

ANNUAL REPORT 2011



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Message to the shareholders

Dear shareholders,

2011 was a year of change, both external and internal. In the beginning of the year, Mr Ole Johansson announced his retirement and I was appointed the new CEO as of 1 September 2011. The first indications of financial problems within the EU and US markets appeared during the summer. These problems have since escalated, eventually affecting GDP development globally. In July, we had to inform the markets that our guidance to grow sales in 2011 would not be achieved.

Despite these tough market conditions, we have performed well. I am especially pleased with the continued strength of our order intake, which grew by 13%, and also with the resilience shown in reaching our profitability targets with lower sales. This is a result of good order mix, successful execution and keeping our costs under control. After a very strong fourth quarter, we managed to reach 11.1% profitability and fulfill our order intake target. Wärtsilä's net sales for January-December 2011 totalled EUR 4,209 million, a decrease of 7.6% from the previous year. Unfortunately, this decrease in sales was slightly in excess of the estimated 0-5%.

The power plant markets remained active throughout the year with order intake at a good level. Only the first quarter order intake was below expectations, which also had an impact on the net sales development towards the year end. Market activity was strongest in the emerging markets' flexible baseload and industrial self-generation segments. In the marine markets, overcapacity in the merchant segment continued. However, active ordering in the more specialised types of vessels, such as offshore applications, LNG carriers and cruise ships, resulted in a significant increase in order intake, both for Wärtsilä Ship Power and for our Korean joint venture company. In the beginning of the year 2011, the services markets appeared to be picking up, but the uncertainty in the global economy began to have an impact during the summer, especially in Europe. By contrast, the Middle East, Asia, and the Americas continued to be active. The development was strongest in the power plant services and offshore services markets.

Our business strategies were reviewed during autumn 2011. This process has served to direct our activities over the coming years, and we now have a well-anchored plan for reaching our growth and profit targets.

The power generation markets are undergoing important changes, all of which increase the need for flexible and efficient gas based power generation. Wärtsilä, with its Smart Power Generation concept, is in a unique position to grow in these changing markets. We will seek growth in the large gas based utility business, and we also believe that we can influence the dialogue regarding tariff systems that could facilitate investments by utilities in back-up power. These efforts will be stepped up and co-ordinated by a new Corporate Relations function within group management.

In the marine markets, new environmental regulations regarding both emissions and ballast water are being implemented in the near future, presenting challenges for our customers. The regulations will drive demand for gas as a marine fuel, as well as for various environmental

solutions, including scrubbers. The development of environmental solutions and gas technology will be a priority for Wärtsilä in order to be able to serve the changing needs of our customers. We intend to make sure that we have the best gas engine technology, as well as the right competence and solutions for the safe and efficient handling of gas on board vessels. We also continue to develop our 2-stroke dual-fuel engines capable of running on low pressure gas.

Environmental regulations represent a business opportunity for both Ship Power and Services, and we will be making sure that we secure as large a share of these markets as possible. To strengthen our position in the offshore, the marine gas applications as well as the environmental solutions markets, we decided to acquire Hamworthy, a British company that has a strong product offering and position in these markets. I am delighted that the acquisition was finalised on 31 January 2012, and I welcome the management and employees of Hamworthy to Wärtsilä.

In 2011, all the hard work that was put into setting up joint ventures in China and South Korea began to pay off. The order intake in these companies was more than 30% of Wärtsilä Ship Power's total order intake, and we have decided to continue to strengthen our position in Asia. Also in 2011, we made the decision to start producing our 32 engine in China by establishing a joint venture for this purpose in Nantong.

Almost 40% of our net sales in 2011 came from Asia. It is important that Wärtsilä has a strong position in this part of the world where there are significant growth opportunities. However, competition is getting tougher in Asia, and we must make every effort to ensure that we remain cost competitive and that we retain our technical leadership. For this reason, we are also strengthening our technical resources in this part of the world, intensifying the search for good quality suppliers and continuing to seek lower product costs.

Wärtsilä's Services business is unique, representing more than 40% of our group's net sales with a network covering more or less the whole globe. This global network, and our skilled personnel, will help us in our strategy to become the market leader in our industry for environmental solutions. The Services business is crucial, not only for our equipment sales, but also for providing the resilience to withstand downturns. This business is a good platform on which to build and improve profitability.

To make our strategy successful, we must continue to secure the right competence and motivation among our people. In order to put more emphasis on our people strategy, Wärtsilä's Director of Human Resources was appointed a Group Vice President and part of the Board of Management as of 1 January 2012. We believe in a diversified management that represents employees of different nationalities and genders, and we are committed to equal opportunities within Wärtsilä.

Environmentally sound solutions are our key contribution to sustainable development. This work is supplemented by conducting our operations in a responsible way. In this context, we are committed to supporting the UN Global Compact and its ten principles with respect to human rights, labour, the environment, and anti-corruption.

Looking ahead, the pipeline of potential orders for Power Plants is promising and the power generation market is expected to remain at a good level in 2012. In the marine market, the contracting mix is expected to be in line with that seen in 2011, favouring contracting for offshore and other more specialised segments. There are no major changes in the service market outlook. The acquisition of Hamworthy will provide important synergies. It will increase our earnings in 2012; however, it will have a slightly negative impact on our profitability for the year. Taking into account the Hamworthy acquisition, we expect our net sales for 2012 to grow by 5-10% and our operational profitability to be 10-11%.

Overall, I am very excited and optimistic about Wärtsilä and the opportunities that exist to further grow and improve profitability, even if this means hard work in tough market conditions. By focusing on our three growth areas of gas, environmental services and Smart Power Generation, we will have a good chance of success. The Hamworthy acquisition is also important in reaching our ambitious targets.

I would like to thank our shareholders for their interest in our company, our customers for trusting us with their business, and the entire Wärtsilä organisation for doing a great job and keeping up the spirit.



Björn Rosengren

President & CEO

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 2011, Wärtsilä's net sales totalled EUR 4.2 billion with approximately 18,000 employees. The company has operations in nearly 170 locations in 70 countries around the world. Wärtsilä is listed on the NASDAQ OMX Helsinki, Finland.

Businesses in brief

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 solutions for power generation markets, from base load generation to peaking and load following, as well as dynamic system balancing and ultra-fast grid reserve for current and future capacity markets. Our fast track deliveries of complete power plants, together with long-term operation and maintenance agreements, offer our customers flexible capacity in both urban areas and the most demanding remote environments.

Ship Power

Wärtsilä enhances the business of its customers by providing solutions for the marine industry that are environmentally sustainable, efficient, flexible, and economically sound. Our solutions are based on our customers' needs and include products, systems and services. Being a technology leader in this field 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 wherever our customers are – and in the most environmentally sound way possible.

Wärtsilä's operating environment

During 2011, uncertainty over the global economic development increased. Compared to 2010, global GDP growth decreased from 5.1% to 4.0%. While the EU and the US economies suffered the most, the non-OECD countries experienced better development. The majority of Wärtsilä Power Plants' orders came from the emerging markets and the economic development in those markets remained on a good level. The decreasing GDP growth had a negative impact on certain Ship Power and Services marine customer groups, especially in the merchant markets and in Europe. Further GDP growth would be required for the merchant market to absorb the current overcapacity and for activity in vessel contracting to increase. Due to the overcapacity and low freight rates in the marine markets, there is less spending on discretionary maintenance and investments.

In 2011, oil prices escalated compared to the previous year, which had a positive impact on the offshore industry. High mineral prices supported especially mining sector investments in new capacity and power generation. In 2011, approximately 68% of sales and 61% of operating costs were denominated in euro and exchange rate changes did not have a significant impact on our result.

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, as well as in gas-fuelled engines and related systems for the marine market. We also seek growth in environmental solutions, including scrubbers and ballast water treatment 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. Our production and supply chain management serves both our end markets, and 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 R&D provides another source of synergies, allowing 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.

Values

<p style="font-size: 2em; margin: 0;">VALUES</p> <p>ENERGY Capture opportunities and make things happen.</p> <p>EXCELLENCE Do things better than anyone else in our industry.</p> <p>EXCITEMENT Foster openness, respect and trust to create excitement.</p>	<p style="font-size: 1.5em; margin: 0;">MISSION</p> <p>We provide lifecycle power solutions to enhance the business of our customers, whilst creating better technologies that benefit both the customer and the environment.</p> <p style="font-size: 1.5em; margin: 10px 0 0 0;">VISION</p> <p>We will be the most valued business partner of all our customers.</p>
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Sustainability

Environmental targets

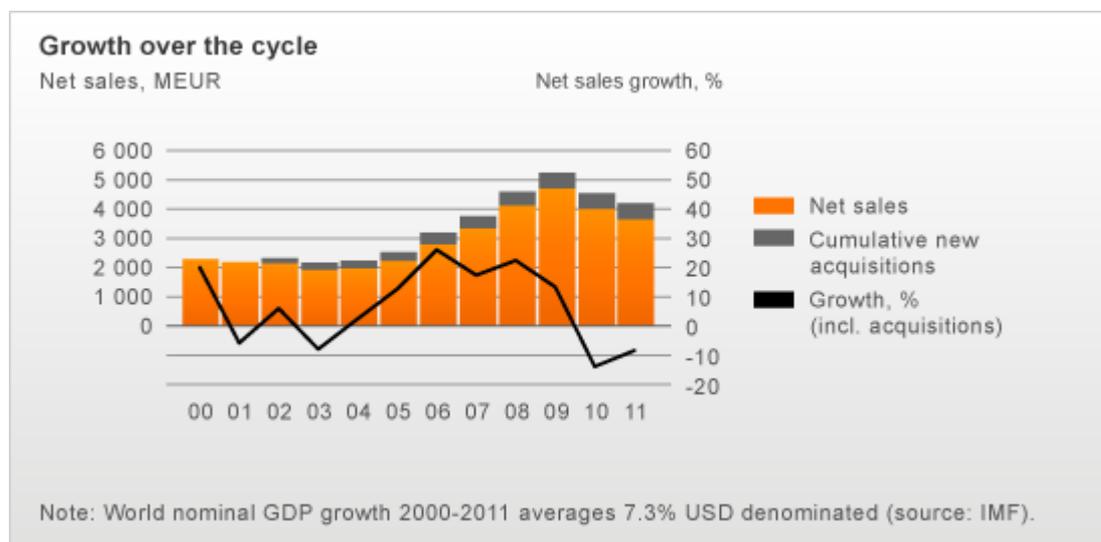
Wärtsilä's overriding promise is to supply power solutions that offer high efficiency with low environmental load. Our objective is to continuously improve the environmental performance of our products and services, as well as to maintain technological leadership by utilising new technologies and collaborating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

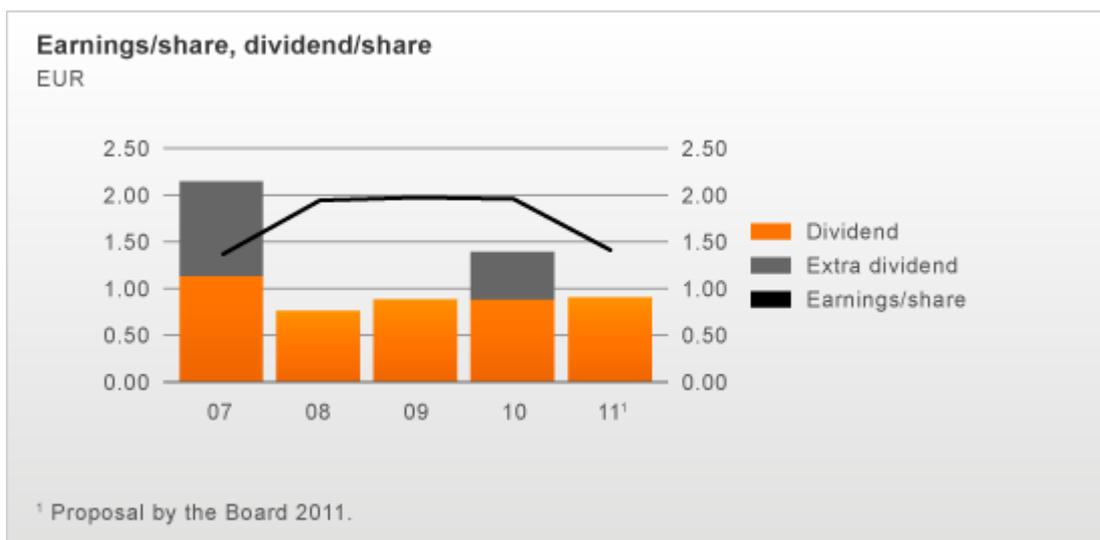
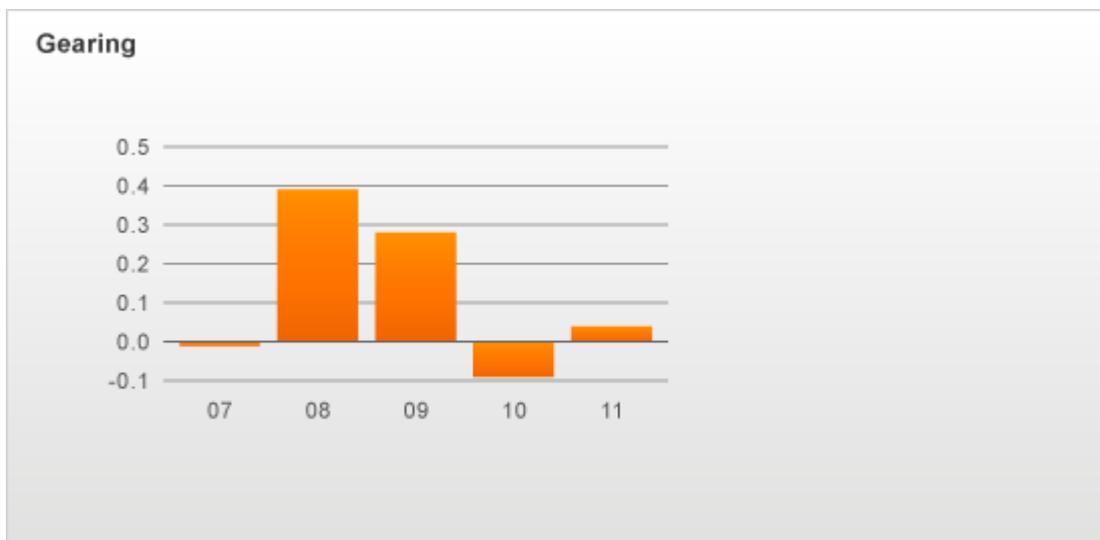
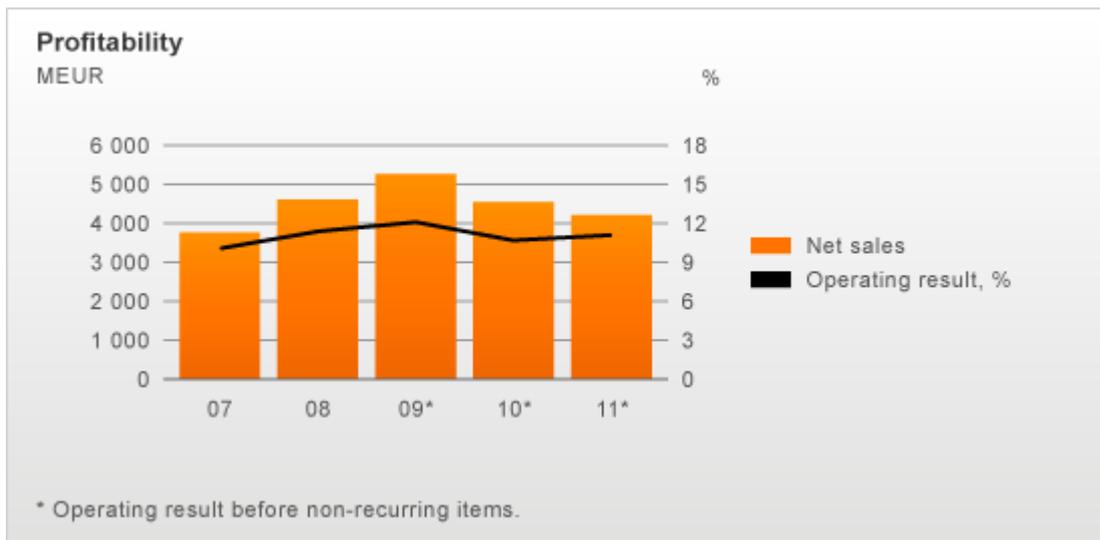
Social responsibility targets

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 opportunity 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.

Financial targets

Target	Development 2011
Net sales	
Our target is to grow faster than global GDP.	In 2011, Wärtsilä's net sales decreased 7.6% to EUR 4,209 million. Wärtsilä's CAGR 2000-2011 was 5.7%. In the WEO January 2012 report, economic growth is estimated to be 3.3% in 2012. Wärsilä estimates that its net sales will grow 5-10% in 2012.
Profitability	
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%.	In 2011, our operating profit was EUR 469 million, 11.1% of net sales.
Capital structure	
Our target is to maintain gearing below 0.50.	In 2011, our gearing was 0.04.
Dividend	
Our target is to pay a dividend equivalent to 50% of earnings.	The Board of Directors proposes that a dividend of 0.90 euro per share be paid for the financial year 2011.





The year 2011 in brief

The year 2011 was marked by good growth in order intake and resilience in profitability, despite lower net sales. The order intake increased by 13% compared to the previous year. Order intake for Power Plants grew by 13% and for Ship Power by 52%. The book-to-bill climbed over one for the first time since 2008. Wärtsilä's net sales totalled EUR 4,209 million, a decrease of 7.6% from the previous year. This was slightly more than the estimated decrease of 0-5%, and it was mainly due to delayed power plant deliveries. The operating profit (EBIT) was 11.1% of net sales (10.7), which was well in line with Wärtsilä's estimate for 2011. The continued good profitability was a result of a good mix of orders, successful execution, and keeping our costs under control.

2011 was also a year of changes. Wärtsilä's new President & CEO, Björn Rosengren, assumed his position on 1 September 2011. The economic environment also changed significantly, with the financial problems within the EU and US markets starting to escalate during the summer, eventually affecting GDP development globally. Despite this, the growing emerging markets continued to invest in new power generation capacity. During the year, Wärtsilä received several power plant orders relying on the benefits of Wärtsilä's Smart Power Generation concept. Ship Power order intake development was strong in offshore and other specialised vessel segments, due to robust contracting activity in the corresponding vessel types. Ordering activity was also high in the LNG carrier markets, resulting in a strong order intake for our Korean joint venture. The uncertainty in the global economy began to have an impact on the marine service market, especially in Europe and in the merchant vessel market. However, this development was offset by higher activity levels in markets such as offshore and power plant services, resulting in Services' net sales remaining stable during 2011.

Several strategic investments were made during 2011. In June, Wärtsilä and Jiangsu CuiXing Marine Offshore Engineering Co. Ltd. agreed to establish a joint venture in China for the manufacture of Wärtsilä 26 and Wärtsilä 32 medium-speed marine engines. In July, Wärtsilä acquired Cedervall, one of the leading manufacturers of shaft seal and bearing systems for the marine industry, and in November, Wärtsilä inaugurated its new spare parts distribution centre in Kampen, the Netherlands. To strengthen our position in the offshore, marine gas application, and environmental solutions markets, we acquired Hamworthy, a British company that has a strong product offering and position in these markets.

Key figures

MEUR	Q4 /		Q3 /		Q2 /		Q1 /	
	2011	2011	2011	2011	2011	2011	2010	2009
Net sales	4 209	1 238	851	1 036	1 083	4 553	5 260	
Power Plants	1 365	413	243	360	349	1 525	1 645	
Ship Power	1 022	309	197	223	294	1 201	1 767	
Services	1 816	513	412	452	439	1 823	1 830	
Depreciation and amortisations	-113	-29	-27	-28	-29	-116	-165	
Operating result ¹	469	145	94	117	113	487	638	
Operating result ¹ , %	11.1	11.7	11.0	11.3	10.4	10.7	12.1	
Profit before taxes	429	131	83	108	107	548	558	
Earnings per share ¹ , EUR	1.52	0.48	0.28	0.39	0.38	1.68	2.15	
Balance sheet total	4 600	4 600	4 439	4 396	4 533	4 696	4 655	
Interest-bearing liabilities, gross	652	652	604	607	618	628	664	
Cash and cash equivalents	592	592	658	541	619	776	244	
ROI, %	20.4	-	-	-	-	26.0	29.9	
Gearing	0.04	0.04	-0.03	0.04	0.00	-0.09	0.28	
Order book, end of period	4 007	4 007	4 042	3 779	3 669	3 795	4 491	
Order intake	4 516	1 250	1 118	1 170	979	4 005	3 291	
Personnel, end of period	17 913	17 913	17 875	17 654	17 526	17 528	18 541	
Year-end market capitalisation	4 402	-	-	-	-	5 631	2 768	

¹ Figures exclude non-recurring restructuring items and selling profits.

Wärtsilä Power Plants

Wärtsilä Power Plants provides superior value to its customers by offering decentralised, flexible, efficient, and environmentally advanced energy solutions. Our tried and tested power plants are modular and are provided with full lifecycle support.

Our business is divided into four segments

Flexible baseload

Wärtsilä supplies flexible baseload power plants mainly to developing markets, islands, and remote locations. Energy consumption growth in these markets is driving a steadily increasing demand for new power generation solutions. Wärtsilä's customers in this segment are mainly utilities and Independent Power Producers (IPP). Typical customer needs include competitive lifecycle costs, reliability, world-class product quality, fuel and operational flexibility, as well as operations & management services. Wärtsilä is in a strong position to cater to all these needs. Flexible baseload power plants are run on both liquid fuels and gas.

Grid stability and peaking

Wärtsilä's grid stabilising power plants enable greater integration of renewables, such as wind, solar and hydro power. We offer dynamic solutions for systems support, reserve power, peaking needs, and to meet requirements in regions with rapidly growing wind power capacity. Customers in this segment are mainly utilities and IPP's, as well as transmission system operators. The strengths of Wärtsilä's products include their rapid start and ramp up, their ability to operate at varying loads, the competitive electricity generation and capacity costs, as well as 24/7 support service. These features are essential for successfully balancing systems that utilise solar and wind with constant variations in output. Grid stability and peaking plants are mainly fuelled by gas.

Industrial self-generation

Wärtsilä provides power plant solutions to industrial manufacturers of goods, such as cement, textiles and mining. These customers are mainly private companies, and reliability, reduced energy costs, and independence from the grid are among the key factors in their decision making. Power plants in this segment are run on either gas or liquid fuel, depending on fuel availability.

Solutions for the oil & gas and nuclear industries

Wärtsilä provides the oil and gas industry with engines for field power, gas compression stations and pumping stations. Typical customer needs include maximum running time, fuel flexibility, reliability, long-term engineering support, and 24/7 service. The solutions we offer can operate on natural gas, associated gas, crude oil and heavy fuel oil. Wärtsilä also provides emergency power applications for the nuclear industry.

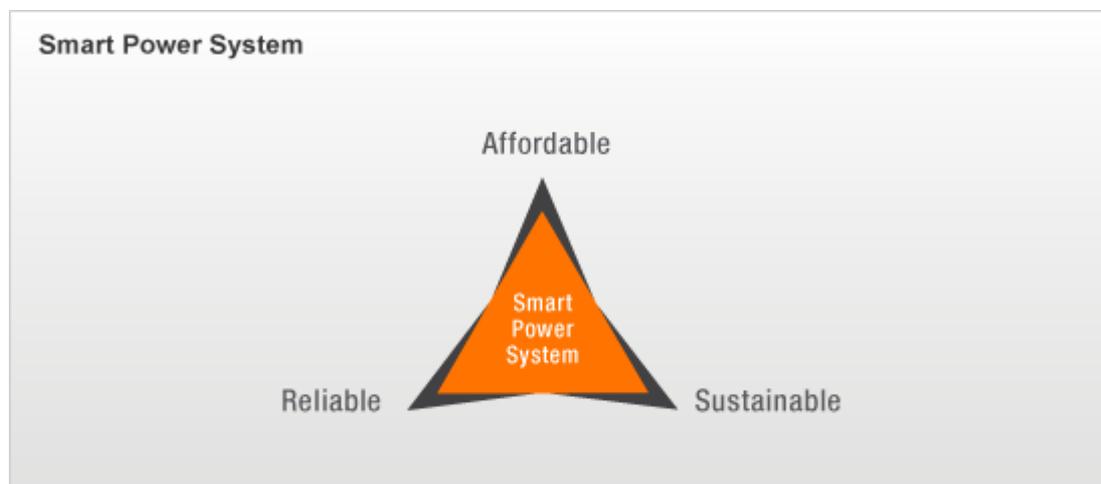
Smart Power Generation

The quest for lower carbon emissions requires the installation of large quantities of renewable capacity, the variability of which creates major system balancing challenges. The current power generation capacity mix is not able to adapt to these challenges in an efficient way. What is needed is dynamic and flexible capacity for system balancing.

Wärtsilä has introduced the Smart Power Generation concept, which enables a global transition to a sustainable, reliable, and affordable energy infrastructure. Smart Power Generation can operate in multiple modes, from efficient base load power production to ultra fast dynamic system balancing. This concept offers flexibility in operation modes, dynamic features, high simple cycle energy efficiency, and a wide choice of fuels, which together form a unique combination of valuable features that bring benefits to both power systems and power producers.

Benefits to power systems:

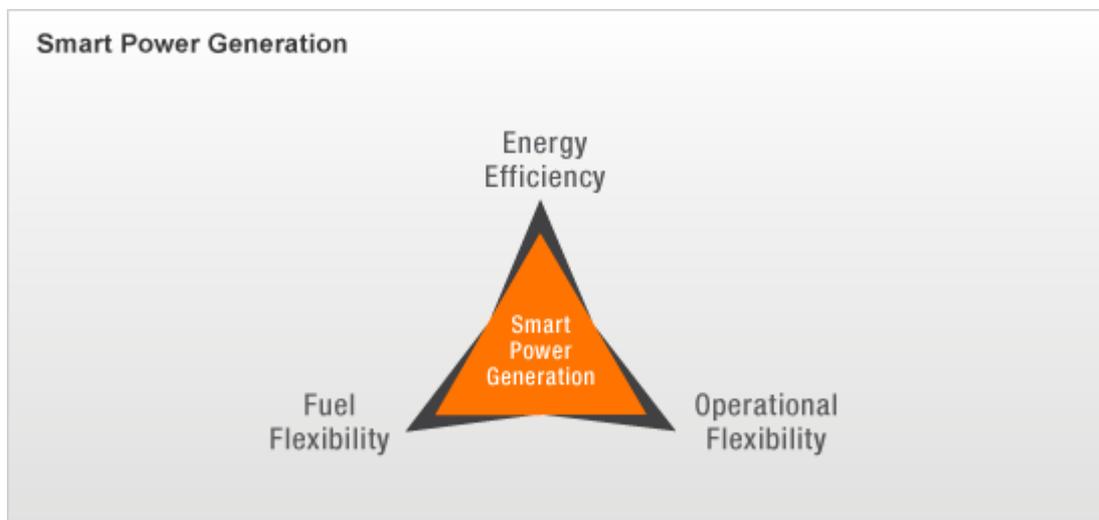
Smart Power Generation secures the supply of affordable and sustainable power by enabling the highest penetration of wind and solar power capacity and by ensuring system stability in variable conditions and contingency situations. In so doing, it improves the efficiency of the system and reduces emissions, thereby optimising the overall operations of the power system. Finally, significant savings in grid investments can be attained since Smart Power Generation capacity can be installed in load pockets, thus shaving peaks in the load.



Benefits to power producers:

Smart Power Generation solutions operate in multiple markets, supplying power to energy markets and offering fast starting and stopping, as well as efficient ramping capabilities to the ancillary services and capacity markets. These solutions provide high efficiency and dispatchability, enabling greater earnings potential. The energy efficiency of our plants is high in both single cycle and combined cycle modes, as well as in any ambient conditions and over a wide load range. Our power plants provide a continuous choice of various liquid, gaseous and renewable fuels, whichever is the most feasible. Most of our products have multi-fuel capabilities and all can be converted to run on another fuel. Our power plants are dependable and can be constructed in multiple parallel generation units. The modular construction enables plants to be

optimally located close to the end-user customers, as well as construction in phases, according to the customer's needs. Further benefits of our power plants include our fast track delivery capabilities, as well as their competitive O&M costs.



Power Plants operating environment

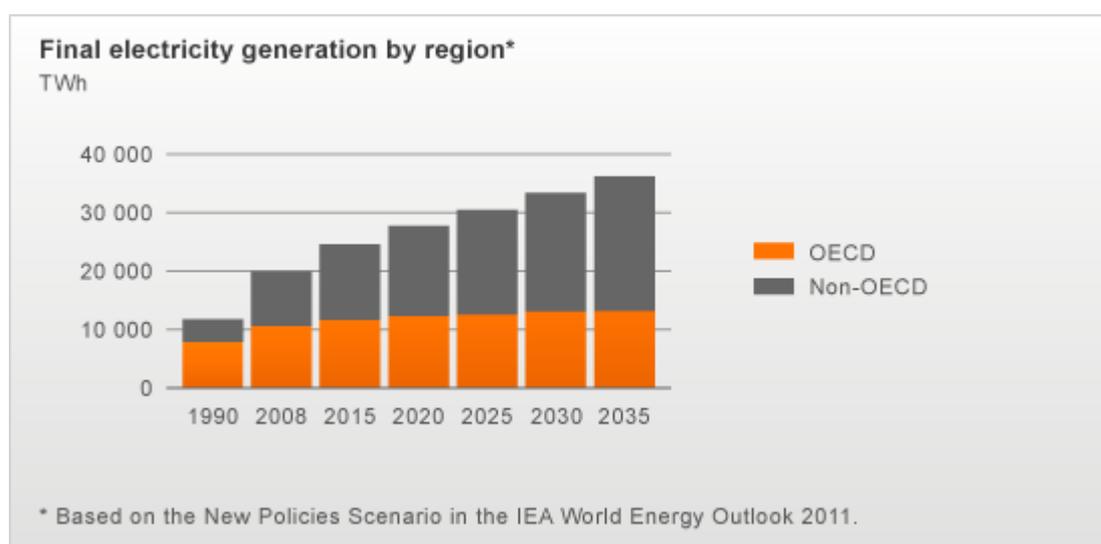
The Power Industry

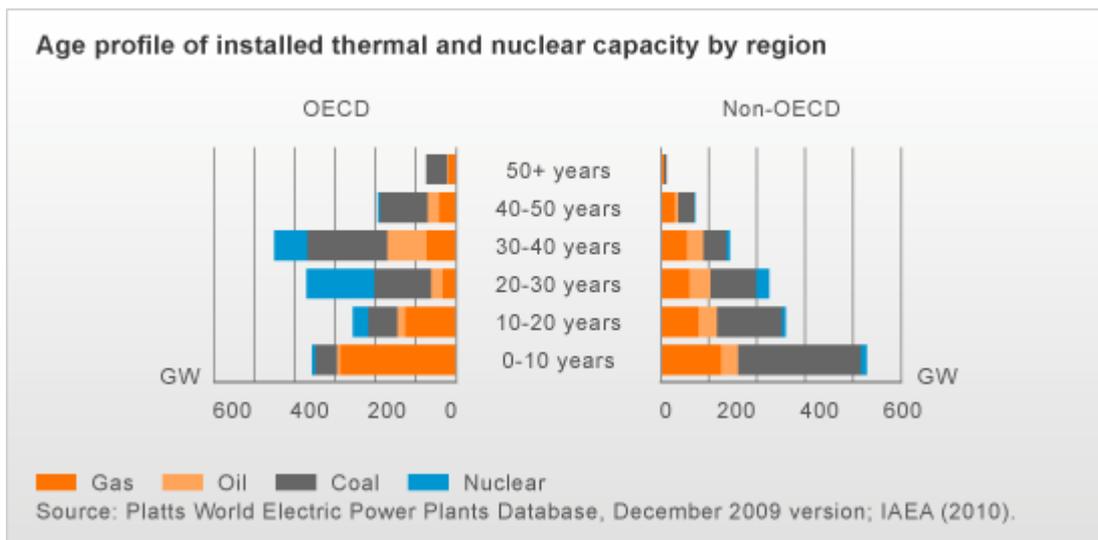
The main market segments covered by Power Plants are Flexible baseload, Grid stability and peaking, Industrial self-generation and the Oil & Gas industry. The main customer groups within these markets are utilities, Independent Power Producers (IPP's), industrial manufacturers in industries such as the cement, mining and textile industries as well as oil & gas industry customers.

Power plant projects are often significant investments. Wärtsilä's power plant projects are financed by the customer's own cash flow or through debt financing, typically from local financial markets. As a result, Wärtsilä's power plants are funded in many geographical markets. Wärtsilä does not provide funding to its customers, but provides support in finding funding solutions for them.

General market drivers in Power Plants

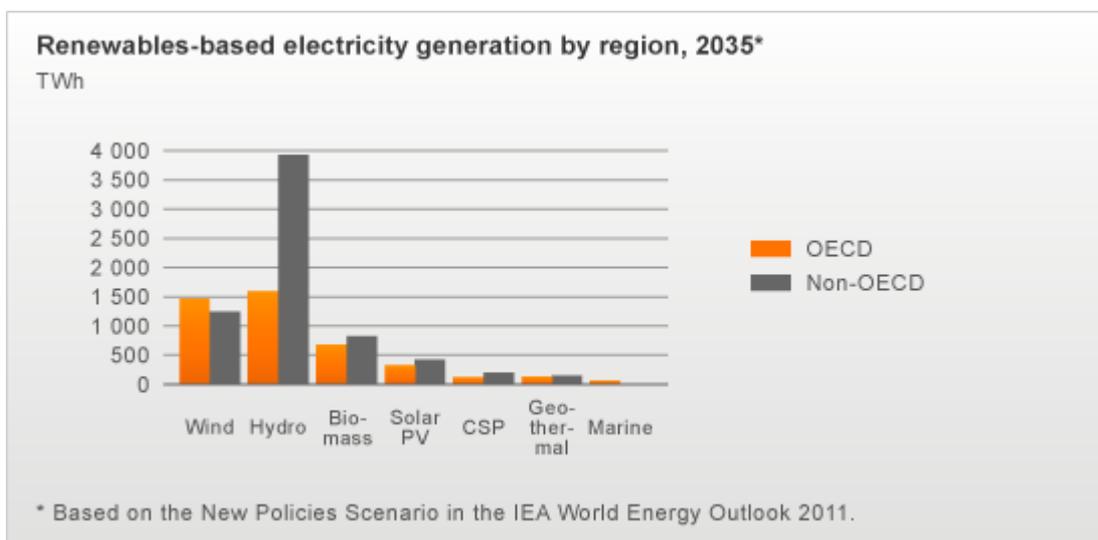
The demand for power generation is driven primarily by economic development. As electricity consumption grows, the demand for both new power generation equipment and replacement equipment for older capacity increases correspondingly. Looking ahead, growth is expected to be higher in non-OECD countries, due to increasing industrialisation and improving living standards. The majority of Wärtsilä Power Plants' orders comes 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 mineral prices. The demand for gas driven plants increases along with the introduction of gas networks to the emerging markets.

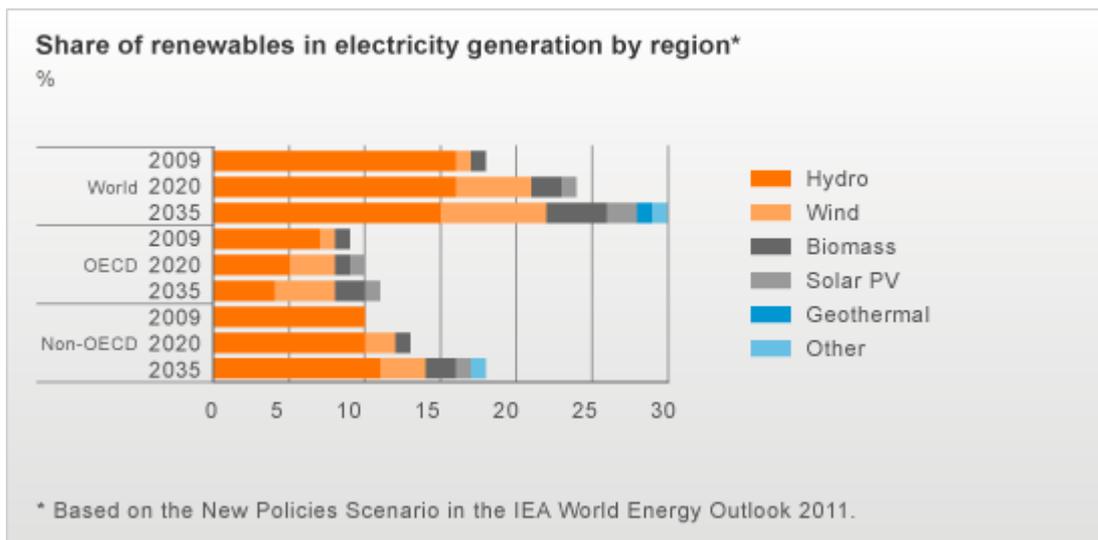




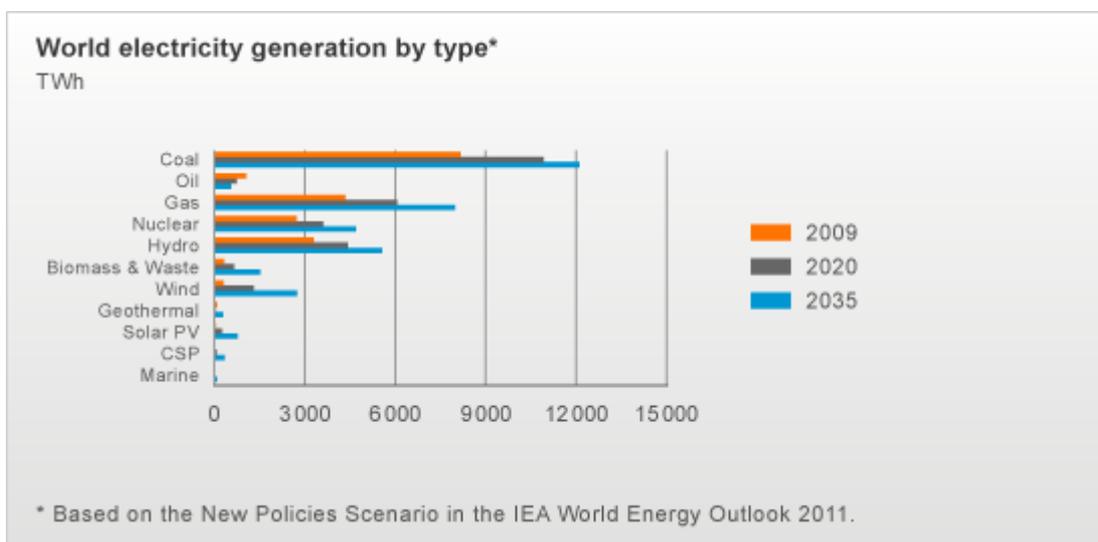
While the economic development is a less important driver in the OECD countries than in the non-OECD countries, the ageing installed capacity will drive demand for new investments.

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 flexible, reliable, and efficient power that Wärtsilä's solutions provide.





As gas is a flexible fuel with lowest emissions compared to other fossil fuels, the demand is expected to grow. This is further supported by increasing availability of gas due to growing LNG investments as well as unconventional sources such as shale gas becoming economical. The gas power plant capacity is expected to grow by 2% per year, and 70% of this growth is expected to occur in non-OECD countries. Wärtsilä is well positioned in these markets.



Power Plants competition

In larger liquid fuel or gas-fired projects, Wärtsilä often competes against gas turbine technology and other manufacturers of reciprocating engines. In the heavy fuel oil based power plant market, Wärtsilä's competitors are mainly other engine suppliers. We hold a leading position in this market, and our competitive strength is the ability to provide complete turnkey power plants combined with fuel and operational flexibility. In the gas power plant market, our competitors are both gas engine and gas turbine suppliers. Our main strengths compared to gas turbine technology are higher efficiency in varying loads and the capability to achieve fast starts without increased costs.

Main drivers for Wärtsilä's Power Plants business

- Economic development and growth in electricity consumption
- Growth in use of gas as fuel in power plants
- Environmental concerns and renewable energy investments
- Ageing generation capacity

Power Plants market development

Power plant markets remain solid

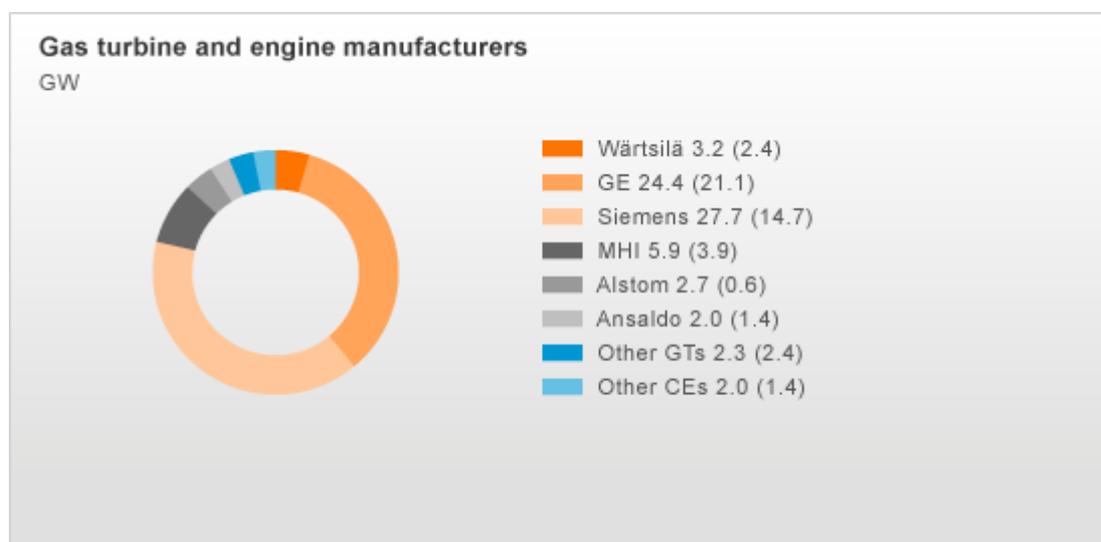
Power plant market activity was at a good level in 2011, showing a clear rebound in quoted MW levels at the end of the year. Quotations for gas power plants remained at a high level. During the review period, the growing emerging markets continued to invest in new power generation capacity. This created a good level of demand that was evenly spread across the globe. Market activity was strongest in the flexible baseload and industrial self-generation segments.

Power generation market overview

As energy consumption grows, the need for new power generation equipment increases, as does the demand for replacement equipment for older capacity. Today, the global installed power generation capacity totals approximately 5,400 GW, out of which approximately half is in OECD countries. Going forward, growth is expected to be stronger in the emerging markets, due to increasing industrialisation and rising living standards. The majority of Wärtsilä Power Plants' orders derive from the non-OECD countries. Heavy fuel oil (HFO) has traditionally been the dominant fuel for power generation in the emerging markets, but the demand for gas driven plants is increasing along with the introduction of a natural gas infrastructure. The industrialised countries have focused on the development of wind power and on increasing the share of natural gas power generation, the target being to ramp down old coal-based installations. In the US, the introduction of shale gas has been rapid and has made natural gas prices very competitive.

Power Plants market position

During the period July 2010 - June 2011, the overall market for gas and liquid fuel based power plants grew to approximately 70.1 GW (51.1). This includes all prime mover units of over 5 MW. Wärtsilä's share represents 4.5% of the market (4.8).



Power Plants strategy

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

- We will grow strongly in large gas power plant markets
- We will maintain our leading position in HFO power plants
- We will continuously develop our capabilities in power plants using renewables
- We aim to become a recognised player in oil & gas and emergency power applications

Our target segments for power generation are: flexible baseload power, grid stability & peaking, and industrial self-generation. We also offer solutions for the oil & gas and nuclear industries. Our products are based on tried and tested concepts and deliver competitive costs, high efficiency, operational flexibility, low environmental impact, and fuel flexibility.

Our strategic goal is to grow in the large gas power plant market for utilities by influencing and actively developing selected target markets. We will demonstrate the superiority of our value proposition, which is based on the highest single-cycle efficiency and on unbeatable operational flexibility. Our goal is to maintain our leading position in heavy fuel oil fired power plants. This will be done by further enhancing our value proposition through guaranteed performance, high efficiency, and unique operational and fuel flexibility. We will also seek growth in field power, pumping, and compression applications in the oil & gas markets, as well as in 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

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 being 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 activities. Wärtsilä strives to maintain a deep understanding of the needs of the market, and to develop its solutions in a way that enables them to contribute effectively to improved performance on the energy system level in various regions.

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 in reducing 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.

Smart Power Generation technology

The desired changes in the power generation capacity mix – namely to reduce coal dependency and increase wind and other low carbon base load power production – result in a need to achieve grid stability. Because of the greater variability of day/night load and generation and the inability of the energy system to elastically regulate and balance, new system stability solutions are required.

The intermittency of renewable energy generation necessitates the presence of dynamic power plants with the shortest possible activation and de-activation times. From a technical point of view, this typically requires that the generation units have capabilities that most of the currently installed power plants in the world do not possess, including:

- frequent and fast plant starts and stops without negative consequences for wear and tear
- cyclic operation with high up and down ramp rates
- high full and part load efficiency and
- a broad load range.

Smart Power Generation technology enables simultaneous high shares of wind and other low carbon sources of power in any future energy mix. The most sustainable dynamic reserve is hydropower with a reservoir, but in the areas where it is not adequately available, natural gas based dynamic power plants offer the most sustainable low carbon solution for system balancing. Wärtsilä's Smart Power Generation technology offers the highest efficiency of all thermal technologies capable of flexible dynamic operation. Furthermore, Wärtsilä's power plants are extremely efficient during the starts and stops and load changes, which are essential elements in system stabilisation and carbon minimisation. This will ultimately lead to a substantial reduction in

fuel consumption and emissions. As most Wärtsilä power plants consume no water and accept low gas pressure, they can be located inside the load pockets, in cities rather than on sea or river shores. It is also an important factor that Wärtsilä's technology does not suffer from dynamic operation – in fact cyclic operation has no effect on the maintenance schedule of the plant. This is unique, with no other competing technology offering the same qualities.

Wärtsilä Smart Power Generation technology for the energy system allows true operational optimisation of the entire system in a cost-efficient, reliable and sustainable way:

- Enables extremely low carbon levels from the total system
 - Enables the highest penetration of wind power and solar power capacity without balancing problems
 - Enables base load plants to operate on high output and efficiency – lowest CO₂
 - 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 were not / cannot be 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 and 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 fast cure of local capacity deficits

Towards low-carbon energy systems

Wärtsilä is able to provide optimised solutions for various market needs.

Market	Wärtsilä's role	Milestone in 2011
Western countries	Enable the development of low carbon power systems.	Two complete power plants with a total output of 250 MW for securing dynamic grid reserve to be installed in Estonia.
Emerging economies	Enable fast development of the power system, thus providing reliable power to boost economic development.	A gas-fired power plant (over 145 MW) to be installed in Turkey.
Islands	Provide islands with reliable and affordable power and enable the use of low carbon natural gas (LNG) through dual fuel solutions.	Two gas-fired Flexicycle power plants (totalling 430 MW) to be installed in the Dominican Republic. The dual-fuel flexibility of the plant enables the fuel switch from HFO to natural gas.

Wärtsilä Ship Power

Wärtsilä Ship Power's position is strong in all the main marine segments. Our in-depth understanding of our customers' businesses, combined with our extensive network, broad product portfolio, and ability to be involved as early as in the design process, enables us to support our customers throughout the lifecycle of their installations. We offer optimised, environmentally sustainable and economically sound solutions, which are developed based on our customers' needs.

Our customer structure is two-fold

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 installations, and the supplier's ability to manage large delivery scopes. Ship owners, on the other hand, require reliability, operational efficiency 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 optimised and operational efficiency, including environmental compliance, in their decision making.

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

Our offering covers all main customer segments

- Merchant – includes all vessels for seaborne transportation, such as container vessels, tankers, bulk carriers, LNG carriers, RoRo and other cargo vessels
- Offshore – includes vessels and platforms used in oil and gas exploration and production, as well as their support activities, drilling rigs and ships, anchor handling vessels, offshore research vessels, floating production units, platform supply vessels, etc.
- Cruise & Ferry – includes cruise vessels, passenger ferries, passenger/cargo ferries, fast ferries, and yachts
- Navy – includes various kinds of naval vessels and submarines
- Special vessels – includes a broad range of different vessels, the main categories being tugboats, fishing vessels, dredgers, and inland navigation and special service vessels

We have the most extensive product portfolio in the industry

Wärtsilä's integrated ship power solutions are efficient, economically sound, and environmentally sustainable. Our design capabilities, long heritage, and technological leadership form the basis of our reputation. Our offering is the broadest in the industry:

- Medium-speed diesel and gas engines
- Low-speed engines
- Propellers, propulsion packages
- Seals and bearings
- Automation systems
- Power distribution and management systems
- Integrated solutions
- Exhaust gas cleaning systems
- Ballast water treatment systems
- Ship design
- New optimised vessel concepts and other solutions

Together with our in-house experience and expertise, this extensive product offering enables us to interface throughout all lifecycle stages. Our ability to combine the products we offer into larger systems and solutions supports our strategy of being the sole ship power supplier to our customers. This strategy provides added value to both of our customer groups despite their differing priorities. Shipyard customers can focus on their areas of expertise and benefit from a lesser risk of product interface problems, while ship owners can rely on benefits related to operations and maintenance.

Growth through optimised solutions and natural gas

Our ship design capabilities enable us to offer our customer optimised, highly efficient solutions that create growth opportunities in lifecycle services. By combining our integrated solutions and ship design knowledge, we are able to create increased value for our customers. Participating in the planning and designing phase allows us to better understand customer needs and thereby establish a stronger competitive position. Our in-depth expertise in optimising vessels makes it possible for our customers to achieve both cost efficiencies and improved environmental performance.

The tightening environmental regulations have strengthened interest in using gas as a marine fuel, as powering vessels with gas allows our customers to meet both economic and environmental targets. Wärtsilä's dual-fuel technology has strong references in the marine markets. Our dual-fuel engines have recorded over 1.5 million running hours in over 70 marine applications. Environmental legislation is also driving interest in other vessel related technologies, such as the installation of scrubbers and ballast water treatment systems.

Ship Power operating environment

The marine industry

The main vessel segments covered by Ship Power are Merchant, Offshore, Cruise & Ferry, Navy and Special vessels. Ship Power customers comprise of both shipyards and ship owners.

General shipbuilding and shipping market drivers

The demand in the shipbuilding and shipping industries is mainly driven by the development of the global economy and its impact on trade and transportation capacity required. The global economy also influences the level of fuel prices, which in turn has both a direct and an indirect impact on the shipping and offshore industries. Other factors, such as shipyard capacity, new build prices, decommissioning and scrapping, interest and freight rates, and environmental considerations, also affect these industries. The main market driver for Wärtsilä Ship Power business is the global demand for new vessels, in particular regarding ships built for seaborne cargo transportation, offshore oil exploration and support, cruise and ferry services, and for naval contracting. Another important factor is the environmental regulation that drives demand for environmental solutions and gas as a marine fuel.

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 regulation

Competitors and market position

Wärtsilä Ship Power has continuously broadened its portfolio, which today ranges from engines and propulsion equipment to electrical equipment, automation and ship design. Our competitive advantage lies in having the broadest offering in the industry. This offering is backed by the capability to build environmentally sound solutions and by the best service support throughout the lifecycle of the product.

