements recognised in other comprehensive income:			
Return on plan assets, excluding interest income		-15	-15
Experience adjustments	-3		-3
Changes in demographic assumptions	1		1
Changes in financial assumptions	18		18
Contribution paid by the plan members	3	-3	
Contribution paid by the employer		-16	-16
Benefits paid	-17	16	-1
Balance at 31 December 2012	382	-307	75
Balance at 1 January 2013	382	-307	75
Changes in exchange rates	-14	10	-4
Other adjustments	18	3	21
Recognised in the statement of income:			
Current service cost	15		15
Past service cost	-5		-5
Gains (-) / losses (+) on curtailments and settlements	-30	29	-1

Interest cost (+) / interest income (-)	11	-8	3
Remeasurements recognised in other comprehensive income:			
Experience adjustments	10		10
Changes in demographic assumptions	6		6
Changes in financial assumptions	2		2
Contribution paid by the plan members	4	-4	
Contribution paid by the employer		-13	-13
Benefits paid	-22	17	-5
Balance at 31 December 2013	376	-272	104

The EUR 1 million gain on settlement and EUR 5 million credit to past service costs relate to the defined benefit plan amendment in Norway. One defined benefit plan was terminated and the pension coverage was transferred to defined contribution plan.

Plan assets invested in:

	2013	2012
Shares and other Equity instruments (%)	28	26
Bonds and other Debt instruments (%)	43	46
Property (%)	18	18
Other assets (%)	11	10

The main actuarial assumptions at the reporting date are (expressed as weighted averages):

	2013	2012
Discount rate (%)	2.68	2.38
Future salary increase (%)	1.94	1.70
Future pension growth (%)	0.78	0.53

At 31 December 2013 the weighted average duration of the defined benefit obligation was 14 years. The Group expects to contribute EUR 9 million to the plans during next year.

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in each country. These assumptions translate into a weighted average life expectancy in years for a pensioner at the retirement age as follows:

Plan participants retiring at the end of the financial year:

Male	20.2
Female	22.8

Plan participants retiring 20 years after the end of the financial year:

Male	21.6
Female	24.2

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the end of the financial year. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety.

Sensitivity analysis

	Change in assumption	Effect to defined benefit obligation, MEUR
Discount rate	increase 1%	-50
Discount rate	decrease 1%	45
Future salary increase	increase 1%	13
Future salary increase	decrease 1%	-11
Future pension growth	increase 1%	32
Future pension growth	decrease 1%	-7

21. Equity

Equity consists of share capital, share premium, translation difference, fair value reserve and retained earnings.

Share capital and number of shares

MEUR

	Number of shares and votes	Share capital	Share premium	Total
Share capital				
1 January 2012	197 241 130	336	61	397
31 December 2012	197 241 130	336	61	397
31 December 2013	197 241 130	336	61	397

Wärtsilä share does not have a nominal value.

Translation difference

Translating foreign subsidiaries' financial statements by using different exchange rates in the statement of comprehensive income and in the statement of financial position causes translation differences, which are recognised in equity. Translation differences of foreign subsidiaries' acquisition cost eliminations and post acquisition gains and losses are also presented in equity. The change in translation differences is recognised in other comprehensive income.

Fair value reserve

Fair value reserve includes the change in the fair value of available-for-sale financial assets. Also the change in fair value in derivative financial instruments is included in fair value reserve, if the hedging is effective and eligible for hedge accounting. The change in items included in fair value reserve are recognised in other comprehensive income.

MEUR	Cash flow hedges	Available- for-sale financial assets	Total
Difference between fair value and carrying amount at 1 January 2012	-14	21	8
Deferred tax liabilities/assets	3	-5	-2
Fair value reserve at 1 January 2012	-11	16	5
Transferred to the statement of income, net of taxes	7	-1	6
Fair value adjustments	9	4	13
Deferred tax liabilities/assets	-2	-1	-3
Fair value reserve at 31 December 2012	3	18	21
Transferred to the statement of income, net of taxes	-2	-19	-21
Fair value adjustments	-19	1	-18
Deferred tax liabilities/assets	6		6
Fair value reserve at 31 December 2013	-13		-13

Parent company's distributable funds

After the balance sheet date, the Board of Directors proposed that a dividend of 1.05 euro per share be paid for the financial year 2013, total dividend payable being EUR 207 million. The remaining part of the retained profits will be carried further in the unrestricted equity. For the profit for the financial year 2012, a dividend of EUR 1.00 per share was distributed, totalling EUR 197 million and the rest of the retained profits were carried further in the unrestricted equity.

Additional information on equity is presented in notes to the parent company financial statements, in Note 11. Shareholders' equity.

22. Provisions

2013

MEUR	Litigation	Warranties	Onerous contracts	Restructuring	Other provisions	Total
Provisions at 1 January 2013	17	180	24	14	31	266
Changes in exchange rates		-2	-2		-1	-5
Additions	2	56	17	6	18	98
Used provisions	-5	-71	-10	-8	-10	-104
Released provisions	-1		-4	-1	-5	-11
Provisions at 31 December 2013	13	162	25	11	33	244
Non-current						40
Current						204

2012

MEUR	Litigation	Warranties	Onerous contracts	Restructuring	Other provisions	Total
Provisions at 1 January 2012	11	167	22	18	49	267
Changes in exchange rates			1			1
Acquisitions	6	11	10	1		28
Additions	3	49	10	8	18	89
Used provisions	-3	-47	-16	-13	-30	-109
Released provisions	-1		-3		-5	-10
Provisions at 31 December 2012	17	180	24	14	31	266
Non-current						38
Current						228

The Group is a defendant in a number of legal cases which arise out of, or are incidental to, the ordinary course of its business. These lawsuits concern mainly 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. The claims received in 2013 include two unusually sizable ones. 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 loss can be reasonably estimated.