Equipment

Equipment offered by Wärtsilä	Main application*	Main competition**	Wärtsilä's market position
4-stroke main engines	Small tankers, small container vessels, LNG carriers, drillships, FPSO, offshore support/service vessels, cruise vessels, ferries, ro-pax vessels	MAN Diesel, Caterpillar (MAK), Hyundai Heavy Industries (HiMSEN), Niigata, Rolls-Royce	Market leader: Wärtsilä's share of the market approx. one third (in kW)
2-stroke engines (license-built)	Large merchant vessels: bulk carriers, tankers, container vessels	MAN Diesel, Mitsubishi Heavy Industries	Market challenger: Wärtsilä's share of the market approx. one sixth (in kW)
Auxiliary engines (medium-speed)	Generating sets for all vessel types	Highly fragmented market, price sensitive and heavy competition. Main competitors: MAN Diesel and its license manufacturers, Yanmar, the HiMSEN engine designed and manufactured by Hyundai Heavy Industries. High-speed engines also compete in this market.	Market challenger: Wärtsilä's share of the market 1-5%
Controllable Pitch Propellers (CPP)	Small container vessels, offshore supply/service vessels, FPSO, cruise vessels, ferries, dredgers	Rolls-Royce, Schottel	Fragmented market with several players. Wärtsilä amongst top players.
Fixed pitch propellers (FPP)	Large merchant ships (tankers, container vessels, bulk carriers), LNG carriers, drillships, cruise vessels, ferries, tugs, dredgers	Hyundai Heavy Industries, Mitsubishi Heavy Industries & Mecklenburger Metallguss	Fragmented market with several players. Wärtsilä amongst top players.
Tunnel thrusters	All vessel types	Rolls-Royce, Schottel, Brunvoll, Kawasaki	Market challenger

Equipment offered by Wärtsilä	Main application*	Main competition**	Wärtsilä's market position
Steerable thrusters	Drillships, FPSO, offshore support/supply vessels, pipelayers, AHTS (Anchor Handling Tug Supply), tugs	Rolls-Royce, Schottel	Fragmented market with several players. Wärtsilä amongst top players.
Seals and bearings	Merchant vessels: bulk carriers, tankers, container vessels	Michell (Rolls-Royce), Renk (MAN)	Market challenger
<p>* Only main applications of interest to Wärtsilä mentioned ** Only main competitors mentioned</p>			

Vessel segments

Segment	Vessel type	Main offering	Wärtsilä's value proposition and market trends	Competitive landscape
Merchant	Tankers	2-st engines, auxiliary engines, FPP, tunnel thrusters	Unique portfolio (including ship design) and service network. Environment and efficiency increasingly important, higher operative expenses boosting demand for efficient equipment and vessels.	MAN is the clear market leader in 2-stroke engines. The rest of the equipment: larger vessel sizes are typically standardised and equipment providers face intense and fragmented competition. On the other hand, more specialised applications (chemical tankers, shuttle tankers, and smaller vessels in general terms) provide opportunities for focusing on complete lifecycle solutions and efficiency. Dual-fuel engines are the leading technology used in LNG propulsion. Wärtsilä is the clear leader in this technology.
	Containers	2-st engines, auxiliary engines, FPP, CPP, tunnel thrusters, ship design, gearboxes		
	LNG	4-st main dual-fuel engines, 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		

Segment	Vessel type	Main offering	Wärtsilä's value proposition and market trends	Competitive landscape
Offshore	Exploration (floating): drillships, semisubmersibles, etc.	4-st engines, steerable thrusters, tunnel thrusters, FPP, electrical propulsion, automation, gearboxes	The most extensive single source offering and network, including ship design, project management and engineering. Emphasis on safety and reliability, as well as on energy, operational and environmental efficiency.	Few players other than Wärtsilä and Rolls-Royce provide an extensive offering. Competition divided by application, i.e. automation (Kronsberg, Convertteam, Siemens, ABB), ship design (Ulstein, Rolls-Royce, STX) etc.
	Floating production units: FPSOs, FSO, floating LNG, etc .	4-st engines, steerable thrusters, tunnel thrusters, CPP, electrical propulsion, automation, gearboxes		
	Service/Supply vessels: OSVs, PSVs, AHTS, AHS	4-st engines, steerable thrusters, tunnel thrusters, CPP, electrical propulsion, ship design, automation, gearboxes		
	Other: crane vessels, pipelayers, accomodation vessels	All of the above		

Segment	Vessel type	Main offering	Wärtsilä's value proposition and market trends	Competitive landscape
Cruise & Ferry	Cruise vessels	4-st engines, CPP, FPP, steerable thrusters, tunnel thrusters, automation	The most extensive offering and network in the market, customer care. Environmental performance and lifecycle approach important. High operating costs calling for greater efficiencies.	Limited competition with only the main players having access to the market (MAN, Caterpillar, Rolls-Royce, ABB, etc).
	Ferries	4-st engines, CPP, FPP, steerable thrusters, tunnel thrusters, automation, ship design		
	Other: ro-pax, yachts	All of the above		
Special vessels	Tugs	4-st engines, FPP, steerable thrusters, tunnel thrusters, automation, ship design	Extensive offering including ship design and a holistic approach to efficiency in operations. Lifecycle service and environmental aspects on top of the agenda.	Competitive landscape varies depending on vessel type, owner, etc. Competition is highly fragmented with small and big players present.
	Dredgers	4-st engines, CPP, FPP, steerable thrusters, tunnel thrusters, automation, ship design		
	Other: fishing vessels, ice breakers, research vessels, inland water ways vessels	All of the above		

Segment	Vessel type	Main offering	Wärtsilä's value proposition and market trends	Competitive landscape
Navy	Frigates, corvettes, patrol vessels, aircraft carriers, destroyers, support vessels	Waterjets, seals and bearings, tunnel thrusters, 4-st engines	Focus on selected vessel types with selected components and lifecycle services. Strong engineering capabilities and focus on reliability.	Limited competition with only the main players having access to the market (MAN, Caterpillar, Rolls-Royce, ABB, etc). High-speed engines are mainly used in this segment.

Ship Power market development

Vessel contracting for specialised tonnage continues to be strong

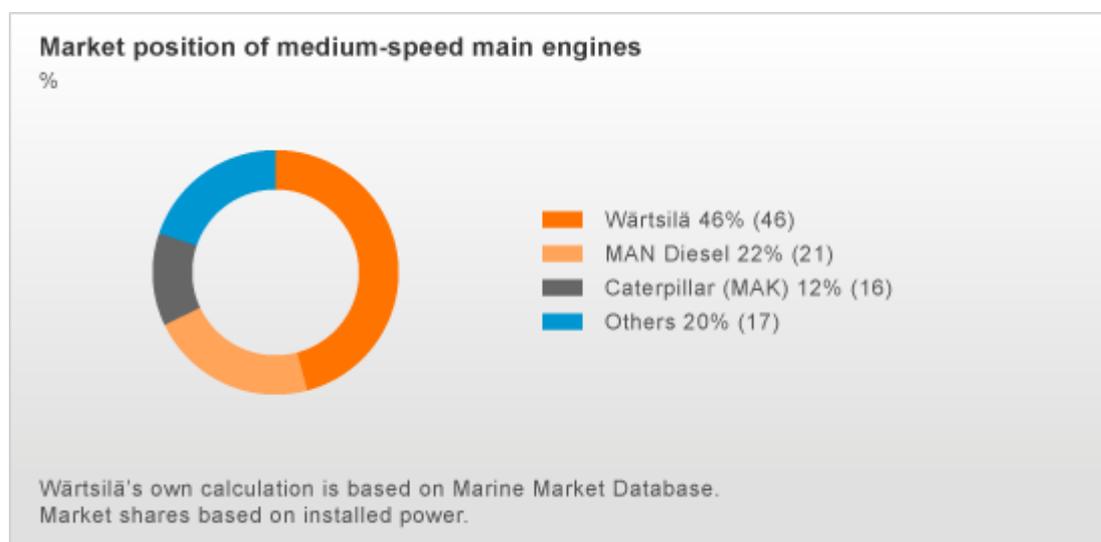
A total of 1,192 vessels were contracted in 2011, which represents a decrease of 49% compared to the previous year. However, the investment level in newbuilding of ships is comparable to that of 2010, highlighting a shift towards the contracting of specialised vessels. During 2011, dry and wet cargo trades grew, but the fleet of bulk carriers and tankers grew twice as much as the growth in cargo. This evidences an imbalance between supply and demand that resulted in the slowing down of contracting for traditional merchant ships in 2011.

Contracting activity was robust for specialised vessel types throughout the year. By year-end, 50 contracts for LNG carriers were registered and the dual-fuel solution has proven to be the preferred technology for propulsion in this segment. Vessels used for offshore exploration also experienced very robust contracting activity, with notably 36 contracts for drillships being placed in 2011. In the fourth quarter of 2011, several offshore service vessels (OSVs) were contracted.

China accounts for 44% of contracting in 2011 in terms of number of vessels and 36% in terms of Gross Tonnage compensated with workload (CGT). South Korea accounts for 27% and 45% respectively. Thereby, China continues to be the leading shipbuilding country in terms of number of vessels, while South Korea regains its position as the number one shipbuilder in terms of workload for their shipyards. Notably, Brazilian yards booked a number of orders for offshore vessels, positioning the country in the top five shipbuilders for 2011.

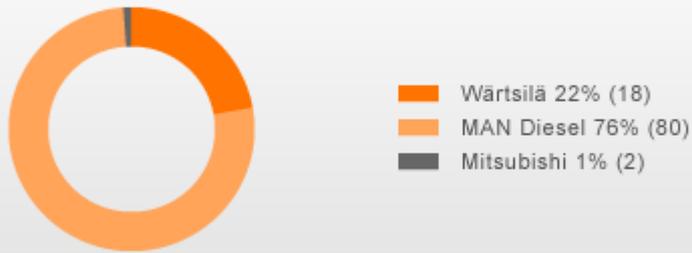
Ship Power market shares

Wärtsilä's share of the medium-speed main engine market was steady at 46% (at the end of the third quarter 46%). Its market share in low-speed engines increased to 22% (18). In the auxiliary engine market Wärtsilä's share was 4% (3).



Market position of low-speed main engines

%



Wärtsilä's own calculation is based on Marine Market Database.
Market shares based on installed power.

Market position of auxiliary engines

%



Wärtsilä's own calculation is based on Marine Market Database.
Market shares based on installed power.

Ship Power strategy

Wärtsilä Ship Power's strategic goal is to be the leading solutions provider to the marine industry.

This will be achieved by:

- establishing a clear leading position in solutions for gas fuelled vessels, environmental compliance and efficiency optimisation
- maintaining our position as the shipbuilding industry's leading system integrator
- seeking further growth through co-operating with Services to offer lifecycle solutions for ship owners and operators

As a solution provider, we are ready to deliver everything from a single product to entire lifecycle support, from initial building to operational use, of complex systems powering ships. Wärtsilä Ship Power is uniquely positioned in having the only truly total marine offering in the industry. This offering includes ship design, 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 strongest service network serving the shipping industry in the world. Our wide range of products is supported by world class ship design and engineering capabilities, allowing us to find solutions that optimise lifecycle value for our customers.

We identify 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 scrubbers, ballast water treatment systems, selective catalytic reduction, and more), and a holistic approach to efficiency optimisation through our engineering and ship design capabilities.

Wärtsilä Ship Power seeks organic growth that will be supported by acquisitions and partnerships. This growth will be achieved by expanding sales to ship owners and operators based on integrated lifecycle solutions where performance and availability are guaranteed. This expansion will be crafted hand in hand with Wärtsilä's Services business. Maintaining our position as the shipbuilding industry's leading system integrator and establishing a strong foothold as a system integrator in the offshore business will also be key components for growth. Finally, further investments in strengthening our presence and maximising the competitiveness of our products and sales processes are of utmost importance, especially in the key shipbuilding areas, such as the BRIC countries and South Korea.

Ship Power strengths

- An unmatched track record in gas fuelled vessels with our dual-fuel technology
- The broadest portfolio of reliable and high performing products and solutions in the marine industry supported by the strongest, global services network of the industry
- A unique synergy between ship design and engineering capabilities allowing us to maximise efficiency over the lifecycle of the vessel
- A strong presence in all major segments in the industry, allowing us to navigate ship building cycles

Ship Power and sustainability

The shipping industry is seeking more and more ways to increase energy efficiency, lower operational costs, and comply with upcoming environmental legislation. The primary drivers for this are escalating fuel prices, the International Maritime Organisation's (IMO) Energy Efficiency Design Index (EEDI) for limiting the carbon dioxide emissions from new vessels, and emissions legislation specified by the IMO and the US Environmental Protection Agency for nitrogen oxides (NO_x), sulphur oxides (SO_x) and particulate matter (PM) emissions.

The development of new and existing technologies is the key to Wärtsilä succeeding in offering its customers the best solutions to meet these needs. Wärtsilä's toolbox for reducing emissions includes, for example, switching the fuel from heavy fuel oil to gas, using liquid fuels together with emission control methods, and improving vessel efficiency. Wärtsilä's development agenda focuses on all of these elements as part of its commitment to sustainability, and to retain its leading position in this field.

Environmental solutions

To ensure environmental compliance, Wärtsilä has developed various primary and secondary emission reduction technologies. Wärtsilä's after-treatment solutions enable optimal integration with the ship's power train. To lower emissions of NO_x, a range of catalytic reducers are available under the Wärtsilä Nitrogen Oxide Reducer (NOR) product name, while Wärtsilä Sulphur Scrubbers are available for the reduction of SO_x.

To enable the further lowering of exhaust gas noise levels, Wärtsilä has successfully delivered compact silencer solutions (CSS). This modular solution allows a higher noise reduction rate without increasing the exhaust gas back pressure, which also has a positive effect on energy consumption.

Wärtsilä seeks solutions that also enable other industries to reduce their environmental impacts. For instance, Wärtsilä has co-operated with partners in the development of a High Performance Turbine Installation Vessel and a new and environmentally sound concept for offshore wind farm installation and maintenance vessels.

Emission type		Effect	Legislation	Technologies
Carbon dioxide	CO ₂	Global warming	IMO's EEDI	Improved efficiency, gaseous fuels
Sulphur oxide	SO _x	Acidification of soil and water	IMO's global sulphur limit, Sulphur emission control areas (SECA)	LNG, SO _x scrubber
Nitrogen oxide	NO _x	Smog, eutrophication	IMO's global NO _x emission limits (Tier I, II), NO _x control areas (Tier III, NECA)	Dual-fuel engines, catalytic reduction
Particulate matter	PM	Human health impacts	U.S. EPA, regional legislations	Dual-fuel engines, exhaust gas scrubber, diesel particulate filter

To reduce emissions to water, our propulsion shaft line sealing systems offer environmentally sound alternatives that prevent the leakage of oil from ships. We also offer efficient treatment systems for bilge water.

The Wärtsilä ballast water treatment system is based on the ultra violet principle to avoid the use of chemicals that end up in the sea. This intelligent design not only has minimal internal power consumption, but also has a very low pressure drop. This minimises the additional energy consumption from the ballast water pumps.

Gas as an enabler

The use of liquefied natural gas (LNG) in shipping has numerous benefits, both for the shipping industry and for the society at large. Wärtsilä has actively developed technologies that allow the use of gas to fuel vessels. Wärtsilä's dual-fuel technology brings together two combustion technologies into one single product. This has a unique advantage in that the same engine can be run on either gas or diesel, thus providing maximum flexibility in fuel choice. Switching between the different operational modes can be made whilst the engine is running.

The benefits of using Wärtsilä's dual-fuel technology to enable ships to be powered by LNG are clear:

- Emission reductions (when operating in gas mode):
 - NO_x emissions by 85%
 - SO_x emissions by 100%
 - Particulates by 99%
 - CO₂ emissions by 20-30%
 - No smoke
 - Reduced waste streams (liquid waste)
 - No need to use secondary emission reduction systems (and hence no consumption of reagents) to meet current and known future emissions legislation

- Fuel flexibility to enhance power security and competitiveness:
 - HFO or MDO operation possible
 - Biofuel use also possible
 - Crude oil possible
 - Redundancy and safety

Wärtsilä is the world's leading ship design company in the field of gas-fuelled special vessels. For LNG applications, Wärtsilä has the widest engine range in the industry. To date, more than 470 Wärtsilä dual-fuel engines capable of running on gas have been sold to 87 vessels, consisting primarily of LNG carriers. More than 50 vessels are already in operation. Wärtsilä's gas technology provides high efficiency, even at part-load, and with very low emission levels. By using gas to power vessels, the industry will take a major step towards more sustainable shipping.

In addition to engine development, Wärtsilä has developed a complete LNG storage and fuel supply system that includes on-board bunkering facilities, known as the Wärtsilä LNGpac. This solution enables the use of gas in all vessel types.

Wärtsilä's dual-fuel medium-speed engines have now accumulated more than 3 million running hours in both land-based and marine applications. This milestone represents a dual-fuel technology track record that cannot be matched by any other engine manufacturer. Wärtsilä's dual-fuel engine technology provides the flexibility to switch between the use of natural gas and heavy fuel oil, light fuel oil and various other liquid fuels. This flexibility in fuel choice offers economical, safety, and environmental benefits. The solid and unique track record that Wärtsilä's dual-fuel technology has established in LNG carriers has created confidence in the reliability of this technology also within other vessel segments. The number of opportunities for gas fuelled ships is growing rapidly and now includes several types of vessels.

Efficiency improvement

By improving overall ship efficiency, both lifecycle costs and exhaust emissions can be reduced. CO₂, SO_x and particulate emissions are directly linked to fuel consumption. Wärtsilä's portfolio of solutions addresses all the necessary application areas, including automation, machinery, propulsion and ship design. By combining these solutions with a solid knowledge of customer operations and treating them as an integrated system, truly efficient ship operations can be achieved. We constantly strive to develop products and solutions that are more operationally efficient and cost-effective for the entire ship concept.

Electric propulsion offers great operational flexibility. However, electric transmission is less efficient than mechanical transmission. Wärtsilä's patented low loss concept (LLC) lowers the energy losses in electrical transmissions to 6-7%, compared to 10-12% for traditional electrical transmission systems. The Wärtsilä LLC not only improves efficiency, but is also more compact and more redundant than traditional systems.

To enable more efficient operation of the propulsion train, Wärtsilä has introduced Variable Turbine Geometry turbochargers on 2-stroke engines. The first upgraded Wärtsilä X68-D engine equipped with a Variable Turbine Geometry turbocharger was successfully tested at the Doosan Engine Company facilities in South Korea.

Vessels designed for lower speeds and larger, more efficient propellers require engines that are optimised for lower speeds. Wärtsilä has strengthened its offering in the mid-size, low-speed engine sector by adding new 62- and 72-bore low-speed engines to its portfolio in the X-generation engine family. These are not only more efficient than the engine models they replace but, thanks to their optimised design speed, allow for more efficient propeller designs as well. These new engines offer higher propulsion efficiency, reliability, and optimised total cost of ownership to the bulker, tanker, and feeder container markets.

Milestones reached during 2011

Technology	Milestone
Gas	First small gas engines (Wärtsilä 20DF) delivered in 2011. The Wärtsilä 20DF engine, with a power range of 1-1.5 MW, offers smaller vessels the benefits of gas.
Gas	The first marine conversion took place in which the two main engines of a product tanker, the 'Bit Viking', were successfully converted from a Wärtsilä 46 engine type to a Wärtsilä 50DF engine type. This was not only the first gas conversion for a marine installation, but also the first Wärtsilä 50DF engine used for mechanical propulsion, the first delivery of the Wärtsilä LNGpac, the first delivery of the new gas valve unit, and the first time a Wärtsilä DF engine has fulfilled single main engine requirements.
Gas	Order received from Viking Line for the first cruise ferry using gas as fuel.
Wärtsilä SO _x scrubber	Order received from Algoma Central Corporation to supply complete propulsion systems with integrated scrubbers for six vessels.
Wärtsilä Nitrogen Oxide Reducer (NOR)	During 2011, contracts were signed for 15 NOR units.
Compact Silencer System (CSS)	During 2011, contracts were signed for 11 CSS units.
High performance nozzle	10 high performance nozzles have been sold.
Energopac	6 energopac rudders sold. The Wärtsilä Energopac is a rudder solution designed to improve a ship's efficiency.
Low Loss Concept (LLC)	70 LLC units were sold by the end of 2011.

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 services network is the broadest in the industry, consisting of over 11,000 services professionals in more than 160 locations in over 70 countries globally. We offer expertise, proximity and responsiveness for all customers, regardless of the make of their equipment, in the most environmentally sound way.

We focus on three key elements for optimal lifecycle efficiency:

- **Performance optimisation**

Longer term efficiency increasing strategies aim at improving the customers' business efficiency. Our wide service offering facilitates the performance optimisation of our customers' systems, thereby enabling reduced fuel costs and emissions, as well as optimised maintenance intervals.

- **Preventing the unexpected**

Reliable, continuous performance is essential for our customers. Therefore, we strive to secure the operational reliability of our customers' installations and offer them access to the highest quality of services. Our flexible solutions minimise downtime and optimise availability in a cost-efficient way.

- **Environmental efficiency**

Environmental legislation and energy efficiency are currently the main topics on the agendas of our customers. We offer several sustainable solution options that enable a reduced environmental impact and improved operational 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 covers both the Ship Power and Power Plants businesses in their entirety. Wärtsilä's Services business is based mainly on the equipment sold and designed by Wärtsilä, including engines, propulsion systems, and 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 as well as building new competences in strategic growth areas, such as electrics & automation, the oil & gas and offshore industries, and in environmental solutions. Expanding our offering by developing our portfolio through strategic acquisitions and 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 both customers and Wärtsilä with lower costs and improved operational efficiency.

During 2011, Wärtsilä further strengthened its leading position in the global marine equipment market by adding Cedervall seals and bearings solutions to its product portfolio. Cedervall is one of the leading manufacturers of shaft seal and bearing systems for the marine industry. The combination of Wärtsilä's and Cedervall's businesses will create the market leader for oil and water lubricated seals and bearings, as well as for sterntubes.

Our areas of expertise include:**Engine services**

We provide a full range of services for medium- and low-speed gas and diesel engines and other related systems. We offer these services for both Wärtsilä and other engine brands, and they comprise 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 optimised vessel fuel efficiency and offshore rig reliability.

Electrical & automation services

Electrical and automation services include the maintenance and upgrade of all types of control and automation systems for power plants, marine installations, oil and gas installations, as well as for power plant and vessel safety systems. We provide a range of services, from instrumentation to turnkey engineering packages, modernisation or 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, as well as for economisers and their control systems.

Environmental services

We offer an extensive set of environmental services to both land based power plants and ship installations. Our portfolio includes products and solutions ranging from those aimed at reducing various air emissions and the adaption to different fuels, to ballast water treatment and other water solutions.

Service agreements

We tailor our service agreements to the customers' needs, letting them choose from different levels of partnership. Supply agreements ensure the global logistical delivery of spares parts and guarantee the availability of service professionals. 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, while operations and maintenance agreements can cover full operational, management, and maintenance services, as well as performance guarantees of an installation.

Service projects

Our project management capabilities enable us to optimise the performance of our customers' installations through upgrades, modernisations, fuel conversions and safety solutions, while allowing customers to concentrate on their core business.

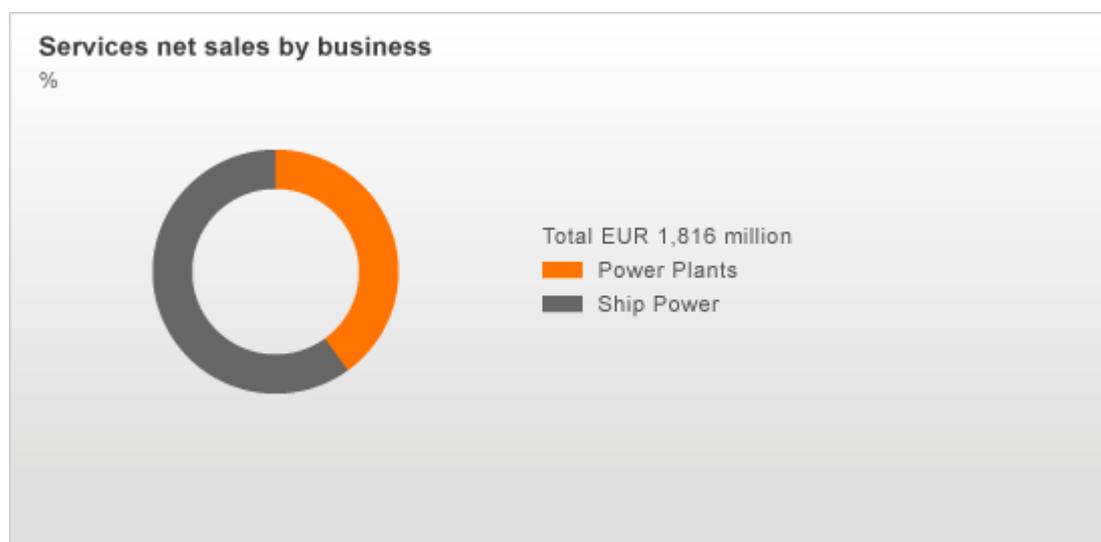
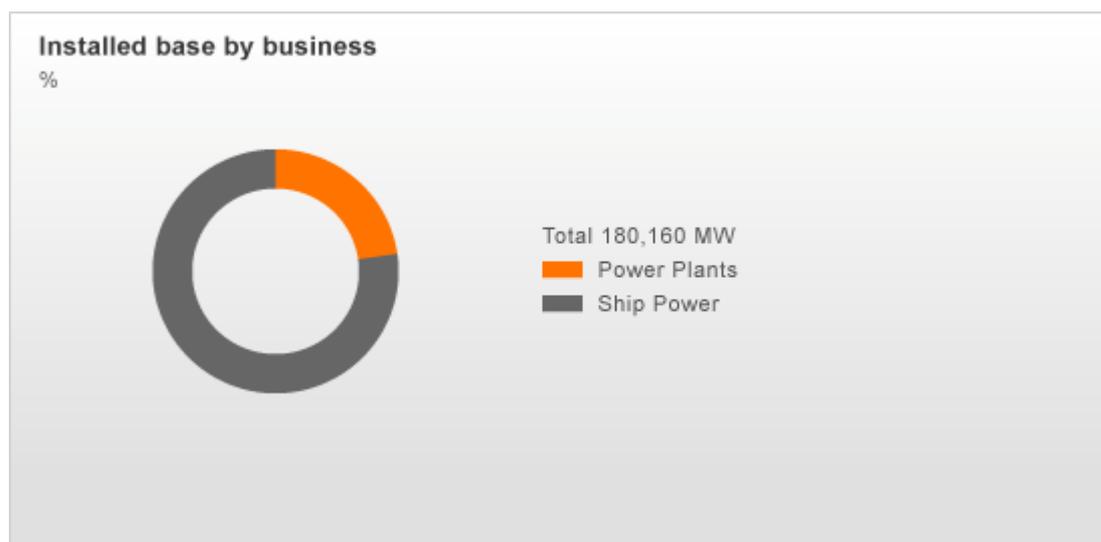
Training services

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

Our Services business serves both the marine and power plant customers

Of the existing engine fleet, approximately one quarter is power plant related and three quarters relate to marine industry. In terms of Services' revenues, approximately 40% comes from power plant customers and 60% from the marine customers.



General market drivers for Services

The ultimate market driver in the marine service business is the activity levels of the vessel fleet. The number of idled and anchored vessels has a direct impact on the Services business. The speed at which vessels are operated also has a certain impact on the business. The marine service business is strongly driven by the existing, as well as new environmental regulations. Lifecycle efficiency, for which the availability, reliability and economic viability of the equipment are all very important, drives the Services business in both end markets. Other drivers that are highly emphasised are the need to lower operating costs and the need for enhanced safety.

Outsourcing of operations and management is today an important trend in the power plants service market. In the future, we believe this will become a more important driver also for the marine markets. Wärtsilä offers efficiency and monitoring solutions for these needs.

Competition and market position

There is no single competitor with the ability to supply such a broad offering, on a 24/7 basis, globally. There are only a few global players, and thus competition is mainly local. Few players have a broad services offering; therefore, each service product has its own set of competitors. Wärtsilä has a strong market position in its service markets.

Services market development

Varying development in service markets

In the beginning of the year, service markets appeared to pick up. However, during the summer, uncertainty in the global economy began to have an impact on this market development, especially in Europe. By contrast, the Middle East, Asia and the Americas continued to be active. Development was strongest in the power plant and offshore service markets. This is in line with the developments in the market conditions and installed base. Development was weaker in the merchant shipping market. At the end of 2011, the installed base of Wärtsilä engines was approximately 180,000 MW.

Services strategy

Our customers recognise Wärtsilä as their services partner: competitive, trusted, and easy to deal with.

- We will maximise our market share with our present customer base
- We will constantly develop our offering proposition with value-enhancing products
- We will grow by providing more service agreements with new Ship Power and Power Plants deliveries
- We will become our industry's market leader in environmental solutions

In Services, 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 to our customers. Together with our customers, we create lifecycle-optimising solutions that improve the customers' operational efficiency and profitability. We use our advanced expertise to offer them 24/7 support globally in the fields of logistics, technical support and field service. Our offering includes an advanced portfolio of agreements, and we are able to deliver service projects that match the changing needs of our customers' businesses. Moreover, we also use acquisitions to extend our offering and strengthen our market share. We combine service solutions with new equipment sales into lifecycle solutions that meet the specific needs of our customers. Being the only player on the market able to provide such a wide range of solutions from a single source, our competitive position is notably strengthened.

Our broad portfolio of environmental services is aimed at optimising lifecycle efficiency, minimising environmental impact by reducing emissions to air and water, and minimising waste volumes for both land based power plants and vessel installations. Our target is to become the industry leader in environmental upgrade and retrofit solutions by building world-class delivery capabilities and through developing a value-enhancing offering.

The size and scope of the Services business creates stability in a changing market environment and provides a platform for growth.

Services' strengths

- Long-term relationships with customers and in-depth understanding of their needs
- A 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 the 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 industry

Wärtsilä Services' key role in sustainability is to provide a range of services that ensure reliable and optimised operational, environmental, and safety performance. Wärtsilä Services' solutions enable the application of the latest technologies in operational power plants and ships, 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 economical and environmental performance of existing installations and to ensure their safety and reliability throughout the product's lifecycle.

Energy efficiency and maintenance

Climate change, the availability of liquid fuels and gas, and stricter environmental requirements all create opportunities for the Services business. 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 the 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.

Solutions for reducing emissions

We develop and supply a wide range of solutions that enable ships and power plants to comply with the prevailing environmental requirements. We offer solutions that reduce particulate matter, NO_x, smoke, and SO_x emissions. Furthermore, our solutions make it possible to modify or regulate most engines in order to conform to the strictest environmental requirements. This applies to plant upgrades with secondary emission control technologies, such as Selective Catalytic Reduction (SCR) and SO_x scrubbers, for power plant or marine applications.

Water treatment solutions

Wärtsilä designs, optimises and delivers a number of different solutions for common wastewater issues in land-based and marine installations. Our portfolio includes one of the most effective bilge or oily water treatment systems available, and it is currently being expanded to include a ballast water treatment system with similar characteristics.

Creating value for the future

We have established leading-edge technology expertise and are committed to environmental leadership. This expertise will be employed to improve existing solutions and to develop new solutions aimed at reducing the environmental footprint of operational power plants and ships. Beyond technology, we employ our know-how to advise customers regarding their operations.

Milestones reached during 2011

Technology/ Service	Milestone
Maintenance support agreement with Royal Caribbean Cruises Ltd	This maintenance support agreement contains a wide range of services, including maintenance planning, spare parts logistics optimisation, the development and testing of engine components, fuel consumption optimisation, as well as an advisory service for overhauls and workshop services. In addition, the agreement incorporates the development and implementation of future remote engine monitoring systems and associated software.
Wärtsilä Marine SO _x scrubber	A turnkey installation of the first commercial full-size closed-loop scrubber was carried out on the vessel 'Containerships VII'. With this scrubber installed, the customer will be able to continue to run on HFO and still fulfil the SECA requirements.
Selective Catalytic Reduction (SCR)	The order and delivery of SCRs to two Finnish icebreakers in order to fulfil the United States Environmental Protection Agency's (EPA) emission requirements for operating in the Arctic Ocean. This opens up the possibility for the customer to operate in arctic areas in an environmentally sound manner.
Wärtsilä Oily Water Separator (OWS)	Development of the Wärtsilä OWS 500 completes the family of precipitation based technology separators. Wärtsilä's OWS was the first on the market to achieve a 5 ppm type approval. The OWS 500 achieves the same high standard without any filter. All separators are also certified to comply with both the IMO and US Coast Guard rules.
Ballast Water Treatment (BWT)	Wärtsilä's BWT product portfolio has been extended to include unit capacities of 150, 250, 500, 1,250 and 1,500 m ³ /hr. Each discrete unit will be test validated separately to ensure the best compliance with IMO regulations.

Wärtsilä Industrial Operations

Wärtsilä Industrial Operations focuses mainly on the assembling, 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 the continuous emphasis on technology leadership in our R&D activities.

Wärtsilä Industrial Operations designs and manufactures engines, generating sets, electrical & automation equipment, integrated environmental and efficiency products and systems, propellers, gears, as well as seals and bearings as integrated deliveries.

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 200 main suppliers globally, and our network is continuously being developed further. Our sourcing strategy is to focus on carefully selected suppliers, with an emphasis on performance, innovation, and a presence close to our manufacturing units.

Manufacturing footprint

The manufacturing of our medium-speed main engines is concentrated at the delivery centres in Vaasa, Finland and Trieste, Italy. Low-speed main engines are, because of their large size and the resulting transportation limitations, built under license close to shipyards in various parts of the world. Currently, we have 19 low-speed engine licensees located in Asia, Europe and South America. Our auxiliary engines are manufactured in Shanghai, China. The manufacturing of our propulsion components takes place mainly in China, Norway, the UK, Italy, India and Japan. Automation equipment is manufactured in Norway, while our Ecotech-Centre for environmental solutions is situated in Finland.

Wärtsilä's manufacturing model follows the market demand to ensure more flexible global capacity. As structural changes continue in our end markets, we continue to expand our presence in our key markets, especially in the BRIC countries. This enables us to be better positioned in these emerging markets and allows savings to be achieved in both production and transportation costs.

Wärtsilä Industrial Operations

	Own	Joint ventures	Licensed	Partners
Medium-speed	x	x		
Low-speed		x	x	
Propulsion	x	x		
Automation	x			
Ecotech	x			x
R&D	x			x

Main changes in the footprint during 2011

The measures initiated in 2010 to adapt manufacturing capacity to both the structural changes in the market and a lower demand environment were nearly finalised in 2011. We have taken several steps forward in expanding our global presence during the year. A new factory for controllable pitch propeller production was set up in China, and a joint venture with Jiangsu CuiXing Marine Offshore Engineering Co. Ltd. for the manufacturing of Wärtsilä 26 and Wärtsilä 32 medium-speed engines was initiated, also in China.

To read about our products and R&D, please refer to the section: [Towards more sustainable solutions](#).

Wärtsilä Industrial Operations strategy

Wärtsilä Industrial Operations' strategic goal is to provide market leading products from a broad product portfolio. Our products are suitable for integration into larger solutions or for use as 'stand-alone' products, in order to serve a wide range of customer needs.

In our operations, we put a strong emphasis on the product development and product delivery processes with optimised end-to-end value streams. Operationally, our top priority is to secure deliveries as promised, according to the expected product quality, delivery accuracy, and cost.

Our product development activities focus on gas as a fuel, efficiency improvements, and environmental technologies. Special attention is paid to achieving competitive product cost, to reducing the total cost of ownership, and to providing high quality and reliable performance throughout operations.

Our delivery process focuses on assembly and testing, while aiming for maximum flexibility in our activities. Wärtsilä Industrial Operations will establish a strong supply management, manufacturing, and product engineering footprint close to our growth markets, while securing control over our core operations.

We will adapt our operating models to meet the specific requirements of these markets, often in co-operation with leading local industrial partners.

Through our people we build a strong performance culture, which is the basis of our success.

WIO strengths

- Innovation in products and processes
- A broad portfolio with best practice design
- Manufacturing and selected engineering activities close to the main markets
- Continuous improvement of the product development and product delivery processes

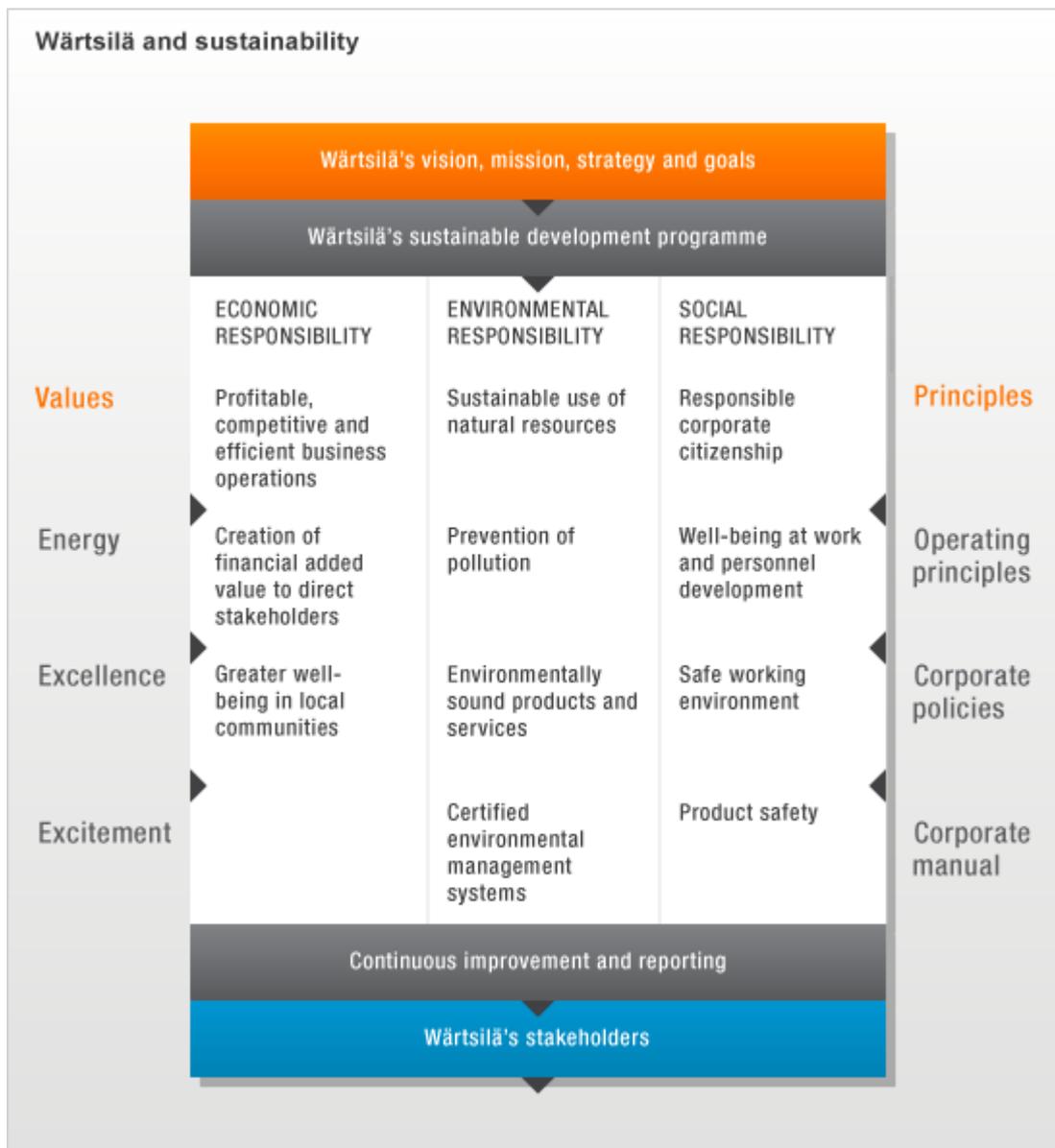
Our competitive product portfolio consists of products related to medium-speed engines, low-speed engines, propulsion equipment, electrical & automation equipment, as well as emissions abatement & energy efficiency products. They are reliable, cost-efficient, functional, environmentally compatible, technologically leading, and able to be integrated into solutions or delivered as stand-alone equipment.

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 management system and other sustainability tools provide us the means to assess our performance and to improve our operations and products continuously.

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 the ones 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 [Corporate Governance section](#).



Wärtsilä's focus on sustainability

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 and sustainability](#). Wärtsilä's strategy for environmental and social responsibility is presented in the [Strategy section](#). Wärtsilä sets corporate level sustainability targets for the core areas. Wärtsilä's key product performance targets are currently related to providing solutions for sustainable shipping and smart power generation. Wärtsilä's key operational sustainability targets are currently related to the improvement of energy efficiency and zero injuries.

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

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

Economic responsibility

Economic performance involves meeting the expectations of shareholders and contributing towards the well-being of local societies. This requires the company's operations to be profitable and competitive. Economic performance, besides creating economic added value for the company's stakeholders, also calls for promoting well-being in the local communities where the company operates. Good economic performance establishes a foundation for other aspects of sustainability and safeguards the company's future operating capabilities.

Environmental responsibility

Environmental protection means sound management of natural resources and operating on the terms of the environment. Protecting the air, soil and water, as well as combatting climate change and using natural resources in a sustainable way, are all important objectives, whether these apply to Wärtsilä's own operations or to how the company's products are used. Environmental performance also requires the company to identify the lifecycle environmental impacts of its products and to reduce these impacts through proactive research and development.

Continuous improvement of environmental performance is both a challenge and an opportunity. Wärtsilä continuously develops and improves its operations with the help of certified environmental management systems. Strong focus on environmental performance in R&D and product development reduces the environmental impact of products. Climate change and other environmental concerns increase the demand for environmentally sound products.

Social responsibility

Social performance involves following good practices and procedures in stakeholder relations. This requires continuous co-operation with suppliers, partners and local organisations.

The Code of Conduct and its related policies set the boundaries for Wärtsilä's business operations and their development in line with the Group's strategy. The other central aspects of good social performance are creating a safe working environment and operating procedures, ensuring the well-being of the company's employees and developing personal skills and competencies.

These aspects uphold the ability of the employees to do their work as well as raise efficiency and improve Wärtsilä's position as a desirable employer. Product safety means responsibility towards the company's customers and its own personnel.

Alongside compliance with the safety requirements, essential aspects of product safety also include product support and training. Promoting good social performance requires seamless collaboration throughout the Group network.

Summary of key figures

Performance indicators	2011 ⁵	2010 ⁴	2009 ³	2008 ²	2007 ¹
Economic (EUR million)					
Net sales	4 209	4 553	5 260	4 612	3 763
Cost of goods, materials and services purchased	-2 694	-2 927	-3 593	-3 134	-2 576
Value added distributed to stakeholders	1 514	1 626	1 667	1 479	1 187
Wages and salaries	770	773	735	693	592
Taxes and social dues	322	326	337	288	242
Net financial items	16	13	34	9	8
Dividends	178	271	173	148	408
Retained earnings for business development	228	242	388	340	-64
R&D expenses	162	141	141	121	122
Environmental					
Total energy consumption (TJ)	1 735	1 916	2 194	2 383	2 595
Electricity consumption (MWh)	145 078	149 047	164 022	151 169	134 543
Heat consumption (MWh)	31 805	41 401	37 060	50 193	40 085
Light fuel oil (t)	3 409	3 623	5 662	5 432	5 816
Heavy fuel oils (t)	7 652	9 020	15 652	22 145	16 237
Natural gas (t)	10 486	12 347	11 792	11 160	22 379
Other fuels (t)	4 173	3 729	3 326	1 711	1 380
Total water consumption (1 000 m ³)	9 775	10 292	8 128	11 712	11 160
Consumption of domestic water (1 000 m ³)	830	840	808	622	634
Consumption of cooling water (1 000 m ³)	8 945	9 452	7 320	11 090	10 526
Emissions of nitrogen oxides (t)	765	826	1 290	1 633	1 348
Emissions of carbon dioxide (t)	68 897	80 234	96 749	122 669	101 705
Emissions of sulphur oxides (t)	265	277	595	840	471
Particulates (t)	20	19	28	65	30
VOC (t)	58	61	170	152	79
Non-hazardous waste (t)	42 865	38 392	49 946	35 055	32 142
Hazardous waste (t)	42 288	5 175	5 857	5 154	7 472
Social					
Training days (days/employee)	3.0	3.1	3.7	3.3	3.3
Number of lost-time injuries, total	267	333	470	548	444
Lost-time injuries (number/million working hours)	6.3	7.8	12.9	16.3	14.6
Absence rate (% of total working hours)	2.2	2.4	2.6	2.4	2.3

¹The data includes all Wärtsilä companies except those mentioned in the Sustainability Report 2007 Report Scope section.

²The data includes all Wärtsilä companies except those mentioned in the Sustainability Report 2008 Report Scope section.

³The data includes all Wärtsilä companies except those mentioned in the Sustainability Report 2009 Report Scope section.

⁴The data includes all Wärtsilä companies except those mentioned in the Sustainability Report 2010 Report Scope section.

⁵The data includes all Wärtsilä companies except those mentioned in the Report Scope section of this report.

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.

Sustainability Performance Management

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 the 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, 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 e.g. environmental issues, Code of Conduct, anti-corruption as well as occupational health and safety issues. Wärtsilä monitors sustainability performance by utilising the information provided by various sustainability tools and activities such as internal audits.

Voluntary commitments



Wärtsilä joined the Sustainable Shipping Initiative in 2011. Wärtsilä has joined the UN Global Compact initiative in 2009. Wärtsilä has also signed an agreement in 2008, whereby 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 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, Anticorruption 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 process

Continuous improvement process: performance measurement, setting targets, taking actions and reviewing the results.

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'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 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 Quality and Operational Development Board	Quality, Environmental, Health and Safety and Operational Development issues	Overall responsibility of Wärtsilä's operational development, owner of Wärtsilä processes, governing the work of IM, Process, Quality and Environmental, Health and Safety management and development plans and expenditure of the covered areas
Wärtsilä Group Quality Team	Quality	Quality road map, targets and guidelines based on business strategies and targets, overall quality process responsibility and cross-divisional quality alignment and harmonisation
Wärtsilä EHS Management Team	Environmental, Occupational health and safety (EHS)	EHS management system development, corporate level measuring and target setting and monitoring of the legislation development
Wärtsilä Environmental Forum	Environmental aspects related to Wärtsilä products	Creating and updating Wärtsilä's environmental strategy, coordinating environmental technology development, monitoring legislation development and environmental statements

Management systems

Proportion of Wärtsilä companies with certification	
ISO 14001	61%
ISO 9001	73%
OHSAS 18001	50%



Business Process Management

The Process Management Unit has been established in the Group Quality organisation to ensure that the company’s operations are developed consistently and in line with its strategic directions. The Unit is responsible for development and harmonisation of corporate business processes, including business information and supporting business applications, which are developed on a continuous basis to improve the quality and effectiveness of customer service. The working processes are developed based on the initiatives of the Businesses, The Division and the Functions. These joint development projects are governed by the Quality and Operational Development Board, the Business Boards and the Functional Management Teams.

Product liability

Wärtsilä strives to develop environmentally sound, reliable and safe products. Wärtsilä supports its customers throughout the entire service lives of Wärtsilä products by developing environmentally sound solutions and also by offering these solutions for use with products that are already in operation. Reconditioning engines and components lengthens the service life of products, while modernising engines can improve the performance of installations to the level where they meet both the existing and future requirements.

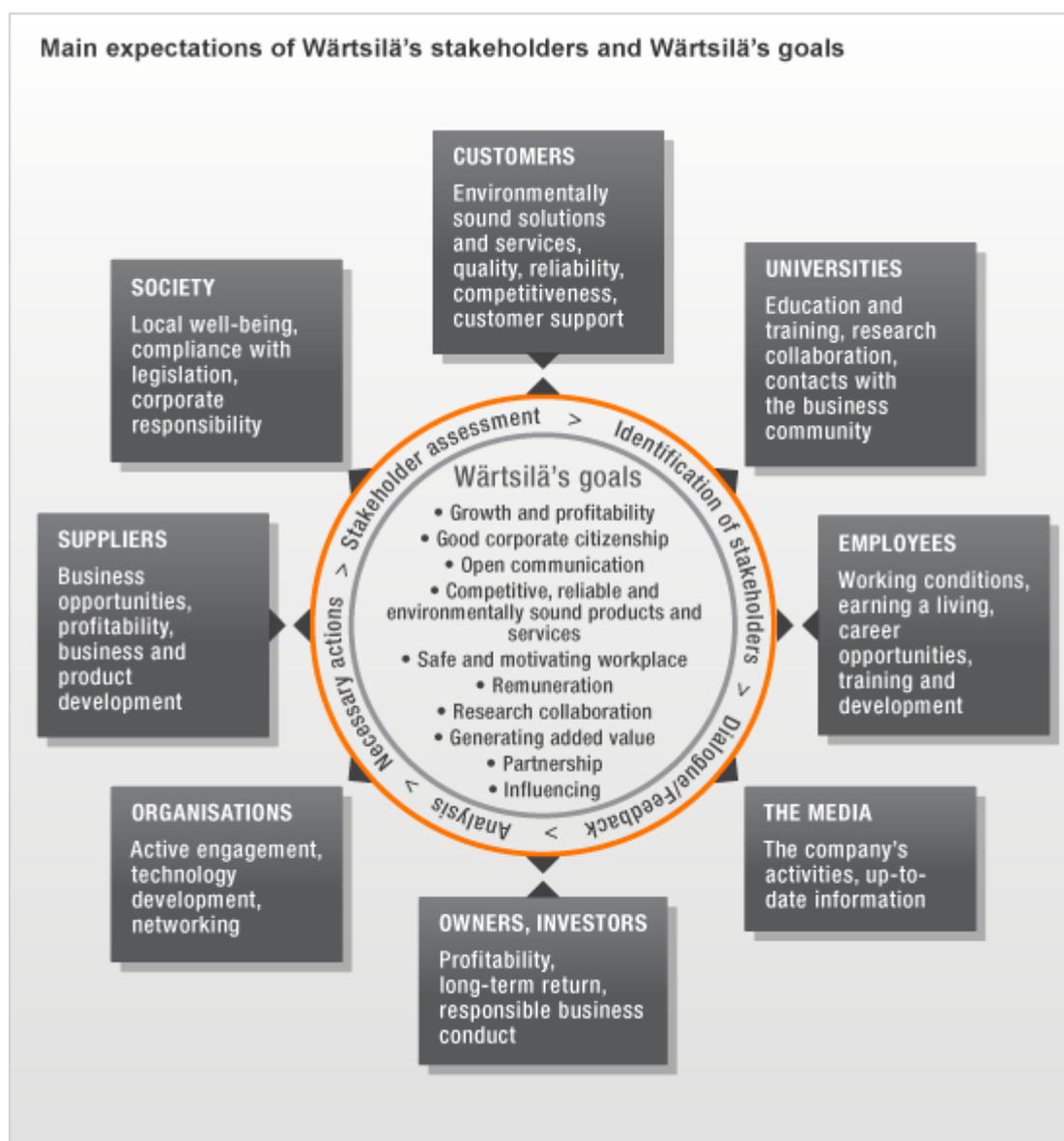
Wärtsilä's engines are designed to meet the requirements of the European Commission's Machinery Directive, the SOLAS Convention and other relevant safety directives, while Wärtsilä's propulsion systems are designed to comply with the SOLAS and the safety requirements of other relevant classification 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 products are delivered with appropriate user guides that include basic information about the products and full instructions for their use.

Supply chain management

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.

Stakeholder relations

Wärtsilä’s aim is to engage in an open and constructive dialogue with its various stakeholders. Wärtsilä maintains actively relations with its stakeholders and develops its activities, products and services based on the feedback received from them. At the corporate level, the company has defined its most important stakeholders to be its customers, owners, suppliers, employees and 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. Priorities vary from one company to another. Wärtsilä continuously enhances its reporting performance both on its own initiative and in response to feedback from its stakeholders.