23. Financial liabilities

2013

MEUR	Current		Non-current		Total
	< 1 year	1–3 years	3–5 years	> 5 years	
Loans from pension insurance companies*	37	62	18		117
Loans from other financial institutions*	35	146	177	167	525
Finance lease liabilities*	1				1
Other interest-bearing loans*	22				23
Trade payables	375				375
Derivatives	21				21
Other liabilities	13				13
Total	504	208	195	167	1 074

* Estimated interest expenses, total	9	14	11	11	45
Estimated contractual cash flows	513	222	206	178	1 119

2012

MEUR	Current		Non-current		Total
	< 1 year	1–3 years	3–5 years	> 5 years	
Loans from pension insurance companies*	61	92	57	22	231
Loans from other financial institutions*	37	99	140	133	408
Finance lease liabilities*		1			2
Other interest-bearing loans*	152		2		154
Trade payables	385				385
Derivatives	9				9
Other liabilities	11				11
Total	655	192	199	155	1 199

* Estimated interest expenses, total	16	22	12	8	58
Estimated contractual cash flows	671	214	211	163	1 257

Fair values of financial liabilities are presented in Note 16. Financial assets and liabilities by measurement category.

24. Other liabilities

MEUR	2013	2012
Project costs	527	558
Personnel costs	164	157
Derivatives	21	9
Interest and other financial items	13	11
Other accruals	50	53
VAT liabilities	12	14
Other	70	68
Total	856	871
Non-current	4	3
Current	853	868

25. Derivative financial instruments

The Group applies hedge accounting to significant foreign currency forward contracts. Detailed financial information is presented in Note 31. Financial risks.

MEUR	2013	of which closed	2012	of which closed
Nominal values of derivative financial instruments (level 2)				
Interest rate swaps	125		20	

Inflation hedges	9			
Currency forwards				
transaction risk	1 545	534	1 182	341
Currency options, written			82	
Currency options, purchased	7		223	
Total	1 686	534	1 507	341

Fair values of derivative financial instruments (level 2)

Interest rate swaps	1			
Currency forwards				
transaction risk	-1		4	
Currency options, purchased			3	
Total	-1		7	

Foreign currency forward contracts fall due during the following 12 months. Interest rate swaps are denominated in euros and their average interest-bearing period is 54 months.

Normally the Group's derivatives are done under International Swaps and Derivatives Association's Master Agreements (ISDA). In case of an event of default under these Agreements the non-defaulting party may request early termination and set-off of all outstanding transactions. These Agreements do not meet the criteria for offsetting in the statement of financial position. The following table sets out the carrying amounts of recognised financial instruments that are subject to the above Agreements.

MEUR	2013	2012
Gross fair values of derivative financial instruments subject to ISDAs		
Assets		
Interest rate swaps	1	
Currency forwards	19	14
Currency options		8
Total	20	22
Liabilities		
Currency forwards	-21	-6
Total	-21	-7
Net fair values of derivative financial instruments subject to ISDAs		
Assets	15	18
Liabilities	-15	-3
Total	-1	15

Currency distribution of currency forwards and currency options

MEUR	Order book	Net loans
Currency forwards		
USD	728	56
NOK	286	59
CHF	71	23
SGD		7
JPY	25	3
GBP	24	5
SEK	21	10
Other*	90	34
Currency options		
USD	7	
Total	1 251	197

* Other does not include any material single currencies.

26. Collateral, contingent liabilities and other commitments

MEUR	2013		2012	
	Debt in the statement of financial position	Collateral	Debt in the statement of financial position	Collateral
Mortgages given as collateral for liabilities and commitments				
Loans from pension institutions			11	15
Other commitments	22	26	15	13
Total	22	26	26	28
Chattel mortgages and other pledges given as collateral for liabilities and commitments				
Loans from credit institutions	25	12	29	18
Other commitments		13		15
Total	25	25	29	34
MEUR	2013		2012	
Guarantees and contingent liabilities				
on behalf of Group companies		665		433
on behalf of associated companies		7		9
Total		672		442
Nominal amounts of rents according to leasing contracts				
Payable within one year		27		23
Payable between one and five years		78		44
Payable later		26		10
Total		131		76

27. Related party disclosures

Related parties comprise the Board of Directors, the President and CEO, the Board of Management as well as the associated companies and the joint ventures.

Management remuneration

TEUR	2013	Benefits booked in the statement of income 2012
President and CEO		
Salaries and other short-term benefits	660	614
Bonuses	309	70
Share based bonuses	608	424
Statutory pension costs	99	86
Voluntary pension costs	152	152

Deputy of President and CEO		
Salaries and other short-term benefits	359	597
Bonuses	95	110
Share based bonuses	157	212
Statutory pension costs	54	84
Voluntary pension costs	391	371
Other members of the Board of Management		
Salaries and other short-term benefits	2 144	2 748
Bonuses	808	1 239
Share based bonuses	1 326	1 639
Statutory pension costs	311	386
Voluntary pension costs	993	864
	8 466	9 596
Board of Directors at 31 December 2013		
Mikael Lilius, chairman	132	138
Kaj-Gustaf Bergh, deputy chairman	96	68
Maarit Aarni-Sirviö, member	68	71
Sune Carlsson, member	64	
Alexander Ehrnrooth, member	69	71
Paul Ehrnrooth, member	66	68
Gunilla Nordström, member	64	62
Markus Rauramo, member	74	77
Matti Vuoria, member	66	98
Board of Directors, until 7 March 2013		
Lars Josefsson, member	2	70
Board of Directors, until 8 March 2012		
Bertel Langenskiöld, member		4
	703	729
Management remuneration, total	9 169	10 325

The holdings of Wärtsilä shares of the President and CEO, and the members of the Board of Directors and Board of Management at the year end were 790,112 shares (793,089).

The President and CEO and some of the members of the Board of Management are entitled to retire on reaching 60 years of age. The Group has no loan receivables from the executive management or the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

Business transactions with the associated companies and joint ventures

MEUR	2013	2012
Sales to the associates and joint ventures	74	62
Purchases from the associates and joint ventures	30	54
Receivables from the associates and joint ventures	15	16
Advances paid to the associates and joint ventures	5	8
Payables to the associates and joint ventures	6	9

Detailed financial information on the associated companies and joint ventures is presented in Note 13. Investments in associates and joint ventures.

28. Auditors' fees and services

The following remuneration was paid to auditors and accounting firms for audit based on applicable legislation and for other services.

In 2013, the AGM appointed the firm of public auditors KPMG Oy Ab as Wärtsilä Corporation's auditor.

Auditors' fees

MEUR	KPMG		Others	
	2013	2012	2013	2012
Audit	2.5	2.2	0.2	0.2
Tax advisory	0.6	1.2	0.1	0.1
Other services	0.7	0.2		0.1
Total	3.9	3.9	0.3	0.3

29. Exchange rates

In the consolidated financial statements there are nearly 60 currencies consolidated. The most essential currencies are presented here.

		Closing rates		Average rates	
		31 December 2013	31 December 2012	2013	2012
AED	United Arab Emirates Dirham	5.06530	4.84576	4.88796	4.74957
BRL	Brazil Real	3.25760	2.70360	2.86681	2.50970
CHF	Switzerland Franc	1.22760	1.20720	1.23092	1.20530
CNY	China Yuan Renminbi	8.34910	8.22070	8.16549	8.10942
DKK	Danish krone	7.45930	7.46100	7.45792	7.44376
GBP	United Kingdom Pound	0.83370	0.81610	0.84925	0.81110
INR	India Rupee	85.36600	72.56000	77.87525	68.62947
JPY	Japan Yen	144.72000	113.61000	129.65950	102.62121
NOK	Norway Krone	8.36300	7.34830	7.80507	7.47547
SAR	Saudi Arabian Riyal	5.17204	4.94801	4.99087	4.84951
SEK	Sweden Krona	8.85910	8.58200	8.65050	8.70672
SGD	Singapore Dollar	1.74140	1.61110	1.66181	1.60617
USD	United States Dollar	1.37910	1.31940	1.32814	1.28560

30. Subsidiaries

Geographical area	Company name	Location	Share %
Europe	Wärtsilä Technology Oy Ab	Finland	100.0
	Wärtsilä Finland Oy	Finland	100.0
	Wärtsilä Projects Oy	Finland	100.0
	Wärtsilä Solutions Oy	Finland	100.0
	IPP3 Investment Oy	Finland	100.0
	Wärtsilä Sweden AB	Sweden	100.0
	Cedervall & Söner AB	Sweden	100.0

	Wärtsilä Norway AS	Norway	100.0
	Wärtsilä Ship Design Norway AS	Norway	100.0
	Wärtsilä Moss AS	Norway	100.0
	Wärtsilä Oil & Gas Systems AS	Norway	100.0
	Wärtsilä Danmark A/S	Denmark	100.0
	Wärtsilä Svanehøj A/S	Denmark	100.0
	Wärtsilä Italia S.p.A.	Italy	100.0
	Wärtsilä France S.A.S.	France	100.0
	Wärtsilä Switzerland Ltd.	Switzerland	100.0
	Wärtsilä Netherlands B.V.	The Netherlands	100.0
	Wärtsilä Kampen Real Estate B.V.	The Netherlands	100.0
	Wärtsilä Ibérica S.A.	Spain	100.0
	Cedervall Espana S.A.	Spain	100.0
	Wärtsilä Portugal Lda.	Portugal	100.0
	Wärtsilä Deutschland GmbH	Germany	100.0
	Wärtsilä Serck Como GmbH	Germany	100.0
	Wärtsilä UK Ltd.	Great Britain	100.0
	Wärtsilä Hamworthy Ltd.	Great Britain	100.0
	Wärtsilä Valves Ltd.	Great Britain	100.0
	Wärtsilä Water Systems Ltd.	Great Britain	100.0
	Wärtsilä Greece S.A.	Greece	100.0
	Wärtsilä Polska Sp.z.o.o.	Poland	100.0
	Wärtsilä Ship Design Poland Sp.z.o.o.	Poland	100.0
	Wärtsilä Baltic Design Centre Sp.z.o.o.	Poland	100.0
	Wärtsilä-Enpa A.S.	Turkey	51.0
	Wärtsilä BLRT Estonia Oü	Estonia	51.0
	Wärtsilä Vostok, LLC	Russia	100.0
	Wärtsilä Hungary Kft	Hungary	100.0
	Wärtsilä Ukraine LLC	Ukraine	100.0
	Wärtsilä Cyprus Limited	Cyprus	100.0
	Wärtsilä Ship Design Serbia doo	Serbia	83.0
The Americas	Wärtsilä North America, Inc.	USA	100.0
	Wärtsilä Defence Inc.	USA	100.0
	Wärtsilä Hamworthy Inc.	USA	100.0
	Wärtsilä Canada Inc.	Canada	100.0
	Wärtsilä de Mexico SA	Mexico	100.0
	Wärtsilä Caribbean, Inc.	Puerto Rico	100.0
	Wärtsilä Dominicana Inc.	Dominican Republic	100.0
	Wärtsilä Guatemala S.A.	Guatemala	100.0
	Wärtsilä Chile Ltda.	Chile	100.0
	Wärtsilä Ecuador S.A.	Ecuador	100.0
	Wärtsilä Brasil Ltda.	Brazil	100.0
	Wärtsilä Colombia S.A.	Colombia	100.0
	Wärtsilä Peru S.A.C.	Peru	100.0
	Wärtsilä Argentina S.A.	Argentina	100.0
	Wärtsilä Venezuela, C.A.	Venezuela	100.0
	Antigua Energy Operators Ltd.	Antigua and Barbuda	100.0
	Wärtsilä Panama Services S.A.	Panama	100.0
	Wärtsilä Operations Guyana Inc.	Guyana	100.0
	Wärtsilä Uruguay S.A.	Uruguay	100.0
Asia	Wärtsilä China Ltd.	Hong Kong	100.0
	Wärtsilä-CME Zhenjiang Propeller Co. Ltd.	China	55.0
	Wärtsilä Services (Shanghai) Co. Ltd.	China	100.0
	Wärtsilä Propulsion (Wuxi) Co. Ltd.	China	100.0
	Cedervall Zhangjiagang Marine Products Co. Ltd.	China	100.0
	Wärtsilä Suzhou Ltd.	China	100.0