Channels of dialogue

Stakeholder	Channel of dialogue	Assessments
Customers	Regular contact with customers, lifecycle support for products, customer events and seminars, customer days, customer magazines, the internet, conferences and exhibitions, product documentation, customer feedback system, Customer Relationship Online (CROL [®])	System for measuring customer satisfaction and quality
Employees	Open and continuous communication between management and employees, annual development discussions, information meetings and internal communications (intranet), employee magazines, training events, national statutory employee bodies and European Works Council, occupational health and safety committees, suggestion system, continuous improvement process (CIP), Technology and Innovation Award, Customer Care Award	Employee satisfaction surveys (My Voice)
Owners, investors	Management meetings with investors, financiers and analysts, stakeholder magazines, general meetings, information meetings, stock exchange and press releases, annual and interim reports, capital markets days, the internet, investor relations surveys, sustainability questionnaires	Investor relations surveys, sustainability surveys and indices
Suppliers	Open and active dialogue between the sourcing organisation and suppliers, supplier portal, supplier development, supplier management system, Supplier Days, Supplier of the Year Award	Supplier assessments
Society	Reporting to, and co-operation with, public officials on issues such as the environment and occupational health & safety, meetings with decision makers, position papers, Open Doors days, sustainability report, corporate presentations, local communications, the internet	Stakeholder feedback, corporate image surveys
Organisations	Membership, regular contact, participation in activities of local trade and industrial organisations, active role in working groups, contact with various public bodies, e.g. through ministries, reports	
Universities	Opportunities for practical training and degrees, R&D projects, participation in recruitment fairs and seminars, sponsorship of student activities, lectures	Preferred employer surveys

Stakeholder	Channel of dialogue	Assessments
The media	National and international business media and journals, trade publications, interviews and press releases, main annual publications, meetings, visits, factory tours	Surveys conducted among business journalists, media surveys, reporting comparisons

Activities in organisations

Wärtsilä participates in activities of the following organisations:

Stakeholder	Organisation	Nature of activity
Interest groups (Finland)	Confederation of Finnish Industries (EK), Chambers of Commerce, The Federation of Finnish Technology Industries	Active membership
Industrial and trade organisations	European Association of Engine Manufacturers (Euromot), European Marine Equipment Council (EMEC), Engine Manufacturers Association (EMA), Cogen Europe and VDMA, Exhaust Gas Cleaning System Association (EGCSA)	Participation in activities
Standardisation organisations	European Committee for Standardization (CEN), International Organization for Standardization (ISO)	Participation in activities
International organisations	International Maritime Organization (IMO), International Council on Combustion Engines (CIMAC)	Participation in activities (IMO), Board membership and participation in activities (CIMAC)
Other	World Alliance for Decentralized Energy (WADE), European Federation for Quality Management (EFQM), European Energy Forum (EEF), Global Reporting Initiative (GRI), Global Compact Nordic Network	Board membership (WADE), Participation in activities, Organisational Stakeholder (GRI)

Wärtsilä in sustainable development indices

Wärtsilä is included in the following sustainability indices:

- FTSE4Good Index
- ASPI Eurozone® Index
- OMX GES Sustainability Nordic Index and OMX GES Sustainability Finland Index
- ECPI Global Carbon Equity Index
- Ethibel ESI Excellence Europe Index and ESI Excellence Euro Index

Furthermore, Wärtsilä is the only company in its sector to be included in both the Ethibel Pioneer and the Ethibel Excellence Investment Registers. It has also been rated a Prime company by oekom research.



FTSE4Good Index Series is a series of benchmark and tradable indices for socially responsible investors. The inclusion criteria are designed to help investors minimise social, environmental and ethical risks. The criteria focus on corporate responsibility, human rights, environmental actions, social and stakeholder engagement and countering bribery.



The ASPI Eurozone® Index consists of the 120 listed Eurozone companies that perform best in social and environmental terms. The stocks are selected on the basis of the ratings of the European Corporate Social Responsibility Ratings Agency Vigeo.



Wärtsilä has been included in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers since 28 January 2005 and monitored regarding its CSR profile since then. These investment registers form the basis for the European Collective Quality labels ETHIBEL PIONEER and ETHIBEL EXCELLENCE, which are awarded to investment funds and financial products only. The ESI Excellence Europe Index and the ESI Excellence Euro Index are composed of companies belonging to the Ethibel Register based on a best-in-class approach combined with ethical exclusion criteria.



The ECPI Global Carbon Equity Index is an investable index picking companies best equipped to tackle a world of rising carbon emissions and tougher climate legislation from carbon intensive sectors such as

Utilities, Basic Materials, Industrial and Energy.



The OMX GES Sustainability Nordic Index and the OMX GES Sustainability Finland Index are based on risk ratings, which are analyses of risks in the companies' methods of dealing with the environment, human rights and corporate governance. The analysis is based on international norms on Environmental, Social and Governance issues in accordance with the UN Principles for Responsible Investments. They evaluate both the companies' present status and readiness for the future. The analysis model is easy to

implement and gives an immediate overview of a company's sustainability status, which can reduce investment risk. The Nordic sustainability index comprises the 50 best rated companies on the Nordic stock exchanges. The Finnish index comprises the 40 best rated companies on the Helsinki stock exchange.



Oekom research awards Prime status to those companies which according to the oekom corporate rating are among the leaders in their industry and which meet industry-specific minimum requirements.

Recognitions

During 2011, Wärtsilä received the following external recognitions:

[Wärtsilä's Annual Report 2010](#) won the Annual Report competition organised by Procom, the Finnish Association of Communications Professionals. A broad range of the largest Finnish companies participated in the evaluation.

A Wärtsilä Power Plant project in Bangladesh won the “Oscar” of Asian power industry in the category “Best Fast-Track Power Project in Asia” at this year's Asian Power Awards 2011 held in Kuala Lumpur, Malaysia.

Wärtsilä was awarded the Finnish Media's Choice award for its sustainability report for the year 2010 in Finland's Corporate Responsibility Reporting 2011 competition.

Wärtsilä Indonesia participated in Human Capital Study Indonesia (IHCS) 2011 and received an award for Human Capital Initiative for Reward System. IHCS 2011 was conducted by Dunamis Consulting Indonesia, one of the best consultants in Human Resources Management, in collaboration with Business Review Magazine.

Wärtsilä-Hyundai Engine Company (WHEC) has received the “World Class Product” certification from Korea International Trading Association. WHEC was selected from amongst 21 other manufacturers.

Creating economic added value

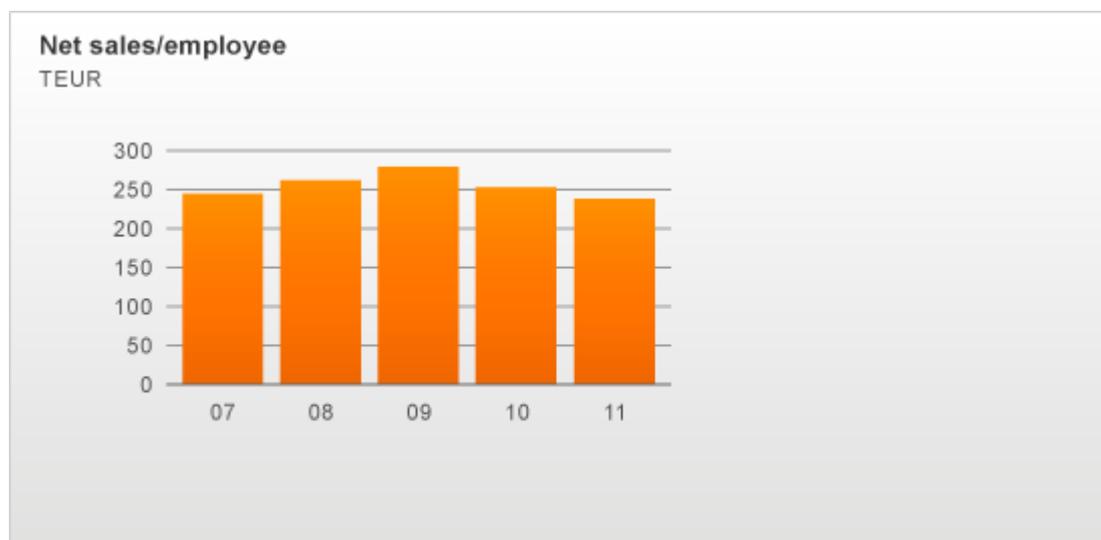
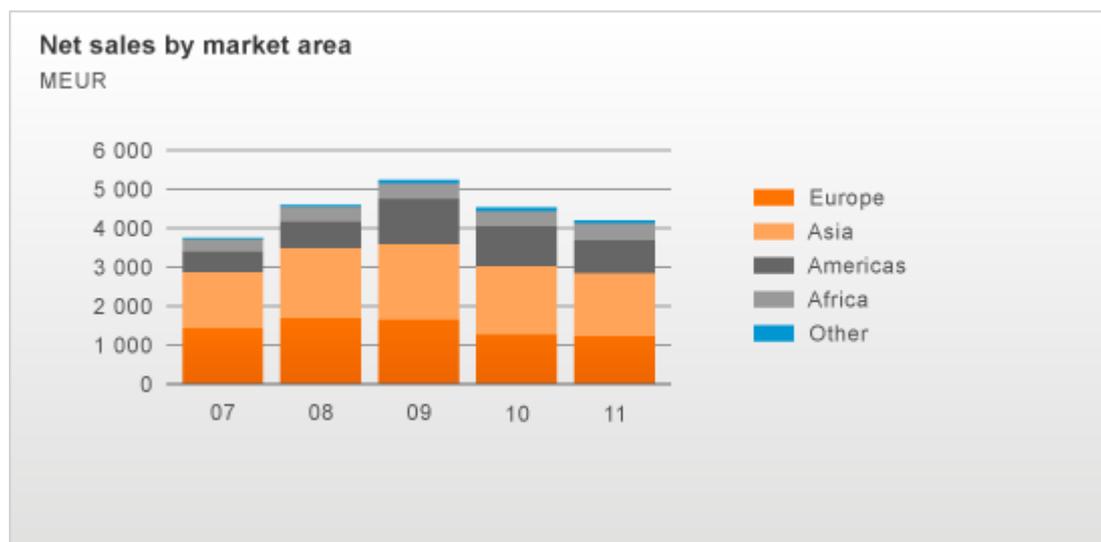
Wärtsilä's purpose is to create value for its various stakeholders. The focus is on profitability and raising shareholder value. Achieving this depends on our ability to satisfy the expectations of our other stakeholders as well. These include providing customers with high-quality and environmentally 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. Despite the tough market conditions, Wärtsilä has performed well. Profitability remained resilient and totalled EUR 469 million, 11.1% of net sales. Wärtsilä's net sales totalled EUR 4,209 million, decreasing by 7.6% compared to the previous year. Europe's share of net sales was 30%, Asia's 38%, the Americas' 20% and others' 12%. 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		2011	2010	2009	2008	2007
Customers	Net sales	4 209	4 553	5 260	4 612	3 763
Suppliers	Cost of goods, materials and services purchased	-2 694	-2 927	-3 593	-3 134	-2 576
	Value added	1 514	1 626	1 667	1 479	1 187
Distribution of value added	Distributed to stakeholders					
Employees	Wages and salaries	770	773	735	693	592
Public sector	Taxes and social dues	322	326	337	288	242
Creditors	Net financial items	16	13	34	9	8
Shareholder	Dividends	178	271	173	148	408
Communities	Donations given	1	1	1	1	1
For business development		228	242	388	340	-64

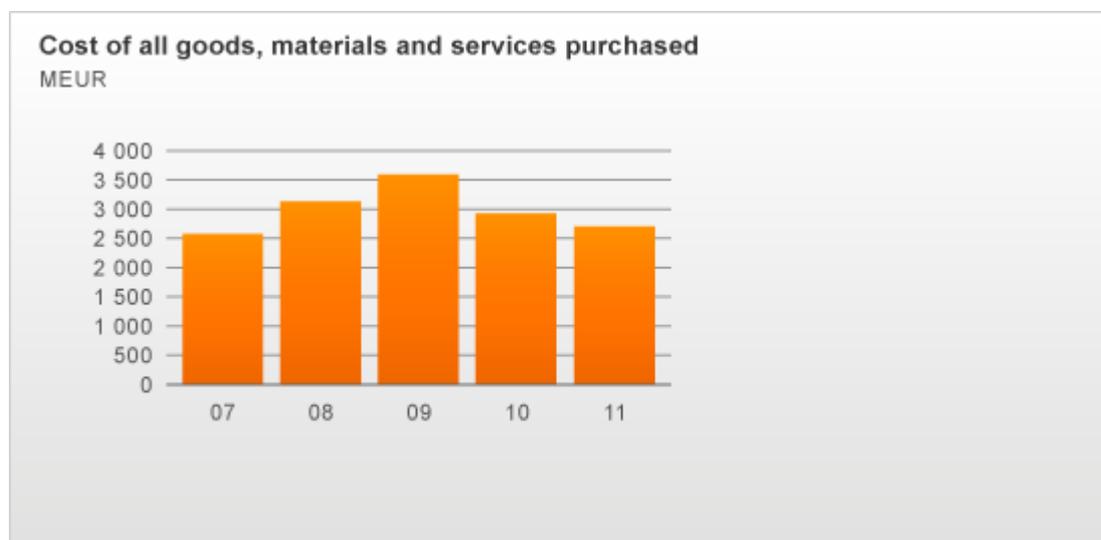
Customers

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.



Suppliers

Suppliers play a significant role in our delivery process. We aim to have deep partnerships 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, partnerships create added value for suppliers through the knowledge and development support we offer them, and at the same time Wärtsilä gains from the supplier competence. Successful partnerships can also help a local supplier to expand internationally by becoming a part of our global supply chain. In 2011, the value of goods, materials and services purchased by Wärtsilä was EUR 2,694 million. Wärtsilä 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.



Employees

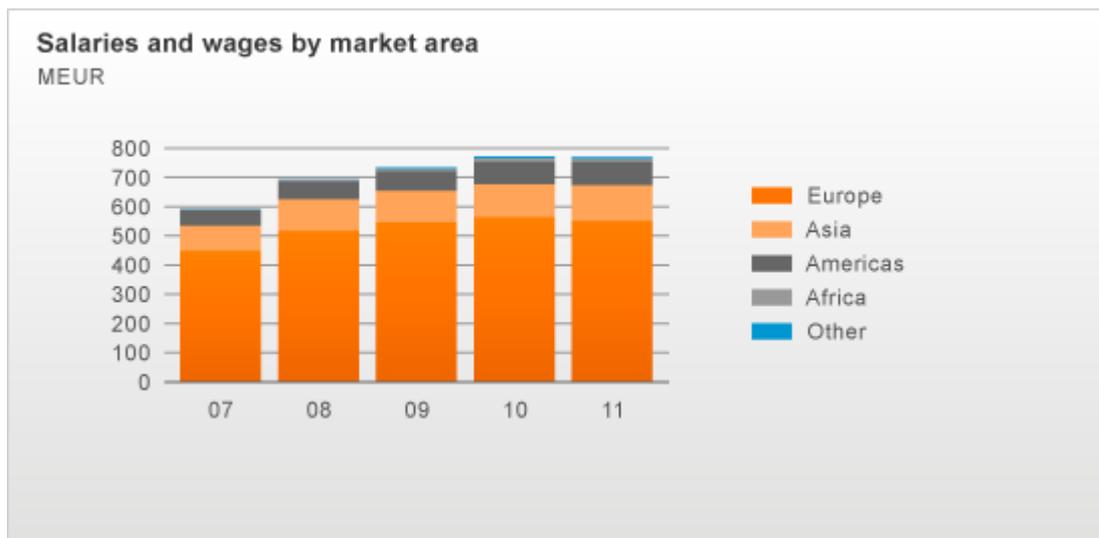
At the end of 2011, Wärtsilä had 17,913 employees worldwide. We also employed thousands of people indirectly through our supply chain. In order to be able to recruit competent and motivated people, we endeavour to offer employees competitive salaries, opportunities for continuous personal development 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 770 million in 2011. This figure includes basic salaries as well as payments based on various profit sharing and incentive schemes, which cover some 60% 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. Wärtsilä'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 21. 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.



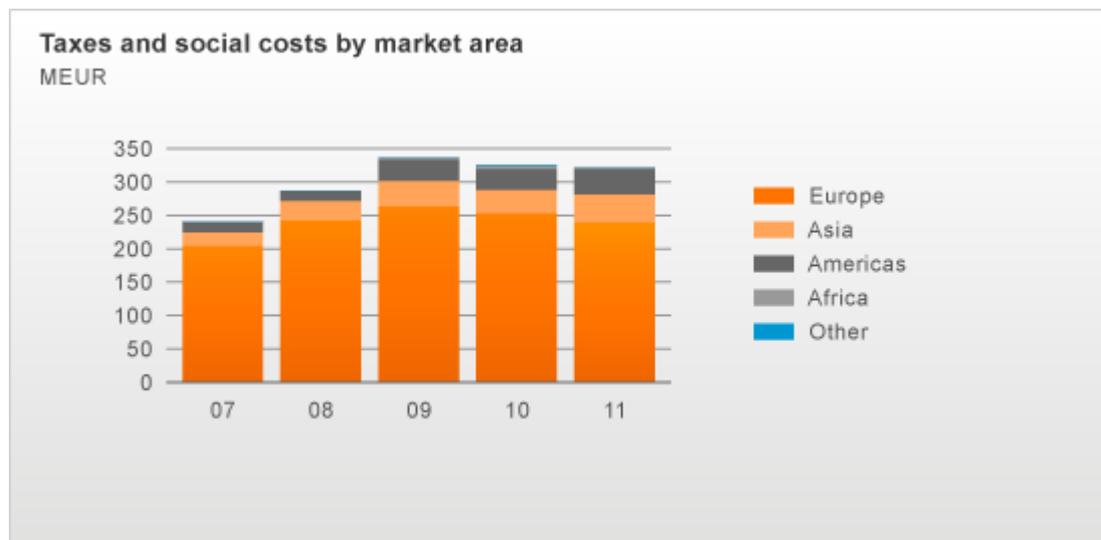
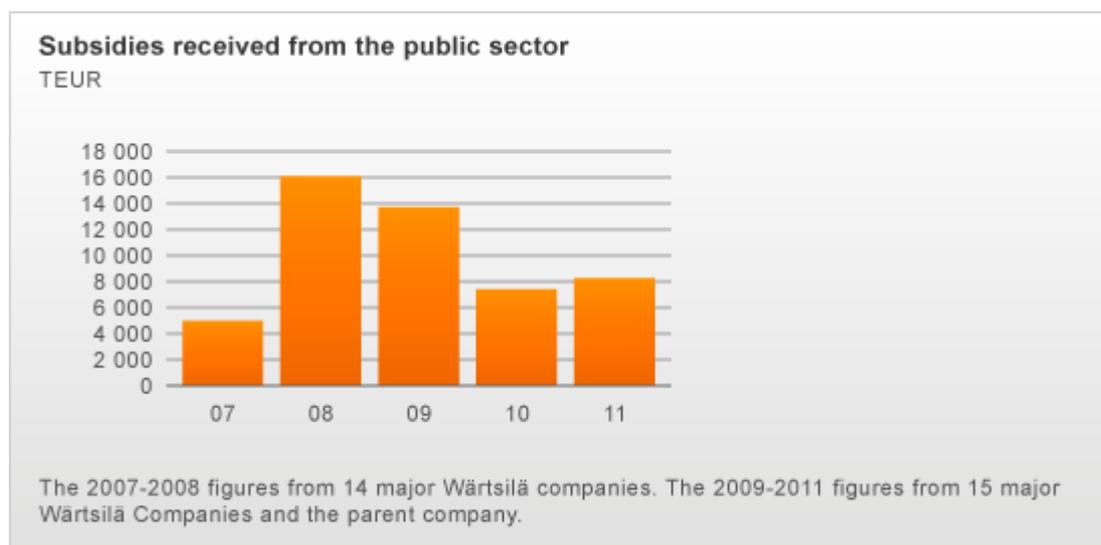
Hiring principles

In principle, all open vacancies are published both externally and internally ensuring equal opportunity to apply to 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 2011 were EUR 323 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 2011 was EUR 8 million, and they were among others related to R&D projects.



Creditors

In 2011, Wärtsilä's net financial items totalled EUR -16 million. At the end of the year, Wärtsilä's net interest bearing debt amounted to EUR 58 million, the solvency ratio was 41.3% and gearing was 0.04.

Shareholder value

Dividends totalling EUR 178 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 2011 earnings per share (EPS) was EUR 1.44 and Wärtsilä's market capitalisation was EUR 4,402 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, national defence, disabled war veterans and medical and technical research. Wärtsilä's Board of Directors contributed altogether EUR 60,000 to these activities in 2011.

Donations to good causes by the Board of Directors

TEUR	2011	2010	2009	2008	2007
Total	60	670	70	70	70

Donations to local organisations¹

TEUR	2011	2010	2009	2008	2007
Total	940	421	527	463	485

¹ The 2007-2008 figures include the data from 14 major Wärtsilä companies. The 2009-2011 figures include the data from 15 major Wärtsilä companies and the parent company.

Wärtsilä and emission trading

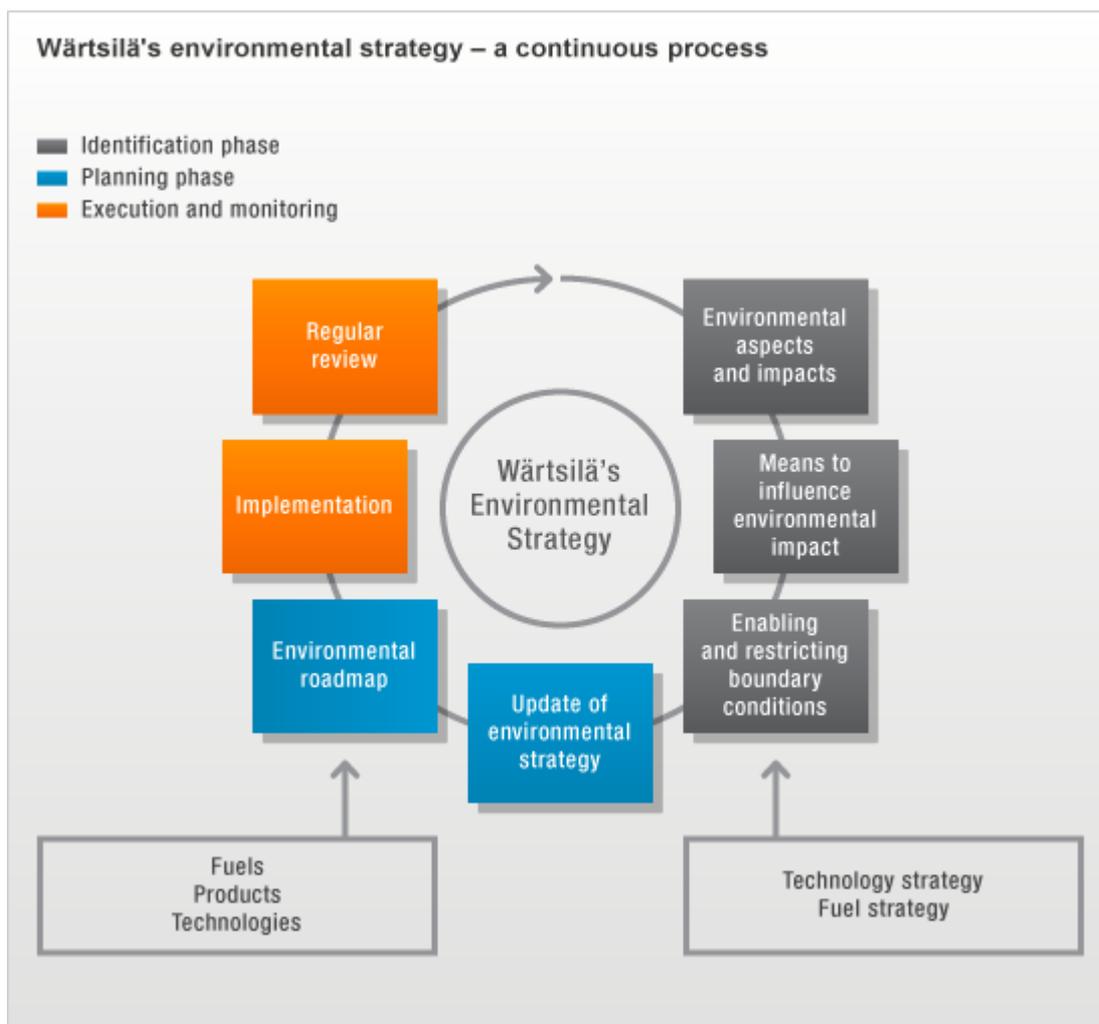
Wärtsilä Italia S.p.A is the only subsidiary that falls into the scope of the EU Emission Trading Scheme (ETS) because of the heating plant of the factory. The EU ETS has not had any impact on the company's profitability. Wärtsilä's response to climate change is to develop and provide products, solutions 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 [Corporate 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.

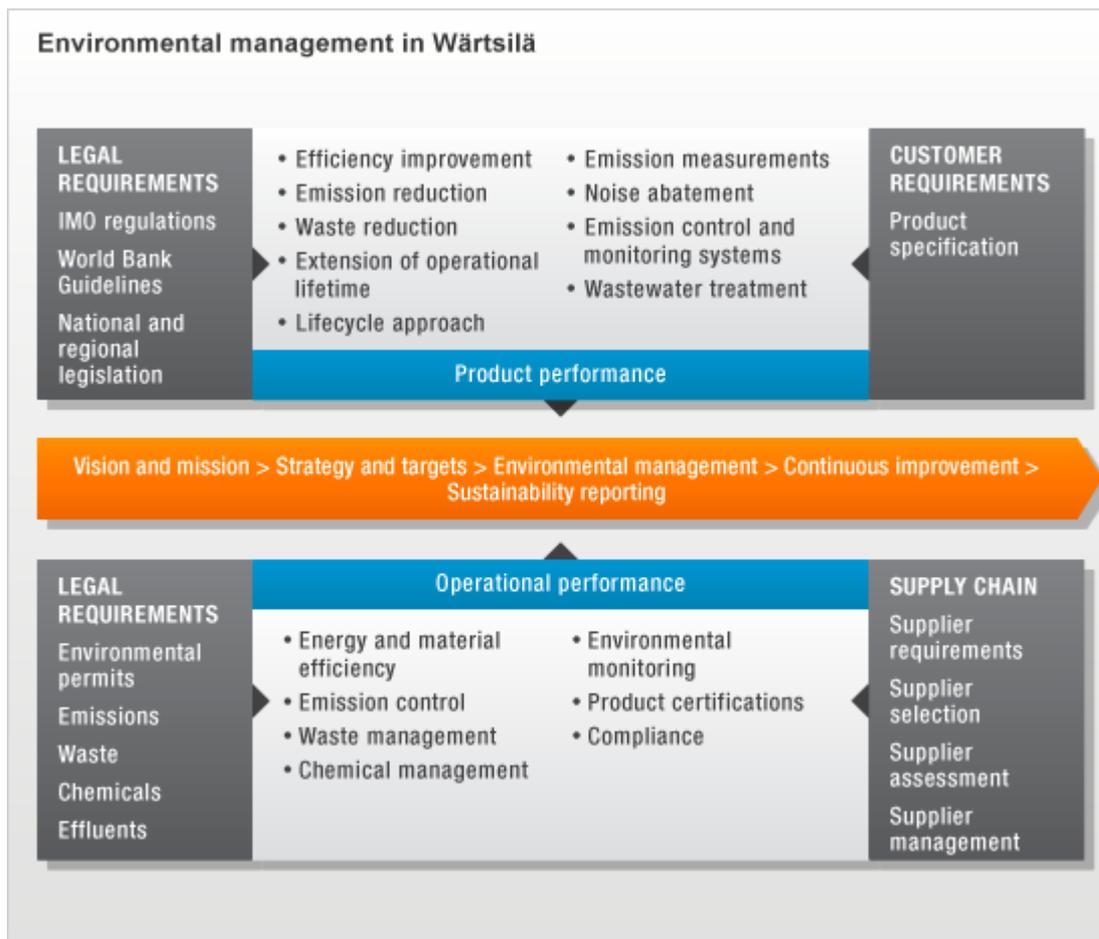
To continually improve environmental performance within the company's operations requires the organisation to constantly work in a systematic way. This work is guided by our strategy and its environmental targets, the Code of Conduct and the company's policies relating to Quality, Occupational Health and Safety and the Environment, and it is co-ordinated and monitored by the Environmental Forum, the Quality and Operational Development Board and the EHS management team. 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 2011, 40 Wärtsilä companies operated with a certified environmental management system. These certified environmental management systems cover roughly 91% of Wärtsilä's total workforce.



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 second phase of the Wärtsilä energy audit scheme started in 2011. The energy audits will be conducted in France, Norway, Singapore, the Netherlands and the UK. The energy audits identify the savings potential and measures to improve energy efficiency. During 2011, Wärtsilä also created a framework for identifying energy saving potential for companies outside the audit scope. The local rollout of the framework takes place in 2012-2013. Energy saving actions are monitored on an annual basis. By 2011, energy savings of 12.4 GWh have been reached, which represents about 26% of the final target.
To create solutions for enabling small-scale LNG to replace liquid fuel infrastructure.	2015	New target: First status review in 2012
To enable emission reductions through gas conversion projects.	2015	New target: First status review in 2012
To increase total net electrical efficiency in simple and combined cycle power plants in cyclic operations.	2015	New target: First status review in 2012

Target	Schedule	Status
To influence in developing dynamic power markets in order to enable wide scale renewable integration.	2015	New target: First status review in 2012
To enable the reduction of power losses by 3-5% in electrical propulsion using medium voltage system.	2015	New target: First status review in 2012
To develop performance management solutions for different vessel types enabling better efficiency of the plant.	2012	New target: First status review in 2012
To develop 10 new Wärtsilä Optimiser solutions enabling customer to optimise the life-cycle performance.	2015	New target: First status review in 2012
To reduce GHG emissions by 3% through improving the engine efficiency.	2015	New target: First status review in 2012

Target	Schedule	Status
To expand the gas portfolio.	2015	First deliveries of LNGPac, 2-stroke DF introduced to licencees, first gas-fuelled single main engine classified installation delivered, first W20DF engine delivered, mechanical drive application released and delivered, gas valve unit enclosure delivered.
To stimulate growth for LNG-fuelled OSV's.	2015	<p>Wärtsilä will deliver liquefied natural gas (LNG) propulsion equipment for two advanced offshore supply vessels. These are the first U.S. flagged LNG offshore vessels and they operate in the Gulf of Mexico.</p> <p>Wärtsilä will design a new LNG-powered Platform Supply Vessel (PSV) for a Norwegian operator. In addition to design, Wärtsilä will deliver the propulsion machinery, automation and other equipment for the same vessel.</p>
To expand the field of LNG applications beyond present vessel types and to facilitate LNG re-engining	2015	New target: First status review in 2012
To deliver environmental and energy efficiency consultancy projects: 10 projects.	2015	New target: First status review in 2012

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 the dry concepts for high-efficiency combined cycle solutions.	2015	New target: First status review in 2012

Wärtsilä's targets for improving the overall performance

Target	Schedule	Status
To provide a Green Passport for all Ship Power products.	2012	The target has been reached. Wärtsilä is capable of delivering a Green Passport for all of its portfolio products.
To conduct 3 life-cycle assessments.	2015	New target: First status review in 2012

Wärtsilä Policy for Quality, Health & Safety and the Environment

Our power solutions and services meet or exceed customers' and other stakeholders' expectations, being:

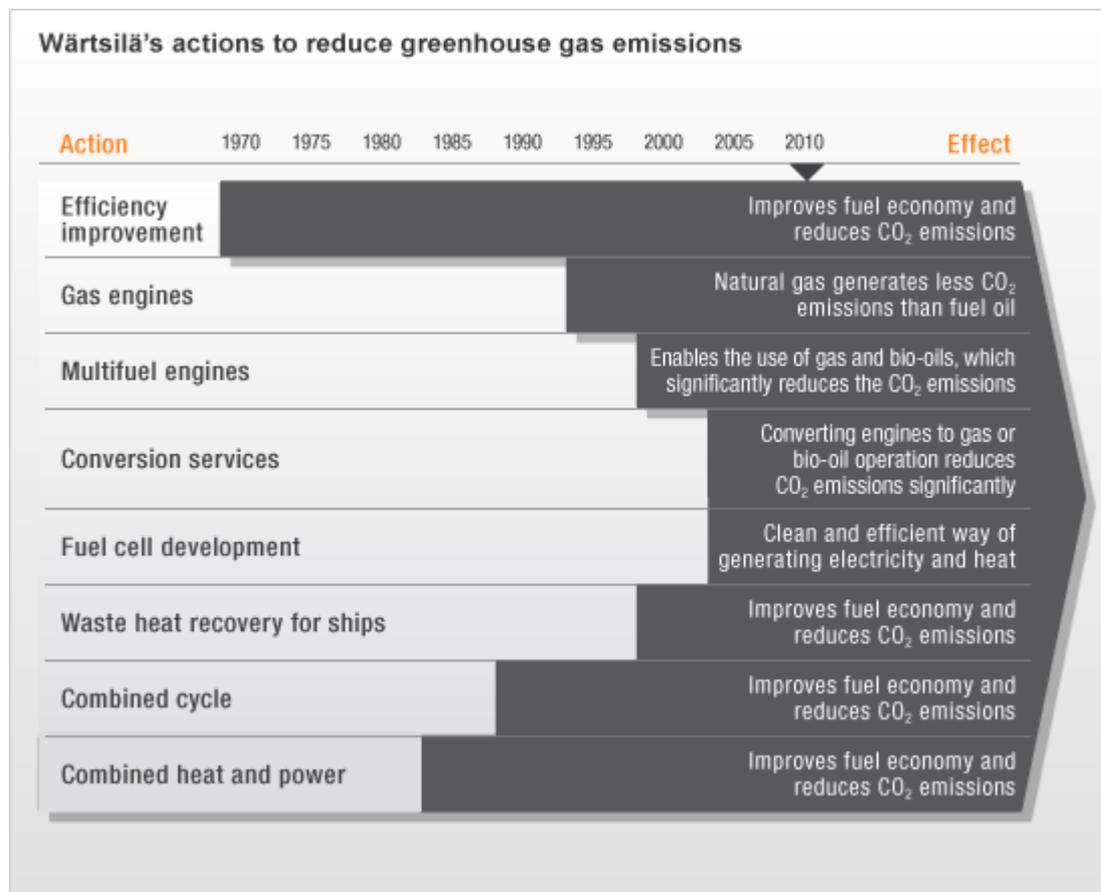
- reliable and safe
- efficient and environmentally sound
- compliant with the applicable legal requirements and regulations.

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.

Wärtsilä's Board of Management approved the policy in January 2007.

Solutions for greenhouse gas emissions reduction

Wärtsilä has developed various solutions to assist in reducing greenhouse gases (GHG). As a result of our long-term development work, we have managed to develop a range of engines that feature both high efficiency and low emissions. Wärtsilä's technologies and solutions provide various alternatives to reduce the climate change impact.



Engine efficiency improvement

High efficiency is important in the control of climate change, and with low emissions our products meet the various environmental regulations. The efficiency of Wärtsilä diesel and gas engines ranges between 42-52%, depending on the engine type.

Gas and multifuel engines

The Wärtsilä dual-fuel (DF) engine is another innovation that has a significant effect on controlling climate change. Thanks to the technology developed by Wärtsilä, our customers can flexibly employ the same engine using various fuels. This also makes it possible to reduce the impact on the environment.

DF engines are used in power plants and for powering LNG carriers and also for other types of vessels. This single solution means that the total CO₂ emissions from all our current customers' LNG-carrier applications will be reduced by several millions of tons, when compared to

traditional gas transportation. At the same time, the availability of gas will be improved and the environmental impacts of gas transportation will be reduced. CO₂ emissions can be reduced even more effectively with renewable energy sources, such as liquid biofuels.

Modernisations and conversion services

Wärtsilä applies new technologies also to its existing products, which makes it possible to further reduce their environmental impact. With the help of our service products, we can improve the efficiency of older engines and reduce their emissions to the same level as those of our newer products. We also convert oil-fuelled engines for gas or biofuel use.

Fuel cell development

A fuel cell is a clean, efficient and reliable method of producing energy, making it a highly attractive option for distributed power generation. Read more on the latest developments of Wärtsilä's fuel cell programme in the section [Creating new solutions](#).

Waste heat recovery for ships

In addition to general use of waste heat, steam-based combined cycles have been applied in ship applications for a long time. For applications in which waste heat is limited in amount and temperature, we are designing and commercialising an ORC system to fulfil marine environment requirements.

Wärtsilä has also introduced a Boosting Energy Efficiency Catalogue, which contains more than 50 different efficiency improvement actions for saving energy in ships. Please visit www.wartsila.com for a more complete view of the solutions introduced in this catalogue.

Environmentally advanced vessel solutions

The new Wärtsilä Gas Platform Supply Vessel (PSV) design represents a state-of-the-art vessel featuring outstanding energy efficiency, a unique hull form, fuel flexibility and outstanding vessel performance in areas such as fuel economy and cargo capacity. This is a unique configuration of the gas electric propulsion system based on a combination of the Low Loss Concept for Electric Propulsion and the recently introduced Wärtsilä 20DF engine. Wärtsilä's ability to offer total concept solutions that include the design of the vessel, the propulsion plant, electric & automation and a host of fuel saving and environmentally sustainable options has given the company a notable competitive edge - particularly in the area of speciality vessels such as Gas PSVs.

Combined cycle

Many steam combined cycle diesel engine plants have been delivered during the recent years. Today, the focus is strongly on introducing high-efficiency gas engine combined cycle solutions, specifically intended for plant sizes of several hundred megawatts.

Combined heat and power

Combined heat and power plants (CHP) cover various types of recovery and utilisation of heat energy, in addition to electricity generation. The energy can be utilised as heat, such as hot water or steam, or as cooling by means of chillers. The most recent step is an exhaust gas driven chiller, which is believed to offer a cost-competitive CHP solution for various market areas.

Solution	Power (MW)	Fuel	Annual CO ₂ reductions (t)	Reference technology and fuel
Single cycle engine power plant	50	HFO	58 871	Boiler plant/Coal
Single cycle engine power plant	50	HFO	43 687	Gas turbine /LFO
Single cycle engine power plant	50	Gas	26 342	Single cycle gas turbine/Gas
CHP engine plant (total eff. 90%)	30 + 30 (Heat)	Gas	83 552	Boiler plant/Coal (El.) + Boiler plant/LFO (Heat)
DF engines in LNG carriers	40	Gas	41 000	Steam boiler
LNG cruise ship	68	Gas	43 000	Cruise ship/HFO
Gas engine conversion	50	Gas	57 200	Diesel engine/HFO

As the industry frontrunner, Wärtsilä has a responsibility to develop and supply advanced solutions that enable the environmental impact of its customers to be reduced. This is Wärtsilä's main role in the combat against climate change.

Towards more sustainable solutions

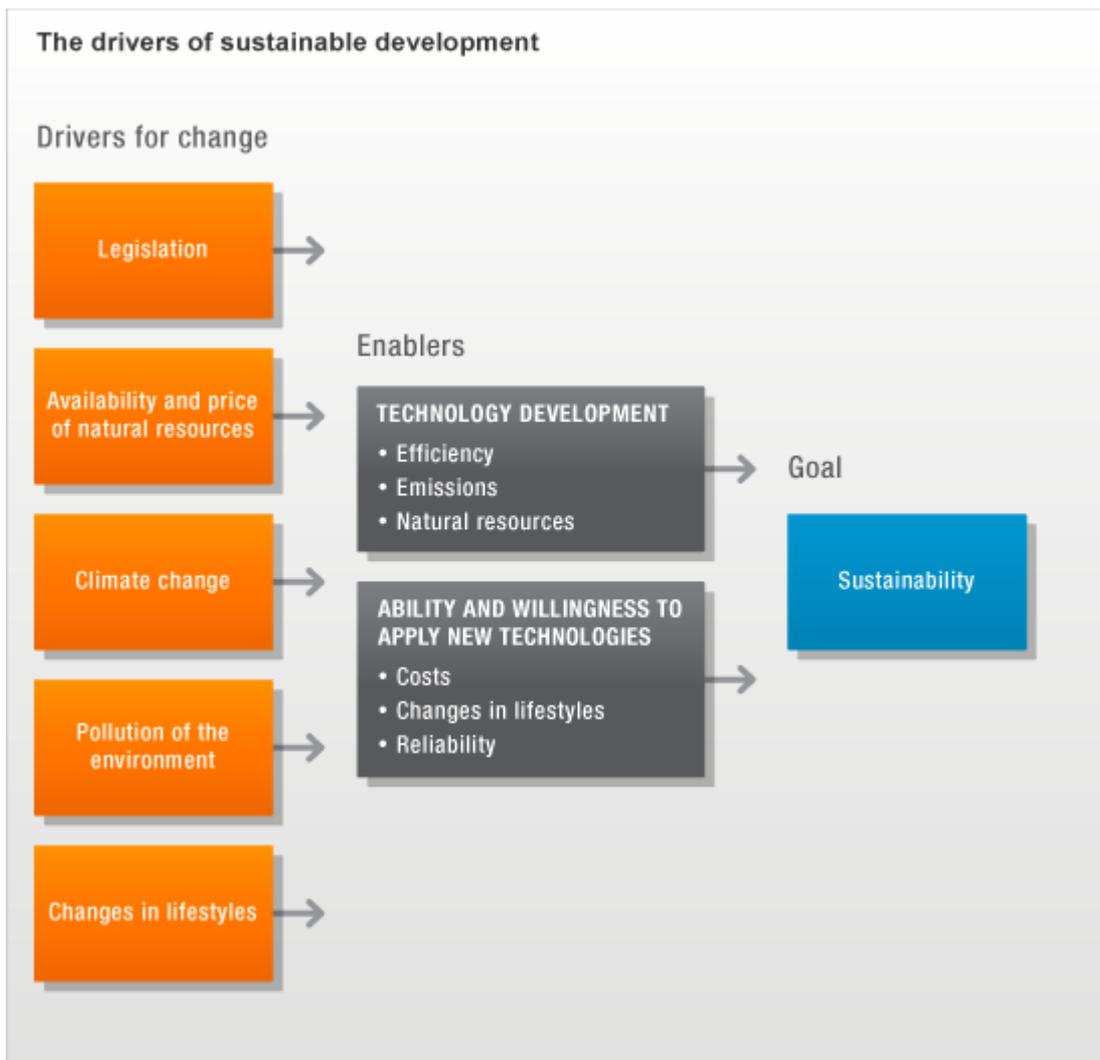
Our most important role in sustainability is to supply environmentally sound solutions and services, which enable our customers to develop their business in a sustainable way. This requires us to continuously invest in technology development and in an ongoing search for new solutions.

Wärtsilä gives strong priority to developing and applying technologies that reduce the environmental impacts 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 to effluent and ballast water treatment. With a proactive approach to meeting future demands, Wärtsilä has developed both primary and secondary 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

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, creates 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.



Legislation and initiatives

Concerning Wärtsilä's products, the environmental requirements are set at the international level mainly by the International Maritime Organization (IMO), the European Union and the World Bank. In the stationary field of national and regional regulations, such as those of the US EPA, Germany, Japan and India are considered important for our products. Along with the introduction of the new Industrial Emission Directive of the EU, a new benchmark has also been established for gas engines.

Wärtsilä actively monitors legislative initiatives and changes in environmental legislation to ensure the company's ability to respond appropriately to future operating limitations. Wärtsilä's R&D activities follow the requirements of the changing operating environment, developing products that give the company a competitive edge.

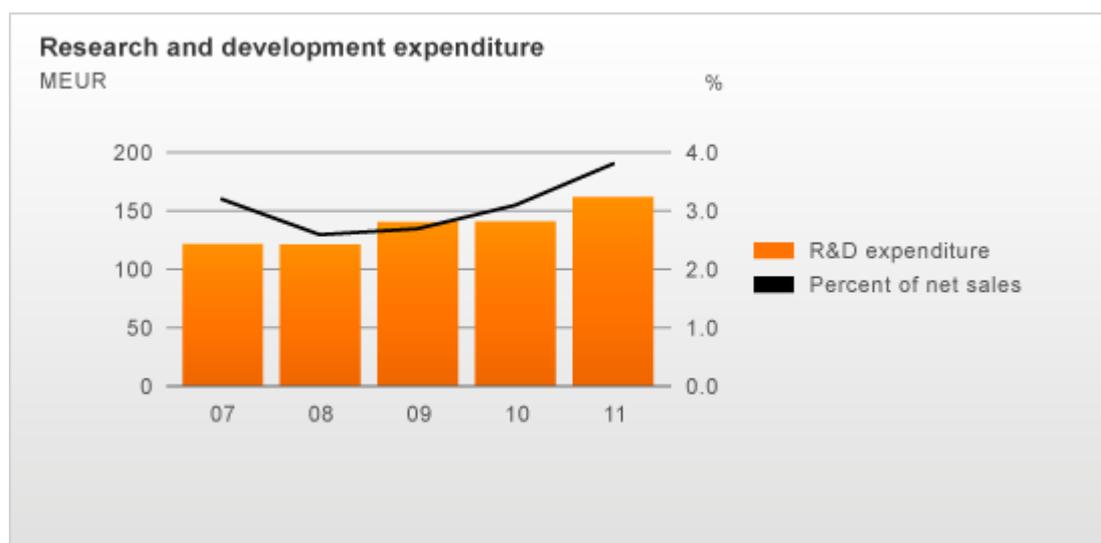
Wärtsilä's R&D focus

Wärtsilä develops efficient and cost-competitive products and solutions based on customer needs by combining innovative technologies. Product and solution development is based on effective work process management to ensure that the set targets are reached. The performance of the products and their features are verified through simulations, functional tests and long-term validation. Wärtsilä actively develops the commonality and modularity of its products and designs products that are easy to manufacture. A substantial proportion of the company's investments in product development is targeted at reducing environmental impacts.

Wärtsilä's R&D activities focus on products and solutions that are fuel-efficient, reliable and safe, self-diagnostic, cost-efficient to operate and that produce minimal environmental impacts throughout their lifecycles. The company takes a proactive approach to managing its intellectual and industrial property rights through incentive schemes for its employees that encourage innovation and initiative. A paramount priority in Wärtsilä's R&D activities is to develop and safeguard the company's critical areas of expertise.

R&D Costs

	2011	2010	2009	2008	2007
R&D costs (MEUR)	162	141	141	121	122



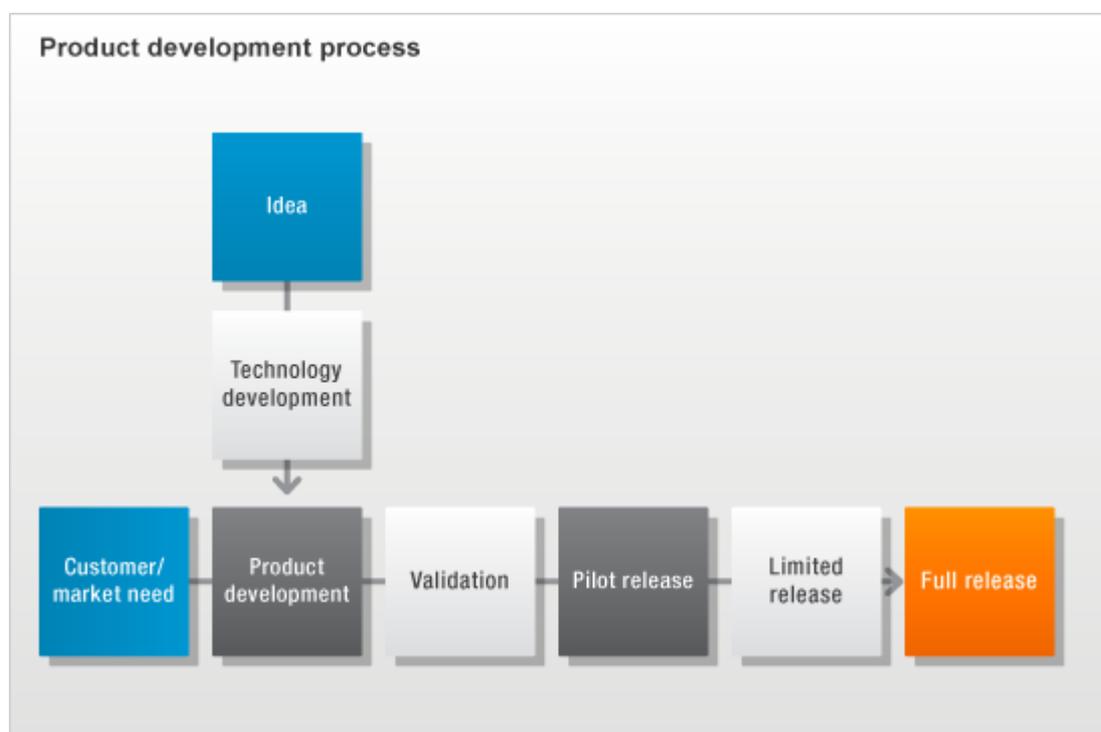
Ensuring reliability and safety

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 in products. Validation is done 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 during their design by using advanced calculations and simulation tools. This method enables Wärtsilä to identify areas of improvement at an early stage in the process, thereby reducing the amount of component testing needed. The actual component and technology testing allows a speedy validation of the systems, which results in faster development and market introduction for new products.

In always seeking newer and better solutions, Wärtsilä is able to perform validation testing on existing installations in co-operation with its customers. 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 brought to the market.



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. For example, a peaking efficiency of 52% for the best engines is one of the highest efficiency ratings among existing prime movers. However, improving the efficiency of a single component does not necessarily guarantee the best overall outcome. For instance, more can be achieved through comprehensive ship design, systems integration and machinery optimisation. Similarly, in power plants, by combining various technologies an overall efficiency rating of 90% is possible.

Total efficiency for ships

Improving total ship efficiency reduces lifecycle costs and emissions. By combining our knowledge of automation, machinery, propulsion and ship design into a single integrated solution, a truly efficient ship operation can be achieved. From a longer viewpoint, 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%
- counter-rotating propulsion
- optimisation of the hull design.

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

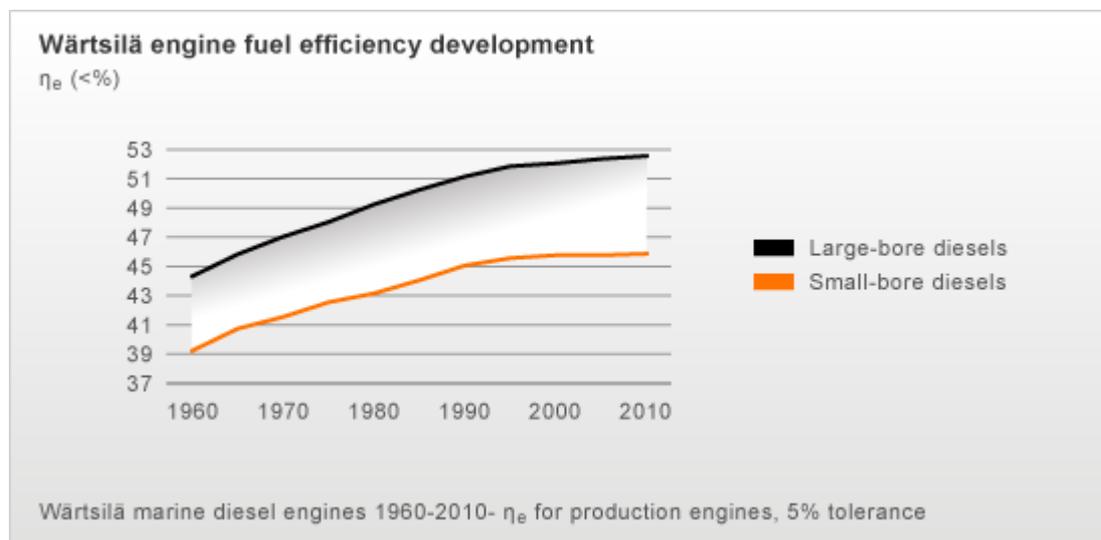
System integration enables efficiency improvements, while customers benefit from having proven solutions from a single supplier. With lifecycle support yards can better optimise their building schedules and owners get proven solutions that are easier to manage.

Engine efficiency

Engine efficiency has always been high on our agenda. However, the improvement of efficiency is becoming more challenging by the day as the emissions requirements become increasingly stringent. Amongst the reasons for our success in this field, integrated engine functionalities that enable low emissions and high engine efficiency have been a major factor. 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.

Wärtsilä has several ongoing programmes aimed at ensuring the high efficiency of its engines, at the same time significantly reducing their emissions. Innovative technologies, including two-stage turbocharging, variable inlet and exhaust valve timing and electronically controlled fuel injection, such as common-rail, are important contributors in this task. Wärtsilä has announced its first product with two-stage turbocharging.



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. Organic rankine cycle products are being considered. Further improvements can be expected by designing engines for secondary cycles.

Propeller efficiency upgrades

Successful conversions to achieve propeller efficiency increases of up to 10% can be established in different vessel markets, such as the dredging industry, ferries, fishing vessels and tankers. This improvement is made possible by exchanging the open type propeller for one operating in a nozzle. Wärtsilä continued exploring project specific knowledge regarding the interaction between the propulsor and the ship's hull in order to avoid added resistance.

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%. 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 euro a year. The deliverable of ongoing projects investigating the efficiency loss of propellers in service will be the performance based maintenance of a ship's propeller and will thus increase the vessel's overall efficiency throughout its lifecycle.

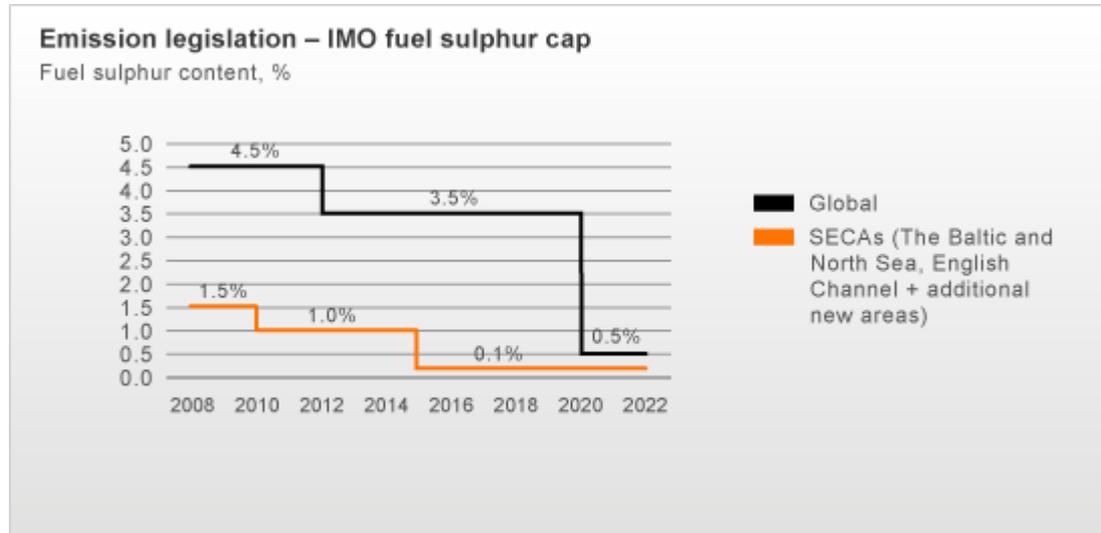
Reducing sulphur dioxide emissions

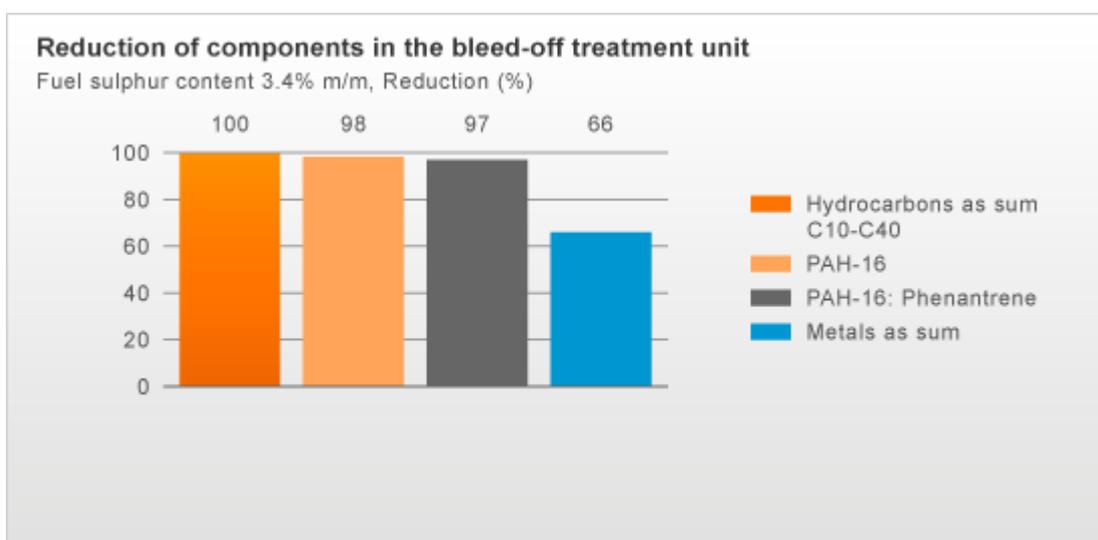
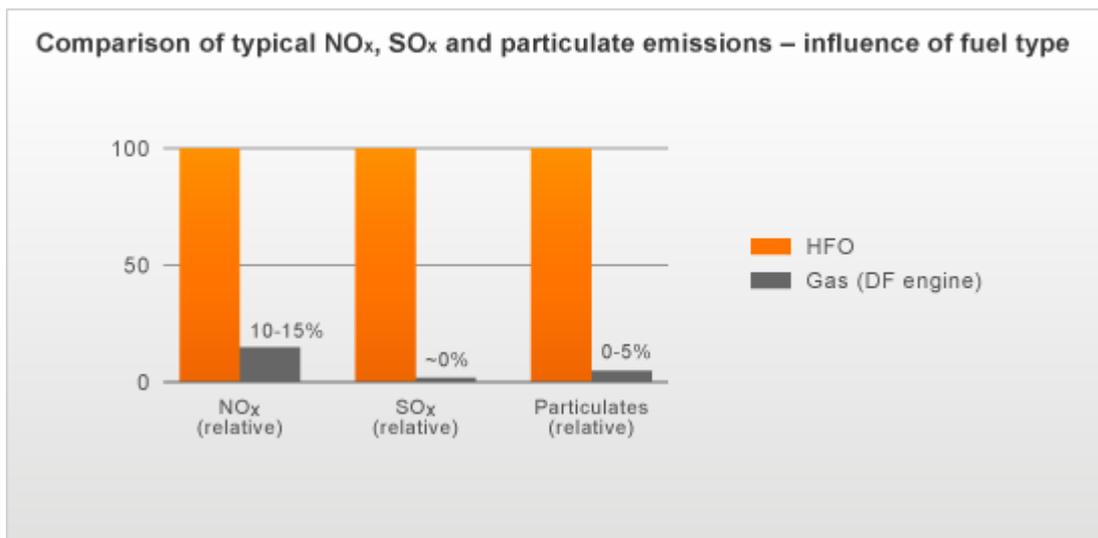
Marine scrubber

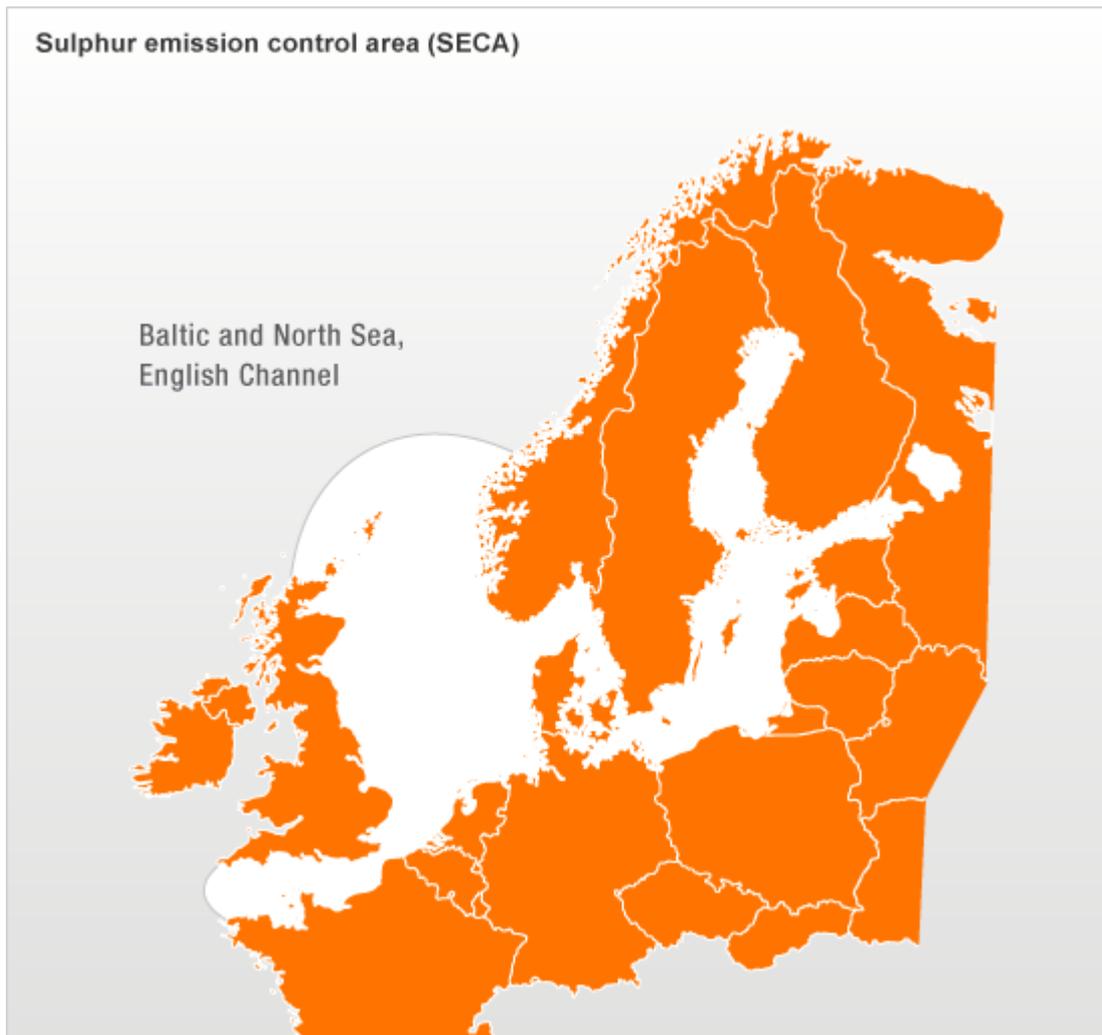
Various desulphurisation techniques have been used in Wärtsilä power plant applications. On the marine side, scrubbers can be found economically very attractive in meeting the future IMO sulphur requirements. Wärtsilä's on-going development and commercialisation project regarding a fresh water marine scrubber is proceeding successfully. This technology developed by Wärtsilä is the first such certified solution in the world and has now been approved by three major classification societies. Wärtsilä delivered a marine scrubber to a containership in August 2011. This is the first commercial marine scrubber project for a main engine. As a next stage, the development project for a novel hybrid scrubber capable of being operated both with fresh and sea water is ongoing.

Low sulphur fuels

The coming regulations limiting the sulphur content in marine fuels will inevitably create some new challenges for customers. Low sulphur fuels have, in most cases, lower viscosity than ordinary fuels, and this will affect the behaviour of the fuel injection systems in diesel engines. Therefore, modifications are often recommended, not only for the engine but also possibly for boilers. Wärtsilä will be able to offer its customers support in adapting to future low sulphur fuel qualities.

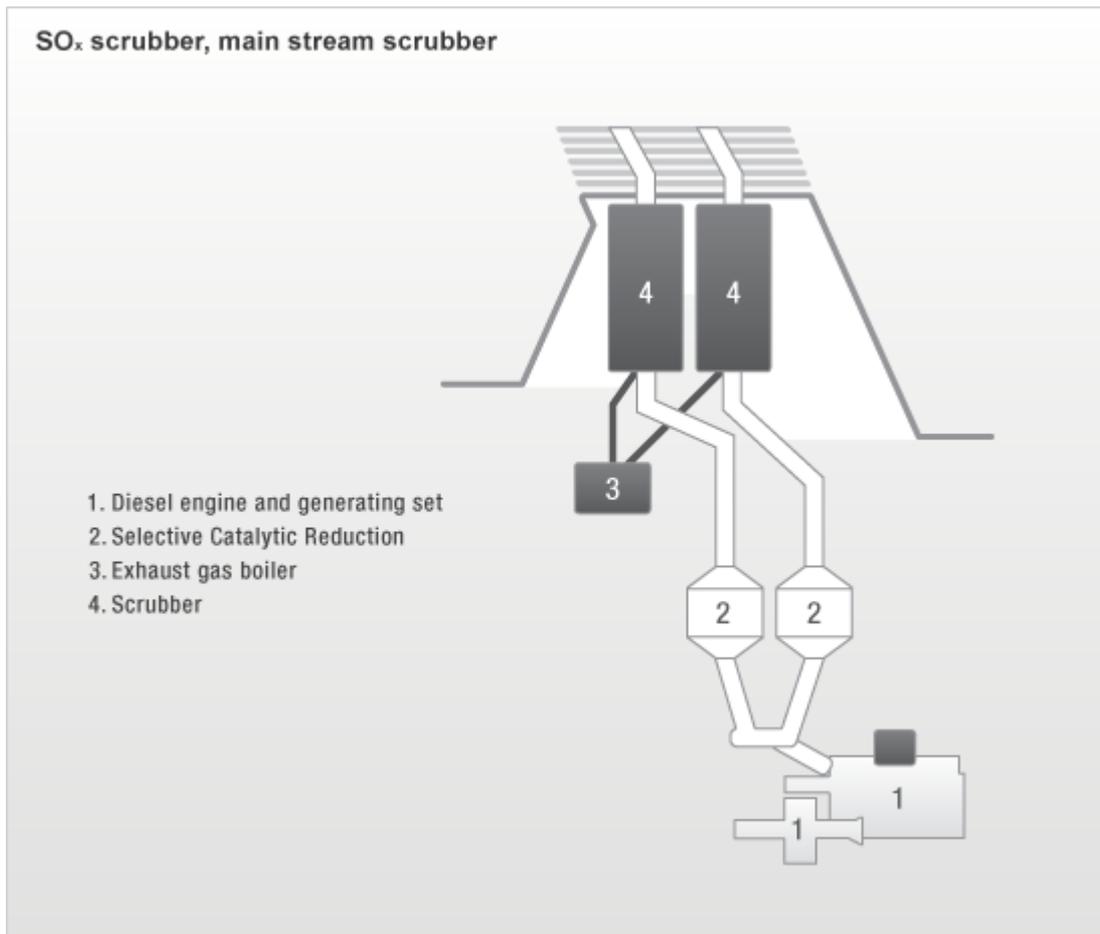


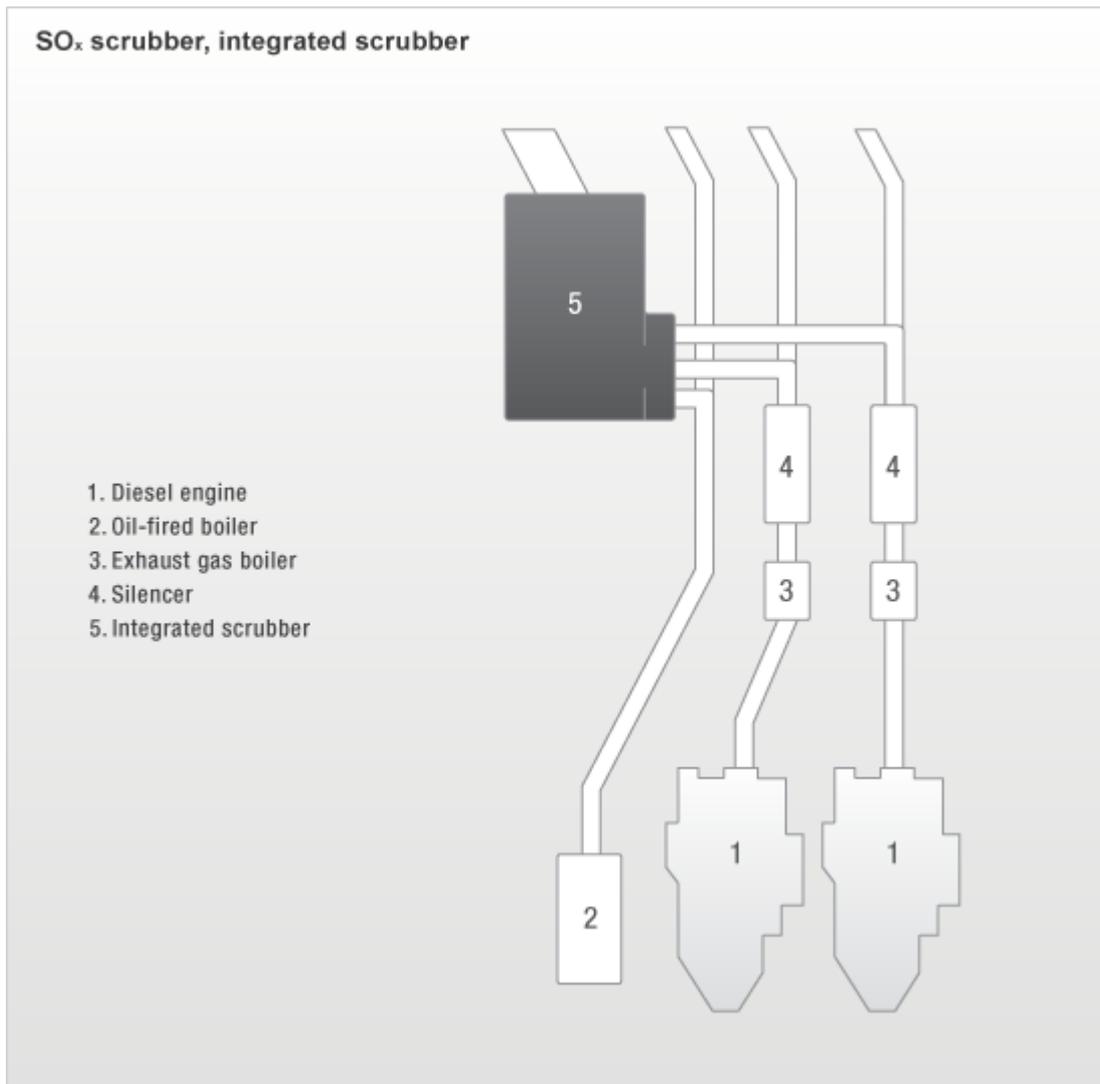




Sulphur and nitrogen emission control areas (SECA and NECA)







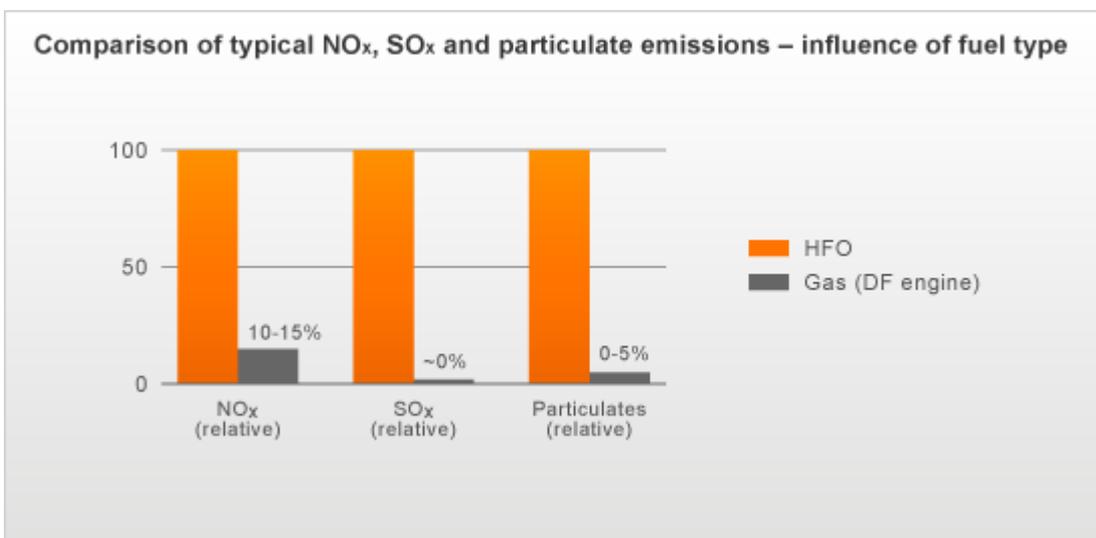
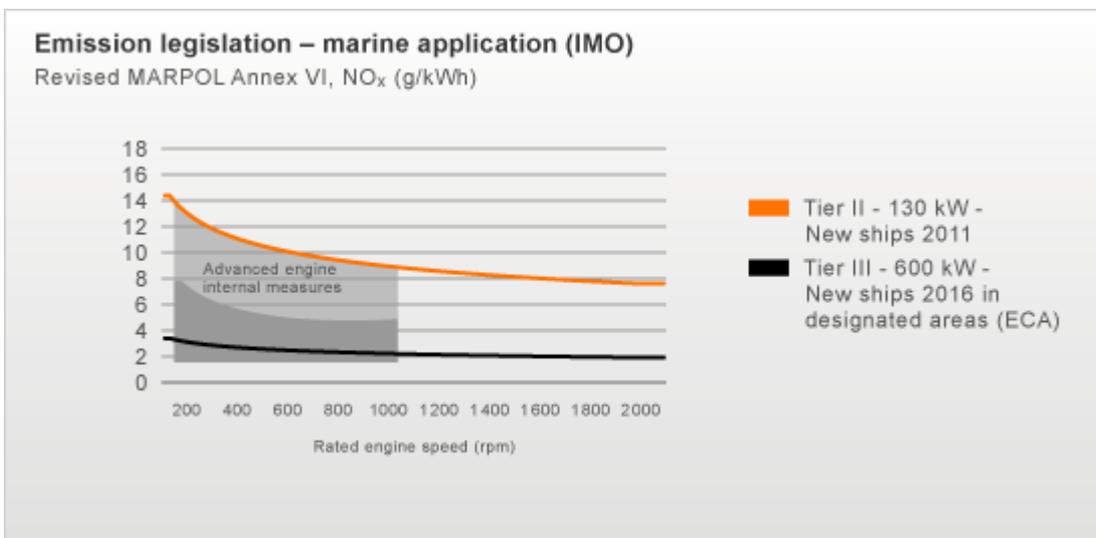
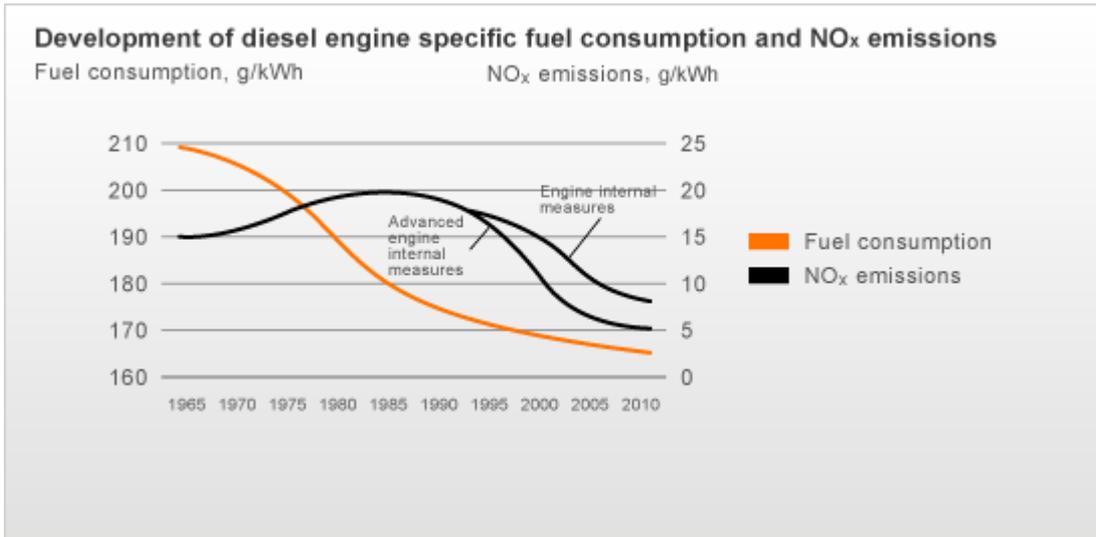
Reducing nitrogen oxide emissions

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 2016 onwards. 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
- Aftertreatment 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).

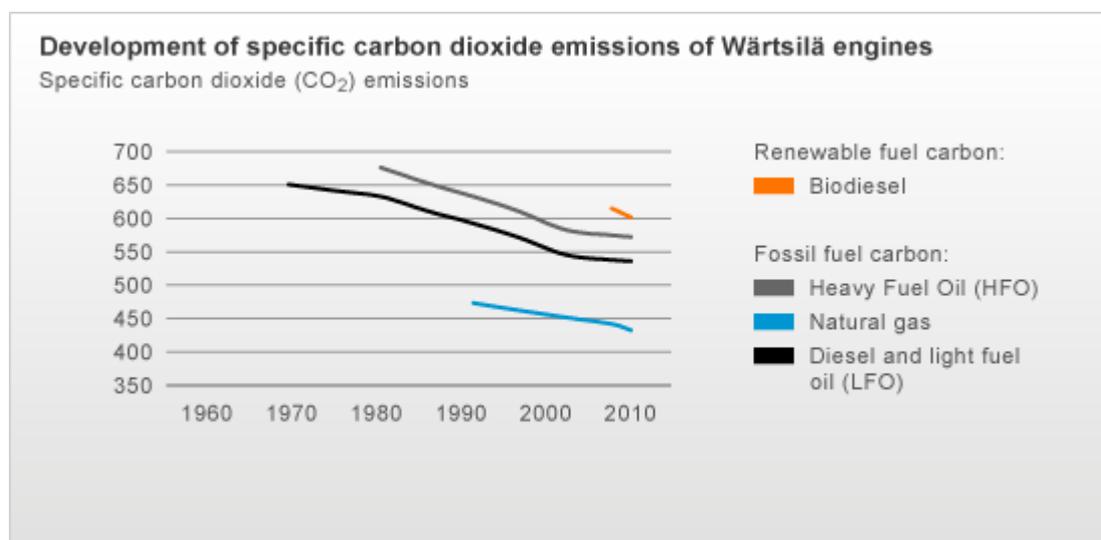
Selective Catalytic Reduction will play an important role in the future, and it is essential to ensure that combinations of SCR and scrubbers are applicable. Wärtsilä has experience in SCR systems with a wide range of fuels. Wärtsilä is able to deliver also SCR solutions for high sulphur applications, 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.



Reducing greenhouse gas emissions

In addition to improving the efficiency of its solutions, Wärtsilä is continuously developing technologies for reducing the CO₂ and total hydrocarbons (THC) emissions for both diesel and gas engines. Wärtsilä has put significant emphasis on the research and development of gas engine technology and as a result is a world leader in this field. For gas engines, Wärtsilä is developing technologies such as Ultra Low THC emission reduction, which reduces the THC levels by 30-90%. Complementing the pure engine development work, efforts are underway to design, test and validate a combined catalyst-based methane reduction system for the engine.

In addition, substantial reductions of methane emissions can also be achieved by reducing the engine speed when reducing load. Some of the engine optimisations can also be retrofitted on existing older engines. These measures can include optimising combustion space, the tuning of parameters, skip firing at low loads and a general level of optimised machinery selection.



Water solutions

In 2004, the International Maritime Organization (IMO) adopted the Global Ballast Water Convention, which mandates ballast water treatment on newbuildings and existing vessels to protect local biodiversity from non-indigenous invasive species. These may cause a negative economic impact on society, reduced output from fisheries and added costs for 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. The convention is expected to come into force during 2012. In addition, the US Coast Guard will announce its own regulatory guidelines in 2012, which will be based on EPA (Environmental Protection Agency) recommendations.

Wärtsilä has, together with the technology provider Trojan Marinex, a division of Trojan Technologies, introduced an advanced ballast water treatment system based on filtration and UV treatment. The technology is free of any harmful residual products, has high biological efficacy and is safe for personnel, for vessels and for the environment.

The system features a compact design that allows for easy installation onboard, whether it is for a new build or a conversion project, while its low power consumption contributes towards reduced energy costs.

During 2011, in addition to operational testing at sea, the product has been subject to a series of other tests, including those for land-based filtration optimisation and certification validation. Type approval certification is expected to be obtained in mid-2012. Four unit sizes have thus far been released. An additional three unit sizes will be released during 2012 for a full product portfolio with capacities stretching from 150 to 1,500 m³/h.

	IMO	US Coast Guard		
		phase 1	phase 2	
Organisms > 50 µm	< 10	< 10	< 0.01	/ m ³
Organisms 10-50 µm	< 10	< 10	< 0.01	/ ml
Escherichia coli	< 250	< 250	< 126	cfu* / 100 ml
Intestinal enterococci	< 100	< 100	< 33	cfu* / 100 ml
Toxicogenic vibro cholera	< 1	< 1	< 1	cfu* / 100 ml
<i>Implementation year</i>	<i>2012</i>	<i>2012</i>	<i>2016</i>	
*) cfu = colony-forming units				

Creating new solutions

Development of groundbreaking technology to cut emissions

Wärtsilä and ABB Turbo Systems are co-operating in a joint development programme for a new and groundbreaking application of two-stage turbocharging on large diesel engines. Advanced engine technology, together with two-stage turbocharging, offers significant advantages in fuel consumption and engine emissions.

The application of two-stage turbocharging technology on Wärtsilä diesel engines has been developed through close co-operation between Wärtsilä and ABB Turbo Systems. In this programme, Wärtsilä is focusing on developing advanced engine technology, which with the turbocharger is able to reach the highest possible performance and become a cost-effective commercial solution for its customers. ABB Turbo Systems is delivering the turbocharging technology with defined performance in terms of airflow, pressure ratios and efficiency.

Development of fuel cell technology

A fuel cell is a clean, efficient and reliable method of producing energy, making it a highly attractive option for distributed power generation. Wärtsilä has been developing fuel cell technology for decentralised power generation and marine applications since 2000. The company's fuel cell development team is focusing on developing, designing and manufacturing a solid oxide fuel cell (SOFC) system. In this work, Wärtsilä is taking advantage of its extensive know-how in combined heat and power generation and the company's in-depth knowledge of its marine customers' needs.

Part of the R&D programme covers the development of the WFC20 and WFC50 units, as well as 20 kW and 50 kW SOFC units. During 2011, Wärtsilä achieved record electrical efficiency of 49.8% with the WFC20 unit operated in Vaasa, where the fuel cell is driven by biogas collected from a landfill. After the summer, the unit was restarted for continuous operation and has since then exceeded the set milestone for 5,000h operation. Development of larger units has continued through testing product platforms in the 50 kW power range and conducting pre-studies of over 100 kW units. During the year, Wärtsilä signed a co-operation agreement with an additional stack supplier, Versa Power Systems Inc., in order to further strengthen the supply chain for fuel cell technology.

Enabling gas operations in ships

Multifuel operation using Wärtsilä's Dual Fuel (DF) technology offers environmental advantages of gas engines. It allows low CO₂, NO_x, SO_x and particulate emissions, while having redundancy in terms of liquid fuel in case gas is not available. DF technology also allows a choice of fuel based on the cost and availability of gas compared to liquid fuel. The use of DF technology with gas as the fuel is an optimum solution for vessels that spend a lot of time in ECA zones and for vessels that carry gas with them, i.e. LNG carriers.

Wärtsilä is developing a complete portfolio of medium-speed gas engines and related fuel handling equipment in order to be able to deliver solutions for LNG tankers and gas-fuelled ships in general. Wärtsilä is also developing 2-stroke gas engine technology.

Expanding the fuel versatility

Wärtsilä is using more resources on the use of alternative fuels as part of its pro-active approach to providing cost-effective, flexible and environmentally sound solutions for its customers.

Wärtsilä studies different fuel sources, such as vegetable oils, animal fats and emulsions, in its fuel laboratory. During recent years, we have tested engines running on tyre based pyrolysis oil, oil from burning rock refinery process, different kind of condensates coming from oil and gas wells, jatropha oil, fish oil, chicken oil, traditional animal fats and different kinds of synthetic oils.

Enabling 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 more sustainable energy infrastructure. Wärtsilä's dynamic grid stability solutions make it possible to install much larger quantities of variable, non-dispatchable wind power capacity to the electrical grids without losing system stability. The same dynamic 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 are high energy efficiency over a wide load range, multifuel operation, no water usage and the ability to locate the power generation facility in the load pockets, i.e. in cities, even in California where they have the most stringent emission requirements. The combination of wind power and Wärtsilä dynamic power plants offers high potential for dramatically reducing CO₂ emissions worldwide.

The HERCULES program

HERCULES Beta within the EU's 7th framework programme was finished in December 2011. This 40-month and EUR 26 million project was steered by two leading engine designers and manufacturers, Wärtsilä and MAN Diesel and Turbo, and it brought together 32 partners across Europe. One aim of the project was to develop new technologies to reduce gaseous and particulate emissions from marine engines. A second objective was to increase engine efficiency and reliability, which in turn will reduce specific fuel consumption, carbon dioxide emissions and lifecycle costs. The project has resulted in technologies for more than 50% reduction in NO_x emissions and 10% improvement in fuel consumption.

The technological themes of the HERCULES initiative have, since its inception in 2002, been higher efficiency, reduced emissions and increased reliability for marine engines. However, for taking marine engine technology a step further towards improved sustainability in energy production and total energy economy, an extensive integration of the multitude of identified new technologies is required. Following the original vision, leading parties have applied for and been awarded a third phase called HERCULES-C, as a continuation of the very successful HERCULES programmes. The HERCULES-C Project is scheduled to run over a three-year period 2012-2014 and has a budget of EUR 17 million, bringing the total combined budget of the HERCULES programmes (2004-2014) to EUR 76 million.

Cleen

The Future Combustion Engine Power Plant (FCEP) research programme was started on 1 January 2010. The program 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, emissions reduction methods, heat recovery systems and power conversion technologies. In addition, fuel flexibility and the use of renewable fuels in combustion engines are central research areas.

The programme objectives and scope have been set by the industry together with the research institutions, thereby enabling deep co-operation in jointly executing the programme and promoting breakthrough innovations across broad interfaces.

The total cost of the FCEP programme is EUR 38 million. It will be covered by the participating companies (EUR 12.8 million) and research institutes (EUR 5.1 million). The remaining EUR 20 million has been applied for from the Finnish Funding Agency for Technology and Innovation (Tekes). The first half of the four year program has been successfully accomplished. The research will continue as planned during the third year of the program with a special focus in utilising the established research network and infrastructure to facilitate new results and technical solutions in the area. 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 in technical and scientific excellence.

Co-operation with stakeholders

Co-operation throughout the value chain is becoming ever more important. It is necessary for understanding the requirements of the end customer, for understanding and optimising the performance of the value chain and for safeguarding the expertise needed.

Wärtsilä's research organisation has long-term co-operation agreements with research institutes, engineering consultants, licensees and other corporate partners in fields that are of crucial importance to the well-being of society and the conservation of the environment. Wärtsilä also co-operates with a number of leading European universities that conduct research into engine technologies.

Co-operation with customers and suppliers creates added value for the entire supply chain as well as for the end customer. Identifying and achieving common goals succeeds best through co-operation with the whole supply chain. Wärtsilä has gained promising results in working closely with various stakeholders towards improving reliability, overall efficiency and the environmental performance of its solutions.

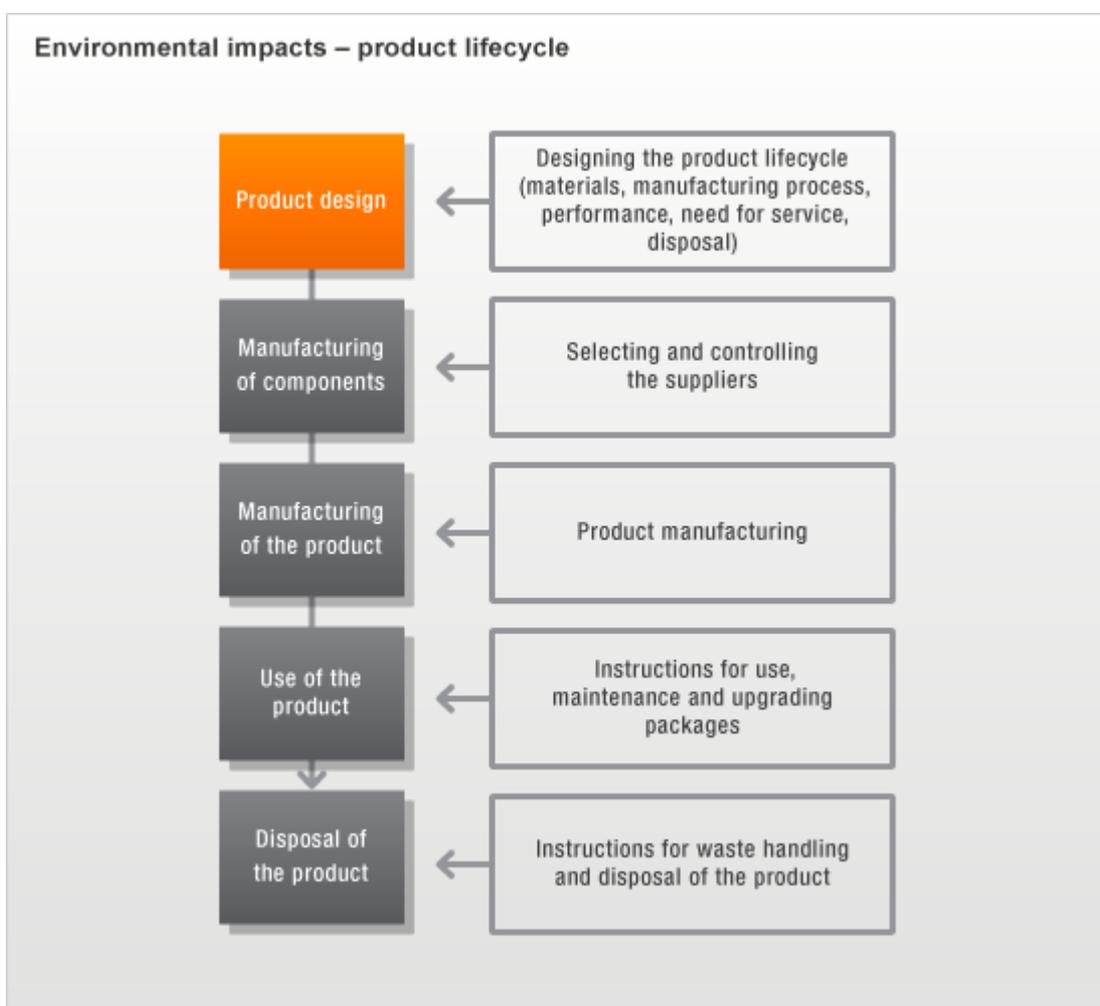
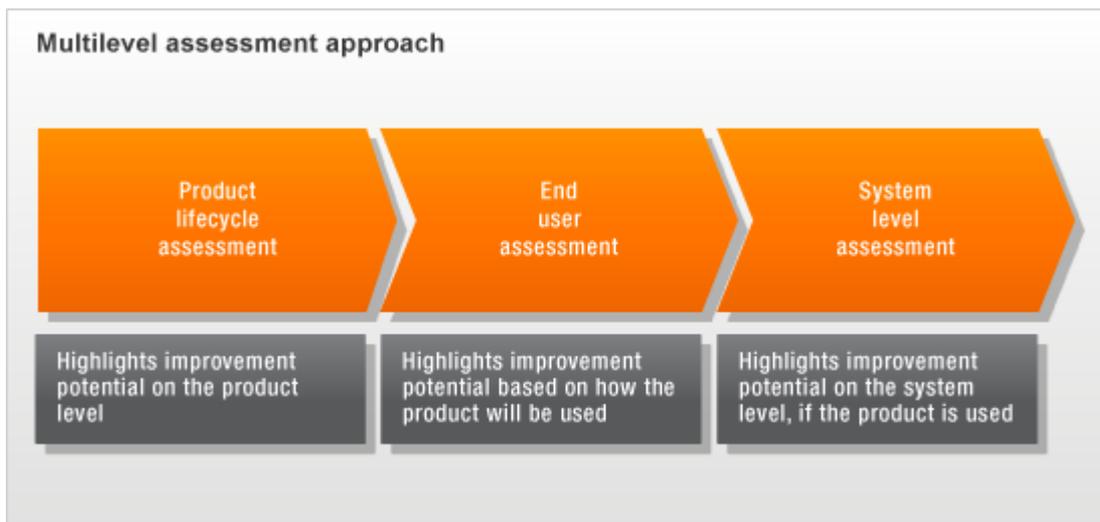
Wärtsilä continuously collaborates with major low-speed engine licensees in the fields of product development, testing, manufacturing and sales. Wärtsilä collaborates with Samsung Heavy Industries in the development of gas-fuelled merchant vessels. Wärtsilä also collaborates with Becker Marine Systems with the aim of furthering the development of marine propeller-rudder systems. Wärtsilä co-operates with Shell Oil Company, with the aim of promoting and accelerating the use of liquefied natural gas (LNG) as a marine fuel.

Wärtsilä is involved in an increasing number of customer development cases in which innovative solutions are researched with the aim of building the next generation of more efficient ships.

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.



Summary of environmental aspects of Wärtsilä's products and solutions

Environmental aspect and product	Environmental impact and component	Wärtsilä's solution	Customers' options
Emission into the air	Pollution of air		
Engine and power plants	Climate warming: carbon dioxide (CO ₂)	Increasing engine and plant efficiency, multifuel engines	<ul style="list-style-type: none"> Using a different fuel Using a fuel with a lower sulphur content Investment in secondary emission reduction technologies Planned or optimised maintenance and correct operation
	Acidification: sulphur oxides (SO _x)	Increasing engine efficiency, marine scrubbers, several FGD technologies, multifuel engines	
	Acidification, eutrophication, lower atmosphere ozone formation: nitrogen oxides (NO _x)	Low NO _x combustion, air humidification technologies, SCR, multifuel engines	
	Human health impacts, visual impacts: particles, smoke	Optimising the combustion process, common-rail fuel injection, electrical filters, marine scrubbers	
	Reduces oxygen uptake in the lungs: carbon monoxide (CO)	Optimising injection, compression and the shape of the combustion space, oxidation catalysts (gas engines)	
	Climate warming (CH ₄), ozone formation in the lower atmosphere, some carcinogenic compounds: hydrocarbon (THC, VOC)	Oxidation catalysts in gas engines for VOC emissions, optimising the combustion process	

Environmental aspect and product	Environmental impact and component	Wärtsilä's solution	Customers' options
Consumption of raw materials	Depletion of natural resources		
Engines	Cast iron, alloy and structural steel, aluminium alloys. Main chemical elements of engines: Fe 90.8%, Al 2.7%, C 2.2%	Long product life, using recycled materials, material efficiency, automated filters, modernising engines, overhauling and recycling components	<ul style="list-style-type: none"> • Planned or optimised maintenance and correct operation • Personnel training • Overhauling components • Recycling components • Recycling catalysts • Optimising process parameters
Propulsion systems and seals	Metals, bronze, rubber. Main chemical elements of propulsion systems: Cu 80.1%, Al 9.3%, Ni 4.9%	Long product life, using recycled materials, material efficiency	
Power plants	Several different materials such as steel, concrete, insulation material, water	Prefabricated modules, material efficiency	
Secondary cleaning technologies	Alloy and structural steel, different types of catalyst materials, reagents (e.g. ammonia urea), water	Developing primary technologies, developing secondary technologies	

Environmental aspect and product	Environmental impact and component	Wärtsilä's solution	Customers' options
Consumption of fuel & lubricating oils	Depletion of natural resources		
Engines and power plants	Liquid oil-based fuels (e.g. LFO, HFO, refinery residues), gas fuels (e.g. LNG, NG, CNG) and biofuels (e.g. rapeseed and palm oil, biomass), lubricating oil	Improving energy efficiency, reducing the consumption of lubricating oil, multifuel engines, utilising biofuels and alternative fuels in power production	<ul style="list-style-type: none"> • Planned or optimised maintenance and correct operation • Personnel training • Using environmentally favourable fuels
Propulsion systems	Lubricating oil, hydraulic oil	Improving the total operating efficiency of ships, increasing the service life and reducing the consumption of lubricating oil, preventing oil leakages	<ul style="list-style-type: none"> • Using environmentally favourable lubricating oils • Using environmentally favourable seals
Solid and liquid waste	Increased waste and landfill sites		
Engines	Lubricating oil used, filters and components, waste oil	Using recyclable materials and optimising the use of material, automated filters, long service intervals, overhauling components, reducing the consumption of fuel	<ul style="list-style-type: none"> • Planned or optimised maintenance and correct operation • Personnel training • Recycling and proper waste disposal
Power plants	Construction waste, ash, waste water, waste oil, office waste	Prefabricated, ready-to-install modules	<ul style="list-style-type: none"> • Evaluation of the potential uses of end products
Secondary cleaning systems	End products and catalysts of flue gas decontamination	Evaluating the potential uses of end products, developing dry primary technologies	<ul style="list-style-type: none"> • Optimising process parameters

Environmental aspect and product	Environmental impact and component	Wärtsilä's solution	Customers' options
Noise and vibration	Discomfort		
Engines and power plants	Structure-borne noise, flue gas noise, airborne noise	Efficient noise reduction solutions and damping systems, e.g. re-positioning wall structures and noise-generating sources	<ul style="list-style-type: none"> Planned maintenance and correct operation of the power plant
Heat emission	Warming of the atmosphere		
Engines and power plants	Waste heat from exhaust gases	Heat recovery systems	<ul style="list-style-type: none"> Optimising process parameters

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, also 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 the reporting scope and coverage.

The environmental indices used in connection with performance indicators are linked to the development of net sales. Therefore, increased investments in R&D during any particular year do not impact net sales but increase the absolute value of the indicator.

Monitoring environmental impacts

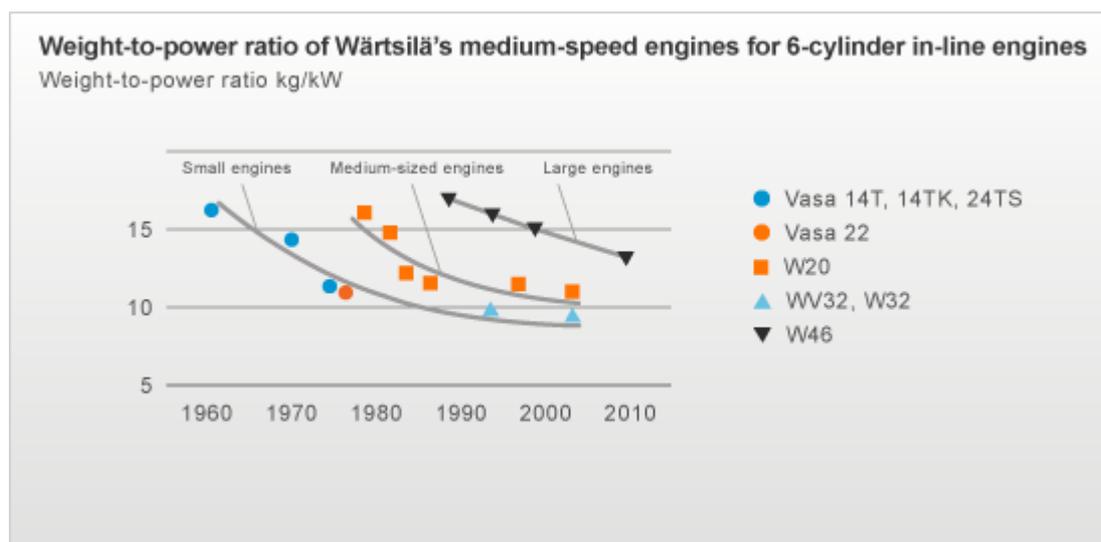
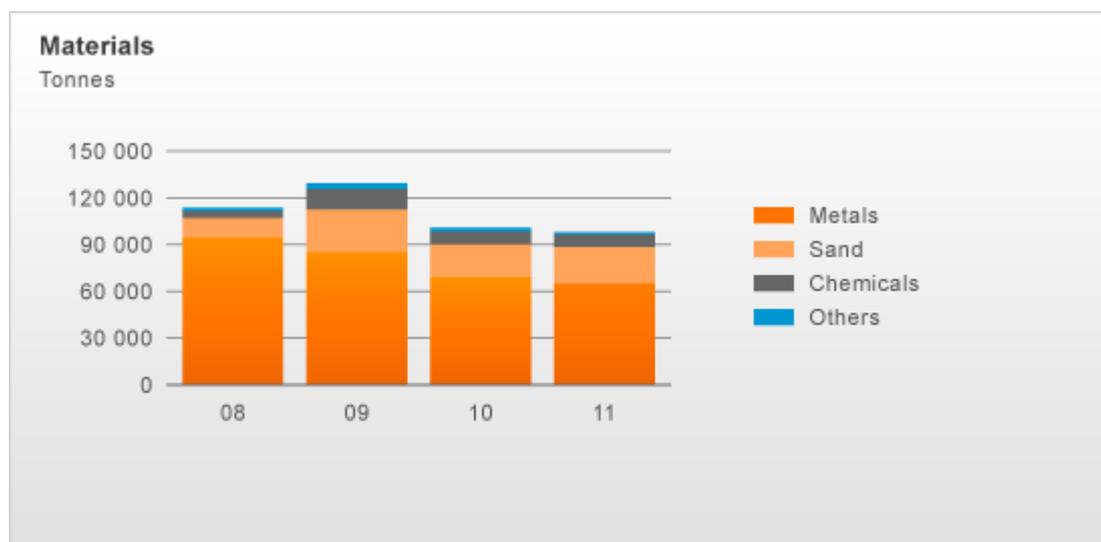
Within Wärtsilä, environmental impacts caused by operational activities are monitored as follows:

- 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

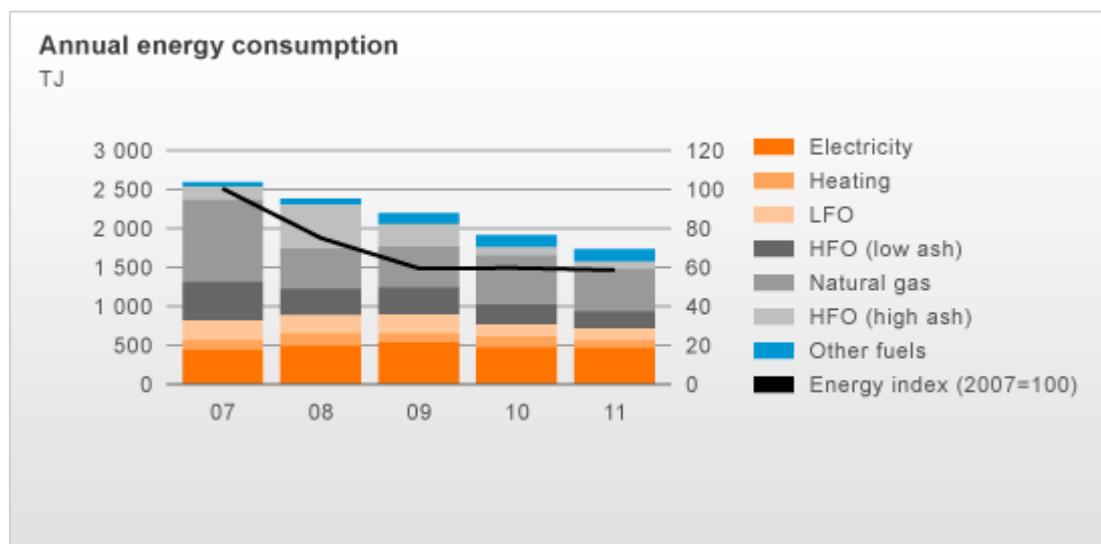
The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys and bronze. Recycled material content of these metals vary depending on the material and supplier in question. Recycled material, such as end-of-life coins and bronze propellers, is used for example in the casting of new propellers. In 2011, the total material usage was 98,142 tons (100,896). The major material groups were various metals 66% (69), sand 24% (21) and various chemicals 8% (8).