	Wärtsilä Ship Design (Shanghai) Co., Ltd.	China	95.0
	Wärtsilä Yuchai Engine Co. Ltd.	China	50.0
	Wärtsilä Singapore Pte Ltd.	Singapore	100.0
	Wärtsilä Ship Design Singapore Pte Ltd.	Singapore	100.0
	Wärtsilä Pumps Pte Ltd.	Singapore	100.0
	Wärtsilä Japan Ltd.	Japan	99.7
	Wärtsilä India Ltd.	India	100.0
	Wärtsilä Vietnam Co Ltd.	Vietnam	100.0
	Wärtsilä Korea Ltd.	South Korea	100.0
	Wärtsilä Hamworthy Korea Ltd.	South Korea	100.0
	Wärtsilä Taiwan Ltd.	Taiwan	100.0
	Wärtsilä Philippines Inc.	Philippines	100.0
	PT. Wärtsilä Indonesia	Indonesia	100.0
	Wärtsilä Lanka Ltd.	Sri Lanka	100.0
	Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0
	Wärtsilä Bangladesh Ltd.	Bangladesh	100.0
	Wärtsilä Azerbaijan LLC	Azerbaijan	100.0
	Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia	60.0
	Wärtsilä Gulf FZE	United Arab Emirates	100.0
	Wärtsilä LLC	United Arab Emirates	100.0
	Wärtsilä Ships Repairing & Maintenance LLC	United Arab Emirates	100.0
	Wärtsilä Hamworthy Middle East (FZE)	United Arab Emirates	100.0
	Wärtsilä (Malaysia) Sdn Bhd	Malaysia	100.0
	Wärtsilä Doha WLL	Qatar	100.0
Other	Wärtsilä Australia Pty Ltd.	Australia	100.0
	Wärtsilä New Zealand Ltd.	New Zealand	100.0
	Wärtsilä PNG Ltd.	Papua New Guinea	100.0
	Wärtsilä Egypt Power S.A.E	Egypt	100.0
	Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0
	Wärtsilä Eastern Africa S.A.	Kenya	100.0
	Wärtsilä Uganda Ltd.	Uganda	100.0
	Wärtsilä West Africa S.A.	Senegal	100.0
	Wärtsilä Central Africa Ltd.	Cameroon	100.0
	Wärtsilä West Africa Guinea	Guinea	100.0
	Wärtsilä Tanzania Ltd.	Tanzania	100.0
	Wärtsilä Mocambique LDA	Mozambique	100.0
	Wärtsilä Marine & Power Services Nigeria Limited	Nigeria	100.0

A complete list of shares and securities in accordance with the Finnish Accounting Ordinance is included in the official financial statements of the parent company prepared with the Finnish Accounting Standards (FAS).

31. Financial risks

General

Wärtsilä has a centralised Group Treasury with two main objectives: 1) to arrange adequate funding for the Group's underlying operations on competitive terms and 2) to identify and evaluate the financial risks within the Group and implement the hedges for the Group companies.

The objective is to hedge against unfavorable changes in the financial markets and to minimise the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and equity.

The Financial Risk Policy is approved by the Board of Directors. The Treasury employs only such instruments whose market value and risk profile can be reliably monitored.

Foreign exchange risk

Foreign exchange exposures are monitored at the Business level and then netted and hedged at the Group level. All fixed sales and purchase contracts are hedged. The estimated future commercial exposures are evaluated by the Businesses, and the level of hedging is decided by the Board of Management. Hedge accounting in accordance with IFRS is applied to most of the hedges of these exposures. The hedges cover such time periods that both the prices and costs can be adjusted to new exchange rates. These periods vary among Group companies from one month to two years. The Group also hedges its position of the statement of financial position, which includes receivables and payables denominated in foreign currencies. The Group does not expect significant losses from foreign exchange rate changes in 2014. The cancellation of orders could lead to ineffective currency hedge. Approximately 59% (59) of sales and 56% (56) of operating costs in 2013 were denominated in euros. The Group's profits and competitiveness are also indirectly affected by the home currencies of its main competitors: USD, GBP, JPY and KRW.

The instruments, their nominal values and currency distribution used to hedge the Group's foreign exchange exposures are listed in Note 25. Derivative financial instruments.

Some Group companies in countries whose currencies are not fully convertible like Brazil and China have unhedged, intercompany loans nominated either in EUR or USD. Total amount of the loans is EUR 99 million (49).

Since Wäertsilä has subsidiaries and joint ventures outside the euro zone, the Group's equity, goodwill and purchase price allocations are sensitive to exchange rate fluctuations. At the end of 2013, the net assets of Wäertsilä's foreign subsidiaries and joint ventures outside the euro zone totalled EUR 831 million (769). In addition, goodwill and purchase price allocations from acquisitions nominated in foreign currencies amounted to EUR 551 million (596). Wäertsilä decided to discontinue hedging the net assets in its foreign subsidiaries and joint ventures in June 2012. Until that, the changes in the fair values of instruments determined as equity hedging were recognised in other comprehensive income, provided that the hedging was effective, and the ineffective portion of the change in the fair value of the hedge and the interest rate difference were immediately recognised in the statement of income in the financial items.

IFRS hedge accounting has been applied to EUR 784 million (733) currency forwards. 10% change in the exchange rates would cause from these currency forwards an approximately EUR 61 million (55) net of tax impact on the equity. In 2013, EUR -14 million (7) fair value adjustments related to cash flow hedges were recognised in equity. EUR 2 million (-7) of the fair value adjustments were transferred from equity to the statement of income as net sales or operating expenses during 2013. The result from ineffective portion of the cash flow hedges, EUR -1 million, has been booked in financial items and specified in Note 8. Financial income and expenses.

Currency distribution 2013

%	Net sales	Operating costs	Trade receivables	Trade payables
EUR	59	56	63	78
USD	24	7	22	3
NOK	3	11	3	5
GBP	2	3	1	2
CHF	1	2	1	3
Other EU currencies		2		2
SGD	1	3	2	1
SAR	2	1		
BRL	1	2	1	1
INR	1	1	1	
CNY	1	3	1	1
JPY		1		1
Other currencies	5	8	5	3
Total	100	100	100	100

Interest rate risk

Wäertsilä is exposed to interest rate risk primarily through market value changes to the net debt portfolio (price risk) and also through changes in interest rates (re-fixing on rollovers). Wäertsilä hedges interest rate exposure by using derivative instruments such as interest rate swaps, futures and options. Changes in the market value of these derivatives are recognised directly in the statement of income. Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis.

Interest-bearing loan capital at the end of 2013 totalled EUR 665 million (794). The average interest rate was 1.7% (2.0) and the average re-fixing time 17 months (21). At the end of 2013, a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 14 million (14) increase/decrease in the value of the net debt portfolio, including derivatives.

Wäertsilä spreads its interest rate risk exposure by taking both fixed and floating rate loans. The share of floating rate loans as a proportion of the total debt can vary between 30–70%. At the end of 2013 the floating rate portion of total loans was 41% (49) after adjustment for interest rate derivatives. A one percentage point change in the interest level would cause a EUR 3 million (4) change in the following year's interest expenses of the debt portfolio, including derivatives.

Additional information related to loans can be found in Note 16. Financial assets and liabilities by measurement category and Note 23. Financial liabilities.

Liquidity and refinancing risk

Wärtsilä ensures sufficient liquidity at all times by efficient cash management and by maintaining sufficient committed and uncommitted credit lines available.

The existing funding programmes include:

- Committed Revolving Credit Facilities totalling EUR 599 million (554)
- Finnish Commercial Paper programmes totalling EUR 800 million (700)

The average maturity of the long-term debt is 44 months (44) and the average maturity of the confirmed credit lines is 37 months (29). Additional information in Note 23. Financial liabilities.

The Group had cash and cash equivalents totalling EUR 388 million (225) at the year end as well as EUR 599 million (554) non-utilised committed credit facilities. Commercial Paper programme utilisation amounted to EUR 14 million (141). Wärtsilä minimises its refinancing risk by having a balanced and sufficiently long loan portfolio.

Revolving credit facilities

MEUR

Year	Maturing	Available (end of the year)
2013		599
2014	30	569
2015	160	409
2016	99	310
2017	100	210
2018	160	50
2019	50	

Credit risk

The responsibility for managing the credit risks associated with ordinary commercial activities lies with the Businesses and the Group companies. Major trade and project finance credit risks are minimised by transferring risks to banks, insurance companies and export credit organisations.

The credit risks related to the placement of liquid funds and to trading in financial instruments are minimised by setting explicit limits for the counterparties and by making agreements only with the most reputable domestic and international banks and financial institutions.

The Group companies deposit the maximum amount of their liquid financial assets with the centralised treasury (Wärtsilä Group Treasury) when local laws and central bank regulations allow it. The Group's funds are placed in instruments with sufficient liquidity (short-term bank deposits or Finnish Commercial Papers) and rating (at least single-A rated instruments or other instruments approved by the Group's CFO). These placements are constantly monitored by Wärtsilä Group Treasury and Wärtsilä does not expect any future defaults from the placements.

Aging of trade receivables

MEUR	2013		2012	
	Trade receivables	of which impaired	Trade receivables	of which impaired
Not past due	648	1	746	
Past due 1–30 days	161		135	
Past due 31–180 days	171	4	165	2
Past due 181–360 days	113	9	73	5
Past due 1 year	114	46	70	53
Total	1 207	61	1 189	60

In 2013, EUR 13 million (8) provisions for doubtful receivables have been recognised in the consolidated statement of income.

The Group sells trade receivables in an amount that is currently not significant compared to the trade receivables as a whole. Sold receivables have been de-recognised in the consolidated statement of financial position.

Trade payables

The Group has a Supplier Chain Financing program in an amount that is currently not significant compared to trade payables as a whole, and such supplier invoices are presented as trade payables in the consolidated statement of financial position.