Energy

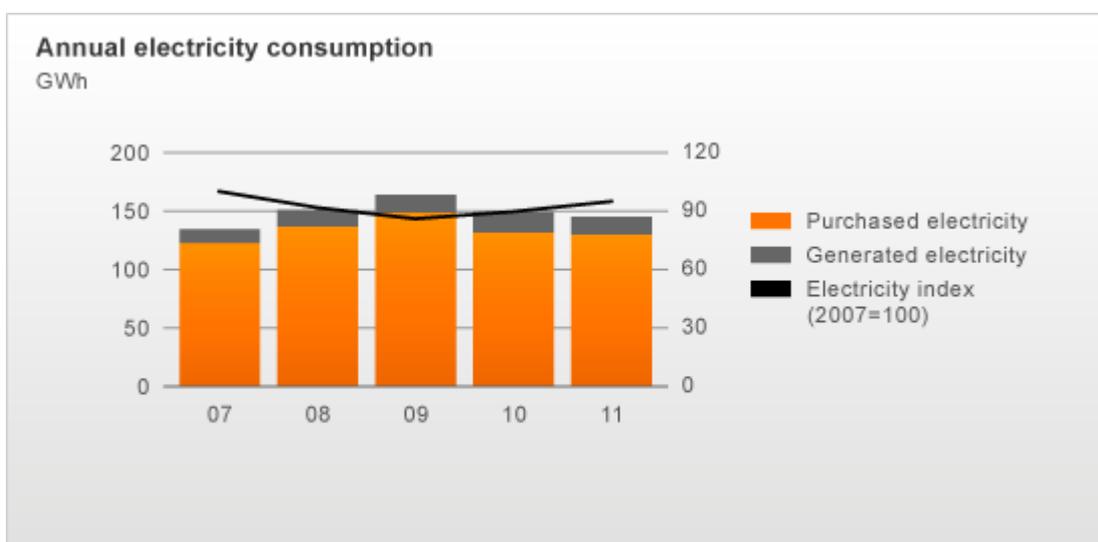
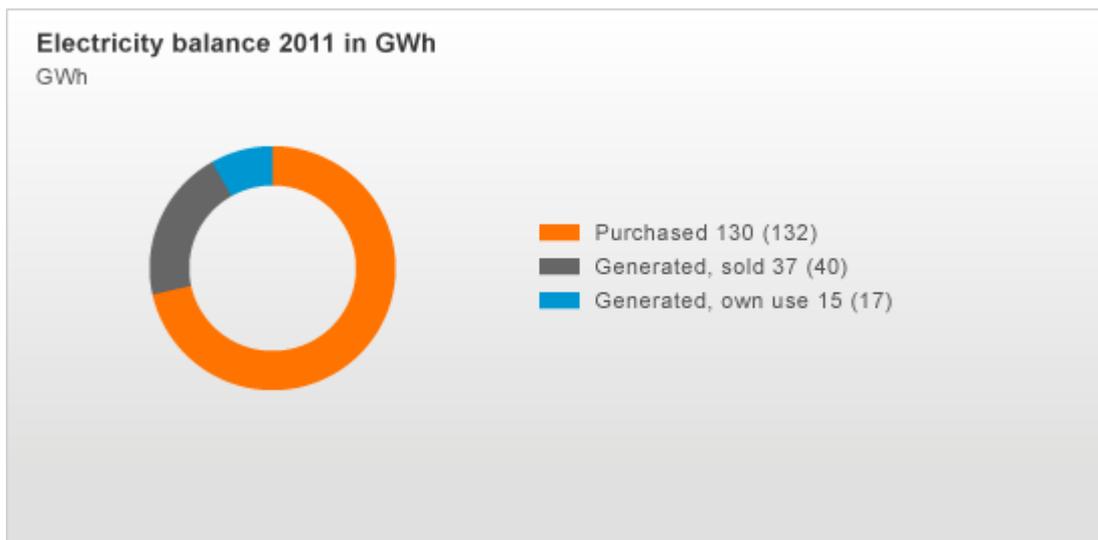
Total energy consumption

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.



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.



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. Heat emissions into water systems arise from engine cooling and process cooling water. Wärtsilä companies use water from the local watercourse for their engine and process cooling needs. In such cases, the cooling water system is kept separate so that only heat is released into

the natural water system. Wastewater is sewered and piped to the local wastewater treatment plant. 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.



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 (volatile organic compounds) emissions. 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 2011, the calculated secondary CO₂ emissions were 56,610 tons (58,002) (from purchased electricity and heat) and the CO₂ emissions from flights totalled 37,459 tons (35,060).

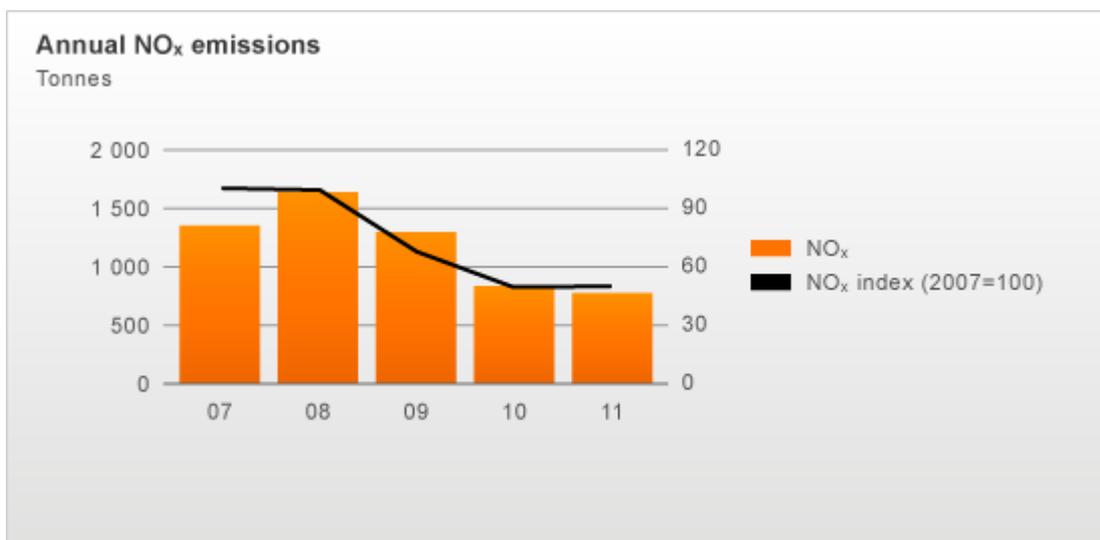
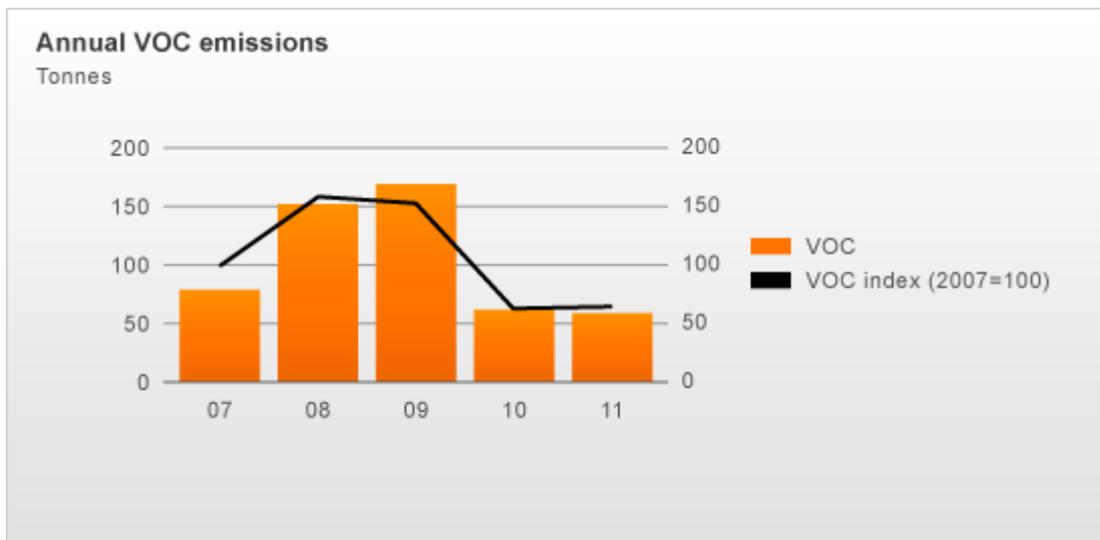
Wärtsilä has taken several measures to reduce its indirect CO₂ emissions. The energy efficiency commitment aims to reduce energy consumption and emissions. In addition, Wärtsilä's focus lies on reducing travelling by implementing a strict travel policy and by using three main virtual meeting concepts: 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 400 Live-meetings are arranged daily, and there are 27 Telepresence rooms established in Wärtsilä premises in 17 countries.

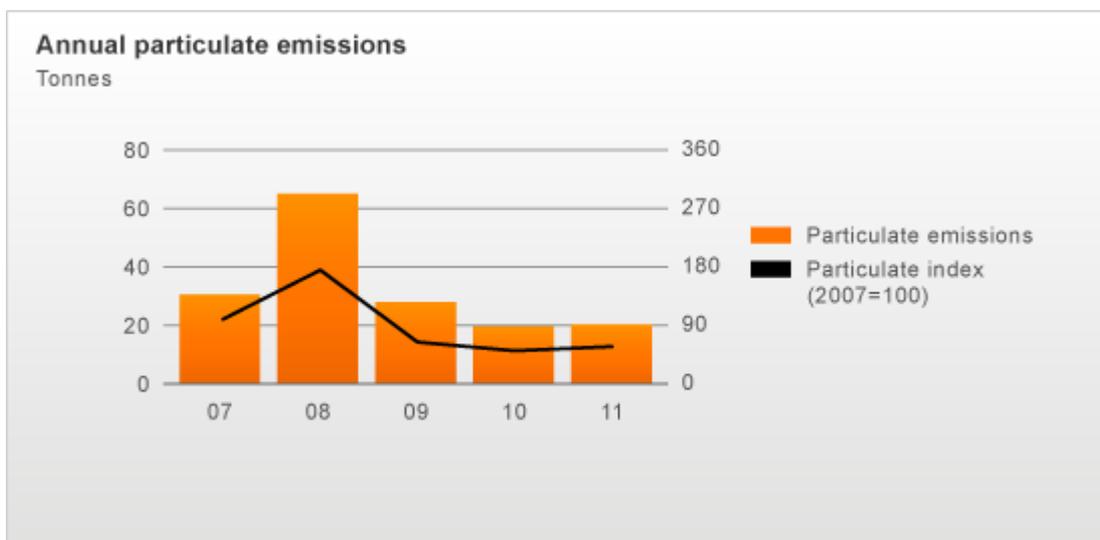
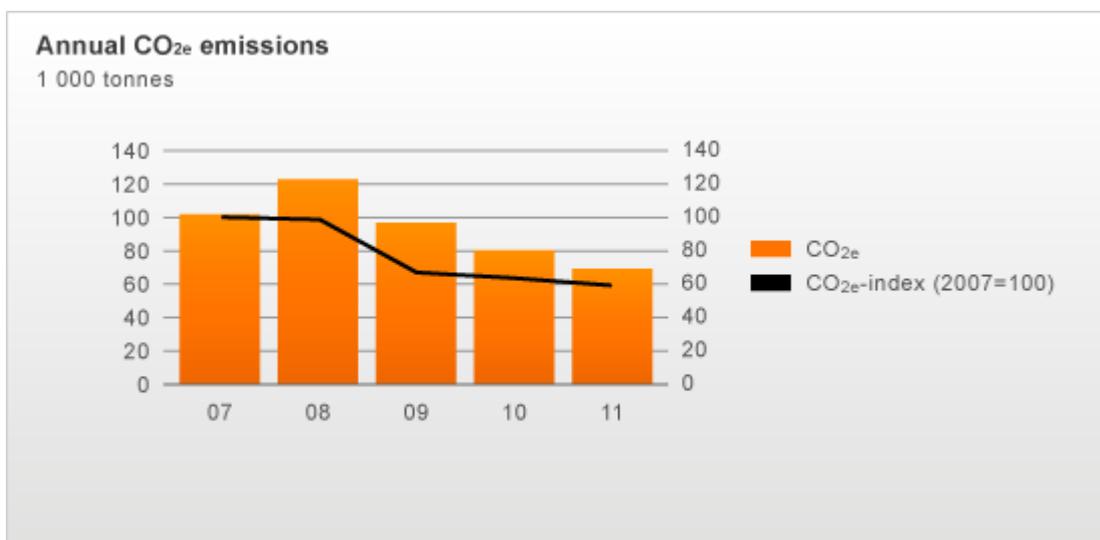
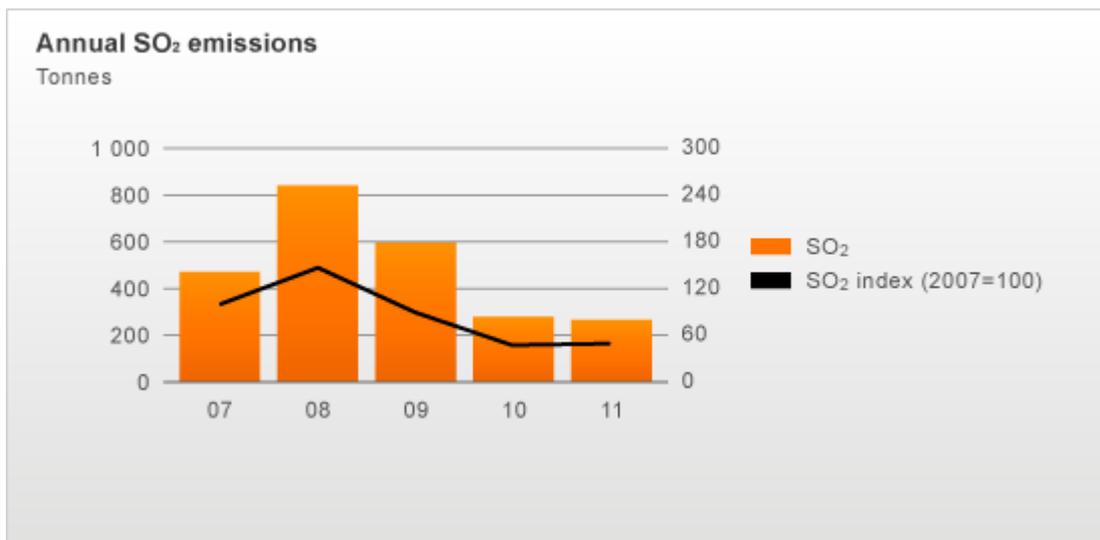
Waste management

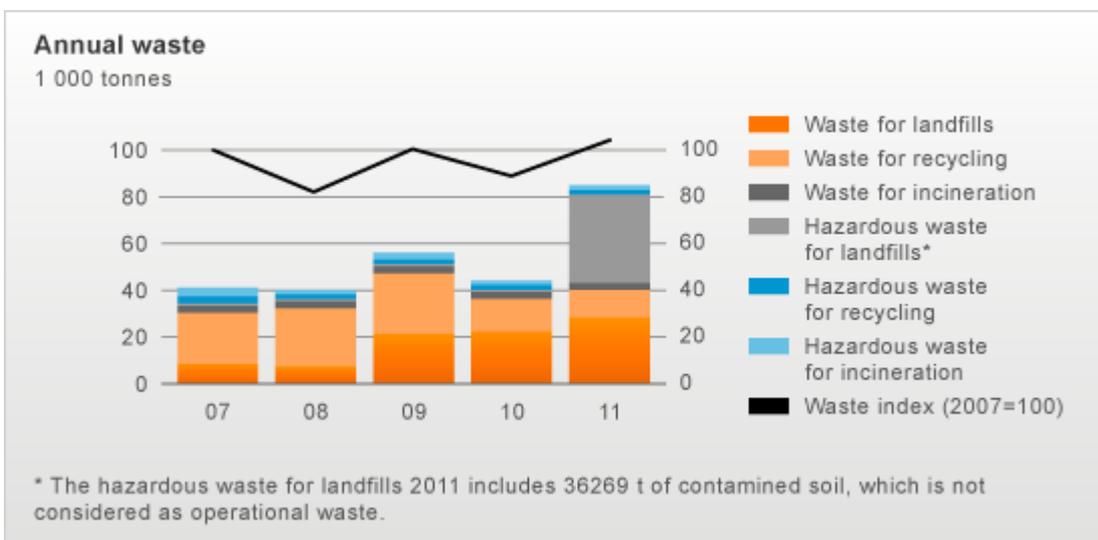
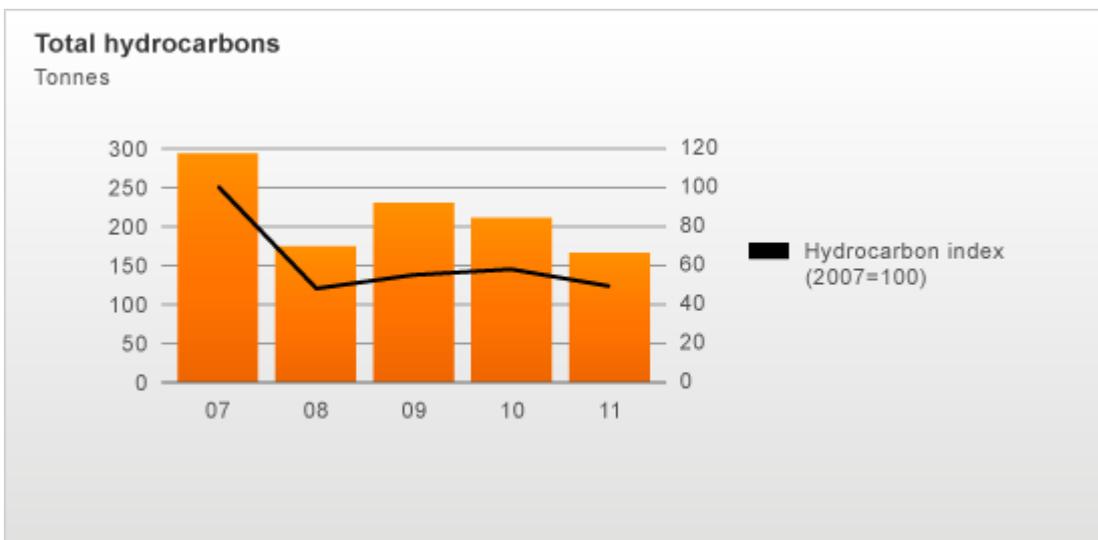
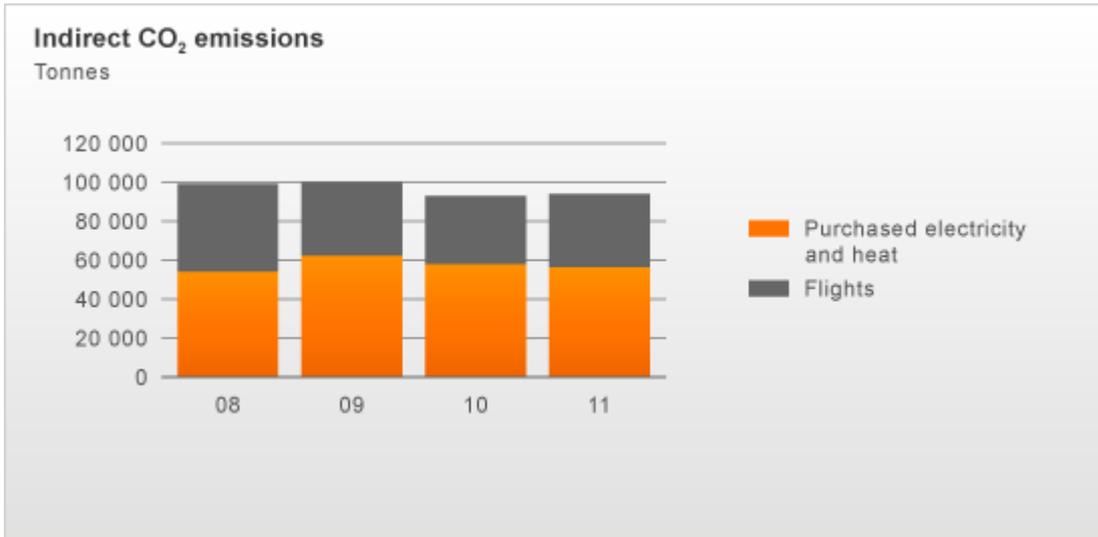
Manufacturing activities cause various wastes. These are divided into two main categories: hazardous and non-hazardous wastes. Hazardous wastes include cutting fluids, various types of waste oil, paints and solvents, oily wastes, solid wastes etc. Hazardous wastes are taken to a hazardous waste disposal facility for appropriate treatment. All Wärtsilä companies sort their waste according to local municipal regulations. Generally speaking, the main sorting categories are waste to be incinerated, crude waste for landfills, clean cardboard and waste paper. Waste wood, scrap metal and metal swarf are collected separately. Only coarse waste and in some cases waste wood are removed for landfill disposal. Other wastes are used either as raw materials or for energy.

Waste management in Wärtsilä has four aims:

- 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.







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

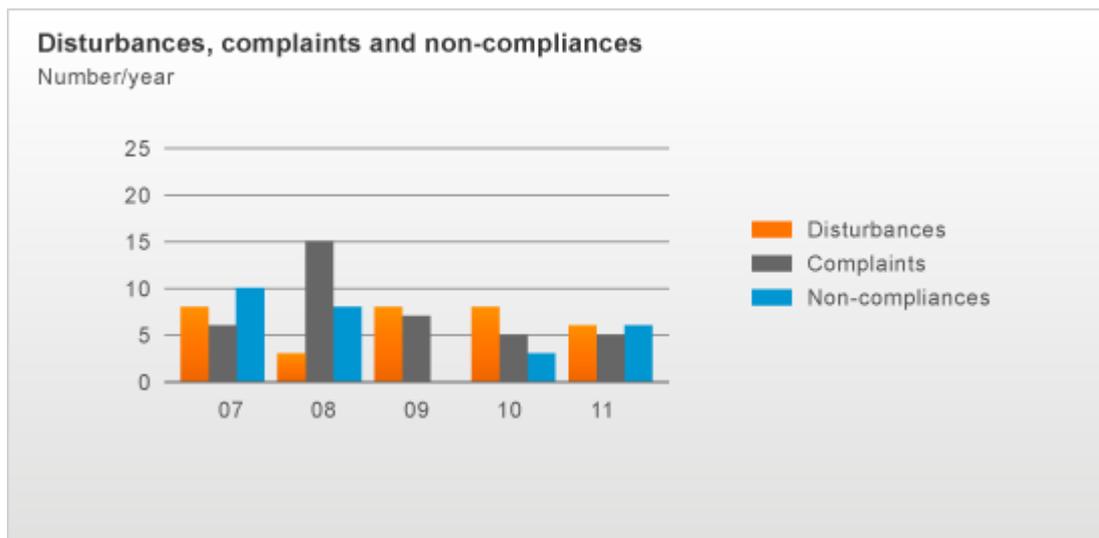
The number of disturbances, complaints and incidents of non-compliance are presented in the figure below. Reported disturbances cover incidents in which the Wärtsilä company concerned has usually been obliged to report the disturbance to the authorities. The following main environmental disturbances occurred in Wärtsilä's business locations in 2011:

- 1 fire
- 2 soil contaminations
- 2 fuel oil spills
- 1 oily water spill

All the disturbances above were investigated, and appropriate corrective actions were taken in each case. The complaints made by occupants of neighbouring sites were mainly related to noise, odours and smoke. All complaints were investigated, and an appropriate corrective action was taken wherever necessary.

Cases of non-compliance

Wärtsilä India Ltd. had 2 non-compliance cases: one related to water consumption exceeding permit conditions and another related to height of a shot blasting shop chimney. The water consumption has been limited to within the permit limits. The chimney height case has been solved by deciding to move to a facility with a sufficiently high chimney. Wärtsilä Azerbaijan LLC had 2 non-compliance cases related to missing hazardous waste and environmental discharges permission documentations. Both documentations will be arranged during the first quarter of 2012. Wärtsilä Philippines Inc. had one non-compliance case related to canteen water discharge oil and grease content exceeding the permit limit. The issue has been solved. Wärtsilä UK Ltd. had one non-compliance case related to water piping found installed against the water regulations. The corrective actions will be taken during spring 2012.



Non-compliance cases presented in previous reports

The earlier non-compliance cases of Wärtsilä India Ltd. were directed to activity. Chimneys with the required heights have been installed and a revision of the waste permit conditions has been reached with the authorities. Wärtsilä Singapore Pte Ltd. has solved the stagnant water and mosquito breeding problem found in the area of the real estate. Wärtsilä Danmark A/S has used a temporary solution to waste water treatment in 2011, and a permanent solution will be implemented during the first quarter of 2012.

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	2011	2010	2009	2008	2007
Environmental capital expenditures	0.9	2.9	1.1	2.6	2.5
Environmental operating expenditures	6.1	5.5	4.2	5.4	4.1

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.

Wärtsilä's social targets

Target	Schedule	Status
<p>To make Wärtsilä a workplace where all employees have a the opportunity to show their best and develop their career – To build a company of equal opportunities</p> <p>- Target 2012: More than 50% of the open vacancies* filled from internal applicant pool including promotions and lateral moves</p> <p>- Target 2012: An average 5 training days/employee per year</p>	continuous	New target: the first status review in 2012
<p>To develop a new way of working in supplier relations, safeguarding Wärtsilä's sustainability commitment</p> <p>- Target 2012: Implementation of revised model for supplier assessment and development</p>	2015	New target: the first status review in 2012
Development discussion coverage 100%	continuous	In 2011, the coverage was 89%.
To implement certified EHS management systems implemented in all subsidiaries (excluding purely sales offices)	continuous	5 new OHSAS 18001 certified companies during 2011. The management system coverage is presented in the management system section.

Target	Schedule	Status
To reach the long-term goal for zero lost time injuries	continuous	In 2011, Wärtsilä continued the strong efforts to improve, consolidate and spread the safety culture. Wärtsilä issued a “Safety Starts with you” video in 12 languages, and a global safety handbook was distributed to Wärtsilä companies. The positive trend continued, the lost-time injury frequency rate was 6.3 compared to the previous year's 7.8.
To ensure Code of Conduct commitment throughout the organisation - Target 2012-2013: 95% coverage of participation in Code of Conduct learning module	2013	New target: the first status review in 2012
To reinforce the Anti-corruption/broker training of key employee groups and obtaining anti-corruption commitments from all key employees trained - Target 2012: To identify the key employees (all sales personnel, company presidents and controllers) to be included in the training by each business. - Target 2013: Training of key employees to achieve 85% completion rate. - Target 2014: Training of key employees to achieve 95% completion rate.	2014	New target: the first status review in 2012
To conduct three community support projects by 2015.	2015	New target: the first status review in 2012.

Target	Schedule	Status
<p>To improve well-being at work and increase productivity by reducing the sickness day cost.</p> <p>- Target 2012: To conduct in Germany, Finland, Spain, Norway and Italy analysis and action plans for improvement.</p>	<p>2015</p>	<p>New target: the first status review in 2012.</p>
<p>*Open vacancies in job levels 3-6</p>		

Personnel

Structural changes in 2011

In June 2011, Wärtsilä signed an agreement to establish a joint venture for manufacturing medium-speed marine engines in China together with Jiangsu CuiXing Marine Offshore Engineering. Wärtsilä's share of the joint venture is 49% and Jiangsu CuiXing's share is 51%. The joint venture's production facilities in the Rugao city of Nantong, in Jiangsu province in Eastern China will focus on the assembly and testing of engines. Operations are planned to start early in 2013.

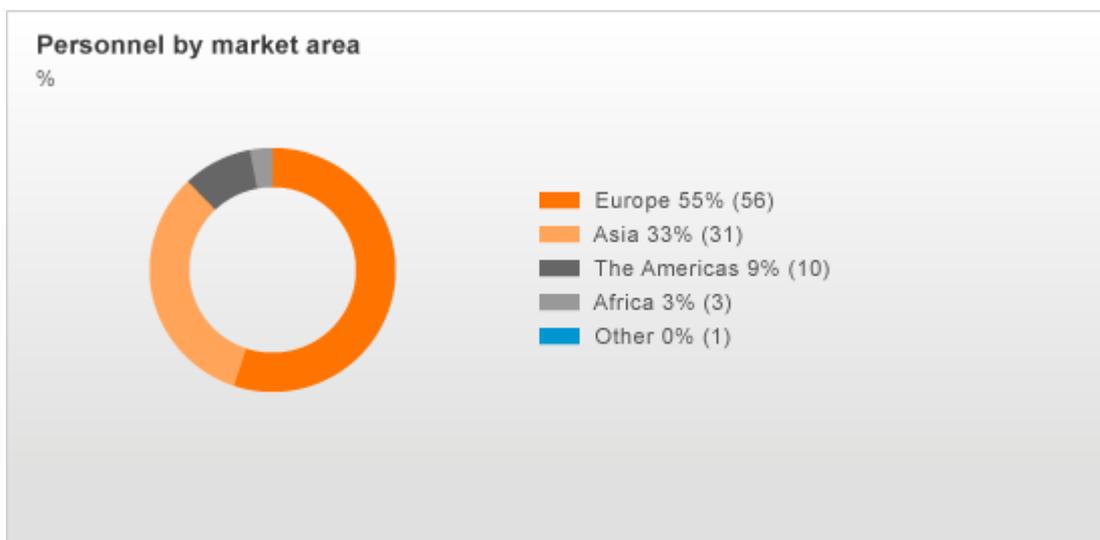
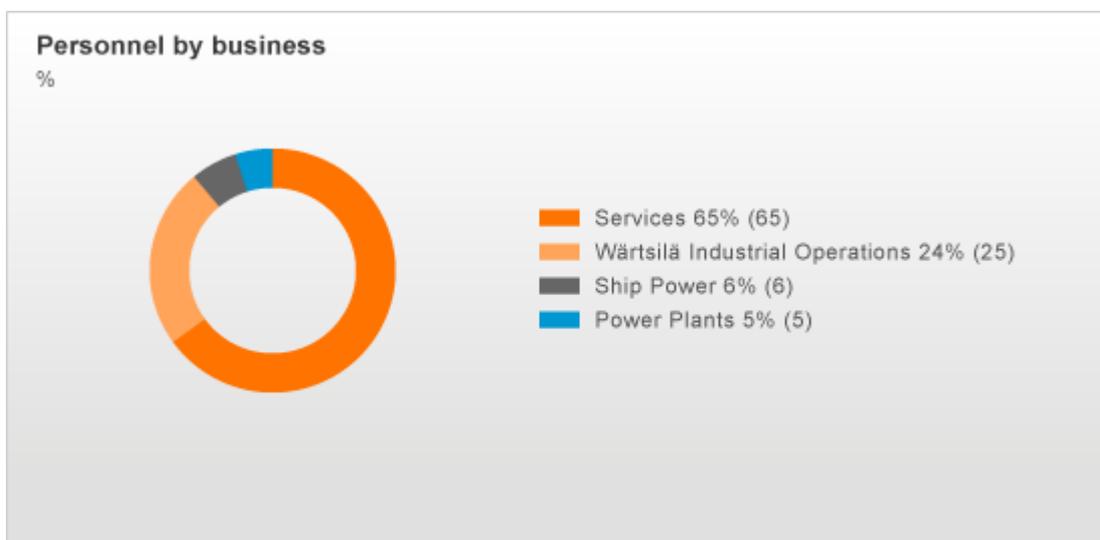
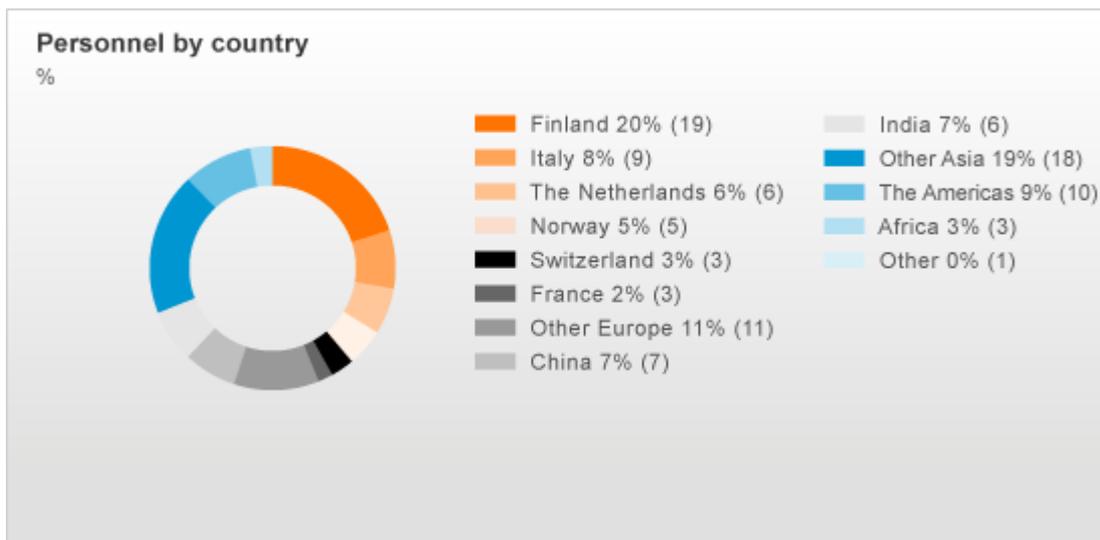
In July 2011, Wärtsilä announced the acquisition of Cedervall, one of the leading manufacturers of shaft seal and bearing systems for the marine industry. Cedervall is headquartered in Gothenburg, Sweden, and the company has subsidiaries in Spain, China and Singapore, with manufacturing facilities in Sweden, China and Spain. The company employs 211 people.

Wärtsilä inaugurated its new spare parts distribution centre in Kampen, the Netherlands in November 2011. The Central Distribution Centre is the core of Wärtsilä Global Logistics Services and integrates eight spare parts warehouses into one global supply chain operation. The new distribution centre began its operations in December 2010 and was fully operational by the end of 2011. The Central Distribution Centre will employ approximately 140 people.

A global project concerning support functions was kicked off already in March 2010. The global evaluation of every support function was carried out in the spring, and implementation plans were drawn up during the autumn. The main part of the implementation of the new business support functions has been done in due course in 2011 in order to create a new organisational design for the support functions. The main target was to improve the implementation of global initiatives, to harmonise processes across the Group's companies and businesses and to reduce overlapping work.

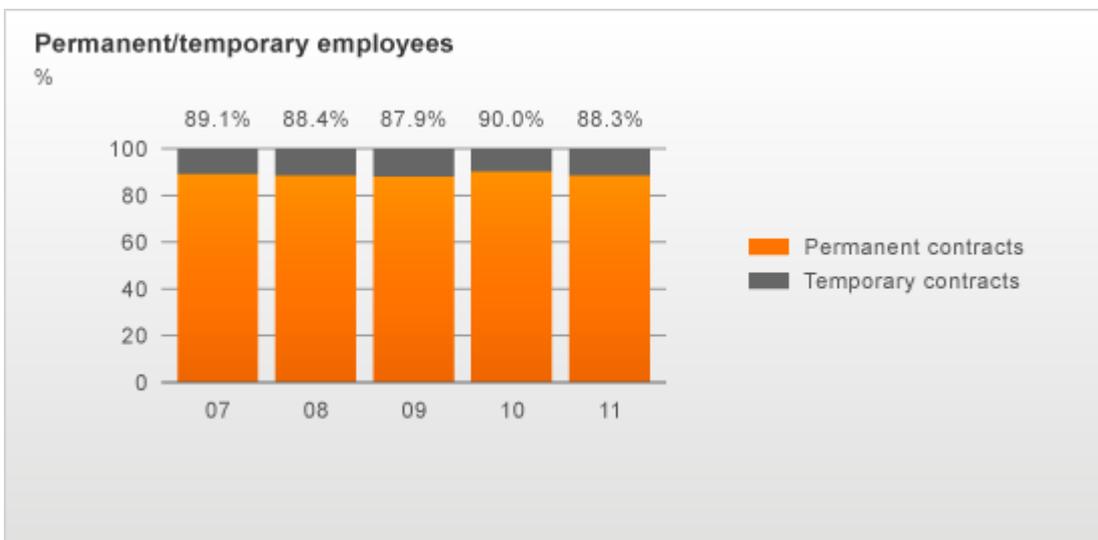
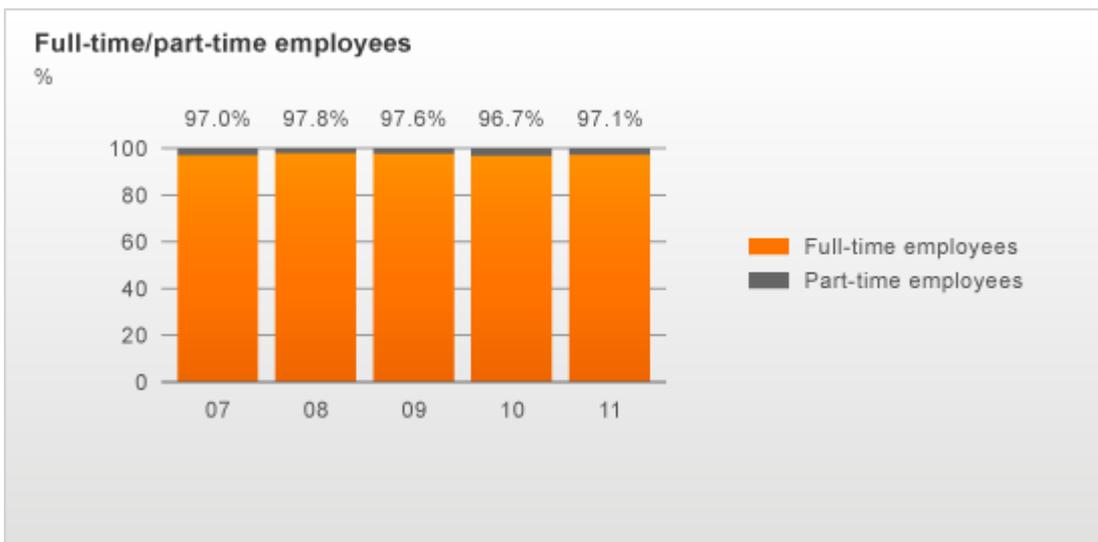
Personnel

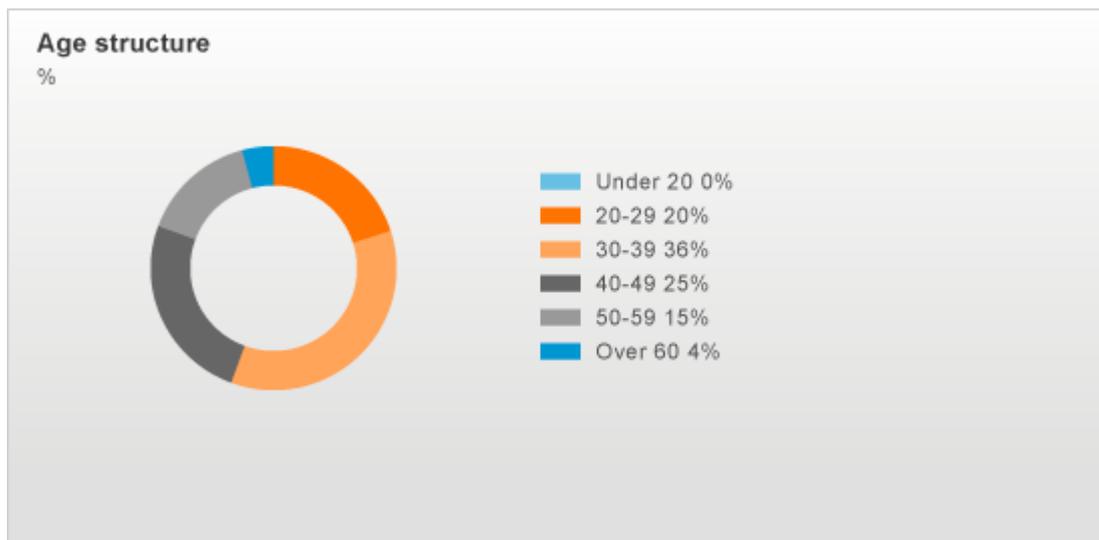
In addition to direct employment, Wärtsilä employed also indirectly an external workforce totalling 2,374 man-years in subcontracting at its factories and units. The units located in Finland had a total personnel of 3,504 employees.



Number of employees per business

	No. of employees	Change
Power Plants	855	20
Ship Power	999	30
Services	11 168	18
Industrial Operations	4 091	-119
Other	800	436





All in all, 617 employees were reduced globally during 2011 based on the redundancy programs started in 2010. In addition, part of the expired temporary employment, voluntary leavers and retirements was not replaced. At the same time, Wärtsilä continued to recruit in the critical competence areas and acquired Cedervall with 211 employees. Wärtsilä had 17,913 employees at the end of 2011 (17,528).

People management in 2011

The main goal of Wärtsilä's human resources strategy is to support the group strategies and to bring them alive by developing Wärtsilä's organisation and competencies to meet the business needs. The key action areas of the people strategy are 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.

Wärtsilä Human Resources continued to develop its common people management processes and tools and common ways of working across national and organisational boundaries. Wärtsilä continued to invest in technologies and tools that enable virtual collaboration and conferencing. These measures have brought clear cost savings, and more importantly, they have increased efficiency and enhanced the balance between work and home life by reducing the time needed for travelling.

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 strategy and its goals. More importantly, they need

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 will have a proper performance evaluation based on their overall job performance. Overall performance evaluation will be 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. An annual executive development programme was held in November, and six global leadership development programmes for senior managers were carried out during 2011. The number of managerial training days is also followed regularly as one of the HR KPIs.

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 attend a total of 54,424 training days a year, averaging 3.0 days per employee. This indicates the broad scope of this function. Many of the training programs are tailored to the specific strategic competence development needs of the businesses.



Training days

Days/employee	2011	2010	2009	2008	2007
Managers and superiors	3.4	3.2	3.9	2.7	5.3
Other white-collar employees	2.5	2.9	3.8	3.3	2.9
Blue-collar employees	3.4	3.3	3.5	3.5	2.8

Engagement

The positive trend in development discussion compliance has continued. The global, average coverage of annual development discussions was 89%. Strategy communication started in every division in December 2011 and will continue in 2012 both in the town hall meetings, online and in the individual development discussions, in which the targets for the next year are set. Wärtsilä will conduct its sixth global employee satisfaction survey, MyVoice, in 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 labour 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, colour, 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 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 labour 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 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 fulfil 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. Private initiatives are evaluated by experts within the company and, if found to be feasible, are put into effect.

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.

Personnel in figures 2011

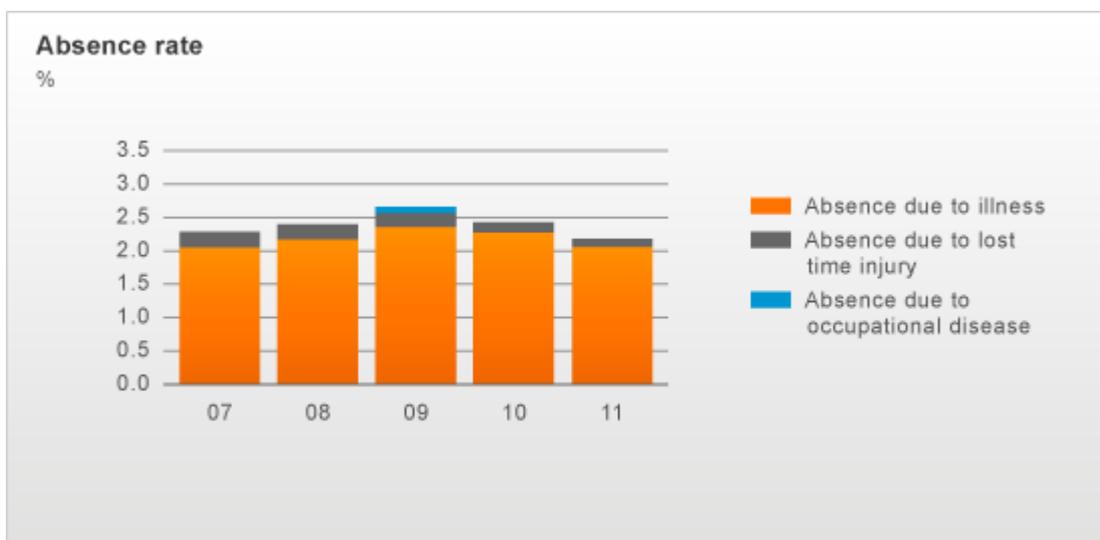
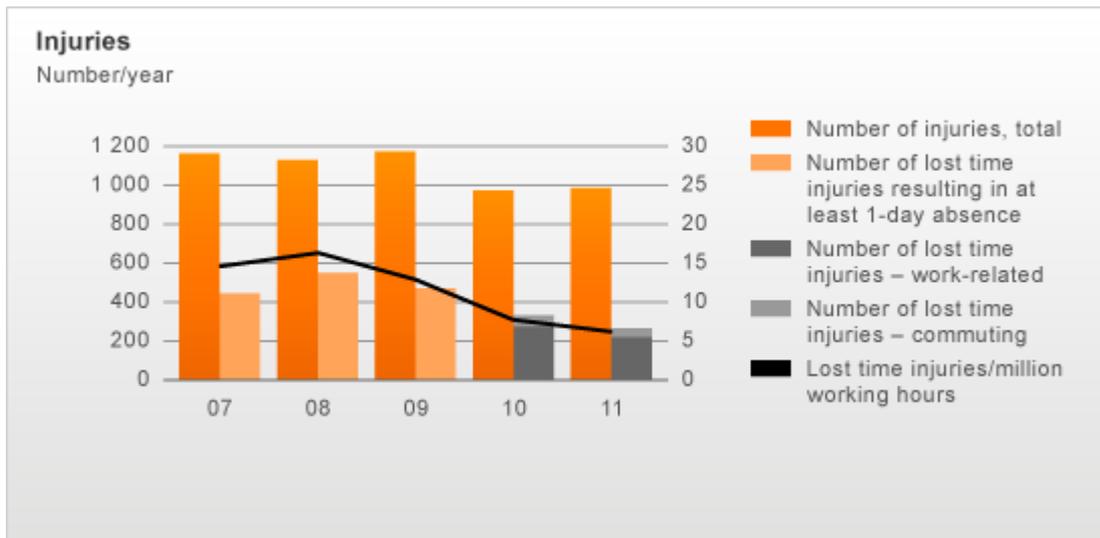
Number of employees at 31 Dec. 2011		17 913
Number of nationalities		114
Change in number of employees (net employment creation)		-191
Average age of employees	years	38.8
Male/female ratio	%	86/14
Executive positions globally: male/female ratio	%	90/10
Employee turnover (resigned)	%	8.6
Total payroll costs	MEUR	770
Aggregate coverage of different bonus schemes	%	60
Development discussions held annually	%	89

Occupational health and safety

Wärtsilä's occupational health and safety principles are defined in 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, providing written instructions, the use of protective equipment and the continuous improvement of occupational health and safety performance. At the end of 2011, 33 Wärtsilä companies operated with a certified occupational health and safety management system. These certified occupational health and safety management systems cover roughly 73% of Wärtsilä's total workforce.

The objective of Wärtsilä's QHSE policy is to prevent and manage health and safety risks to the personnel and stakeholders. In addition to the management system, Wärtsilä companies apply occupational health and safety programmes as required by local legislation, which are normally implemented by occupational health and safety committees consisting of representatives of the companies' management and personnel. Accidents are recorded and investigated in the manner required by local legislation. Altogether 71% 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. In 2011, Wärtsilä continued strong efforts to improve, consolidate and spread the safety culture. Wärtsilä issued a "Safety Starts with you" video in 12 languages, and a global safety handbook was distributed to Wärtsilä companies. Wärtsilä also started a practice of sharing the lessons learned of incidents which have happened within the global network.

The positive trend in reducing lost time injuries continued, and Wärtsilä achieved a good result in 2011 with a lost time frequency index of 19.3%, below that of the previous year. Wärtsilä regrets to report one fatal occupational accident during the review period. A Wärtsilä employee had a fatal accident in our customer's premises in India. During the reporting period two warnings were received. Wärtsilä Australia received an Improvement Notice because of a missing guard rail at a power plant site. Wärtsilä BLRT Lietuva received a warning concerning ergonomic aspects missing from a risk assessment. Both companies have taken the necessary actions.



Human 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 114 different 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. Wärtsilä Korea Ltd. was charged a penalty fee of EUR 7,869 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. In Wärtsilä Ship Design Poland Sp.z.o.o., two employees violated the Wärtsilä Code of Conduct by misusing confidential information related to Wärtsilä personnel. These employees received written warnings in accordance with the local labour legislation.

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.

Conducting business in weak governance zones

As a truly international company, Wärtsilä has delivered solutions to more than 160 countries. Wärtsilä 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 Wärtsilä Code of Conduct applies to all Wärtsilä employees. Wärtsilä supports its solutions globally during their entire lifecycle, often spanning up to 30 years. Thus, Wärtsilä 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. Wärtsilä complies with relevant legislation and international conventions. 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.

Security practices

Wärtsilä has a corporate security policy and guidelines, which incorporate human rights considerations and international best practices. The policy is also applied to third party organisations. Wärtsilä has received certifications for supply chain security management, such as C-TPAT and AEO through its network companies. The security personnel of Wärtsilä have been trained according to our policy, guidelines and best practices. Wärtsilä participates in the work of ASIS Finland and ASIS International.

Impact on communities

Wärtsilä aims to contribute towards the well-being of local communities in which the company is present. This can be reached e.g. 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 Wärtsilä'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.

Wärtsilä'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. Read more about Wärtsilä's concrete actions in the [Inside Stories](#) section.

Measures to evaluate the impacts on local communities in case of operational changes of Wärtsilä subsidiaries are determined case by case.

Suppliers

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 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 solve deviations from requirements. In the assessment 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 and quality plans and social performance.

In 2011, Wärtsilä rated more than 300 of its key suppliers and conducted dozens of supplier evaluations. Wärtsilä Supplier Development activities are continuously implemented globally. Through the utilisation of the Supplier Development Toolbox, we will improve our suppliers' quality and delivery reliability level to all our business units. The most important tool in the Supplier Development Toolbox is the utilisation of the Part Quality Assurance Plan. The purpose of the part quality assurance is to make sure that the supplier is able to produce the intended parts in a rational and efficient way. All strategic purchasing functions within the Wärtsilä businesses, Industrial Operations and Corporate Supply Management have been merged and streamlined to further achieve economies of scale in purchasing activities within Wärtsilä. Wärtsilä Supply Management (WSM) has one governance model, one team, one target and one voice towards suppliers. This eliminates overlapping work and provides better control over all spend and suppliers. The Supplier Development and Quality team supports Wärtsilä's targets, enabling customer satisfaction by securing the right quality, on time deliveries and optimised cost performance from our suppliers.

Wärtsilä's Supplier Day 2011 was held on 6-7 September in Helsinki, Finland. Approximately 130 key suppliers participated in the event. During the event, the participants were asked various questions, two of which were related to Wärtsilä's sustainability work. The answers indicated that Wärtsilä's commitment to sustainability can be seen in the supply chain, but there is still room for improvement.

Have you taken any actions in your company to improve the sustainability (environmental, social, economical) performance of your operations?

%



- Yes, we have systems in place in order to improve our sustainability performance on continuous basis 61.6%
- Yes, we have taken some actions in order to improve sustainability in certain areas 31.5%
- No actions taken so far, but planned 1.4%
- No 5.5%

Can Wärtsilä's commitment to sustainability be seen in practice in supplier relations?

%



- Yes 33.3%
- To some extent 45.1%
- No 21.6%

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 not only to comply with local anti-bribery provisions but also with internationally recognised anti-corruption and anti-bribery principles and to report any cases of bribery. The company renders extensive training for its personnel on anti-corruption principles and the relevant instructions.

The company had one case of alleged bribery during the review period related to a 2001 project in Kenya. In May 2009, the public prosecutor in Finland brought charges against a former senior manager of Wärtsilä Finland Oy for aggravated bribery. In October 2009, the public prosecutor further filed a demand for a corporate fine from Wärtsilä Finland as a result of the charges against the former senior manager. It is to be noted that the demand for a corporate fine was only ancillary to the charges brought against the former senior manager. Both the senior manager and Wärtsilä Finland Oy regarded the charges as unfounded. The charges were related to a consulting agreement, which was made in conjunction with the project in Kenya. The case was heard before the Pohjanmaa District Court (previously known as the Mustasaari District Court) in November 2009. By its decision on 18 December 2009, the District Court dismissed all the charges against the individual and the demands against Wärtsilä Finland Oy. In February 2010, the public prosecutor filed an appeal with the Vaasa Court of Appeal. By its decision on 21 September 2010, the Vaasa Court of Appeal referred the case back to the District Court for reasons of procedural law. Subsequently, the former senior manager and Wärtsilä Finland Oy submitted a petition for leave to appeal the Court of Appeals decision to the Supreme Court of Finland and on 21 June 2011, the Supreme Court granted the leave for appeal. On 31 December 2011, the case was pending before the Supreme Court of Finland.

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 2011, Wärtsilä did not make any significant 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 2011 for the relevant personnel in order to further promote knowledge of competition laws and thus ascertain full compliance with them.

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 [Wärtsilä and Sustainability section](#). During the review period, no instances of non-compliance related to product liability were identified.

Customer satisfaction

Wärtsilä continuously develops and deepens relations with its customers. Wärtsilä supports its customers in the design, start up and operation of the equipment and systems it delivers, as the requirements of each customer dictate. Dialogue with customers is vital when developing operations, products and services.

Wärtsilä arranges Customer Days for existing and potential customers in the countries where Wärtsilä is present. These days are used to review subjects of topical interest and to discuss existing and future needs and challenges. In 2011, the Ship Power and Power Plants businesses arranged or participated in close to 200 maritime and energy-related events, international and national seminars, exhibitions and conferences worldwide. These events were visited by thousands of customers, potential customers and other stakeholders such as consultants, suppliers, students, etc.

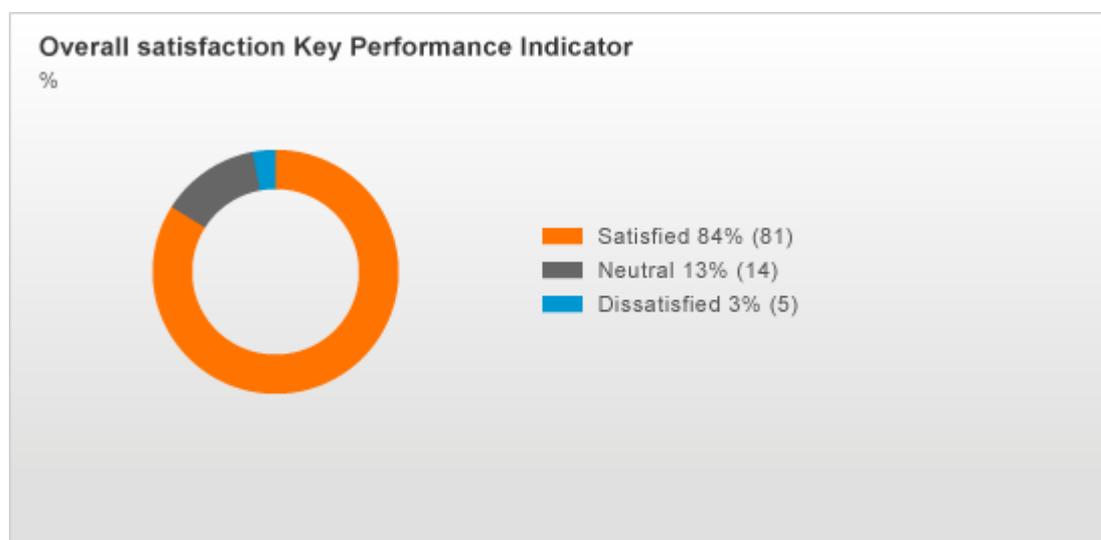
In order to strengthen our customer-focused mindset, we at Wärtsilä use an integrated customer feedback process (CROL). The aim is to achieve an excellent long-term relationship by listening to the customers and acting upon their feedback.

Our customers provide us with important feedback during the project deliveries as well as during the operation period of the installations. This feedback is continuously reviewed and acted upon, both on operative and management level. Wärtsilä strives for world class customer satisfaction by ensuring that expectations for products and services are met.

During 2011, we have received over 2,000 customer opinions. Approximately 300 of these triggered further actions.

CROL results

Overall satisfaction Key Performance Indicator:



The average results of the customer satisfaction survey

	2011	2010	2009	2008	2007
Power Plants	8.4	8.3	8.1	8.3	8.1
Ship Power	8.1	7.6	7.4	7.4	7.5
Services	8.3	7.9	7.9	7.8	7.7
Sample	2 188	1 933	1 859	2 204	1 575

The assessment scale is 1-10, the highest grade being 10. The index presented above is a calculated average based on all the received feedback.

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

	2011	2010	2009	2008	2007
Customers					
Net sales (MEUR)	4 209	4 553	5 260	4 612	3 763
Net sales by market area (MEUR)					
Europe	1 249	1 266	1 654	1 695	1 442
Asia	1 594	1 754	1 937	1 792	1 432
Americas	845	1 034	1 176	689	520
Africa	443	390	399	379	323
Other	77	109	94	57	46
Suppliers					
Cost of goods, materials and services purchased (MEUR)	2 694	2 927	3 593	3 134	2 576
Employees					
Salaries and wages (MEUR)	770	773	735	693	592
Salaries and wages by market area (MEUR)					
Europe	552	565	549	520	451
Asia	119	111	106	106	84
Americas	80	78	66	60	53
Africa	11	12	9	6	3
Other	7	6	4	1	1
Net sales / employee (TEUR)	238	253	279	262	245
Public sector					
Taxes and social dues (MEUR)	322	326	337	288	242
Taxes and social costs by market area (MEUR)					
Europe	240	253	264	243	205
Asia	41	35	37	28	19
Americas	38	31	32	15	16
Africa	2	5	3	1	1
Other	1	2	1	0	0
Subsidies received (TEUR)	8 263	7 406	13 725	16 095	4 995
Net financial items (MEUR)	-16	-13	-34	-9	-8
Community					
Donations given, Board of Directors (TEUR)	60	670	70	70	70
Donations given, Wärtsilä companies (TEUR)	940	421	527	463	485
Expenditure					
R&D costs (MEUR)	162	141	141	121	122
Environmental costs					
Environmental capital expenditures (MEUR)	0.9	2.9	1.1	2.6	2.5
Environmental operating expenditures (MEUR)	6.1	5.5	4.2	5.4	4.1

Environmental data

	2011	2010	2009	2008	2007
Materials					
Total material usage (t)	98 142	100 896	129 320	113 772	
Metals (t)	65 263	69 194	85 351	94 431	
Sand (t)	23 072	20 739	27 157	12 515	
Chemicals (t)	7 963	8 500	12 932	4 551	
Others (t)	1 844	2 462	3 880	2 275	
Energy					
Total energy consumption (TJ)	1 735	1 916	2 194	2 383	2 595
Electricity consumption (MWh)	145 078	149 047	164 022	151 169	134 543
Purchased electricity (MWh)	129 885	131 562	148 780	136 491	122 372
Generated electricity (MWh)	15 109	17 485	15 242	14 678	12 171
Sold electricity (MWh)	36 893	39 958	60 881	91 025	77 410
Heat consumption (MWh)	31 805	41 401	37 060	50 193	40 085
Light fuel oil (t)	3 409	3 623	5 662	5 432	5 816
Heavy fuel oils (t)	7 652	9 020	15 652	22 145	16 237
Natural gas (t)	10 486	12 347	11 792	11 160	22 379
Other fuels (t)	4 173	3 729	3 326	1 711	1 380
Water					
Total water consumption (1 000 m ³)	9 775	10 292	8 128	11 712	11 160
Consumption of domestic water (1 000 m ³)	830	840	808	622	634
Consumption of cooling water (1 000 m ³)	8 945	9 452	7 320	11 090	10 526
Emissions					
Emissions of nitrogen oxides (t)	765	826	1 290	1 633	1 348
Emissions of carbon dioxide (t) (direct)	68 897	80 234	96 749	122 669	101 705
Emissions of carbon dioxide (t) (indirect)	56 610	58 002	62 211	54 112	
Emissions of carbon dioxide (t) (indirect - flights)	37 459	35 060	37 882	45 014	
Emissions of sulphur oxides (t)	265	277	595	840	471
Emissions of total hydrocarbons (t)	166	211	230	174	294
Particulates (t)	20	19	28	65	30
Emissions of VOC (t)	58	61	170	152	79

Waste

Total waste (t)	85 153	43 566	55 803	40 209	39 614
Non-hazardous waste (t)	42 865	38 391	49 946	35 055	32 142
Hazardous waste (t)	42 288	5 175	5 857	5 154	7 472
Waste for landfills (t)	27 808	21 682	20 752	6 807	7 749
Waste for recycling (t)	12 444	14 221	26 332	25 133	21 520
Waste for incineration (t)	2 614	2 542	2 862	3 115	2 873
Hazardous waste for landfills (t)	38 054	1 127	852	694	520
Hazardous waste for recycling (t)	2 082	2 161	2 305	2 220	2 733
Hazardous waste for incineration (t)	2 152	1 887	2 699	2 240	4 219

Compliance with legislation

Disturbances	6	8	8	3	8
Non-compliance	6	3	0	8	10
Complaints	5	5	7	15	6

Social data

	2011	2010	2009	2008	2007
Personnel					
Number of employees in the end of the year	17 913	17 528	18 541	18 812	16 336
Personnel by business					
Services	11 168	11 150	11 219	11 011	9 563
Ship Power	999	969	1 140	1 601	2 940
Power Plants	855	835	835	904	826
Industrial Operations	4 091	4 210	4 911	4 883	2 642
Other	800	364	436	413	365
Personnel by market area					
Europe	9 813	9 790	10 889	11 048	9 641
Asia	5 830	5 503	5 610	5 692	4 946
Americas	1 700	1 700	1 610	1 577	1 372
Africa	484	443	410	416	299
Other	86	92	78	79	78
Average age of employees	38.8	38.9	38.8	38.0	38.2
Permanent employees (%)	88	90	88	88	89
Temporary employees (%)	12	10	12	12	11
Full-time employees (%)	97	97	98	98	97
Part-time employees (%)	3	3	2	2	3
Employee turnover (resigned) (%)	8.6	9.8	10.5	10.2	
Net employment creation	-191	-814	-310	2 044	1 779
Training days (days/employee)					
Managers and superiors	3.4	3.2	3.9	2.7	5.3
Other white-collar employees	2.5	2.9	3.8	3.3	2.9
Blue-collar employees	3.4	3.3	3.5	3.5	2.8
Development discussions held annually (%)	89	72	78	67	70
Gender diversity					
Male/female ratio (%)	86/14	86/14	86/14	86/14	87/13
Executive positions globally: male/female ratio (%)	90/10	90/10	87/13		
Regional diversity					
Number of nationalities	114	109	110	111	102
Injuries					
Total number of injuries	987	971	1 169	1 127	1 159
Number of lost time injuries resulting in at least					
1 day absence, total	267	333	470	548	444
Number of lost time injuries - work-related	221	274			
Number of lost time injuries - commuting	46	59			
Lost time injuries / million working hours	6.3	7.8	12.9	16.3	14.6

Absence rate

Absence due to illness (% of total working hours)	2.1	2.3	2.4	2.2	2.0
Absence due to lost time injury (% of total working hours)	0.1	0.2	0.2	0.2	0.2
Absence due to occupational diseases (% of total working hours)	0.0	0.0	0.0	0.0	0.1

Fatalties

Number of fatalities, total	1	1	2	0	3
Employees	1	0	1	0	2
Contractors	0	1	1	0	1

Non-compliances

Number of non-compliance cases	4	2	4	3	2
Fines of non-compliance cases (EUR)	7 869	26 157	17 659	2 352	1 300

Customer satisfaction

Ship Power	8.1	7.6	7.4	7.4	7.5
Services	8.3	7.9	7.9	7.8	7.7
Power Plants	8.4	8.3	8.1	8.3	8.1
Sample	2 188	1 933	1 859	2 204	1 575

Report scope

Wärtsilä's Sustainability Reporting 2011 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 Wärtsilä Industrial Operations. 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 Ship Design Russia CJSC
Wärtsilä Tanzania Ltd.
Cedervall Söner AB
Cedervall Espana S.A.
Cedervall Zhangjiagang Marine Products Co. Ltd.
Cedervall Singapore Pte.

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. They relate mainly to development of the Ship Power and Services businesses.

Coverage of operational data

Operational data, % of Wärtsilä companies

	2011	2010	2009	2008	2007
Economic	100	100	100	100	100
Environmental	92	93	84	85	90
Social	92	93	84	85	90

Operational data, % of personnel

	2011	2010	2009	2008	2007
Economic	100	100	100	100	100
Environmental	98	98	98	95	96
Social	98	98	98	95	96

Operational data, % of product manufacturing

	2011	2010	2009	2008	2007
Economic	100	100	100	100	100
Environmental	100	100	100	100	100
Social	100	100	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 Wärtsilä companies using a detailed questionnaire. Economic performance data is based mainly on audited financial accounts.

The sustainability data is collected and reported according to Wärtsilä'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 Wärtsilä'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 Wärtsilä'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 Wärtsilä are well understood and applied. This is achieved through conducting site visits and video conferencing. Site assurances were carried out in Trieste, Italy and in Mulhouse, France, and Wärtsilä North America was assessed through video conferencing.

Wärtsilä 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

Wärtsilä has previously published the following reports:

Wärtsilä Environmental Report 2000
Wärtsilä Sustainability Report 2002
Wärtsilä Sustainability Report 2004
Wärtsilä Sustainability Report 2005
Wärtsilä Annual Report 2006
Wärtsilä Annual Report 2007
Wärtsilä Annual Report 2008
Wärtsilä Annual Report 2009
Wärtsilä Annual Report 2010

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

Sustainability Report Project Team

Mikael Troberg Director, Testing and Validation, Industrial Operations

Ari Suominen Director, Technology, Industrial Operations

Juhani Hupli Vice President, Ship Power Technology

Leonardo Sonzio Director, Environmental Services

Jussi Heikkinen Vice President, Marketing and Business Development, Power Plants

Pauliina Tennilä Director, Investor Relations

Natalia Valtasaari IR Officer

Harri Mäkelä Sustainability Officer

Marko Vainikka Director, Sustainability

(contact person: marko.vainikka@wartsila.com)

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 2011 .

Subsidiaries: The data of this indicator included 15 major Wärtsilä subsidiaries and the parent company in 2011 .

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 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 travel agency and are based on DEFRA defined factors.

Environmental hazards 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 lost time injuries resulting in absence from work of at least one day.

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

Employee turnover is calculated from permanent employees. The number of resigned 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 Oyj Abp

We have been engaged by the Board of Management of Wärtsilä Oyj Abp (hereafter: Wärtsilä) to provide limited assurance on Wärtsilä's Sustainability Information from the reporting period 1.1.-31.12.2011 presented in connection with the electronic Wärtsilä Annual Report 2011.

The sustainability information subject to the limited assurance engagement (hereafter: the Sustainability Information) includes the data and assertions 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 assertions in the Inside Stories specifically marked with "Sustainability assured 2011", as well as on product sustainability performance presented on selected and marked pages at www.wartsila.com.

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. Amongst others, this standard requires that the assuring party complies with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence. Our assurance report is made in accordance with the terms of our engagement with Wärtsilä. 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 applying to 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 2011 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 two site visits and an additional video conference, 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 2012

KPMG OY AB

Pekka Pajamo

Authorized Public Accountant

Nina Killström

Corporate Responsibility Advisor

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 Strategy Power Plants and sustainability Ship Power and sustainability Services and sustainability Wärtsilä and sustainability Towards more sustainable solutions Environmental targets Social targets		●	●

2 Organisational profile

2.1 Name of the organisation	This is Wärtsilä		●	
2.2 Primary brands, products and services	Operating environment Power Plants review Ship Power review Services review Manufacturing 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	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	2011 in brief Board of Directors' report		●
2.10 Awards received in the reporting period	Recognitions		●

3 Report parameters

3.1 Reporting period	Our reporting		●
3.2 Date of most recent report	Our reporting		●
3.3 Reporting cycle	Our reporting		●
3.4 Contact point for questions regarding the report	Our reporting		●
3.5 Process for defining report content	Our reporting		●
3.6 Boundary of the report	Our reporting		●
3.7 Limitations on the report's scope or boundary	Our reporting		●
3.8 Basis for reporting subsidiaries and joint ventures	Our reporting		●
3.9 Data measurements techniques and bases of calculations	Our reporting Reporting rules and principles		●
3.10 Explanation of re-statements	Our reporting		●

3.11 Significant changes from previous reporting periods	Our reporting		●	
3.13 Assurance policy and practice	Our reporting		●	

4 Governance, Commitments and Engagement

4.1 Governance structure	Corporate 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 2011		●	
4.6 Processes for avoiding conflicts of interest	Corporate Governance		●	
4.7 Processes for determining expertise	Corporate Governance		●	
4.8 Implementation of mission and values statements; code of conduct	Strategy Wärtsilä and sustainability Code of Conduct		●	●
4.9 Procedures of the Board for overseeing risk management	Corporate Governance Board of Directors’ report		●	
4.10 Processes for evaluating the Board’s performance	Corporate 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 performance management		●	●
4.13 Memberships in associations	Activities in organisations		●	●
4.14 List of stakeholder groups	Stakeholder relations		●	
4.15 Identification and selection of stakeholders	Stakeholder relations		●	●
4.16 Approaches to stakeholder engagement	Channels of dialogue		●	●
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		●	

EC9 Significant indirect impacts	Economic performance Impact on communities		●	
Environmental				
Disclosure on management approach	Environmental performance Summary of environmental aspects Environmental targets			●
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	Environmental targets		●	●
EN6 Initiatives to provide energy efficient or renewable energy based products and services	Towards more sustainable solutions	www.wartsila.com/sustainability	●	●
EN7 Initiatives to reduce indirect energy consumption	Environmental targets 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	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

Disclosure on management approach	Personnel and social performance Social targets			●
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		●	●
LA7 Injury, lost time injury, fatalites, 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 career development reviews	Employee practices		●	
LA13 Composition of governance bodies and breakdown of employees	Corporate 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 Social targets			●
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	Sustainability performance management	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 practices		●	●
HR9 Incidents involving rights of indigenous people and actions taken	Human and labour rights		●	●
Society performance				
Disclosure on management approach	Personnel and social performance Social targets			●
SO1 Managing impacts of operations on communities	Impact on communities		●	
SO2 Business units analysed for corruption risks	Preventing corruption and bribery Risks and risk management		●	●
SO3 Anti-corruption training	Preventing corruption and bribery		●	●
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	Political lobbying		●	●
SO6 Contributions to politicians and related institutions	Political lobbying		●	●
SO7 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	Competition regulation		●	
SO8 Fines and sanctions for non-compliance with laws and regulations	Social data		●	
Product responsibility				
Disclosure on management approach	Personnel and social performance Product liability			●
PR1 Assessment of health and safety impacts of products	Product liability		●	●
PR2 Non-compliance with regulations concerning health and safety impacts of products	Product liability		●	●
PR3 Product information required by procedures	Product liability		●	●
PR4 Non-compliance with regulations concerning product information and labelling	Product liability		●	●
PR5 Customer satisfaction	Customer satisfaction		●	
PR6 Adherence to marketing communications laws, standards and voluntary codes	Product liability		●	
PR7 Non-compliance with marketing communications regulations and voluntary codes	Product liability		●	
PR8 Complaints regarding breaches of customer privacy	Product liability		●	●
PR9 Fines for non-compliance concerning the provision and use of products and services	Product liability		●	

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. Wärtsilä has not deviated from any of the Code's recommendations.

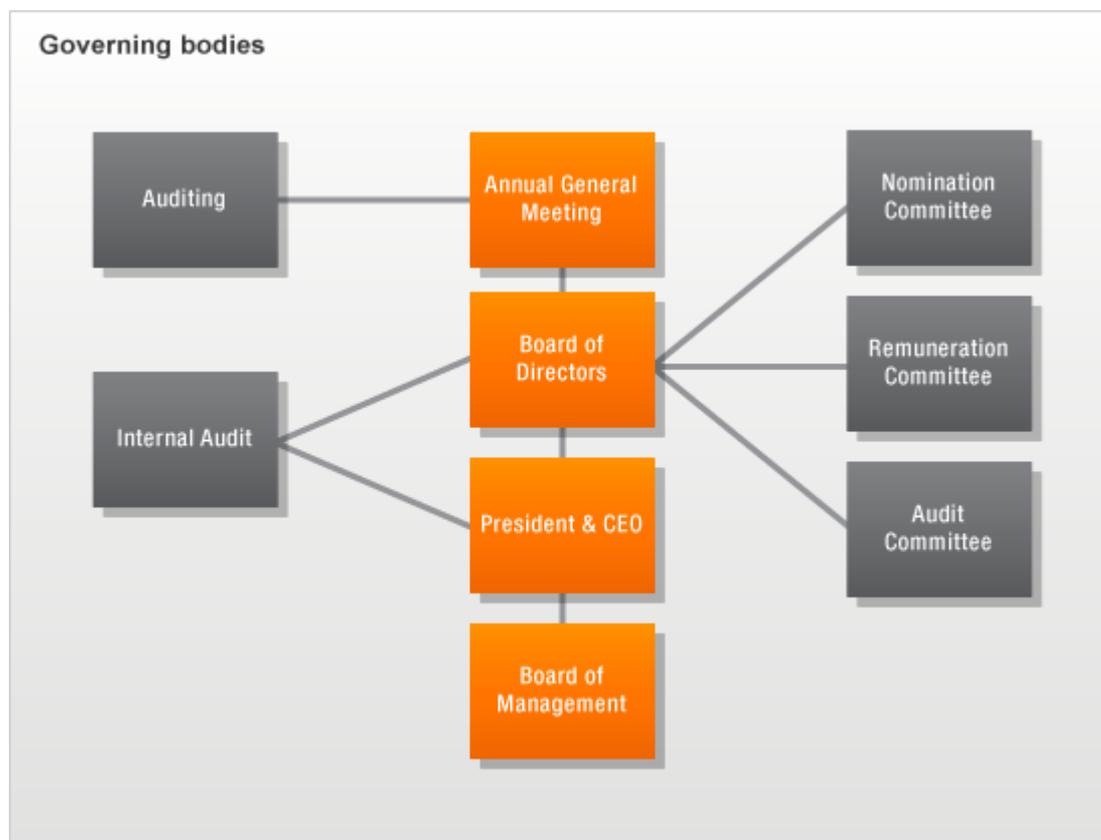
Wärtsilä's Corporate Governance Statement, prepared in accordance with recommendation 54 of the Finnish Corporate Governance Code, is also published as a separate statement on Wärtsilä's website as well as in this Annual Report.

The content in this Corporate Governance section corresponds fully to Wärtsilä's Corporate Governance Statement, prepared in accordance with recommendation 54 of the Finnish Corporate Governance Code.

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.



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. The Annual General Meeting must be held 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; however, it shall 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 agenda for the meeting.

Shareholders have the right to add items falling within the competence of the Annual General Meeting on the meeting agenda. The request must be submitted to the Board of Directors in writing well in advance of the Annual General Meeting so that the item can be added to the Notice of the General Meeting. Wärtsilä publishes well in advance the date by which a shareholder shall notify the Board of Directors of his or her demand, as well as the address or email address to which the demand 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, a sufficient number of members of the Board, the President & CEO, and members of the Board of Management attend the General Meeting. A person proposed for the first time as a member is to participate in the General Meeting that decides on his or her election unless there are well-founded reasons for absence.

Annual General Meeting 2011

Wärtsilä's Annual General Meeting was held on 3 March 2011. A total of 1,438 shareholders representing approximately 42,751,921 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 2010. The Annual General Meeting also approved the free share issue in accordance with the proposal of the Board of Directors. The free share issue was implemented by applying the pre-emptive right of the shareholders so that for each old share one new share was issued. Thereby a total of 98,620,565 new shares were issued. The new shares were registered in the trade register on 8 March 2011.

The minutes of the meeting and other related documents can be found on Wärtsilä's website www.wartsila.com > Investors > Governance > Shareholder meetings > [Related material](#).

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 so that it may 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 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 Rules of Procedure approved by the Board. The Board has also approved the rules of procedure applied by the Board's committees setting out the main tasks of the committees and their working principles.

In addition to matters requiring its decision, the Board is also given updates in 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 the 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 2011

As of 3 March 2011, 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 Bertel Langenskiöld, Mr Mikael Lilius (chairman), Mr Markus Rauramo and Mr Matti Vuoria (deputy chairman).

Until 3 March 2011, the Board consisted of the following nine members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Ole Johansson, Mr Antti Lagerroos (chairman), Mr Bertel Langenskiöld, Mr Mikael Lilius and Mr Matti Vuoria (deputy chairman).

During 2011, the strategic development of Wärtsilä was a major item on the Board's agenda. A central theme has been to develop the company's growth opportunities also through acquisitions. Another key issue was the appointment of Wärtsilä's new President and CEO, Björn Rosengren, following the announcement of his predecessor's retirement. Other matters on the agenda have been the monitoring of developments related to Wärtsilä's operational environment and financial position in addition to all other [Board responsibilities](#).

Independence of the Board of Directors

All nine Board members were determined to be independent of the company and six members were determined to be independent of significant shareholders. The three 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. Fiskars Corporation is a significant shareholder, owning directly or indirectly approximately 15% of Wärtsilä's shares.

Attendance of the Board of Directors

During 2011, Wärtsilä's Board of Directors held 14 meetings. The average attendance of all directors was 96%.

Board member meeting participation in 2011

	Number of meetings	% of meetings
Mikael Lilius, Chairman	14/14	100
Matti Vuoria, Deputy Chairman	13/14	93
Maarit Aarni-Sirviö	14/14	100
Kaj-Gustaf Bergh	13/14	93
Alexander Ehrnrooth	13/14	93
Paul Ehrnrooth	14/14	100
Lars Josefsson	10/10	100
Bertel Langenskiöld	13/14	93
Markus Rauramo	10/10	100
Until 3 March 2011		
Antti Lagerroos, Chairman	4/4	100
Ole Johansson	3/4	75

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
- those matters to be put before 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.). Chairman of the Board of Huhtamäki Oyj. Member of the Board of Wärtsilä Corporation since 2010, Chairman of the Board since 2011.



Primary working experience:

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

Other positions of trust:

Huhtamäki Oyj, East Office of Finnish Industries, Hanken & SSE and Ambea AB, Chairman of the Boards; Aker Solutions A/S and Evli Bank Ltd., Member of the Boards; Ab Kelonia Oy, Member of the Supervisory Board.

Matti Vuoria

Independent of the company and significant shareholders. Deputy Chairman of the Board of Wärtsilä Corporation. Born 1951, BA, LL.M. President & CEO of Varma Mutual Pension Insurance Company. Member of the Board of Wärtsilä Corporation since 2005, Deputy Chairman of the Board since 2008.



Primary working experience:

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

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 and the Finnish-Russian Chamber of Commerce, Chairman of the Boards.

Relevant prior positions of trust:

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

Maarit Aarni-Sirviö

Independent of the company and significant shareholders. Born 1953, M.Sc. (Tech.), eMBA. Senior Adviser at Eera Oy. Member of the Board of Wärtsilä Corporation since 2007.



Primary working experience:

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

Other positions of trust:

Rautaruukki Oyj, Member of the Board; Member of the Board in Hallitusammattilaiset ry (the Finnish Association of Professional Board Members).

Relevant prior positions of trust:

Board memberships: Ponsse Oyj, 2007-2010 and Vattenfall AB, Sweden, 2004-2007

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.



Primary working experience:

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

Other positions of trust:

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

Relevant prior positions of trust:

Board chairmanships: Aktia Abp 2005-2009, Ellos Tili Oy 1999-2006.
Board membership: Sponda Oyj 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, Deputy Chairman of the Board; Aleba Corporation and Belgrano Investments Oy, Chairman of the Board.

Relevant prior positions of trust:

Board chairmanship: 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:

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

Other positions of trust:

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

Lars Josefsson

Independent of the company and independent of significant shareholders. Born 1953, M.Sc. (Eng.). Member of the Board of Wärtsilä since 2011.



Primary working experience:

Asea Brown Boveri AB, Senior Vice President 1998-1999; ALSTOM Power Sweden AB, President 1999-2003; Siemens Industrial Turbines AB, President 2003-2004; Sandvik Mining and Construction, President 2004-2011.

Other positions of trust:

International Council of Swedish Industry.

Bertel Langenskiöld

Independent of the company and of significant shareholders. Born 1950, M.Sc. (Eng.). Managing Director, Hartwall Capital. Member of the Board of Wärtsilä Corporation since 2002.



Primary working experience:

Tampella Power Kvaerner Pulping, Power Division, President 1994-2000; Fiskars Corporation, President 2001-2003; Metso Minerals, Inc., President 2003-2006; Metso Paper, Inc., Fiber Business Line, President 2006-2007; President of Metso Paper Inc. 2007-2011.

Other positions of trust:

Luvata Group, Karelia-Upofloor Oy and Inkerman International Ltd, Member of the Boards.

Relevant prior position of trust:

Oy Tampella Ab.

Markus Rauramo

Independent of the company and of significant shareholders. Born 1968, M.Sc. (Econ. and Pol. Hist.). Stora Enso Oyj, CFO. Member of the Board of Wärtsilä since 2011.



Primary working experience

Stora Enso Financial Services, Brussels, Vice President, Head of Funding 1999-2001; Stora Enso Oyj, Helsinki, Vice President, Strategy and Investments 2001-2004; Stora Enso, London, SVP Group Treasurer 2004-2008.

Other positions of trust:

Oy Proselectum AB, Tornator Oy and Bergvik Skog AB, Member of the Boards; Varma Mutual Pension Insurance Company, Member of the Supervisory Board.

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 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 on the Committee's meetings to the Board.

Audit Committee in 2011

Chairman Markus Rauramo; members Maarit Aarni-Sirviö, Alexander Ehrnrooth, Bertel Langenskiöld. All members are independent of the company and three members are independent of significant shareholders. The Audit Committee met 5 times in 2011. 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 on the Committee's meetings to the Board.

Nomination Committee in 2011

Chairman Mikael Lilius; members Kaj-Gustaf Bergh, Lars Josefsson, Matti Vuoria. All members are independent of the company and three members are independent of significant shareholders. The Nomination Committee met 2 times in 2011. The average attendance of all committee members was 88%.

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 Executive Vice President, the CEO's deputy and other board 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 company's other senior executives.

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 on the Committee's meetings to the Board.

Remuneration Committee in 2011

Chairman Mikael Lilius; members Paul Ehrnrooth, Matti Vuoria. All members are independent of the company and two are independent of significant shareholders. The Remuneration Committee met 2 times in 2011. The average attendance of all committee members was 100%.

The Board of Management

The company's Board of Management comprises the President and CEO, the Group Vice Presidents heading the Ship Power, Power Plants and Services businesses and Wärtsilä Industrial Operations, the Chief Financial Officer, the Group Vice President, Communications & Branding and the Group Vice President, Legal Affairs & Human Resources. As of 2012, Legal Affairs & Human Resources will be split into two areas of responsibility, the first being Corporate Relations and Legal and the second being Human Resources. Thereby the Board of Management will comprise 9 members. 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 and 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 Group 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 Group Vice President, Legal Affairs and Human Resources are Legal, HR, Intellectual asset management, sustainability and corporate affairs. As of 2012, legal affairs and human resources will be divided into two separate areas of responsibility. The main areas of responsibility of the Group 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 [Corporate Governance statement](#).

The Board of Management in 2011

In 2011, 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. The development of markets, the regulatory operating environment, order intake and production capacity, as well as supplier and other stakeholder relationships were also vital 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, as well as the development of internal global processes and working practices. During 2011, the Board of Management gave a considerable amount of attention to acquisitions, notably the recommended offer made for Hamworthy plc.

The President & CEO and the 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 the President & CEO's service contract. As of 1 September 2011, the President & CEO of the company is Mr Björn Rosengren. Mr Rosengren succeeded Mr Ole Johansson, who retired at that time. The Board of Directors appoints, if necessary, one or several Executive Vice Presidents. The company's Executive Vice President is its Chief Financial Officer Mr Raimo Lind. Mr Lind also acts as the deputy to President & CEO Mr Björn Rosengren.

Board of Management CVs

Björn Rosengren

President & CEO of Wärtsilä Corporation since 1 September 2011. Born 1959, M.Sc. (Tech.).
Joined the company in 2011.



Primary working experience:

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

Positions of trust:

Danfoss A/S, Denmark; HTC AB, Sweden; Höganäs AB, Sweden; Member of the boards.

Raimo Lind

Executive Vice President and Deputy to the President since 2005. Group Vice President, CFO since 1998. Born 1953, M.Sc. (Econ.). Employed by the company 1976-89 and rejoined in 1998.



Primary working experience:

Wärtsilä Group, positions within control and finance and in development and internationalisation 1976-1980; Wärtsilä Diesel Group, Vice President & Controller 1980-1984; Wärtsilä Singapore, Managing Director & Area Director 1984-1988; Wärtsilä Service Division, Deputy Vice President 1988-1989; Scantrailer Ajoneuvoteollisuus Oy, President 1990-1992; Tamrock Oy, CFO 1992-1993; Tamrock Service Business, Vice President 1994-1996; Tamrock Coal Business, Vice President 1996-1997.

Positions of trust:

Sato Oyj and Elisa Oyj, Deputy Chairman of the boards; Wilhelm Wahlforss foundation and The Federation of Finnish Technology Industries, Member of the Boards.

Relevant prior positions of trust

Member of the board: Polar Kiinteistöt.

Jaakko Eskola

Group Vice President, Ship Power since 2006. Born 1958, M.Sc. (Eng.). Joined the company in 1998.



Primary working experience:

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

Relevant prior positions of trust:

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

Lars Hellberg

Group Vice President, Industrial Operations since 2004. Born 1959, B.Sc. (Eng.). Joined the company in 2004.



Primary working experience:

Volvo Cars AB, Research Engine Engineer and Project Manager in Vehicle development programmes; Volvo Car Operations BV, Vice President, Industrial Operations, Vice President of Global Business & Volume Optimization, General Manager 1979-2001; Saab Automotive AB, Executive Director for the Customer Satisfaction and Quality division and a Member of the Board of Management 2001-04.

Kari Hietanen

Group Vice President, Legal Affairs and HR, Company Secretary since 2002. Group Vice President, Corporate Relations and Legal as of 1 January 2012. Born 1963, LL.M. Joined the company in 1989.



Primary working experience:

Metra Corporation and Wärtsilä Diesel Group, Legal Counsel 1989-1994; Wärtsilä Diesel Group, General Counsel 1994-1999; Wärtsilä Power Divisions, Group General Counsel 2000-2001.

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

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



Primary working experience:

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

Positions of trust:

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

Vesa Riihimäki

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



Primary working experience:

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

Christoph Vitzthum

Group Vice President, Wärtsilä Services since 2009. Born 1969, M.Sc. (Econ.). Joined the company in 1995.



Primary working experience:

Metra Finance, Foreign Exchange Dealer 1995-1997; Wärtsilä NSD Corporation, Power Plants, Business Controller 1997-1999; Wärtsilä Corporation, Ship Power, Vice President, Finance & Control 1999-2002; Wärtsilä Propulsion, President 2002-2006; Group Vice President, Wärtsilä Power Plants 2006-2009.

Positions of trust:

NCC Ab, Member of the Board.

Relevant prior positions of trust:

Board chairmanship: WADE (World Alliance for Decentralized Energy) 2008-2009.
Board membership: Tamfelt Oyj Abp 2009.

Päivi Castrén

Group Vice President, Human Resources as of 1 January 2012. Born 1958, M.Sc. (Soc. Sc.).
Joined the company in 2005.

Primary working experience:

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

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.

Corporate Management

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

Yngve Bårgård

Vice President, Wärtsilä Supply Management
Born 1958, B.Sc. (Eng.)

Päivi Castrén

Vice President, Human Resources until 31 December 2011
Group Vice President, Human Resources and member of the Board of Management as of 1 January 2012
Born 1958, M.Sc. (Soc. Sc.)

Per Hansson

Vice President, Corporate Planning
Born 1967, M.Sc. (Eng.)

Riitta Hovi

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

Anu Hämäläinen

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

Osmo Härkönen

Vice President, Group Quality
Born 1949, M.Sc. (CE)

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
Born 1975, M.Sc. (Econ.)

Business Management teams

Each business head is supported by a Business Management Team.

Power Plants

Vesa Riihimäki

Group Vice President, Power Plants

Born 1966, M.Sc. (Eng.)

Tore Björkman

Vice President, Sales, Europe and Africa

Born 1957, B.Sc. (Mech. Eng.)

Minna Blomqvist

Director, Human Resources

Born 1969, M.Sc. (Eng.)

Frank Donnelly

Vice President, Sales, America

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

Director, Legal Affairs

Born 1963, LL.M.

Niklas Åberg

Director, Quality Management

Born 1967, M.Sc. (Eng.)

Ship Power**Jaakko Eskola**

Group Vice President, Ship Power

Born 1958, M.Sc. (Eng.)

Lars Anderson

Vice President, Merchant

Born 1968, B.Sc. (Mech. Eng.), MBA

Arne Birkeland

Vice President, Marine Lifecycle Solutions

Born 1966, M.Sc. (Business)

Aaron Bresnahan

Vice President, Specials

Born 1969, MBA. & MA (Strategic Studies)

Juhani Hupli

Vice President, Technology

Born 1966, M.Sc. (Mech. Eng.)

Riku-Pekka Hägg

Vice President, Ship Design

Born 1975, M.Sc. (Mech. Eng.)

Sinikka Ilveskoski

Director, Legal & Contract Management

Born 1967, LL.M.

Timo Koponen

Vice President, Finance & Control

Born 1969, M.Sc. (Econ.)

Magnus Miemois

Vice President, Offshore

Born 1970, M.Sc. (Eng.)

Helena Räihälä

Director, Human Resources

Born 1973, M.Sc. (Econ.)

Mikael Simelius

Vice President, Marketing

Born 1964, M.Sc. (Econ.)

Services**Christoph Vitzthum**

Group Vice President, Services

Born 1969, M.Sc. (Econ.)

Pierpaolo Barbone

Vice President, Area Middle East & Asia

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)

Arne Birkeland

Vice President, Marine Lifecycle Solutions

Born 1966, M.Sc. (Business)

Stefan Fant

Vice President, Area South Europe & Africa

Born 1955, B.Sc. (Mech.)

Tomas Hakala

Vice President, Area Americas

Born 1968, B.Sc. (Mech.)

Roger Holm

Vice President, Seals & Bearings

Born 1972, M.Sc. (Econ.)

Christer Kantola

Vice President, Solutions Management

Born 1952, B.Sc. (Mech.)

Ralf Lindbäck

Director, Legal Affairs

Born 1958, LL.M.

Stefan Nysjö

Vice President, Delivery Management

Born 1970, B.Sc. (Mech.)

Nelli Paasikivi

Vice President, Quality & Operational Development

Born 1968, M.Sc. (Energy)

Eva-Stina Rönnholm

Vice President, Finance

Born 1967, M.Sc. (Econ.)

Sini Spets

Director, Human Resources

Born 1974, M.Sc. (Psychology)

Industrial Operations**Lars Hellberg**

Group Vice President, Industrial Operations

Born 1959, B.Sc. (Eng.)

Arjen Berends

Vice President, Finance & Control

Born 1968, M.B.A.

Stefan Damlin

Vice President, Business Development Centre

Born 1968, M.Sc. (Econ.)

Juha Kytölä

Vice President, Product Centre Ecotech

President of Wärtsilä Finland Oy

Born 1964, M.Sc. (Eng.)

Arto Lehtinen

Vice President, Product Centre Propulsion

Born 1971, M.Sc. (Eng.)

Joséphine Mickwitz

Director, Human Resources

Born 1968, M.Sc. (Econ.)

Sergio Razeto

Vice President, Product Centre 4-Stroke
President of Wärtsilä Italia S.p.A.
Born 1950, M.Sc. (Eng.)

Trudy Schoolenberg

Vice President, Global R&D, until 1 October 2011
Born 1958, Ph.D. (Physics and Mechanics)

Paolo Tonon

Vice President, Product Centre Automation
Born 1970, M.Sc. (Eng.)

Martin Wernli

Vice President, Product Centre 2-stroke
President of Wärtsilä Switzerland Ltd
Born 1960, J.D. Attorney at Law

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 fulfil 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 Executive Vice President, 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 the company's 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 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 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

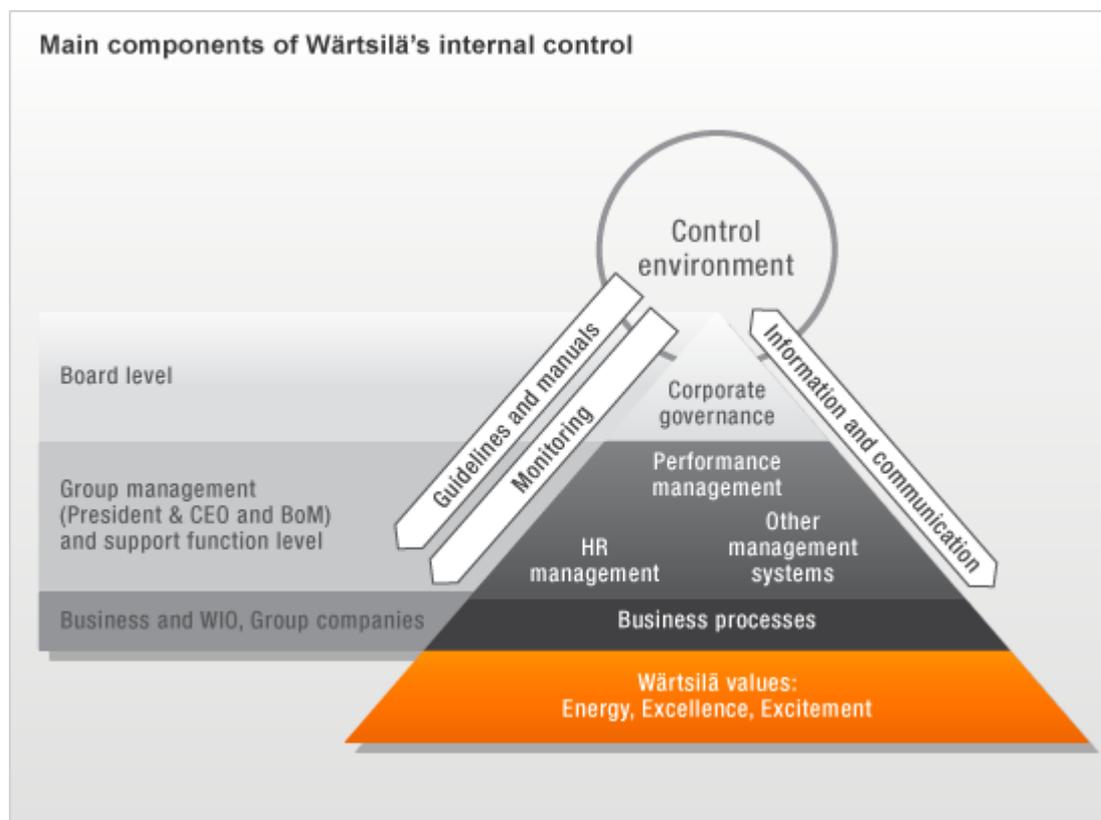
The company has one auditor, which shall be an auditing firm authorised by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting to audit the accounts for the ongoing financial year, and its duties cease at the close of the subsequent Annual General Meeting. The auditor 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 2011

The Annual General Meeting appointed the firm of public auditors, KPMG Oy Ab, as Wärtsilä Corporation's auditor for the year 2011. The lead partner during 2011 was Pekka Pajamo. Auditing fees paid to all the auditors of the Group companies amounted to EUR 2.4 million in 2011. Consultancy fees unrelated to auditing duties paid to the auditors totalled EUR 1.8 million. These latter fees mainly concerned consultation on taxation matters.

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 in 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 it is embedded within the operations of Wärtsilä. 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 to comply with laws and regulations in countries where it operates.

Performance management

Planning and target setting, an integral part of performance management in Wärtsilä, are a regular management activity and not part of Wärtsilä's internal control system. The establishment of objectives, however, is an important prerequisite 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 Businesses and WIO, Group Companies, and eventually individuals.

The achievement of the annual targets is followed up through monthly management reporting. The performance of the Businesses and WIO and 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 and WIO 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.

Financial reporting in Wärtsilä 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 internal control over accounting and financial administration is arranged appropriately. The Audit Committee of the Board of Directors of Wärtsilä Corporation is responsible for overseeing the financial reporting process. The Group Finance & Control function is responsible for notifying relevant levels of management of deviations from plans, for analysing the underlying reasons, and for suggesting corrective actions. Group Finance & Control supports the Businesses and WIO in decision-making and analysis to ensure the attainment of financial targets. It is also responsible for maintaining and developing 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. Company-wide control mechanisms and processes are a part of the overall internal control system.

Wärtsilä's compliance management is based on the Code of Conduct and relevant group level policies and directives.

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, including 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 aspects 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 in Wärtsilä. Furthermore, significant attention is paid to the social and environmental sustainability of Wärtsilä's operations.

Risk management

Internal control in Wärtsilä is designed to support the company in achieving its targets. The risks related to the achievement of the targets need to be identified and evaluated in order for them to be managed. Thus, the identification and assessment of risks is a prerequisite for internal control in 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 of 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 and WIO 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 Wärtsilä's operations. Business and WIO 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 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 create the basis for the control environment. They are, together with Ship Power, Power Plants and Services (hereafter Businesses) and Wärtsilä Industrial Operations (hereafter WIO) 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 in Wärtsilä, especially those related to the efficiency of operations and safeguarding the company's profitability and reputation. Business and WIO 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 and WIO management is responsible for ensuring that efficient Business and WIO level processes with adequate controls have been described and implemented.

Guidelines and communication

Guidelines and manuals

The components of Wärtsilä's internal control system, for example corporate governance, 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 collected 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 financial reporting in Wärtsilä. 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 and WIO have issued related guidelines and instructions for their own, specific purposes. The Business and WIO 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 follow up the achievement of the company's objectives. Both financial and non-financial information is needed, relating to both internal and external events and activities. Informal ways for employees to give feedback to management and to communicate suspected misconducts (for example directly to the 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 in Wärtsilä is performed both on an ongoing basis and through separate evaluations including internal, external and quality audits. The Business and WIO management is responsible for ensuring that relevant laws and regulations are complied with in their respective responsibility areas. The management in Wärtsilä in turn performs monitoring as part of the 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 in 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 monitors that the financial reporting processes and controls are being followed. It also monitors the correctness of external and internal financial reporting. The Legal 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 2011

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 2011:

- 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/meeting attended, the chairman's meeting fee being double this amount.

The nine members of Wärtsilä's Board of Directors were paid altogether EUR 722,000 for the financial period that ended on 31 December 2011. The Board's members were not covered by the company's stock option scheme or bonus scheme.

Fees paid to the Board of Directors in 2011 (thousands of euros)

Board of Directors	Attendance fees		Yearly fees			Total
	2011	2010	2011	2010	2011	2010
Mikael Lilius, Chairman	15	2	120	60	135	62
Matti Vuoria, Deputy Chairman	10	7	90	90	100	97
Maarit Aarni-Sirviö	8	7	60	60	68	67
Kaj-Gustaf Bergh	10	6	60	60	70	66
Alexander Ehrnrooth	8	4	60	60	68	64
Paul Ehrnrooth	7	3	60	60	67	63
Lars Josefsson	5	-	60	-	65	-
Bertel Langenskiöld	11	7	60	60	71	67
Markus Rauramo	8	-	60	-	68	-
Until 3 March 2011						
Antti Lagerroos, Chairman	11	18	-	120	11	138
Ole Johansson	-	-	-	-	-	-

Fees paid in Wärtsilä shares in 2011

Board of Directors	No. of shares
Mikael Lilius, Chairman	2 223
Matti Vuoria, Deputy Chairman	1 667
Maarit Aarni-Sirviö	1 111
Kaj-Gustaf Bergh	1 111
Alexander Ehrnrooth	1 111
Paul Ehrnrooth	1 111
Lars Josefsson	1 111
Bertel Langenskiöld	1 111
Markus Rauramo	1 111

Board of Directors' share ownership in Wärtsilä on 31 December 2011

Board of Directors	No. of shares
Mikael Lilius, Chairman	11 563
Change in 2011	6 893
Matti Vuoria, Deputy Chairman	10 181
Change in 2011	5 924
Maarit Aarni-Sirviö	6 387
Change in 2011	3 749
Kaj-Gustaf Bergh	4 979
Change in 2011	3 045
Alexander Ehrnrooth	2 411
Change in 2011	1 761
Paul Ehrnrooth	2 385
Change in 2011	1 748
Lars Josefsson	1 111
Change in 2011	1 111
Bertel Langenskiöld	9 587
Change in 2011	5 349
Markus Rauramo	1 111
Change in 2011	1 111

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 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 targets for the financial year. The variable salary can be at most one third of the maximum total salary. Additionally, the group has a long-term incentive scheme for senior management tied to the development of the company's share price.

The base salary of the President & CEO is EUR 600,000 p.a. (as of 1 September 2011). He is entitled to participate in the short- and long-term incentives schemes according to the terms and conditions described above. The President & CEO is eligible to take retirement on 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 six months' period of notice salary.

The optional retirement age of certain Board of Management members is sixty years. For these members, additional pension schemes are based on the retirement scheme of the national social security system to which the person in question belongs. The pension scheme is determined according to a defined benefit based system. The retirement pension is 60% of statutory earnings.

Financial benefits of President & CEO Björn Rosengren:

- Salary 2011: EUR 290 thousand
- Bonuses 2011: EUR -
- Bonus schemes based on share price development: - *)
- 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.

*) Rosengren did not have long-term bonus schemes during the financial period.

Financial benefits of former President & CEO Ole Johansson:

- Salary 2011: EUR 494 thousand
- Bonuses 2011: EUR 458 thousand
- Bonus schemes based on share price development: EUR 750 thousand *)

*) In addition, EUR 563 thousand has been reserved for long-term bonus schemes based on the share price development.

Consolidated Financial Statement, [Note 29: Related party disclosures](#)

Board of Management's share ownership in Wärtsilä on 31 December 2011

Board of Management	No. of shares
Björn Rosengren	4 000
Change in 2011	4 000
Raimo Lind	6 766
Change in 2011	3 383
Jaakko Eskola	10
Change in 2011	5
Lars Hellberg	-
Change in 2011	-
Kari Hietanen	144
Change in 2011	72
Atte Palomäki	600
Change in 2011	300
Vesa Riihimäki	-
Change in 2011	-
Christoph Vitzthum	932
Change in 2011	466

Monthly updated information on shares held by the President and 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 and 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 1,800 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 60% 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 stock development of the company's share. The yearly bonus scheme applies to approximately 80 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 2008 bonus scheme came to a close at the end of 2010 and was paid in November 2011.