Equity price risk

Wärtsilä has equity investments totalling EUR 12 million (11) in power plants companies, most of which are located in developing countries and performing well according to expectations. Additional information in Note 14. Available-for-sale financial assets.

Capital risk management

Wärtsilä's policy is to secure a strong capital base to keep the confidence of investors and creditors and for the future development of the business. The capital is defined as total equity including non-controlling interests and net interest-bearing debt. The target for Wärtsilä is to maintain gearing below 0.50 and to pay a dividend equivalent to 50% of operational earnings per share.

MEUR	31.12.2013	Restated 31.12.2012
Interest-bearing liabilities, non-current	571	545
Interest-bearing liabilities, current	94	249
Cash and cash equivalents	-388	-225
	277	569
Loan receivables	-1	-2
Net interest-bearing debt	276	567
Total equity	1 884	1 791
Gearing	0.15	0.32

In the capital management Wärtsilä also follows the solvency development:

Equity and liabilities	5 209	5 036
Advances received	-913	-695
	4 296	4 341
Solvency ratio, %	43.9	41.3

32. Events after the balance sheet date

On 29 January 2014, Wärtsilä announced plans to realign its organisation to secure future profitability and competitiveness. The Group-wide efficiency programme is expected to lead to a reduction of approximately 1,000 employees globally, of which about 200 are planned to be in Finland. The reductions will impact all businesses and support functions. With these actions Wärtsilä seeks annual savings of EUR 60 million. The effect of these savings is expected to materialise fully by the end of 2014. The non-recurring items related to the restructuring measures will be EUR 50 million. Of these costs EUR 11 million was recognised in 2013, as certain measures were initiated at the end of the year.

Parent company income statement (FAS)

MEUR	Note	2013	2012
Other operating income	<u>1</u>	71	71
Personnel expenses	<u>2</u>	-41	-38
Depreciation, amortisation and impairments	<u>3</u>	-10	-11
Other operating expenses		-87	-88
Operating result		-67	-66
Financial income and expenses	<u>4</u>		
Income from financial assets		107	197
Interest income and other financial income		34	41
Exchange gains and losses		-1	-27
Interest expenses and other financial expenses		-29	-31
		111	180
Result before extraordinary items		44	113
Group contribution	<u>5</u>	161	160
Result before appropriations and taxes		205	273
Change in depreciation difference		3	-2
Result before taxes		208	271
Income taxes	<u>6</u>	-33	-19
Result for the financial period		174	253

Parent company balance sheet (FAS)

MEUR	Note	31.12.2013	31.12.2012
ASSETS			
Fixed assets	<u>7</u>		
Intangible assets			
Other long-term expenditure		15	20
Construction in progress		5	3
		20	23

Tangible assets			
Land and water		8	7
Buildings and structures		1	1
Machinery, equipment and other tangible assets		1	1
Construction in progress		3	4
		<u>13</u>	<u>13</u>
Financial assets			
Shares in Group companies		450	450
Other shares and securities		2	6
		<u>452</u>	<u>456</u>
Total fixed assets		485	492
Non-current receivables			
Receivables from Group companies	<u>8</u>	44	320
Loan receivables		2	15
		<u>46</u>	<u>335</u>
Current receivables			
Receivables from Group companies	<u>9</u>	2 042	1 929
Other receivables		1	2
Prepaid expenses and accrued income	<u>10</u>	33	43
		<u>2 076</u>	<u>1 974</u>
Cash and bank balances		243	103
Total current assets		2 365	2 411
Assets		2 850	2 903

MEUR	Note	31.12.2013	31.12.2012
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EQUITY AND LIABILITIES

Equity	<u>11</u>		
Share capital		336	336
Share premium reserve		61	61
Retained earnings		853	797
Result for the financial period		174	253
Total equity		1 424	1 447
Accumulated appropriations			
Depreciation difference		8	10
Provisions		22	15

Liabilities	<u>12</u>		
Non-current			
Loans from credit institutions		469	346
Loans from pension insurance companies		80	117
Liabilities to Group companies	<u>14</u>		53
		549	517
Current			
Loans from credit institutions		31	28
Loans from pension insurance companies		37	51
Trade payables		5	6
Liabilities to Group companies	<u>14</u>	697	649
Other current liabilities		15	141
Accrued expenses and deferred income	<u>13</u>	62	39
		848	915
Total liabilities		1 397	1 431
Equity and liabilities		2 850	2 903

Parent company cash flow statement (FAS)

MEUR	2013	2012
Cash flow from operating activities:		
Result before extraordinary items	44	113
Adjustments for:		
Depreciation and amortisation	10	11
Gains and losses on sale of intangible and tangible assets	-25	-1
Financial income and expenses	-85	-179
Cash flow before changes in working capital	-57	-55
Changes in working capital:		
Assets, non-interest-bearing, increase (-) / decrease (+)	184	-34
Liabilities, non-interest-bearing, increase (+) / decrease (-)	28	-14
	212	-48
Cash flow from operating activities before financial items and taxes	154	-103
Interest and other financial expenses	-16	-68
Dividends received from operating activities	82	195
Interest and other financial income from operating activities	46	48
Income taxes paid	-6	-29
	106	146

Cash flow from operating activities	260	43
Cash flow from investing activities:		
Investments in tangible and intangible assets	-7	-14
Proceeds from sale of investments	29	1
Proceeds from sale of tangible and intangible assets		9
Loan receivables, increase (-) / decrease (+) and other changes	13	2
Dividends received		1
Cash flow from investing activities	35	-1
Cash flow after investing activities	295	42
Cash flow from financing activities:		
Loans receivables, increase (-) / decrease (+)	-52	-527
Current loans, increase (+) / decrease (-)	-86	-49
Proceeds from non-current borrowing	153	150
Repayments and other changes of non-current loans	-132	-83
Group contributions	160	273
Dividends paid	-197	-178
Cash flow from financing activities	-155	-413
Change in cash and bank balances, increase (+) / decrease (-)	140	-371
Cash and bank at beginning of period	103	474
Cash and bank at end of period	243	103

Accounting Principles for the Parent Company

The financial statements of the parent company, Wärtsilä Corporation, have been prepared in accordance with the provisions of the Finnish Accounting Standards (FAS).