The 2009 bonus scheme comprises 1,584,000 bonus rights. The bonus payment is based on the share price development during a two-year period on the basis of a share price of EUR 14.24. The bonus cannot exceed EUR 7.50 per bonus right and takes into account 50% of the dividends paid. The 2009 bonus scheme will be due for payment in April 2012.

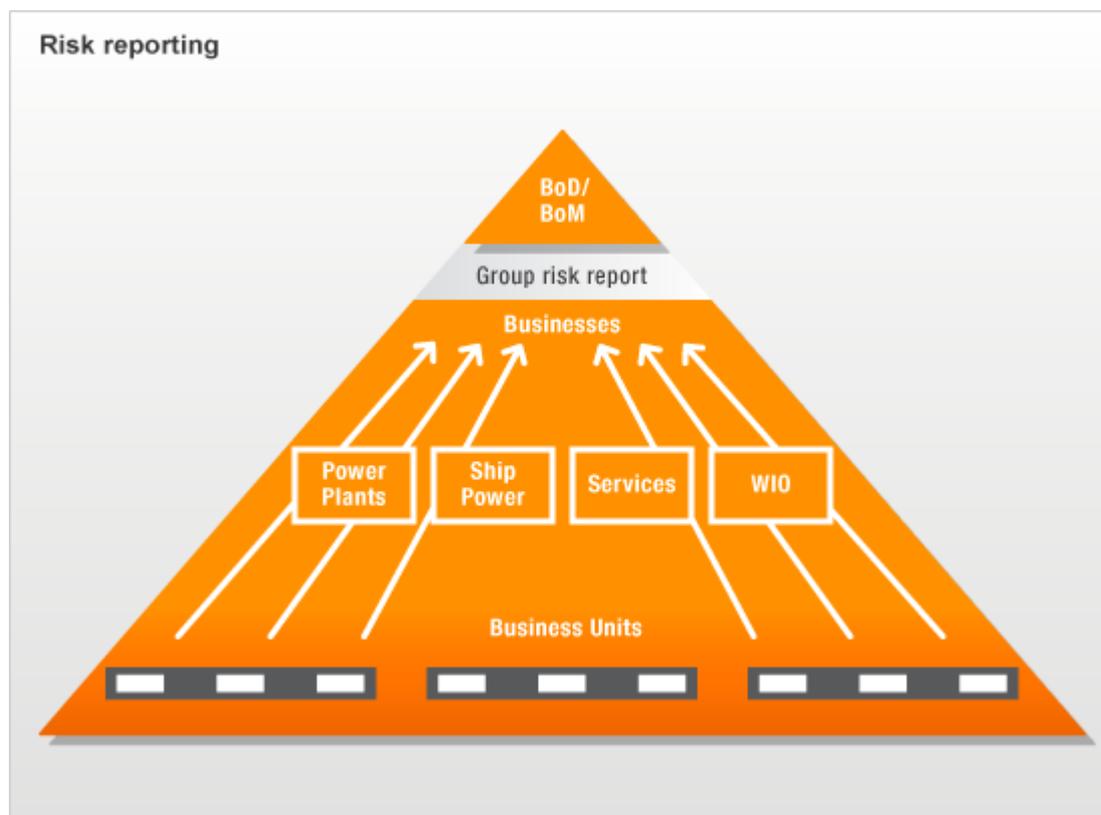
The 2010 bonus scheme comprises 1,672,000 bonus rights. The bonus payment is based on the share price development during a two-year period on the basis of a share price of EUR 30.01. The bonus cannot exceed EUR 7.50 per bonus right and takes into account 50% of dividends paid. The 2010 bonus scheme will be due for payment in April 2013.

Risk management principles

Risk management in Wärtsilä is a continuous process of analysing and managing all the opportunities, threats, and risks faced by the company in its efforts to achieve its goals and to ensure that the company remains a going concern. The basis for risk management is the lifecycle quality of Wärtsilä's operations and products and the continuous, systematic, loss-prevention work at all levels of the Group based on the principle that "everybody is responsible". In the long term this is the only way to reduce the total risk 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 risk management function is part of Group Treasury, which reports to the CFO. It reviews the business risk profile, prepares the risk management policy, co-operates with the businesses in the implementation of risk mitigation work, and develops global and local insurance schemes with insurance companies and brokers. The Audit Committee reviews and assesses the adequacy of this risk management. The risk management policy is approved by the Board of Directors.

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 map of the Group and all Businesses is 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 results of this work are summarised in Wäertsilä's Risk radar. The Group risk report is then prepared and presented to the Board of Directors.

The Business Management Teams have risk management as a separate item on their agenda. The Businesses are responsible for organising and reporting on risk management from underlying Business units and for all follow-up actions. During 2011, separate risk assessments were performed for each business, resulting in the updating of the business specific Risk radars.

The Corporate Risk Management function co-ordinates risk management activities and reporting within the Group. Internal Auditing is responsible for reviewing the risk management process on an annual basis.

Risk categories

The relevant risks for Wäertsilä have been classified under four categories: strategic, operational, hazard, and financial risks. Risk is defined as the outcome of the probability and the loss exposure of the occurrence. The outcome or potential loss expectancy is highest with strategic and operational risks and lowest with hazard and financial risks.



Strategic risks

Strategic risk assessment is part of the strategic planning process within the Group.

Business environment risks

The business cycles in the global economy and in our customer's industries influence the demand for our products, as well as our financial condition and operating result. The flexible multiproduct 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 the 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, the relatively large order book gives Wärtsilä time to adapt to market conditions.

The implementation of environmental regulations is important for the future growth potential in specific business segments. It has, however, had a limited effect on Wärtsilä's business during 2011. Wärtsilä monitors possible changes in the legislation timeline and scope.

Market and customer risks

In the Power Plants business, there was positive development in ordering activity, and several large power plant orders were closed during the year. In general, the non-OECD markets remained very active, but in the OECD countries slow growth delayed investments in power generation. Wärtsilä has four types of customers: Industrial customers, IPPs, utilities, and oil & gas sector customers. All customer types were represented in the order intake profile, and orders were received from all geographic markets.

The uneven development between various Ship Power segments has continued throughout the year 2011. The merchant shipping sector continues to suffer from overcapacity, whereas various areas of specialised tonnage, and especially the offshore industry, are continuing to make investments at a relatively steady pace. The shipbuilding market is dominated by Asian yards in South Korea, China and Japan. 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 continues to bear some consequences of the recent financial crisis, and overcapacity in the shipping markets is currently one of the major obstacles to a full recovery. The ongoing turbulence in the European economies has not had a significant impact on Wärtsilä's Ship Power business.

The Services business remained stable, and its long-term business is still expected to grow in line with the development of the existing installed base, as well as with general economic development. Wärtsilä has more than 14,000 customers and an active engine base of approximately 180,000 MW, which means that its 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 industrywide 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 the 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. In 2011, Wärtsilä's overall market share was reduced due to very large dedicated baseload power plant orders in selected markets, such as China, Saudi-Arabia and Japan. However, Wärtsilä maintained its position in the markets focusing on flexible power generation.

For Ship Power, price competition has continued to be intense throughout the year. For main engines, the most significant competitors are MAN Diesel, Caterpillar (MAK), and Hyundai Heavy Industries (HiMSEN). No significant changes to the competitive situation or market shares occurred during 2011. In propulsion equipment, the competition is more fragmented and varies by product category. One of the main competitors in these products is Rolls-Royce. 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.

In the Services business, Wärtsilä has no direct competitors that would offer a similar portfolio of services from a single source. Excluding the service networks of other engine manufacturers, there are few global players in the service market. Increased pressure on profitability, especially in the marine merchant sector, can lead to a further increase in competition for service in that particular customer segment. There has always been price competition, especially among certain customer groups and application types. The size of this group has, however, not changed to any larger degree.

Political and legislative risks

Wärtsilä is present in nearly 170 locations in more than 70 countries and has delivered power plants to more than 165 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 corporate and subsidiary levels.

Climate change and sustainability risks

Wärtsilä has assessed its sustainability risks, including climate change risks, in both strategic and operative risk assessments. However, these 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. Being at the forefront of technological developments 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 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.

The International Maritime Organization (IMO) regulates emissions of nitrogen oxides from ship engines, as well as the sulphur content of the fuel. Stricter requirements are expected to enter into force in several phases by 2020. Wärtsilä has already introduced secondary technologies to help customers comply with these sulphur oxide (SO_x) and nitrogen oxide (NO_x) emission regulations. Wärtsilä engines are designed to be operated on fuels regardless of the sulphur content. Additionally, Wärtsilä has a multifaceted gas engine strategy and can provide gas engines to vessels, thus enabling compliance with regulations.

The Thermal Power Plants' EHS (Environmental Health and Safety) Guidelines, published by the World Bank/International Finance Corporation (IFC), are technical reference documents with general and industry-specific examples of Good International Industry Practices. Leading international banks have reached an agreement with the IFC to follow the guidelines based on the IFC's environmental and social standards and have thus adopted the Equator Principles. Many other financial institutions, such as Export Credit Agencies, are also using the World Bank Group Guidelines in addition to national norms in their projects. Consequently, the World Bank/IFC EHS Guidelines are today the minimum environmental standard in global power plant projects. It is estimated that more than 70% of the finance activities for projects in emerging markets are now carried out in accordance with the Equator Principles.

The EU Industrial Emissions Directive has been approved by the European Parliament and entered into force at the beginning of 2011. An intensive interaction between the various stakeholders is currently taking place. Wärtsilä has been and remains actively engaged in the dialogue between the different authorities, associations, industry and customers, in order to ascertain the optimal solution for meeting market needs.

Wärtsilä's strong focus on R&D and solutions development gives it many opportunities in the field of sustainability. Wärtsilä's Product Center Ecotech focuses on environmental technologies that are related to products other than engines in order to quickly respond to market and customer needs with fully integrated and validated solutions. In shipping, Wärtsilä can reduce the carbon footprint of ships through ship design, efficient engines, and optimal propulsion solutions. In Power Plants, Wärtsilä can offer further improvements, such as more efficient engines, fuel flexibility (including bio fuels and natural gas) and combined heat and power (CHP) applications, with very high overall efficiencies. Wärtsilä also offers several retrofit solutions for the after-sales market to reduce emissions and to increase fuel efficiency. In addition, Wärtsilä provides environmentally sound solutions for the treatment of bilge and ballast water in seagoing vessels.

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

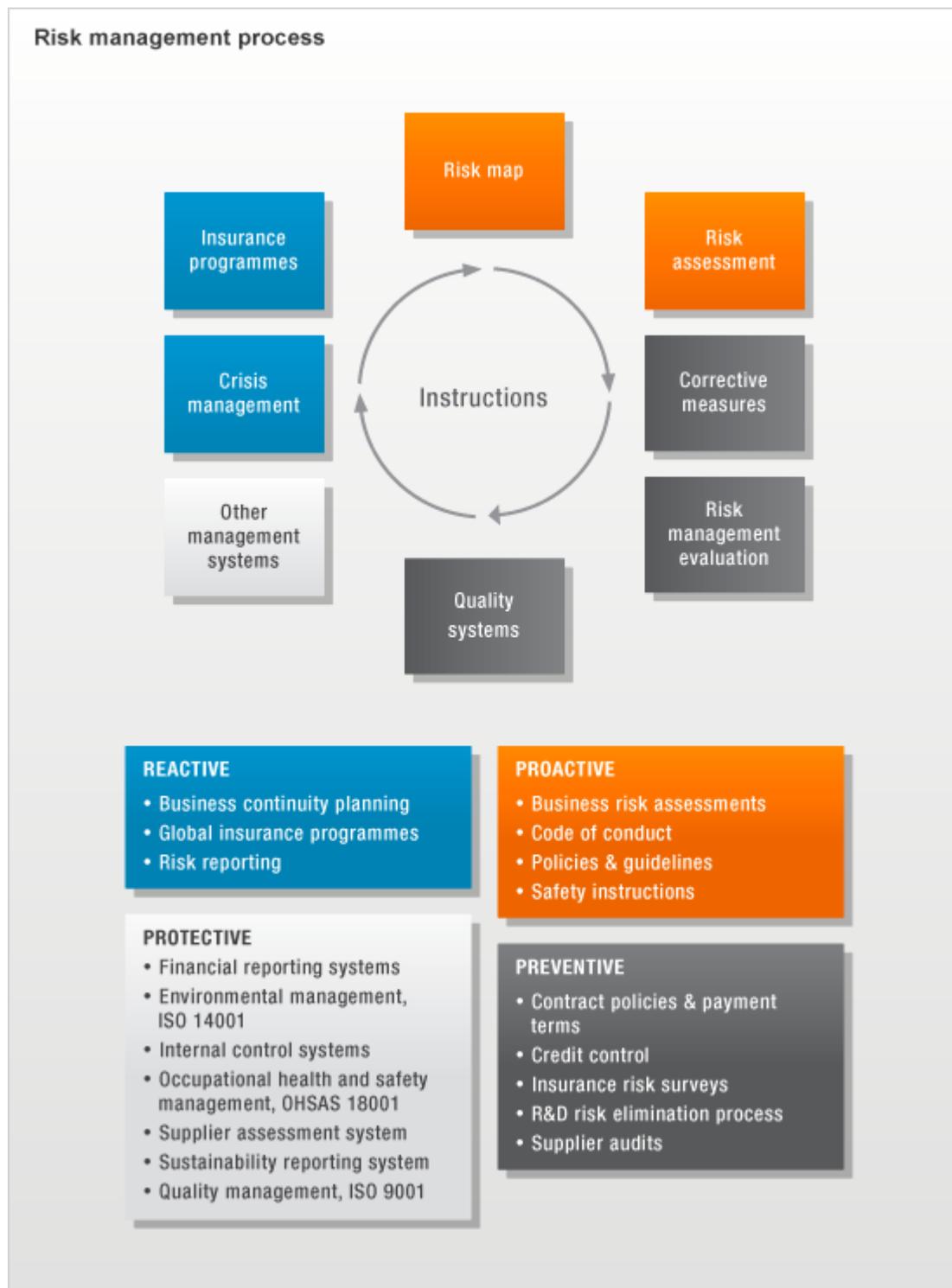
Technology risks

As a technology leader, Wärtsilä needs to maintain the cost competitiveness of its products and consequently places high emphasis on product efficiency and emissions control. New products are developed based on Wärtsilä's strategic view of lifecycle service and efficiency through, for example, utilising ship design, electrical & automation, and environmental technologies. Wärtsilä aims to increase the competitiveness of its solutions through solid R&D work and innovation.



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 (weekly or monthly) the status of the opportunities and risks are reviewed and further actions are taken.



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 is constantly analysing 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 make sure 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. By having 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. Furthermore, 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, only after testing and further validation has been completed, is full release authority given to the sales organisations. The 5S (meaning sort, shine, set, standardise and sustain) philosophy is being implemented in all production sites to increase quality and to support lean operations. Services is responsible for all warranty issues, and it 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 warranty costs that may arise after product delivery. The product liability insurance covers unexpected damages.

Contractual risks

Wärtsilä's non-Service sales consist of project 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.

Commodity price risk

Oil

The direct effect of oil price changes on Wärtsilä's production is very limited. The indirect effects of oil price volatility on customers are outweighed in importance by the long economic life of the investments, fuel-efficient technologies, and the availability of alternative fuels.

Changes in price differentials on different types of fuel and fuel qualities might impact the chances for winning new orders, as well as the feasibility of running existing equipment. The impact can be both positive and negative.

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.

Hazard risks

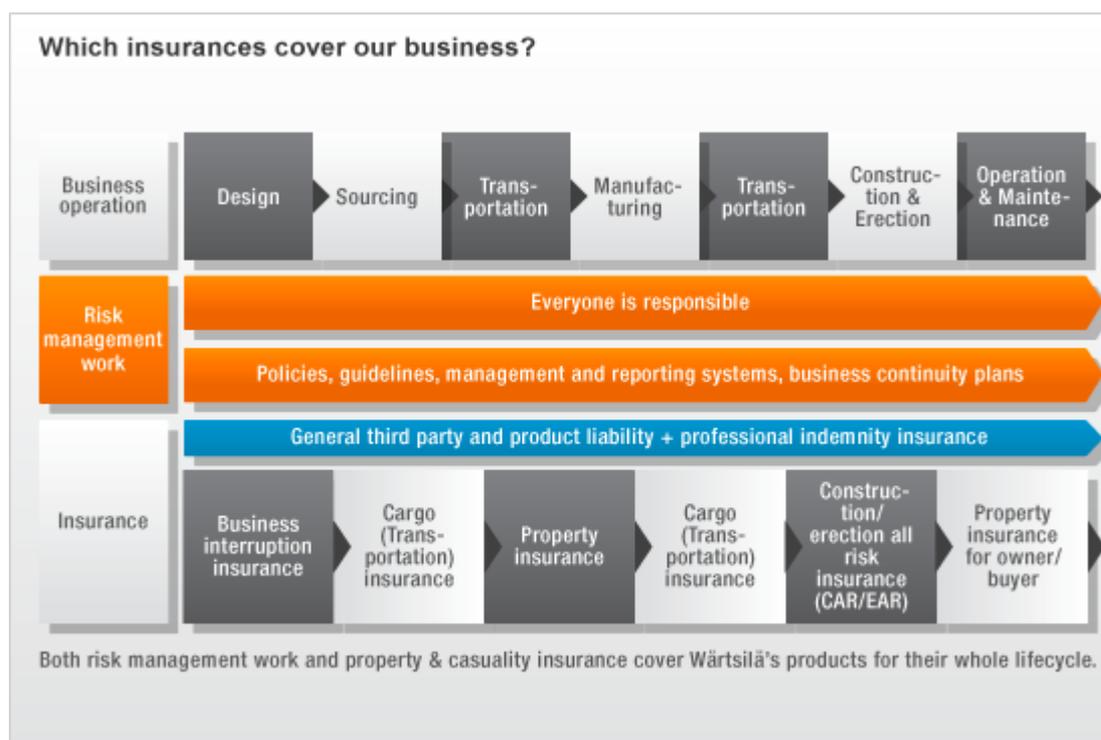
Occupational health and safety systems, travel safety instructions, and crises management guidelines are aimed at protecting Wärtsilä employees. Appropriate insurances are in place for the personnel, and to emphasise the importance of employee safety, Wärtsilä’s Board of Management has decided on a corporate level target for zero lost time injuries. A specific project has been established 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 when possible to insurance companies. Wärtsilä uses appropriate insurance policies to cover indemnity risks related to its personnel, assets, business interruption, and third-party and product liability. Wärtsilä has established its own captive insurance company, Vulcan Insurance PCC Ltd, as a risk management tool.



Financial risks

Wärtsilä's financial risks are presented in the notes to the financial statements, [note 33](#).

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 management 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 (BCP)	Wärtsilä Industrial Operations (WIO) and Businesses
Supplier and subcontractor risk		Supplier requirement and supplier management system, Business Continuity Plan (BCP)	Businesses and Corporate Supply Management (CSM)
Lifecycle quality of products and product liability risk		Management systems (ISO 9001), safety instruction and manuals, risk management policy, R&D risk elimination instructions	WIO, R&D function, Businesses and RM and Legal functions
Contractual risks		Standard contracts	Legal function and Businesses

Risks	Risk profile	Policy or other guideline	Responsible body
Commodity price risk	■	Production cost control	Businesses and Treasury function
Data security risk	■	Data security principles	Businesses and IM fuction
Hazard risk		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) and RM functions
Natural catastrophes	■	Crises management guidelines, Business Continuity Plan (BCP)	Businesses and RM fuction
Fire, Cargo and other accidents	■ ■ ■	Management systems (ISO 14001 & OHSAS 18001), premises safety plan	Businesses, RM and Real Estate (RE) functions
Financial risks		Treasury policy	Businesses and Treasury function
Foreign exchange risk	■ ■ ■	Wärtsilä’s strategy and business plans	Businesses and Treasury function
Interest rate risk	■ ■ ■	Wärtsilä’s strategy and business plans	Businesses and Treasury function
Liquidity and refinancing risk	■ ■ ■	Wärtsilä’s strategy and business plans	Businesses and Treasury function
Credit risk	■ ■ ■ ■	Credit policy	Businesses and Treasury function

Low ■ ■ ■ ■ ■ High

Shares and shareholders

Wärtsilä Corporation's shares are listed on the NASDAQ OMX Large Cap list on the Helsinki Stock Exchange. The Annual General Meeting, held on 3 March 2011, approved the free share issue proposed by the Board of Directors. Thereby, Wärtsilä's total number of shares at the end of the financial period was 197,241,130.

Key figures for Wärtsilä share

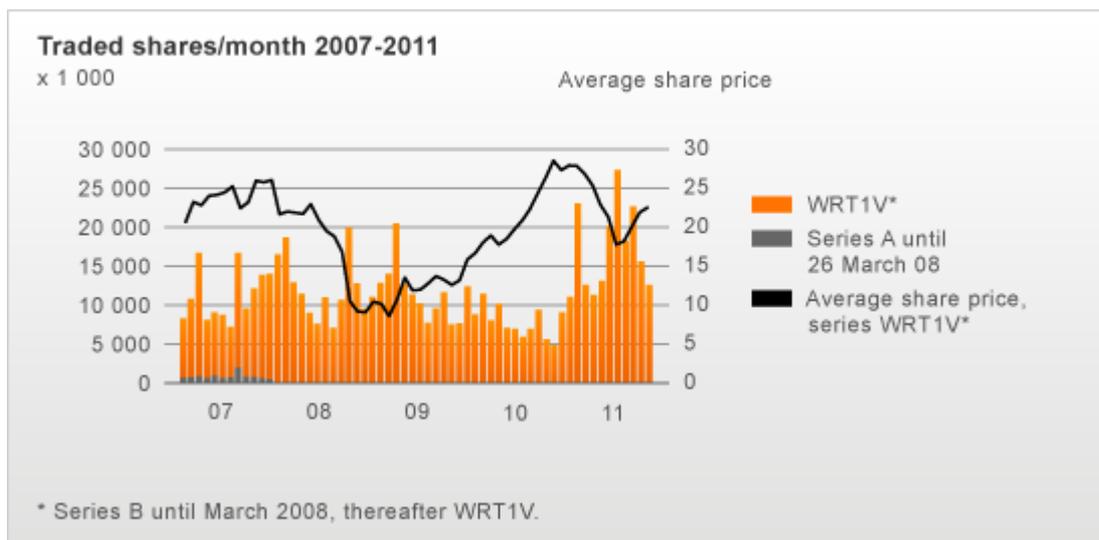
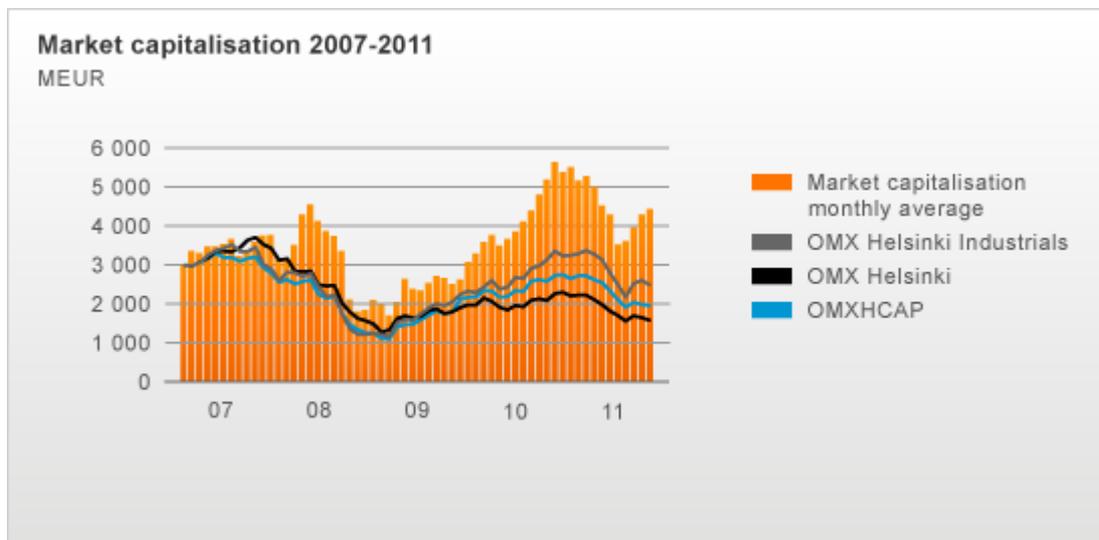
		2011	2010	2009	2008	2007
Earnings per share (EPS) ³	EUR	1.44	1.96	1.97	1.94	1.37
Book value of equity per share ³	EUR	8.30	8.30	7.59	6.01	6.85
Dividend per share ³	EUR	0.90¹	1.38	0.88	0.75	2.13
Dividend per earnings	%	62.7	70.3	44.4	38.7	155.1
Dividend yield	%					
Series A		-	-	-	-	8.01
WRT1V ²		4.03	4.82	6.23	7.14	8.16
Price per earnings (P/E)						
Series A		-	-	-	-	19.4
WRT1V ²		15.5	14.6	7.1	5.4	19.0
Price to book-value (P/BV)						
Series A		-	-	-	-	3.9
WRT1V ²		2.7	3.4	1.9	1.7	3.8
Adjusted number of shares	x 1 000					
end of financial year		197 241	98 621	98 621	98 621	95 970
on average		197 241	98 621	98 621	97 944	95 751

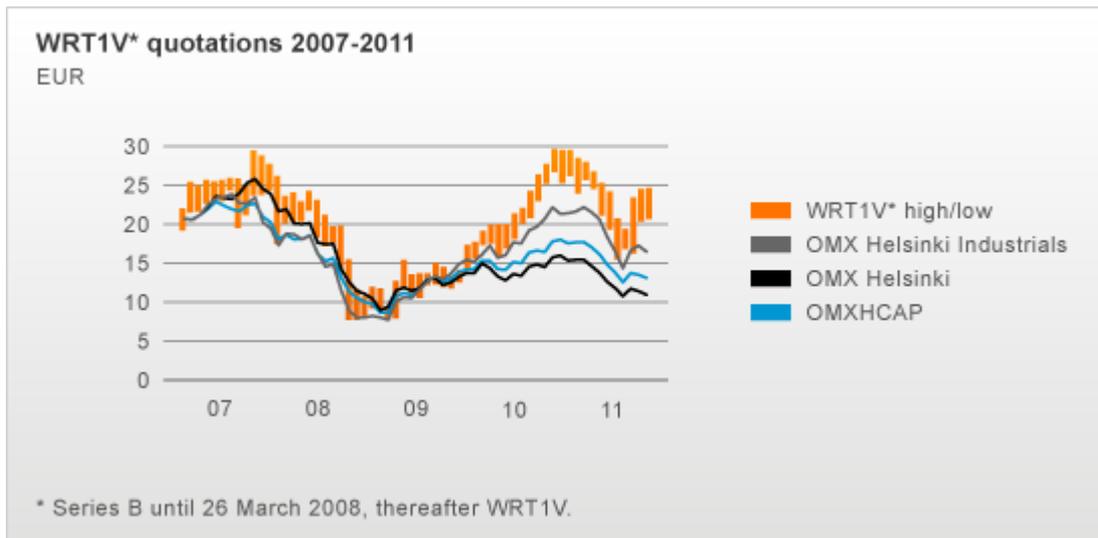
¹ Proposal of the Board of Directors.

² Series B until 26 March 2008, thereafter WRT1V.

³ The 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 periods have been adjusted to reflect the increased number of shares.

The Wärtsilä share on the Helsinki Stock Exchange





The Wärtsilä share on the Nasdaq OMX Helsinki Stock Exchange

		2011	2010	2009	2008	2007
Trading volume	MEUR					
Series A ¹		-	-	-	13.5	665.7
WRT1V ²		5 016.5	3 912.5	3 215.8	5 220.5	6 018.1
Total		5 016.5	3 912.5	3 215.8	5 234.0	6 683.8
Number of traded ³	x 1 000					
Series A ¹		-	-	-	289	13 412
WRT1V ²		197 186	196 152	274 204	294 410	250 514
Total		197 186	196 152	274 204	294 699	263 926
Stock turnover	%					
Series A ¹		-	-	-	4.5	56.8
WRT1V ²		100.0	99.4	139.0	149.3	173.0
Total		100.0	99.4	139.0	149.3	144.4
Average share price ³	EUR					
Series A ¹		-	-	-	46.79	49.63
WRT1V ²		25.44	19.93	11.73	17.71	23.98
Trading low/high ³	EUR					
Series A ¹	low	-	-	-	33.05	38.05
	high	-	-	-	53.00	58.00
WRT1V ²	low	15.50	14.10	7.91	7.75	19.22
	high	29.55	29.63	15.46	26.60	29.45
Share price at the year-end ³	EUR					
Series A ¹		-	-	-	-	53.09
WRT1V ²		22.32	28.55	14.04	10.51	26.05
Year-end market capitalisation	MEUR	4 402	5 631	2 768	2 072	5 023

¹ Series A until 26 March 2008.

² Series B until 26 March 2008, thereafter WRT1V.

³ The 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 WRT1V figures in the comparison periods have been adjusted to reflect the increased number of shares.

Shareholders

Wärtsilä has approximately 41,900 shareholders. At the end of the period, 47% of the share capital was held by foreign shareholders. At the end of 2010, the corresponding figure was 51%.



Ownership structure on 31 December 2011

Group	Number of shareholders	%	Number of shares	%
Private corporations	1 726	4.1	6 587 542	3.3
Banks and insurance companies	76	0.2	5 122 040	2.6
Public sector entities	49	0.1	23 387 231	11.9
Non-profit organisations	842	2.0	22 519 337	11.4
Households	38 839	92.8	45 555 590	23.1
Outside Finland	324	0.8	33 260 631	16.9
Nominee registered			60 808 759	30.8
Total	41 856	100.0	197 241 130	100.0

Division of shares on 31 December 2011

Number of shares	Number of shareholders	%	Number of shares	%
1-50	4 544	10.9	136 450	0.1
51-100	5 213	12.5	441 217	0.2
101-1 000	22 390	53.5	9 342 004	4.7
1 001-5 000	7 660	18.3	16 733 407	8.5
5 001-10 000	1 117	2.7	7 850 769	4.0
10 001-100 000	841	2.0	20 244 787	10.3
100 001-500 000	71	0.2	16 103 417	8.2
500 001-1 000 000	10	0.02	6 849 750	3.5
1 000 001-	10	0.02	58 704 913	29.8
Nominee registered			60 834 416	30.8
Total	41 856	100.0	197 241 130	100.0

Wärtsilä's 50 major shareholders on 31 December 2011

	Owner	Shares	Shares %
1	Avlis Ab	29 743 962	15.08
2	Varma Mutual Pension Insurance Company	10 260 174	5.20
3	Ilmarinen Mutual Pension Insurance Company	7 224 986	3.66
4	Svenska Litteratursällskapet i Finland	3 064 588	1.55
5	The Social Insurance Institution of Finland	1 935 910	0.98
6	State Pension Fund	1 697 000	0.86
7	Sigrid Jusélius Foundation	1 330 796	0.67
8	Jenny and Antti Wihuri Foundation	1 263 216	0.64
9	The Finnish Cultural Foundation	1 161 247	0.59
10	Inez och Julius Polins Fond	1 023 034	0.52
11	Folkhälsan Samfundet i Svenska Finland r.f.	853 338	0.43
12	The Signe and Ane Gyllenberg foundation	788 888	0.40
13	Livsränteanstalten Heridas	755 498	0.38
14	Savox Investments S.A.	730 000	0.37
15	Brita Maria Renlund Foundation	700 000	0.35
16	Folketrygdfondet	695 320	0.35
17	OP-Delta Equity Fund	650 000	0.33
18	Åbo Akademi Foundation	631 110	0.32
19	Ella and Georg Ehrnrooth Foundation	542 930	0.28
20	Rantanen Tuula Anneli	502 666	0.25
21	Ingman Finance Oy Ab	500 000	0.25
22	Tapiola Mutual Pension Insurance Company	500 000	0.25
23	Folkhälsans Forskningsstiftelse	480 978	0.24
24	Nordea Nordenfonden	460 249	0.23
25	Mutual Insurance Company Eläke-Fennia	460 000	0.23
26	Svenska Handelsbanken Ab (publ) filial	457 652	0.23
27	Kuntien eläkevakuutus	443 304	0.22
28	William Thurlings Stiftelse	441 154	0.22
29	Blåberg Meeri	440 000	0.22
30	Sijoitusrahasto Aktia Capital	400 000	0.20
31	Svenska Kulturfonden i Björneborg	394 010	0.20
32	Sijoitusrahasto Gyllenberg Finlandia	384 382	0.19
33	Louise och Göran Ehrnrooths Stiftelse	377 630	0.19
34	Sijoitusrahasto Nordea Suomi	350 000	0.18
35	Schweizerische Nationalbank	341 438	0.17
36	Fromond Elsa	310 956	0.16
37	Nordea Henkivakuutus Suomi Oy	310 000	0.16
38	Von Fieandt Johan	308 492	0.16
39	Sijoitusrahasto Seligson & Co	305 245	0.15
40	Riihimäen Konepajakoulun Säätiö	282 586	0.14

41	Stockmann Marita	271 226	0.14
42	Tallberg Carl Johan	260 582	0.13
43	Relander Harald	255 000	0.13
44	Svenska Folkskolans Vänner	252 436	0.13
45	SR Danske Invest Suomi Yhteisöosake	249 354	0.13
46	Veritas Pension Insurance Company Ltd	246 800	0.13
47	Odin Finland	239 446	0.12
48	Emil Aaltosen Säätiö	239 000	0.12
49	Blomberg Anne-Sofie Marie	223 504	0.11
50	Petter och Margit Forsströms Stiftelse	210 000	0.11
Total		75 950 087	38.51

Changes in ownership – flagging notifications

During the review period, Wärtsilä was informed of the following changes in ownership:

On 5 January 2011, BlackRock, Inc. increased its holding in Wärtsilä Corporation. Following the transaction BlackRock, Inc. owned 4,941,593 shares (the number of shares before the free share issue) or 5.01% of Wärtsilä's share capital and total votes.

On 9 August 2011, BlackRock, Inc. decreased its holding in Wärtsilä Corporation. Following the transaction BlackRock, Inc. owned 9,838,853 shares or 4.99% of Wärtsilä's share capital and total votes.

Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy, and the corporations under their control own altogether 60,481 Wärtsilä Corporation shares, which represents 0.03% of the stock and of the voting rights.

[The Board of Directors share ownership in Wärtsilä on 31 December 2011](#)

Authorisations granted to the Board of Directors

Following the Annual General Meeting held on 3 March 2011, there are no current authorisations.

The Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 0.90 euro per share be distributed for the financial period that ended on 31 December 2011.

Wärtsilä on the capital markets 2011

Wärtsilä's shares are listed on the NASDAQ OMX Large Cap list of the Helsinki Stock Exchange under the trading code WRT1V. All shares carry equal voting and dividend rights.

Investor Relations activities in 2011

Investor interest in Wärtsilä was at a good level in 2011. During the year, Wärtsilä participated in more than 260 investor meetings, as compared to approximately 200 during the previous year. The IR team, consisting of Wärtsilä's CEO, CFO, IR Director and IR Officer, conducted meetings in the Scandinavian countries, the UK, France, Germany, the Netherlands, Italy, as well as on the east coast of the US and in Canada. In addition to one-on-one meetings and conference calls, several group meetings were hosted at Wärtsilä's offices during the year, in Helsinki and Vaasa as well as in Shanghai, Mumbai, and Cape Town. The IR team also participated in several investor conferences targeting institutional investors, in Finland and abroad. During the year, Wärtsilä's foreign shareholder base decreased slightly to 47% (51). The biggest percentage of foreign shares was held by investors in the United States and the United Kingdom.

Wärtsilä gave presentations at events aimed at domestic private investors during the year, both at its own premises and in other locations in Finland. Of Wärtsilä's shareholders, approximately 23% (23) consisted of retail investors during 2011.

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. Our web pages serve as an archive for all current and historical data on factors affecting the value of our shares.

Prospects

Information on Wärtsilä's prospects is published in the Financial Statements Bulletin for the financial year and in the interim reports. The most recently published prospects statement is repeated in the Annual Report. The published prospects are approved by the Board of Directors.

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.

Information on Wärtsilä's prospects is published as a result forecast consisting of the net sales and profitability (EBIT%) forecasts. Wärtsilä does not publish quarterly result forecasts.

Market estimates

The company will review an analyst's earnings model upon his or her request or report only on factual accuracy or information that is in the public domain. Wärtsilä does not comment on 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. During this time, 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 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 releases are published in Finnish, Swedish and English, except those to the trade press, which are only published in English. The stock exchange releases and the press releases are available on Wärtsilä's website immediately following publication.

Contacts

The relations with the company's investors and analysts are handled by IR Director Pauliina Tennilä together with the IR team. General inquiries can be sent to investor.relations@wartsila.com.

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Wärtsilä's corporate communications and media relations are the responsibility of Atte Palomäki, Group Vice President, Communications & Branding.

Atte Palomäki
Group Vice President, Communications & Branding
Tel. +358 (0)10 709 5599
atte.palomaki@wartsila.com

Analysts

To the best of our knowledge the following analysts, and possibly others, have on their own initiative followed Wärtsilä's development during the past 12 months. They have analysed Wärtsilä, drawn up reports and comments and are able to evaluate the company as an investment target. Wärtsilä takes no responsibility for the opinions they have expressed.

Analysts		
ABG Sundal Collier AB	Anders Idborg	+46 8 566 28674
CA Cheuvreux Nordic	Andreas Dahl	+46 8 723 5163
Carnegie Investment Bank AB	Iiris Kemppainen	+358 9 6187 1741
Danske Bank A/S	Antti Suttelin	+358 10 236 4708
Deutsche Bank AG	Johan Wettergren	+46 8 463 5518
Evli Bank plc	Elina Riutta	+358 9 4766 9204
E. Öhman J:or Securities	Jari Harjunpää	+358 9 8866 6021
Fearnley Fonds ASA	Rikard Vabo	+47 22 93 60 00
FIM Bank	Markus Liimatainen	+358 9 6134 6422
Goldman Sachs International	Daniela Costa	+44 20 7774 8354
Handelsbanken Capital Markets	Tom Skogman	+358 10 444 2752
HSBC Bank	Colin Gibson	+44 (0) 20 7991 6592
Jefferies International Ltd	John Dean	+44 (0) 20 7029 8682
Nordea Markets	Jan Kajjala	+358 9 1655 9706
Pohjola Bank	Pekka Spolander	+358 10 252 4351
SEB Enskilda	Tomi Railo	+358 9 6162 8727
Swedbank Markets	Erkki Vesola	+358 20 746 9153
UBS Deutschland AG	Sven Weier	+49 69 1369 8278
Ålandsbanken Equities	Johan Lindh until Sept. 2011	research@alandsbanken.fi

Information for shareholders

Annual General Meeting

The Annual General Meeting of Wärtsilä Corporation will take place on Thursday, 8 March 2012, beginning at 4 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 27 February 2012 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 2 March 2012 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 5283
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 2 March 2012. 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 0.90 euro per share be paid for the financial year 2011. 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 13 March 2012. The dividend payment date proposed by the Board is 20 March 2012.

Stock Exchange Releases

Wärtsilä's Stock Exchange Releases are available in English, Finnish and Swedish on Wärtsilä's website.

Financial information 2012

Annual Report 2011

The electronic Annual Report 2011 is available in English, Finnish and Swedish and is also available on Wärtsilä's website, www.wartsila.com.

Interim Reports and Financial Statements Bulletin 2012

- January-March on Friday, 20 April 2012
- January-June on Wednesday, 18 July 2012
- January-September on Wednesday, 17 October 2012
- Financial Statements Bulletin January-December on Friday, 25 January 2013

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

27 December 2011

Wärtsilä receives EUR 150 million power plant order from Dominican Republic

21 December 2011

Appointments within Wärtsilä's Board of Management

13 December 2011

Wärtsilä Corporation's recommended acquisition of Hamworthy plc, posting of Scheme Document

22 November 2011

Complementary financial information for Wärtsilä Corporation's recommended cash offer for Hamworthy plc

22 November 2011

Wärtsilä Corporation announces recommended cash offer for Hamworthy plc

17 November 2011

Wärtsilä's statement regarding announcement by Hamworthy plc

19 October 2011

Wärtsilä Interim Report January-September 2011

5 October 2011

Wärtsilä's Interim Report January-September 2011 to be published 19 October 2011 at 8.30 a.m. local time

7 September 2011

Wärtsilä wins a major EUR 155 million power plant order from the Dominican Republic

11 August 2011

Notification in accordance with the Finnish Securities Market Act Chapter 2 § 9: BlackRock, Inc. decreased holding in Wärtsilä Corporation

20 July 2011

Interim Report January - June 2011

15 July 2011

Wärtsilä's net sales for 2011 estimated to decline by 0-5%

6 July 2011

Wärtsilä's Interim Report January-June 2011 to be published 20 July 2011 at 8.30 a.m. local time

29 June 2011

Wärtsilä and Jiangsu CuiXing Marine Offshore Engineering to establish a joint venture for manufacturing medium-speed marine engines in China

29 June 2011

Wärtsilä to deliver two major dynamic grid reserve power plants to secure electricity supply in Estonia

8 June 2011

Wärtsilä wins tender for major power plant in Estonia

20 April 2011

Wärtsilä Interim Report January - March 2011

6 April 2011

Wärtsilä's Interim Report January-March 2011 to be published 20 April 2011 at 8.30 a.m. local time

8 March 2011

The shares issued in Wärtsilä's free share issue entered in trade register

3 March 2011

Constitutive meeting of the Board of Directors of Wärtsilä Corporation

3 March 2011

Decisions of Wärtsilä's Annual General Meeting 3 March 2011

10 February 2011

Wärtsilä appoints Björn Rosengren President and CEO as of 1 September 2011

10 February 2011

Wärtsilä Corporation's annual report 2010 published

31 January 2011

Correction to point 15 in Wärtsilä Corporation's Notice to convene the annual general meeting

28 January 2011

Notice to convene the annual general meeting of Wärtsilä Corporation

28 January 2011

Wärtsilä's President and CEO Ole Johansson to retire

28 January 2011

Wärtsilä's Financial Statement bulletin January-December 2010

28 January 2011

Wärtsilä redefines its financial targets

14 January 2011

Wärtsilä's Financial Statements Bulletin 2010 to be published 28 January 2011 at 8.30 a.m. local time

7 January 2011

Notification in accordance with the Finnish Securities Market Act Chapter 2 § 9: BlackRock, Inc. increased holding in Wärtsilä Corporation

Growth in order intake and resilience in profitability

The year 2011 was marked by good growth in order intake and resilience in profitability, despite lower net sales. The order intake increased by 13% compared to the previous year. Order intake for Power Plants grew by 13% and for Ship Power by 52%. The book-to-bill climbed over one for the first time since 2008. Wärtsilä's net sales totalled EUR 4,209 million, a decrease of 7.6% from the previous year. This was slightly more than the estimated decrease of 0-5%, and it was mainly due to delayed power plant deliveries. The operating profit (EBIT) was 11.1% of net sales (10.7), which was well in line with Wärtsilä's estimate for 2011. The continued good profitability was a result of a good mix of orders, successful execution, and keeping our costs under control.

2011 was also a year of changes. Wärtsilä's new President & CEO, Björn Rosengren, assumed his position on 1 September 2011. The economic environment also changed significantly, with the financial problems within the EU and US markets starting to escalate during the summer, eventually affecting GDP development globally. Despite this, the growing emerging markets continued to invest in new power generation capacity. During the year, Wärtsilä received several power plant orders relying on the benefits of Wärtsilä's Smart Power Generation concept. Ship Power order intake development was strong in offshore and other specialised vessel segments, due to robust contracting activity in the corresponding vessel types. Ordering activity was also high in the LNG carrier markets, resulting in a strong order intake for our Korean joint venture. The uncertainty in the global economy began to have an impact on the marine service market, especially in Europe and in the merchant vessel market. However, this development was offset by higher activity levels in markets such as offshore and power plant services, resulting in Services' net sales remaining stable during 2011.

Several strategic investments were made during 2011. In June, Wärtsilä and Jiangsu CuiXing Marine Offshore Engineering Co. Ltd. agreed to establish a joint venture in China for the manufacture of Wärtsilä 26 and Wärtsilä 32 medium-speed marine engines. In July, Wärtsilä acquired Cedervall, one of the leading manufacturers of shaft seal and bearing systems for the marine industry, and in November, Wärtsilä inaugurated its new spare parts distribution centre in Kampen, the Netherlands. To strengthen our position in the offshore, marine gas application, and environmental solutions markets, we acquired Hamworthy, a British company that has a strong product offering and position in these markets.

Net sales

MEUR	2011	2010	Change %
Power Plants	1 365	1 525	-10
Ship Power	1 022	1 201	-15
Services	1 816	1 823	0
Eliminations and adjustments	6	4	
Group	4 209	4 553	-8

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, as well as in gas-fuelled engines and related systems for the marine market. We also seek growth in environmental solutions, including scrubbers and ballast water treatment 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. Our production and supply chain management serves both our end markets, and 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 R&D provides another source of synergies, allowing 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.

Strategic projects, acquisitions, joint ventures and expansion of the network in 2011

In November 2011, Wärtsilä inaugurated its new spare parts distribution centre in Kampen, the Netherlands. The Central Distribution Centre integrates eight previously localised spare parts warehouses into one global supply chain operation. It covers the entire material flow, from order confirmation until the point of delivery at the customer's doorstep. The new centre will shorten transportation distances, reduce spare parts traffic between warehouses, and improve management of the entire supply chain. Wärtsilä's total investment in the new distribution centre has been approximately EUR 70 million. Wärtsilä is currently optimising the operations of the distribution centre.

In June, Wärtsilä and Jiangsu CuiXing Marine Offshore Engineering Co. Ltd. agreed to establish a joint venture for the manufacturing of Wärtsilä 26 and Wärtsilä 32 medium-speed marine engines in China. The set up of the joint venture is proceeding according to plan.

In July, Wärtsilä acquired Cedervall, one of the leading manufacturers of shaft seal and bearing systems for the marine industry. This acquisition strengthens Wärtsilä's leading position in the global service market, in line with its strategy. The combination of Wärtsilä's and Cedervall's businesses will create market leadership in oil and water lubricated seals and bearings and stern tubes. The total preliminary consideration of the transaction is EUR 81 million.

During the review period, Wärtsilä continued to expand its Services network. A new workshop was inaugurated in Gdansk, Poland during the second quarter. During the third quarter, a new workshop facility was opened in Helsinki, Finland.

On 22 November 2011, Wärtsilä announced that it had reached agreement with the Board of Hamworthy in regards to a recommended cash offer for the acquisition of Hamworthy, a global provider of specialist equipment and services to the marine, oil & gas and industrial sectors. Under the terms of the acquisition Hamworthy shareholders will receive 825 pence in cash for

each Hamworthy share. Hamworthy is listed on the London Stock Exchange's Alternative Investment Market. The acquisition will be effected by means of a Scheme of Arrangement under English law. On 9 January 2012, all the resolutions proposed received the strong support of Scheme Shareholders at both the Court Meeting and General Meeting of Hamworthy plc. The Court sanctioned the Scheme on 26 January 2012. Subject to the Court hearing confirming the associated Reduction of Capital on 30 January 2012, the Scheme is expected to become effective and the control transferred to Wärtsilä on 31 January 2012.

Long-term financial targets

Our target is to grow faster than global GDP. 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%. Our target is to maintain gearing below 50%. Our target is to pay a dividend equivalent to 50% of earnings.

Market development

Power Plants

Power plant markets remain solid

Power plant market activity was at a good level during 2011 and quotations for gas power plants remained at a high level. During the financial period, the growing emerging markets continued to invest in new power generation capacity. This created a good level of demand that was evenly spread across the globe. Market activity was strongest in the flexible baseload and industrial self-generation segments.

Power generation market overview

As energy consumption grows, the need for new power generation equipment increases, as does the demand for replacement equipment for older capacity. Today, the global installed power generation capacity totals approximately 5,400 GW, out of which more than half is in OECD countries. Going forward, growth is expected to be stronger in the emerging markets, due to increasing industrialisation and rising living standards. The majority of Wärtsilä Power Plants' orders derive from the non-OECD countries. Heavy fuel oil (HFO) has traditionally been the dominant fuel for power generation in the emerging markets, but the demand for gas driven plants is increasing along with the introduction of a natural gas infrastructure. The industrialised countries have focused on the development of wind power and on increasing the share of natural gas power generation, the target being to ramp down old coal-based installations. In the US, the introduction of shale gas has been rapid and has made natural gas prices very competitive.

Power Plants market position

During the period July 2010 - June 2011, the overall market for gas and liquid fuel based power plants grew to approximately 70.1 GW (51.1). This includes all prime mover units of over 5 MW. Wärtsilä's share represents 4.5% of the market (4.8).

Ship Power

Vessel contracting for specialised tonnage continues to be strong

A total of 1,192 vessels were contracted in 2011, which represents a decrease of 49% compared to the previous year. However, the investment level in newbuilding of ships is comparable to that of 2010, highlighting a shift towards the contracting of specialised vessels. During 2011, dry and wet cargo trades grew, but the fleet of bulk carriers and tankers grew twice as much as the growth in cargo. This evidences an imbalance between supply and demand that resulted in the slowing down of contracting for traditional merchant ships in 2011.

Contracting activity was robust for specialised vessel types throughout the year. By year-end, 50 contracts for LNG carriers were registered and the dual-fuel solution has proven to be the preferred technology for propulsion in this segment. Vessels used for offshore exploration also experienced very robust contracting activity, with notably 36 contracts for drillships being placed in 2011. In the fourth quarter of 2011, several offshore service vessels (OSVs) were contracted.

China accounts for 44% of contracting in 2011 in terms of number of vessels and 36% in terms of Gross Tonnage compensated with workload (CGT). South Korea accounts for 27% and 45% respectively. Thereby, China continues to be the leading shipbuilding country in terms of number of vessels, while South Korea regains its position as the number one shipbuilder in terms of workload for their shipyards. Notably, Brazilian yards booked a number of orders for offshore vessels, positioning the country in the top five shipbuilders for 2011.

Ship Power market shares

Wärtsilä's share of the medium-speed main engine market was steady at 46% (at the end of the previous quarter 46%). Its market share in low-speed engines increased to 22% (18). In the auxiliary engine market Wärtsilä's share was 4% (3).

Services

Varying development in service markets

In the beginning of the year, service markets appeared to pick up. However, during the summer, uncertainty in the global economy began to have an impact on this market development, especially in Europe. By contrast, the Middle East, Asia and the Americas continued to be active. Development was strongest in the power plant and offshore service markets. This is in line with the developments in the market conditions and installed base. Development was weaker in the merchant shipping market. At the end of 2011, the installed base of Wärtsilä engines was approximately 180,000 MW.

Order intake and order book

Order intake increased

Wärtsilä's order intake for the financial period January-December 2011 totalled EUR 4,516 million (4,005), an increase of 13%. The book-to-bill ratio for the financial period was 1.07 (0.88).

For the financial period January-December 2011, the Power Plants order intake totalled EUR 1,602 million (1,413), a 13% increase compared to the previous year. After a rather slow start, ordering activity picked up towards the year's end. Around 50% of the orders received in terms of MW's were from gas based markets. During 2011, Wärtsilä received two large turnkey project orders from the Dominican Republic, as well as a 250 MW turnkey project order from Estonia and a 180 MW order from South Africa. Several midsize orders were received from Bangladesh and Turkey.