The preparation of the financial statements requires management, in compliance with the regulations in force and good accounting practice, to make estimates and assumptions that affect the measurement and timing of the reported information. Actual results may differ from these estimates.

Transactions denominated in foreign currencies

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the exchange rates prevailing on that date. Open hedging instruments of foreign currency based items, including interest components, are valued at the balance sheet date. Exchange gains and losses related to business operations are treated as adjustments to other operating income and operating expenses. Exchange gains and losses related to financing operations are entered under financial income and expenses.

Research and development costs

Research and development costs are expensed in the financial period in which they occur.

Receivables

Receivables are valued to acquisition cost or to a lower probable value.

Fixed assets and depreciation and amortisation

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation. Certain land areas also include revaluations.

Depreciation and amortisation is based on the following useful lives:

Other long-term expenditure 3–10 years

Buildings 20–40 years

Machinery and equipment 5–20 years

Leasing

Lease payments are treated as rentals.

Extraordinary income and expenses

Extraordinary income and expenses consist of items, such as Group contributions, that fall outside the ordinary activities of the company.

Provisions

Provisions in the balance sheet comprise those items which the company is committed to covering either through agreements or otherwise, but which are not yet realised. Changes to provisions are included in the income statement.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, as well as adjustments to taxes in prior years. Taxes allocated to extraordinary items are shown in the notes to the financial statements.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

1. Other operating income

MEUR	2013	2012
Rental income	1	1
Services to Group companies	69	69
Other operating income		2
Total	71	71

2. Personnel expenses

MEUR	2013	2012
Wages and salaries	34	32
Pension costs	6	5
Other compulsory personnel costs	2	1
Total	41	38

Salaries and remunerations paid to senior management

The President and CEO and his deputy and members of the Board of Directors	2	2
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The President and CEO and some of the members of the Board of Management have the right to retire at the age of 60 years.

The Company's Board of Directors decides the remunerations of the President and CEO and his immediate subordinates.

Personnel on average during the year	320	311
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3. Depreciation and amortisation

MEUR	2013	2012
Depreciation and amortisation according to plan		
Other long-term expenditure	10	11
Total depreciation according to plan	10	11
Tax depreciations	7	14
Depreciation difference	3	-2
Depreciation difference		
Depreciation difference on 1 January	10	8
Change in the depreciation difference	-3	2
Depreciation difference on 31 December	7	10

4. Financial income and expenses

MEUR	2013	2012
Dividend income		
From Group companies	82	195
From other companies		1
Total	82	196
Other interest income		
From Group companies	29	35
From other companies		1
Total	29	36
Other financial income		
From Group companies	4	3
From other companies	12	8
Total	16	11
Exchange gains and losses	-1	-27
Interest expenses		
To Group companies	-6	-9
To other companies	-12	-15
Total	-18	-24
Other financial expenses		
To Group companies	-12	-4
To other companies	-12	-9
Total	-24	-13
Net income from sales of shares and securities	25	1
Financial income and expenses, total	111	180

5. Extraordinary income and expenses

MEUR	2013	2012
Group contributions received	161	160

6. Income taxes

MEUR	2013	2012
Income taxes		
for the financial period	-33	-19
Total	-33	-19
Income taxes on extraordinary items	39	39

7. Fixed assets

Intangible assets

MEUR	Other long-term expenditures	Construction in progress	Total 2013	Total 2012
Acquisition cost at January 1	135	3	139	140
Additions	2	3	5	11
Disposals				-12
Reclassifications	3	-2	1	
Acquisition cost at December 31	140	5	145	139
Accumulated amortisation at January 1	-115		-116	-107
Accumulated amortisation on disposals and other changes				3
Amortisation during the financial period	-10		-10	-11
Accumulated amortisation at December 31	-125		-126	-116
Carrying amount at 31 December 2013	15	5	20	
Carrying amount at 31 December 2012	20	3		23

Tangible assets

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress	Other tangible assets	Total 2013	Total 2012
Acquisition cost at January 1	7	11	11	4	2	35	33
Additions	1					1	3
Reclassifications				-1		-1	-1
Acquisition cost at December 31	8	11	11	3	2	35	35
Accumulated depreciation at January 1		-10	-11		-1	-23	-23
Accumulated depreciation at December 31		-10	-11		-1	-23	-23
Carrying amount at 31 December 2013	8	1		3	1	13	
Carrying amount at 31 December 2012	7	1		4	1		13

Shares and securities

MEUR	Shares in Group companies	Receivables from Group companies	Shares in other companies	Total 2013	Total 2012
Acquisition cost at January 1	450		6	456	457
Additions					
Disposals			-4	-4	-1
Acquisition cost at December 31	450		2	452	456
Carrying amount at 31 December 2013	450		2	452	
Carrying amount at 31 December 2012	450		6		456

8. Non-current receivables

MEUR	2013	2012
Receivables from Group companies		
Loan receivables	44	320
Total	44	320

9. Current receivables from Group companies

MEUR	2013	2012
Trade receivables	3	4
Loan receivables	2 007	1 911
Prepaid expenses and accrued income	32	13
Total	2 042	1 929

10. Prepaid expenses and accrued income

MEUR	2013	2012
Derivatives	26	16
Other financial items	5	9
Income and other taxes		15
Other	2	2
Total	33	43

11. Shareholders' equity

MEUR	2013	2012
Share capital		
Share capital on January 1	336	336
Share capital on December 31	336	336
Share premium reserve		
Share premium reserve on January 1	61	61
Share premium reserve on December 31	61	61
Retained earnings		
Retained earnings on January 1	1 050	974
Dividends paid	-197	-178
Result for the financial period	174	253
Retained earnings on December 31	1 027	1 050
Total shareholders' equity	1 424	1 447
Distributable equity	1 027	1 050

Free share issue approved by Wärtsilä Corporation's Annual General Meeting on 3 March 2011 increased the total number of Wärtsilä shares to 197 241 130.

12. Liabilities

MEUR	2013	2012
Non-current		
Interest-bearing	549	517
Total	549	517
Current		
Non-interest-bearing	98	65
Interest-bearing	750	849
Total	848	915

Debt with maturity profile

2013 MEUR	Current	Long-term		Total
	< 1 year	1-5 years	> 5 years	
Loans from financial institutions	31	310	159	499
Loans from pension institutions	37	80		117
Total	68	390	159	617

2012 MEUR	Current	Long-term		Total
	< 1 year	1-5 years	> 5 years	
Loans from financial institutions	28	225	121	375
Loans from pension institutions	51	110	8	168
Total	79	335	129	543

13. Accrued expenses and deferred income

MEUR	2013	2012
Income and other taxes	12	
Derivatives	27	13
Personnel costs	17	13
Interest and other financial items	4	9
Other	4	4
Total	62	39

14. Liabilities to Group companies

MEUR	2013	2012
Other long-term liabilities		53
Trade payables	5	6
Other current liabilities	668	630
Accrued expenses and deferred income	24	14
Total	697	702

15. Collateral, contingent liabilities and other commitments

MEUR	2013 Debt in balance sheet	2012 Debt in balance sheet
Guarantees and contingent liabilities		
On behalf of Group companies	665	433
On behalf of associated companies	7	9
Total	672	442
Future nominal lease payments		
Payable within one year	2	3
Payable after one year	21	1
Total	23	4

16. Related party loans and other commitments

There are no loans receivables from senior management and the members of the Board of Directors. No pledges or other commitments were given on behalf of senior management or shareholders. In Note 27 in Consolidated financial statements, related party disclosures are specified. Related parties comprise the Board of Directors, the President and CEO, the Board of Management as well as the associated companies and joint ventures. In Notes 9 and 14 in Parent Company financial statement, receivables and liabilities from Group companies are specified.

17. Auditor's fees and services

The following fees were paid to auditors and accounting firms for audits and other services.

In 2013, the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditor.

Auditor's fees

TEUR	2013	2012
Audit	177	178
Tax advisory	136	281
Other services	289	107
Total	602	566

Proposal of the Board

The parent company's distributable funds total 1,027,025,847.20 euro, which includes 174,475,007.05 euro in net profit for the year. There are 197,241,130 shares with dividend rights.

The Board of Directors proposes to the Annual General Meeting that the company's distributable earnings be disposed of in the following way:

EUR

A dividend of EUR 1.05 per share be paid, making a total of	207 103 186.50
That the following sum be retained in shareholders' equity	819 922 660.70
Totalling	1 027 025 847.20

No significant changes have taken place in the company's financial position since the end of the financial year. The company's liquidity is good and in the opinion of the Board of Directors the proposed dividend will not put the company's solvency at risk.

Helsinki, Finland, 28 January 2014

Mikael Lilius
 Maarit Aarni-Sirviö
 Alexander Ehrnrooth
 Gunilla Nordström
 Matti Vuoria

Kaj-Gustaf Bergh
 Sune Carlsson
 Paul Ehrnrooth
 Markus Rauramo

Björn Rosengren, President and CEO

Auditor's report

To the Annual General Meeting of Wärtsilä Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Wärtsilä Corporation for the year ended 31 December, 2013. The financial statements comprise the consolidated statement of financial position, consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the President and CEO be discharged from liability for the financial period audited by us.

Helsinki, January 28, 2014

KPMG Oy Ab

Virpi Halonen
Authorized Public Accountant

Quarterly figures 2012–2013

Condensed Statement of Income					Restated	Restated	Restated	Restated
MEUR	Q4/2013	Q3/2013	Q2/2013	Q1/2013	Q4/2012	Q3/2012	Q2/2012	Q1/2012
Net sales	1 411	1 209	1 152	882	1 533	1 087	1 099	1 005
Other operating income	29	18	31	7	12	11	35	10
Expenses	-1 226	-1 071	-1 046	-793	-1 343	-958	-990	-889
Depreciation, amortisation and impairment	-29	-30	-32	-32	-38	-33	-35	-33
Share of result of associates and joint ventures	7	4	6	5	7	3	-1	1
Operating result	191	130	110	69	171	110	108	94
Financial income and expenses	-11	-4	-5	1	-9	-11	-11	-1
Net income from available-for-sale assets				25			1	
Profit before taxes	181	126	104	96	162	99	98	93
Income taxes	-33	-31	-25	-23	-37	-23	-22	-27
Profit for the financial period	147	95	79	73	124	77	77	66
Earnings per share, EUR	0.74	0.48	0.39	0.37	0.62	0.38	0.38	0.33
Order intake	1 351	1 097	1 071	1 352	1 357	1 275	1 198	1 109
Order book, at the end of the financial year	4 426	4 568	4 763	4 998	4 492	4 724	4 515	4 409
Number of personnel, at the end of the year	18 663	18 776	18 620	18 674	18 887	18 961	19 161	19 073