Wärtsilä Ship Power's order intake for January-December 2011 was EUR 1,000 million (657), a significant increase of 52% over the corresponding period last year. Throughout 2011, Offshore and Special Vessels segment orders continued to be active. In line with the Ship Power strategy, Wärtsilä received several significant orders for the delivery of total solutions, including ship design, propulsion machinery, automation and other equipment. Wärtsilä received many orders for dual-fuel engines, thus underlining the company's frontrunner position in gas applications. Dual-fuel orders included several offshore vessels, as well as a significant order for a passenger ferry from the Finnish ship owner Viking Line. The vessel will be the largest passenger vessel ever to operate on LNG. The Offshore segment represented 40% of the total order intake, while the Merchant segment share was 25% and Special Vessels 15%. The Cruise & Ferry segment's share was 10%, Navy represented 7% of the order intake, and Ship Design accounted for 3%.

For the financial period January-December 2011, the Services order intake totalled EUR 1,909 million (1,931). During 2011, Wärtsilä was awarded a five-year technical management contract, based on Dynamic Maintenance Planning, covering a total of 24 Wärtsilä 50DF dual-fuel engines installed in six LNG carriers. The contract was placed by the operator of the vessels, Ceres LNG Services Ltd, a Greek ship management company and a major marine services provider in LNG shipping. Wärtsilä also signed its largest ever long-term marine maintenance support agreement. The contract with Royal Caribbean Cruises Ltd covers a wide range of services and 29 vessels with an aggregated output of approximately 1,400 MW.

Order intake in joint ventures

The joint venture company in South Korea, Wärtsilä Hyundai Engine Company Ltd (WHEC), received orders for dual-fuel engines for 34 LNG carriers in 2011. Order intake in WHEC and in the Wärtsilä Qiyao Diesel Company Ltd joint venture company in China, producing auxiliary engines for the financial period January-December 2011 grew significantly to EUR 394 million (77). Wärtsilä's share of ownership in these companies is 50%, and the profits will be reported as a share of the result of associates and joint ventures.

Order book

At the end of the financial period, Wärtsilä's total order book stood at EUR 4,007 million (3,795), an increase of 6%. The Power Plants order book amounted to EUR 1,536 million (1,299), which is 18% higher than on the same date last year. The Ship Power order book stood at EUR 1,684 million (1,825), a decrease of 8%. The Services order book totalled EUR 786 million (671) at the end of the financial period, an increase of 17%.

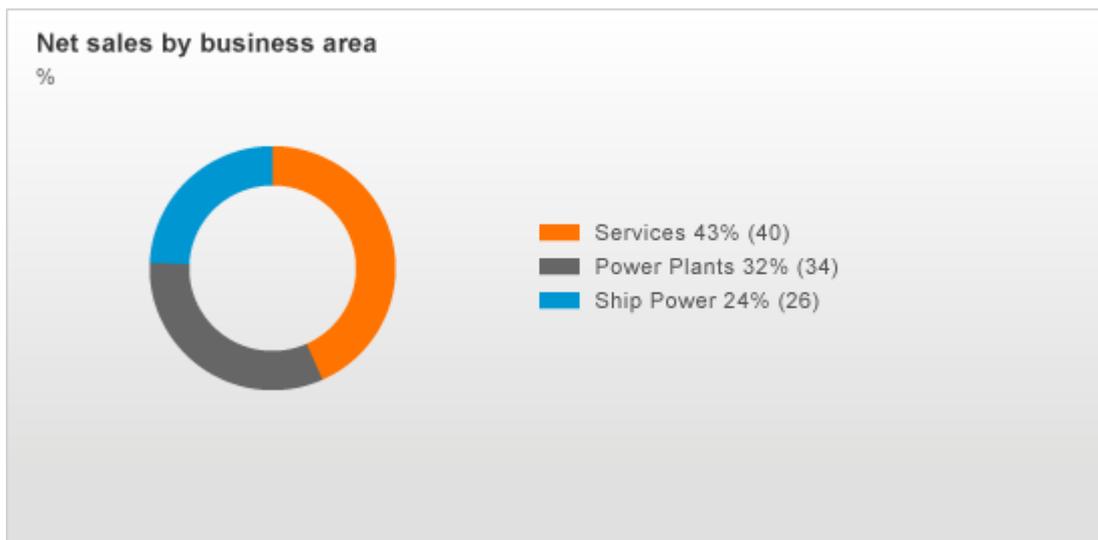
Net sales and profitability

Sales decreased

Wärtsilä's net sales for January-December 2011 decreased by 7.6% to EUR 4,209 million (4,553). This was slightly more than the estimated decrease of 0-5%. The main reason was delayed power plant project deliveries. Power Plants accounted for 32%, Ship Power for 24% and Services for 43% of the total net sales. Net sales for Power Plants totalled EUR 1,365 million (1,525), a decrease of 10%. Ship Power's net sales decreased by 15% and totalled EUR 1,022 million (1,201). Net sales from the Services business amounted to EUR 1,816 million (1,823). Net sales development was good especially in the strategic focus areas of environmental services, electric & automation and propulsion services. However, over 75% of revenues are still derived from engine related services. The merchant market in particular was rather weak. Net sales increased also in Contracts and Projects. Revenues from projects can vary significantly from quarter to quarter.

Of Wärtsilä's net sales for January-December 2011, approximately 68% was EUR denominated, 13% USD denominated, with the remainder being split between several currencies.

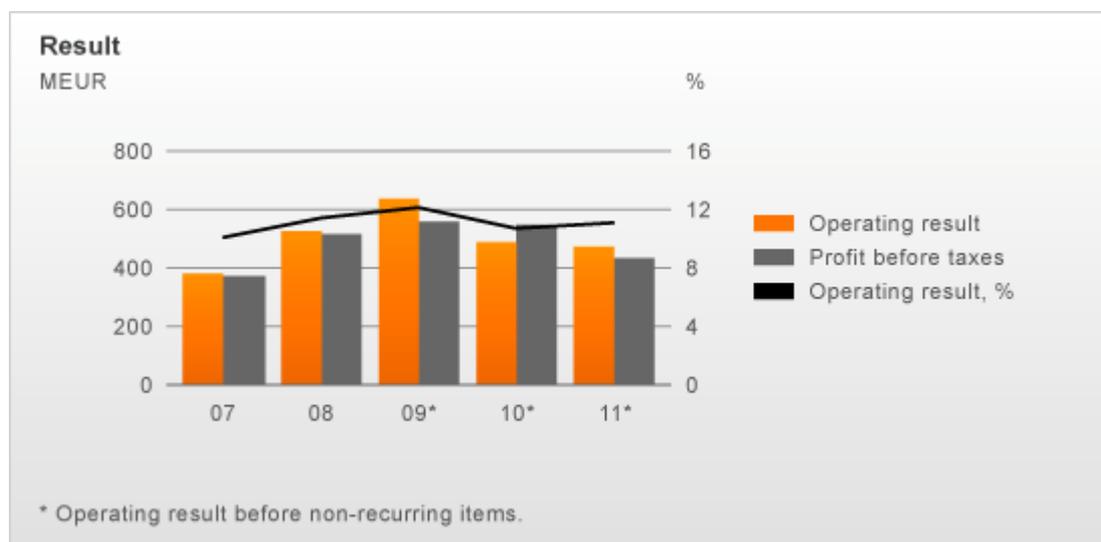




Operating result and profitability

For the financial period January-December 2011, the operating result before non-recurring items was EUR 469 million (487). Profitability (EBIT%) was 11.1% of net sales (10.7), well in line with Wärtsilä's estimate for 2011. Including non-recurring items, the operating result was EUR 445 million or 10.6% of net sales. Wärtsilä recognised EUR 24 million of non-recurring items related to the restructuring measures during the financial period January-December 2011.

Financial items amounted to EUR -16 million (-13). Net interest totalled EUR -5 million (-12). Dividends received totalled EUR 3 million (7). Profit before taxes amounted to EUR 429 million (548). Taxes in the reporting period amounted to EUR 136 million (151). The profit for the financial period amounted to EUR 293 million (397). Earnings per share were 1.44 euro (1.96) and equity per share was 8.30 euro (8.30). Return on investment (ROI) was 20.4% (26.0). Return on equity (ROE) was 17.5% (25.0).



Balance sheet, financing and cash flow

For January-December 2011, the cash flow from operating activities was EUR 232 million (663). Net working capital at the end of the period totalled EUR 285 million (170). Advances received at the end of the period totalled EUR 563 million (616). The increase in net working capital is mainly due to timing of deliveries and advances received and results from normal variation in operations. Cash and cash equivalents at the end of the period amounted to EUR 592 million (776).

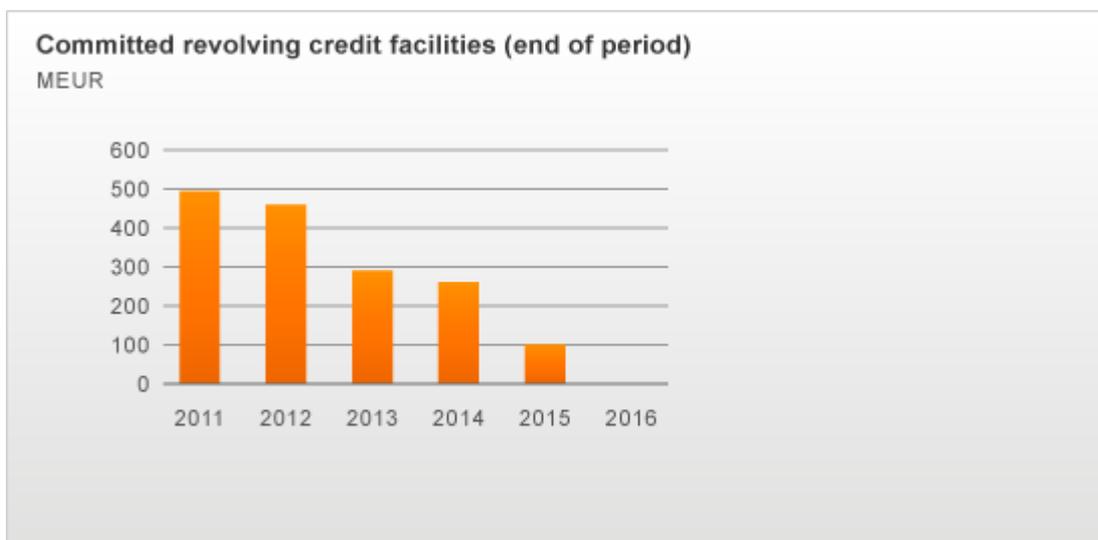
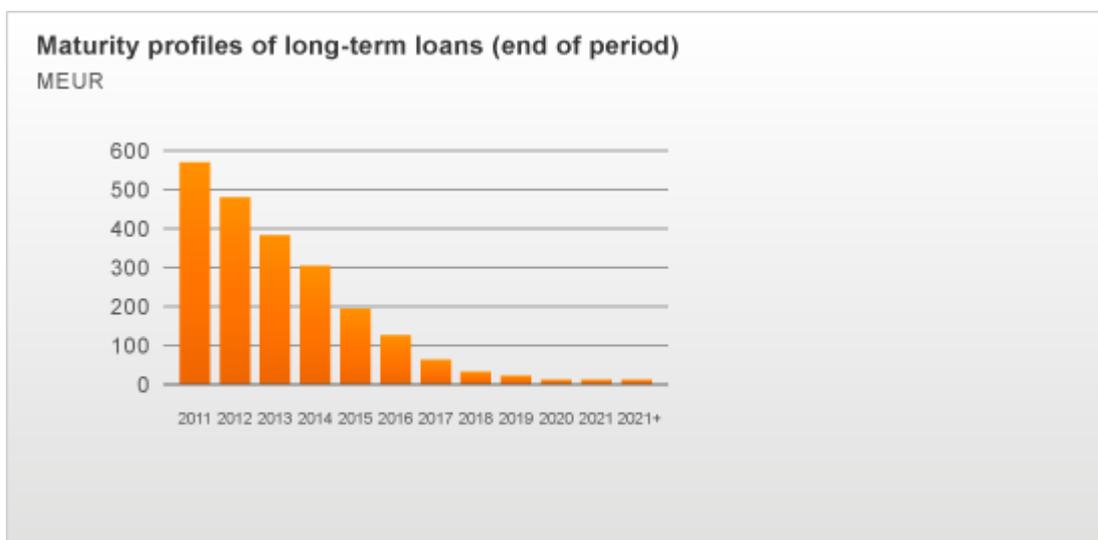
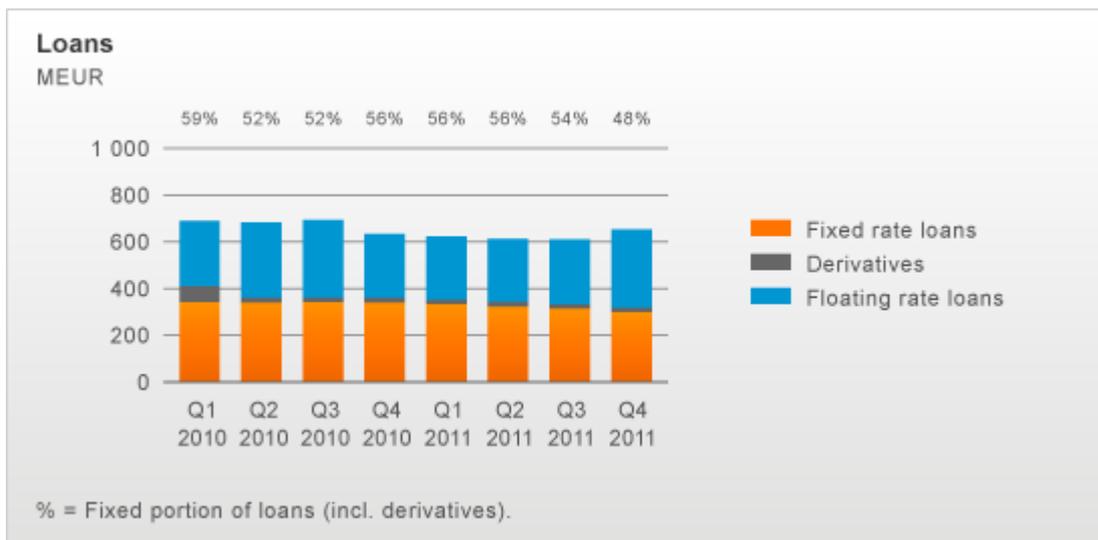
Wärtsilä had interest-bearing debt totalling EUR 652 million at the end of December 2011. The total amount of short-term debt maturing within the next 12 months was EUR 167 million, including EUR 70 million of Finnish Commercial Papers. Net interest-bearing loan capital totalled EUR 58 million (-165).

The funding programmes at the end of December 2011 included long-term loans of EUR 485 million, undrawn long-term loans totalling EUR 150 million and unutilised Committed Revolving Credit Facilities totalling EUR 494 million. The funding programs also included Finnish Commercial Paper programmes totalling EUR 700 million.

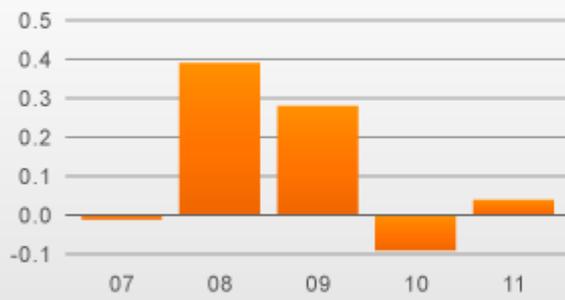
The solvency ratio was 41.3% (40.8) and gearing was 0.04 (-0.09).

Interest-bearing loan capital

MEUR	2011	2010
Long-term liabilities	485	572
Current liabilities	167	56
Loan receivables	-2	-17
Cash and cash equivalents	-592	-776
Net	58	-165

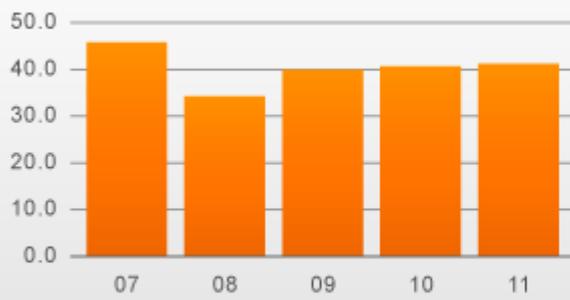


Gearing



Solvency ratio

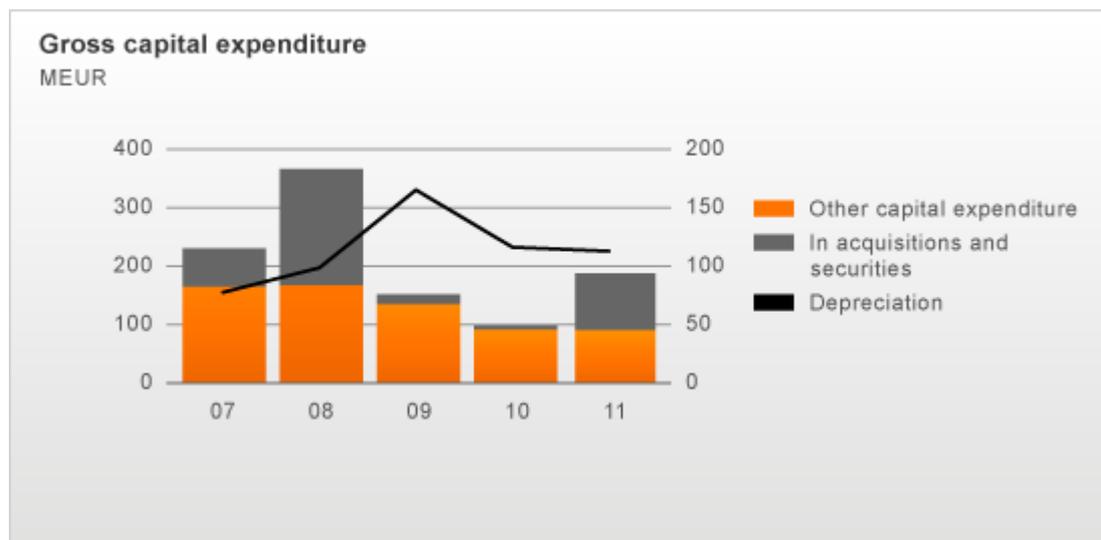
%



Capital expenditure

Gross capital expenditure in the financial period totalled EUR 187 million (98), which comprised of EUR 97 million (6) in acquisitions and investments in securities, and EUR 90 million (92) in intangible assets and property, plant and equipment. Depreciation, amortisations and impairment for the financial period amounted to EUR 113 million (116).

Maintenance capital expenditure for 2012 will be in line with or slightly above depreciation.



Restructuring measures

In 2009, Wärtsilä began the process of adapting its activities to lower demand through various restructuring measures with the aim of reducing approximately 1,800 persons. This target has nearly been reached and the remainder of the reductions will materialise in 2012. It is estimated that the reductions will decrease costs by approximately EUR 130 million. Of these cost savings, about EUR 60 million had materialised by the end of 2010 and about EUR 60 million materialised during 2011. The remainder of the cost savings will materialise in 2012. Wärtsilä anticipates that the majority of these cost savings will be permanent. The total nonrecurring costs related to the restructuring will be approximately EUR 150 million, out of which EUR 115 million has been recognised by the end of 2010. In the financial period January-December 2011, Wärtsilä recognised EUR 24 million (75) of nonrecurring items related to the restructuring measures. The remainder of the restructuring costs will be recognised in 2012.

Manufacturing

During 2011, the focus on moving manufacturing closer to customers in Asia continued.

In June, Wärtsilä CME Zhenjiang Propeller Co. Ltd., the joint venture company of Wärtsilä and Zhenjiang CME Ltd., inaugurated its new manufacturing facilities for Controllable Pitch Propellers (CPP) in Zhenjiang, China. The majority of the new factory's manufacturing equipment was transferred from the Wärtsilä factory in Drunen, the Netherlands, where production was closed in 2010. The first CPP manufactured by Wärtsilä CME Zhenjiang Propeller Co. Ltd. was approved by the classification society and the customer on 4 November 2011.

In July, CSSC Guangzhou Marine Diesel Co. Ltd., a member of the state-owned China State Shipbuilding Corporation, and Wärtsilä jointly signed a license agreement for the manufacturing and sale of Wärtsilä low-speed engines in China. It covers the entire engine portfolio with a power range from 4,300 to 80,000 kW per engine. With the shipbuilding industry being increasingly concentrated in Asia, the local manufacture of Wärtsilä's marine engines is a key element in the company's growth strategy.

In November 2011, Wärtsilä and Doosan Engine Co. Ltd., a member of the Doosan Group, signed a ten year extension to the licensing agreement for building Wärtsilä low-speed engines. The agreement renewal covers the period from 2012 to 2021.

Activities in Wärtsilä's joint venture with Transmashholding in Russia are proceeding according to plan. The joint venture is preparing to manufacture modern and multipurpose diesel engines, including a new and technically advanced version of the Wärtsilä 20 engine, to be used in shunter locomotives and for various marine and power applications.

Megawatts delivered

	2011	2010	Change, %
Power Plants, own deliveries	2 990	3 442	-13
Ship Power, own deliveries	1 673	2 057	-19
Wärtsilä, own deliveries total	4 663	5 498	-15
Ship Power, deliveries by licensees	2 940	3 193	-8
Total deliveries	7 593	8 691	-13

Research and development, product launches

In 2011, Wärtsilä's research and development expenses totalled EUR 162 million (141), or 3.8% of net sales and the following major accomplishments were achieved:

During the third quarter, Wärtsilä's dual-fuel engines exceeded three million running hours in both land-based and marine applications. This milestone represents a dual-fuel track record that cannot be matched by any other engine manufacturer. Today, the total number of Wärtsilä dual-fuel engines delivered to both marine and land-based applications is 470. The fuel flexibility of these engines offers numerous tangible benefits, both economic and environmental.

Wärtsilä has successfully tested its new low-speed gas engine technology in trials conducted at the company's facilities in Trieste, Italy. The tests have demonstrated that the engine performance fully complies with the upcoming IMO Tier III nitrogen oxide limits, thereby setting a new benchmark for low-speed engines running on gas. The new test engine is part of Wärtsilä's 2-stroke dual-fuel gas engine technology development programme.

Wärtsilä has strengthened its offering in the mid-size, low-speed engine sector by adding new X62 and X72 engines to its portfolio. The first X62 engine will be available for delivery in September 2013 and the first X72 engine approximately one year later. Wärtsilä successfully started up its new 6-cylinder RT-flex48T engine as well as the first of the new electronically controlled Wärtsilä X35 low-speed engines.

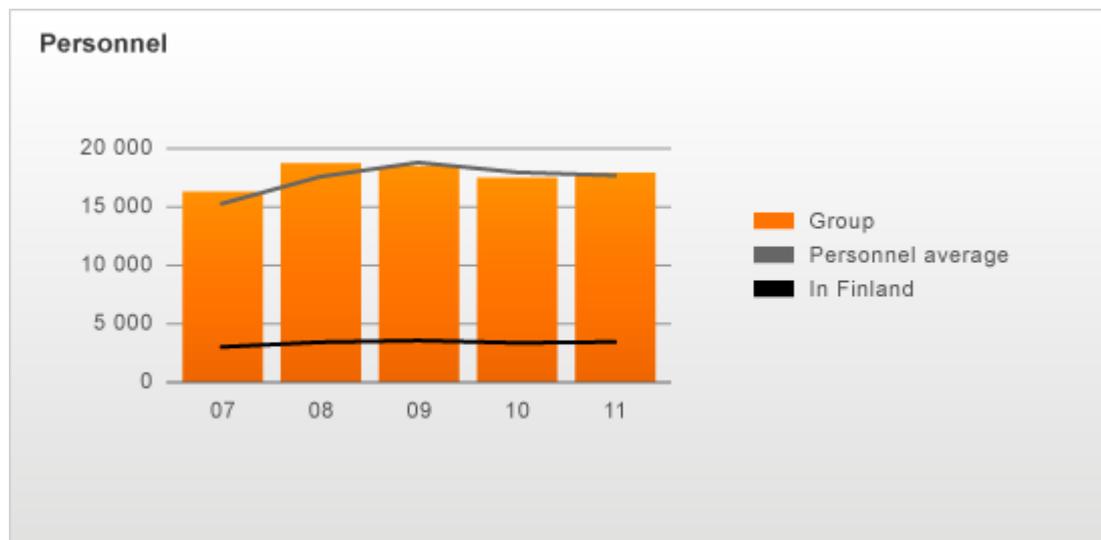
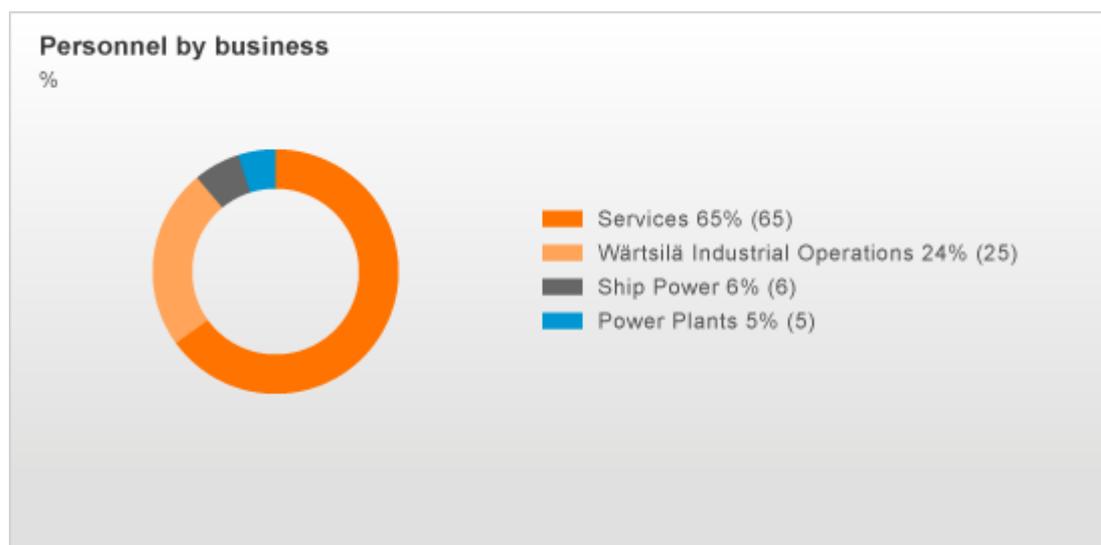
Wärtsilä and Aker Solutions have signed an agreement to jointly develop a new and environmentally sound concept for offshore wind farm installation vessels. Wärtsilä will provide the ship design, electrical power generation, propulsion machinery and high-end automation, whilst Aker Solutions will supply the jacking system. Wärtsilä, together with Aker Solutions, will also offer a 24/7 global support service for maintenance, repairs, and component supply to the vessels. The Wärtsilä engines to be used will be dual-fuel engines capable of operating on liquefied natural gas (LNG).

At the end of 2011, Wärtsilä, together with six partners in Maritime Clean Tech West, a Norwegian industrial network, were awarded approximately EUR 2.4 million from Innovation Norway for a pioneering project where the goal is to test new solutions for energy storage and electrical operation of propulsion systems.

Personnel

Wärtsilä had 17,913 (17,528) employees at the end of December 2011. On average, the number of personnel for January-December 2011 totalled 17,708 (18,000). Power Plants employed 855 (835) people. Ship Power employed 999 (969) people, Services 11,168 (11,150) and manufacturing and R&D (Wärtsilä Industrial Operations) 4,091 (4,210) people.

Of Wärtsilä's total number of employees, 20% (19) were located in Finland and 35% (37) elsewhere in Europe. Personnel employed in Asia represented 33% (31).



Changes in management

Mr Björn Rosengren (52), M.Sc. (Tech.), started as the new President and CEO of Wärtsilä Corporation on 1 September 2011. Mr Rosengren succeeded Mr Ole Johansson, who retired at that time.

The following appointments were made within Wärtsilä Corporation's Board of Management, with effect from 1 January 2012:

- Mr Kari Hietanen (48), LL.M. was appointed Group Vice President, Corporate Relations and Legal.
- Ms Päivi Castrén (53), MSc (Soc.Sc.), was appointed Group Vice President, Human Resources and a member of the Board of Management.

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

The figures in the table below have been adjusted to reflect the increased number of shares resulting from the free share issue approved by Wärtsilä Corporation's Annual General Meeting on 3 March 2011.

31.12.2011	Number of Shares	Number of votes	Number of shares traded 1-12/2011	
WRT1V	197 241 130	197 241 130	197 186 087	
1.1. - 31.12.2011	High	Low	Average ¹	Close
Share price	29.55	15.50	26.93	22.32
¹ Trade-weighted average price				
Market capitalisation	31.12.2011	31.12.2010		
EUR million	4 402	5 631		
Foreign shareholders	31.12.2011	31.12.2010		
%	47.0	51.0		

Flagging notifications

During the financial period January-December 2011, Wärtsilä was informed of the following changes in ownership:

On 5 January 2011, BlackRock, Inc. increased its holding in Wärtsilä Corporation. Following the transaction, BlackRock, Inc. owned 4,941,593 shares (the number of shares before the free share issue) or 5.01% of Wärtsilä's share capital and total votes.

On 9 August 2011, BlackRock, Inc. decreased its holding in Wärtsilä Corporation. Following the transaction, BlackRock, Inc. owned 9,838,853 shares or 4.99% of Wärtsilä's share capital and total votes.

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 3 March 2011 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 2010. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.75 per share and an extra dividend of EUR 1.00 per share, totalling EUR 2.75 per share. The dividend was paid on 15 March 2011. Adjusted to reflect the increased number of shares resulting from the free share issue, the dividend amounted to EUR 0.88 per share and the extra dividend to EUR 0.50 per share, totalling EUR 1.38 per share.

The Annual General Meeting decided that the Board of Directors shall have nine members. The following were elected to the Board: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Lars Josefsson, Mr Bertel Langenskiöld, Mr Mikael Lilius, Mr Markus Rauramo and Mr Matti Vuoria.

Authorized public accountants KPMG Oy Ab were appointed as the company's auditors for the year 2011.

Free share issue

The Annual General Meeting decided to approve the free share issue in accordance with the proposal of the Board of Directors. The free share issue was implemented by applying the pre-emptive right of the shareholders so that for each old share one new share was issued. Thereby a total of 98,620,565 new shares were issued. The new shares were registered in the trade register on 8 March 2011.

Organisation of the Board of Directors

The Board of Directors of Wärtsilä Corporation elected Mikael Lilius as its chairman and Matti Vuoria 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, Bertel Langenskiöld

Nomination Committee:

Chairman Mikael Lilius, Kaj-Gustaf Bergh, Lars Josefsson, Matti Vuoria

Remuneration Committee:

Chairman Mikael Lilius, Paul Ehrnrooth, Matti Vuoria

Risks and business uncertainties

Towards the end of the year 2011, the uncertainty concerning the global economy and the financial markets increased certain risks for Wärtsilä's businesses.

In the Power Plants business, uncertainty in the financial markets may impact the timing of bigger projects.

Uncertainty regarding the global economic situation continues to threaten the outlook for shipping and shipbuilding. Overcapacity is exerting pressure on freight rates, especially in the traditional merchant segments such as bulk carriers and tankers. The main risk for Ship Power is still delays in yard delivery schedules, while difficulties in the financial markets have increased the risk of cancellations.

Increasing risks in the financial markets may have a negative impact on Services' order intake. The tough conditions in the marine merchant markets are also seen as a potential risk, and they could have a negative impact on net sales in 2012.

The annual report for 2011 contains a thorough description of Wärtsilä's risks and risk management.

Market outlook

The power generation market is expected to remain on a good level in 2012, but due to macroeconomic issues, significant growth is not foreseen. The growing emerging markets will continue to invest in new power generation capacity, which will drive demand - especially in the flexible baseload segment. 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 outlook for vessel contracting activity during 2012 is cautious, with overall levels of contracting expected to be about the same or slightly lower than during 2011. The contracting mix is expected to be in line with that seen in 2011, favouring contracting for specialised vessel segments. The contracting outlook is gloomy for certain ship types, including bulk carriers and tankers, due to overcapacity. The segments with a positive outlook are in line with Wärtsilä's Ship Power strength areas. Contracting for LNG carriers is expected to remain strong compared to historical levels, albeit lower than the level of contracting seen in 2011. The offshore segment continues to present good future contracting opportunities, especially for drilling and floating production units.

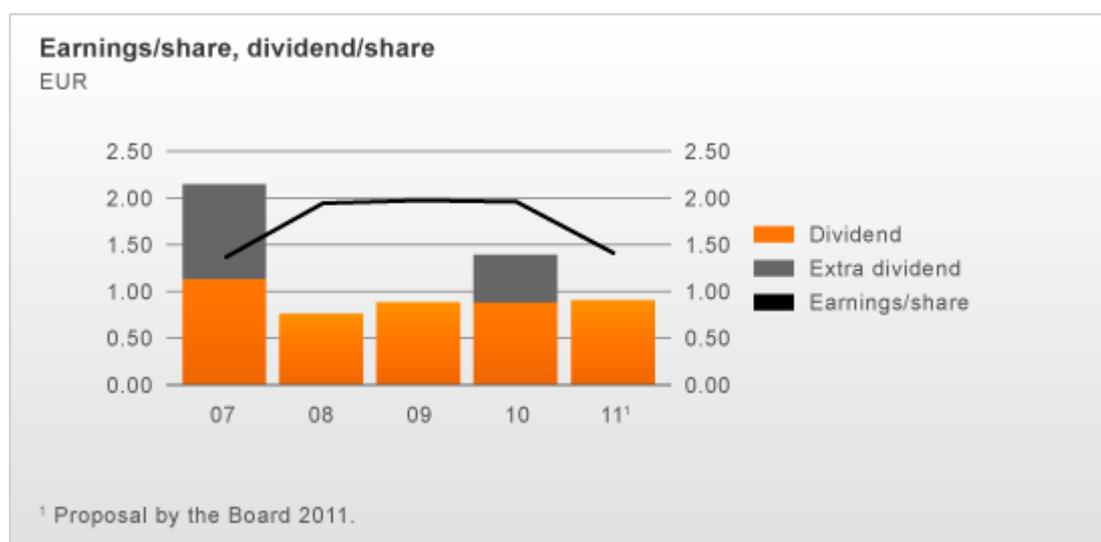
There are no major changes in the Services market outlook for 2012. Overall economic uncertainty still prevails. The best prospects continue to be in the BRIC countries, while conditions are expected to continue to be weakest in Europe. In the short term, development of the active installed base is also expected to be moderate, with the scrapping, layups, slow steaming, and lower utilisation rates of vessels likely to continue. The power plant service market is expected to develop steadily.

Wärtsilä's prospects for 2012

Wärtsilä expects its net sales for 2012 to grow by 5-10% and its operational profitability (EBIT% before nonrecurring items) to be 10-11%. These estimates take into account the impact of the Hamworthy acquisition, which is expected to become effective on 31 January 2012.

Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 0.90 euro per share be paid for the financial year 2011. Wärtsilä's distributable funds at the end of the period totalled EUR 974,384,311.79. 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 13 March 2012. The dividend payment date proposed by the Board is 20 March 2012. The Annual Report 2011, including the financial review and the review by the Board of Directors, will be available on the company website www.wartsila.com during week 7.



Dividend/share, earnings/share

	2011	2010	2009	2008	2007
Dividend per share	0.90 ¹	0.88	0.88	0.75	1.13
Extra dividend per share	-	0.50	-	-	1.00
Earnings per share (EPS)	1.44	1.96	1.97	1.94	1.37

¹ Proposal by the Board.

Five Years in Figures

MEUR		2011	2010	2009	2008	2007
Net sales		4 209	4 553	5 260	4 612	3 763
of which outside Finland	%	99.3	99.4	99.3	98.1	98.2
Exports from Finland		2 458	2 584	3 114	2 574	2 017
Personnel on average		17 708	18 000	18 830	17 623	15 337
of which in Finland		3 421	3 326	3 506	3 378	3 010
Order book		4 007	3 795	4 491	6 883	6 308
From the consolidated statement of income						
Depreciation, amortisation and impairment		113	116	165	99	78
Share of result of associates and joint ventures		8	5	6	-	1
Operating result before non-recurring items		469	487	638	525	380
as a percentage of net sales	%	11.1	10.7	12.1	11.4	10.1
Operating result		445	412	592	525	380
as a percentage of net sales	%	10.6	9.1	11.2	11.4	10.1
Financial income and expenses		-16	-13	-34	-9	-8
as a percentage of net sales	%	-0.4	-0.3	-0.6	-0.2	-0.2
Net income from financial assets available-for-sale		-	149	-	-	-
Profit before taxes		429	548	558	516	372
as a percentage of net sales	%	10.2	12.0	10.6	11.2	9.9
Profit for the financial period		293	397	396	389	265
as a percentage of net sales	%	7.0	8.7	7.5	8.4	7.1

MEUR		2011	2010	2009	2008	2007
From the consolidated statement of financial position						
Non-current assets		1 577	1 483	1 548	1 498	1 283
Current assets		3 023	3 213	3 108	3 245	2 466
Total equity attributable to equity holders of the parent company		1 636	1 638	1 496	1 184	1 315
Non-controlling interests		30	26	16	15	10
Interest-bearing debt		652	628	664	664	283
Non-interest-bearing liabilities		2 282	2 404	2 479	2 880	2 141
Total equity and liabilities		4 600	4 696	4 655	4 743	3 749
Gross capital expenditure		187	98	152	366	231
as a percentage of net sales	%	4.4	2.2	2.9	7.9	6.1
Research and development expenses		162	141	141	121	122
as a percentage of net sales	%	3.8	3.1	2.7	2.6	3.2
Dividends paid		178	173	173	148	216
Extra dividend		-	99	-	-	192
Dividends total		178*	271	173	148	408
Financial ratios						
Earnings per share (EPS)**	EUR	1.44	1.96	1.97	1.94	1.37
Diluted EPS**	EUR	1.44	1.96	1.97	1.94	1.37
Dividend per share**	EUR	0.90	1.38	0.88	0.75	2.13
Dividend per earnings	%	62.7	70.3	44.4	38.7	155.1
Interest coverage		14.6	18.9	16.4	14.0	13.7
Return on investment (ROI)	%	20.4	26.0	29.9	32.4	26.0
Return on equity (ROE)	%	17.5	25.0	29.2	30.8	20.8
Solvency ratio	%	41.3	40.8	40.0	34.3	45.9
Gearing		0.04	-0.09	0.28	0.39	-0.01
Equity per share**	EUR	8.30	8.30	7.59	6.01	6.85

* Proposal of the Board of Directors. Financial ratios are calculated from total amount of dividend.

** 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 periods have been adjusted to reflect the increased number of shares.

Calculations of Financial Ratios

Return on investment (ROI)

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

Return on equity (ROE)

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

Interest coverage

$$\frac{\text{Profit before taxes + depreciation and amortisation + interest and other financial expenses}}{\text{Interest and other financial expenses}}$$

Solvency ratio

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

Gearing

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

Earnings per share (EPS)

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

Equity per share

Equity attributable to equity holders of the parent company
 Adjusted number of shares at the end of the financial period

Dividend per share

Dividends paid for the financial year
 Adjusted number of shares at the end of the financial year

Dividend per earnings

Dividend per share
 Earnings per share (EPS) x 100

Effective dividend yield

Dividend per share
 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
 Earnings per share (EPS)

Price/carrying amount per share (P/BV)

Adjusted share price at the end of the financial year
 Equity per share

Non-recurring items

Non-recurring items related to restructuring measures

Consolidated Statement of Income

MEUR	Note	2011	%	2010	%
Net sales	1, 3	4 209	100.0	4 553	100.0
Change in inventories of finished goods & work in progress		39		-164	
Work performed by the Group and capitalised		1		2	
Other operating income	4	47		52	
Material and services	5	-2 285		-2 372	
Employee benefit expenses	6	-956		-948	
Depreciation, amortisation and impairment	7	-113		-116	
Other operating expenses		-506		-601	
Share of result of associates and joint ventures	14	8		5	
Operating result		445	10.6	412	9.1
Dividend income	8	3		7	
Interest income	8	13		6	
Other financial income	8	10		12	
Interest expenses	8	-18		-18	
Other financial expenses	8	-23		-20	
Net income from financial assets available-for-sale	15			149	
Profit before taxes		429		548	
Income taxes	9	-136		-151	
Profit for the financial period		293	7.0	397	8.7
Attributable to:					
Equity holders of the parent company	10	283		386	
Non-controlling interests		10		11	
		293		397	
Earnings per share attributable to equity holders of the parent company:					
Earnings per share (basic and diluted), EUR*		1.44		1.96	

Statement of Comprehensive Income

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Profit for the financial period	293	397
Other comprehensive income after tax:		
Exchange rate differences on translating foreign operations	-4	17
Financial assets available-for-sale		
Fair valuation	16	30
Transferred to the statement of income		-110
Cash flow hedges	-23	-9
Other income/expenses		1
Other comprehensive income	-12	-71
Total comprehensive income for the period	281	326
Total comprehensive income attributable to:		
Equity holders of the parent company	270	313
Non-controlling interests	11	13
	281	326

* 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 periods have been adjusted to reflect the increased number of shares.

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position, Assets

MEUR	Note	31.12.2011	%	31.12.2010	%
Non-current assets					
Goodwill	12	616		574	
Intangible assets	12	209		205	
Property, plant and equipment	13	463		455	
Investment properties	13	9		11	
Investments in associates and joint ventures	14	87		65	
Financial assets available-for-sale	15, 17	39		18	
Interest-bearing investments	17	1		16	
Deferred tax assets	20	119		122	
Other receivables	18	33		16	
		1 577	34.3	1 483	31.6
Current assets					
Inventories	16	1 222		1 244	
Interest-bearing receivables	17	1		1	
Trade receivables	17	877		860	
Income tax receivables		38		26	
Other receivables	18	294		305	
Cash and cash equivalents	19	592		776	
		3 023	65.7	3 213	68.4
Total assets		4 600	100.0	4 696	100.0

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position, Equity and Liabilities

MEUR	Note	31.12.2011	%	31.12.2010	%
Equity					
Share capital	22	336		336	
Share premium	22	61		61	
Translation differences		2		8	
Fair value reserve	23	5		12	
Retained earnings		1 233		1 221	
Total equity attributable to equity holders of the parent company		1 636	35.6	1 638	34.9
Non-controlling interests		30	0.7	26	0.6
Total equity		1 666	36.2	1 664	35.4
Liabilities					
Non-current liabilities					
Interest-bearing debt	17, 25	485		572	
Deferred tax liabilities	20	69		70	
Pension obligations	21	39		40	
Provisions	24	52		45	
Advances received		120		104	
		765	16.6	831	17.7
Current liabilities					
Interest-bearing debt	17, 25	167		56	
Provisions	24	215		233	
Advances received		443		511	
Trade payables	17, 25	348		366	
Income tax liabilities		55		105	
Other liabilities	16, 25	941		929	
		2 169	47.1	2 201	46.9
Total liabilities		2 934	63.8	3 032	64.6
Total equity and liabilities		4 600	100.0	4 696	100.0

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

MEUR	2011	2010
Cash flow from operating activities:		
Profit for the financial period	293	397
Adjustments for:		
Depreciation, amortisation and impairment	113	116
Financial income and expenses	16	13
Selling profit and loss of fixed assets and other changes	-6	-147
Share of result of associates and joint ventures	-8	-5
Income taxes	136	151
Cash flow before changes in working capital	544	526
Changes in working capital:		
Assets, non-interest-bearing, increase (-) / decrease (+)	3	132
Inventories, increase (-) / decrease (+)	33	379
Liabilities, non-interest-bearing, increase (+) / decrease (-)	-125	-141
Changes in working capital	-88	370
Cash flow from operating activities before financial items and taxes	456	896
Financial items and taxes:		
Interest and other financial income	25	11
Interest and other financial expenses	-49	-72
Income taxes paid	-199	-173
Financial items and paid taxes	-224	-233
Cash flow from operating activities	232	663

Cash flow from investing activities:

Investments in shares and acquisitions	-91	-6
Investments in property, plant and equipment and intangible assets	-90	-92
Proceeds from sale of property, plant and equipment and intangible assets	9	9
Proceeds from sale of financial assets available-for-sale	3	173
Loan receivables, increase (-) / decrease (+) and other changes		-13
Dividends received	3	8
Cash flow from investing activities	-166	79

Cash flow after investing activities	66	742
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Cash flow from financing activities:

Proceeds from non-current borrowings		37
Repayments and other changes in non-current loans	-50	-78
Loan receivables, increase (-) / decrease (+)	2	2
Current loans, increase (+) / decrease (-)	79	-2
Dividends paid	-279	-175
Cash flow from financing activities	-247	-216

Change in cash and cash equivalents, increase (+) / decrease (-)	-181	525
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Cash and cash equivalents at the beginning of period	776	244
Exchange rate changes	-3	7
Cash and cash equivalents at the end of period	592	776

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					Total	Non-	Total
	Share capital	Share premium	Translation difference	Fair value reserve	Retained earnings		controlling interests	
Equity on 1 January 2010	336	61	-6	99	1 006	1 496	16	1 512
Translation differences			14			14	1	15
Other changes					2	2	-1	1
Financial assets available-for-sale								
Net change in fair value, net of taxes				30		30		30
Transferred to the statement of income, net of taxes				-110		-110		-110
Cash flow hedges								
Net change in fair value, net of taxes				6		6		6
Transferred to the statement of income, net of taxes				-13		-13		-12
Comprehensive income			14	-87	2	-72	1	-71
Profit for the financial period					386	386	11	397
Total comprehensive income for the period			14	-87	387	314	12	326
Dividends paid					-173	-173	-2	-175
Equity on 31 December 2010	336	61	8	12	1 221	1 638	26	1 664

	Total equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Retained earnings	Total		
MEUR								
Equity on 1 January 2011	336	61	8	12	1 221	1 638	26	1 664
Translation differences			-6			-6	2	-4
Financial assets available-for-sale								
Net change in fair value, net of taxes				16		16		16
Cash flow hedges								
Net change in fair value, net of taxes				-12		-12		-12
Transferred to the statement of income, net of taxes				-11		-11		-11
Comprehensive income			-6	-7		-14	1	-12
Profit for the financial period					283	283	10	293
Total comprehensive income for the period			-6	-7	283	270	11	281
Dividends paid					-271	-271	-8	-279
Equity on 31 December 2011	336	61	2	5	1 233	1 636	30	1 666

Additional information on share capital is presented in Note 22. Share capital of the parent company and on fair value and other reserves in Note 23. Fair value reserve.

Accounting Principles for the Consolidated Accounts

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 ranta 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 2011, Wärtsilä's net sales totalled EUR 4.2 billion with approximately 18,000 employees. The company has operations in nearly 170 locations in 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 26 January 2012, 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 annual 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 2011. 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 principles and corporate legislation.

Reporting is based on the historical cost convention. Exceptions are the financial assets available-for-sale, the financial assets and liabilities designated at fair value through the statement of income, the items hedged at fair value and the share-based transactions made with cash and measured at fair value. The figures are in millions of euros.

Since 1 January 2011, the Group has applied the following updated standards, amendments and interpretations. The changes had no significant impact on the accounting policies or the notes of the consolidated financial statements.

- Amendment to IAS 32 *Financial instruments: Presentation: Classification of Rights Issues* (effective for periods beginning at or after 1 February 2010). The amendment concerns the classification of rights (share options, share subscription rights or other share rights) offered for a fixed amount of foreign currency.

- Revised IAS 24 *Related Party Disclosures* (effective for periods beginning at or after 1 January 2011). The change simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

Management assumptions and use of estimates

The preparation of the financial statements in accordance with the IFRS requires management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent liabilities and the recognition of income and expenses in the statement of income. Although 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 estimates 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 degree 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 that an asset may be impaired, 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 economic lifetime of the assets, future investment needs and the discount interest 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 interest rates and income from reserve funds. Changes in these assumptions can significantly affect the company'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 valued 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 acquisition costs are expensed in the same reporting period in which they occur, except the costs resulting from issued liability or equity instruments.

Any contingent consideration (additional purchase price) connected to the combination of businesses is measured at fair value on the date of acquisition. It is classified as either liabilities or equity. Contingent consideration classified as liabilities 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 revalued.

For the acquisitions made 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 statement of income, non-controlling interests have been separated from the income for the reporting period. In the Group's 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 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. Wäartsilä's proportion of the associated company's or joint venture's accumulated equity after the acquisition 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 reported 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 currencies, which are defined for each group company based on their primary economic environment. The presentation currency of the financial statements is the euro, which is also the functional currency of Wäartsilä Corporation.

Foreign subsidiaries

The statements of income and other 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 converted 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, the euro, using the exchange rate prevailing at the dates of the transactions. Receivables and liabilities are translated into euros at the exchange rate prevailing at the end of the reporting period. Exchange rate gains and losses related to non-financial 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, except the exchange rate differences from loans which have been determined as effective hedging instruments for net investments made in foreign entities. These exchange rate differences are recognised in other comprehensive 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 retirement benefits. All other plans are defined benefit plans.

Defined benefit plans are funded through contributions to pension funds or pension insurance companies. The present value of the obligation arising from the defined benefit plans is determined per each plan using the projected unit credit method, and the plan assets are measured at fair value as at the measurement date. Pension expenses are recognised as costs over the working lives of employees. The pension plan assets measured at fair value at the measurement date, the portion of unrecognised actuarial gains and losses and the non-vested past service costs are deducted from the present value of the pension obligation recorded in the statement of financial position. The Group's obligation with respect to a plan is calculated by identifying the extent to which the cumulative unrecognised actuarial gain or loss exceeds 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 is recognised in the statement of income over the expected average remaining working lives of employees participating in the plan. 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. These employee benefits are dealt with in a similar manner as post-employment benefits, and they are presented separately from the defined benefit plans.

Share-based payments

The company's bonus programme, which is fixed to share value, is valued 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 valued at fair value on the acquisition date. The consideration transferred is valued 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 criteria of IAS 38 (Intangible assets), 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 valued at initial cost less accumulated amortisations and impairment. Capitalised development costs are amortised and the cost of buildings, machinery and facilities for development depreciated on a systematic 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 initial 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 valued at initial cost, except for intangible assets identified in connection with acquisitions, which are valued at the fair value at the acquisition date. The acquisition 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. Amortisation ends when the intangible asset is classified as for sale.

The general guidelines for scheduled amortisation are:

- Software 3-7 years
- Other intangible assets 5-20 years

The estimated useful lives and the residual values are reviewed at least at the end of each reporting period, 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

Fixed assets acquired by the Group are valued in the statement of financial position at initial cost less accumulated depreciation and impairment losses. The acquisition cost of asset includes costs directly attributed to preparing an asset for its intended use. Grants received are reported as a reduction in acquisition costs. The property, plant and equipment of acquired subsidiaries are valued 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 immediate borrowing cost are expensed in the period in which they are incurred.

Other expenditure occurring later is included in the cost of 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 investment, capitalised and depreciated during the economical lifetime. 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 economic lifetime is considered as infinite. Depreciations end when the asset is classified as for sale. The estimated useful lives and the residual values are reviewed at least at the end of each reporting period, 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 amount of assets is 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 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 rate before tax which reflects the markets' position on the time value of money and special risks related to the asset is used as the discount interest 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 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 valuation 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 recognised in the statement of financial position on a separate line in non-current assets and valued at acquisition 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

Lease agreements 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 fixed assets at the lower of the fair value of the leased asset or 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 fixed assets. The shorter alternative of the following is selected: either the economical lifetime of the leased asset or the leasing period.

Lease agreements in which the risks and benefits 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 regularly during the leasing period.

Inventories

Inventories are carried at the lower of cost or 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 designated at fair value through the statement of income, investments held to maturity, loans and other receivables and financial assets available for sale. Financial assets are classified on the basis of their purpose upon initial recognition.

At the end of the reporting period, the Group assesses whether objective indication exists of impairment of an individual financial asset item other than those recognised at fair value through the statement of income. There is impairment in a financial asset item if objective indication exists thereof and if it has an effect on expected future cash flows from financial assets 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 acquisition 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 guarantee agreements, cash and cash equivalents 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 reported at cost in the statement of financial position and are thereafter valued 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, are included in current assets.

Investments held to maturity

Investments held to maturity are assets with fixed or determinable payments that mature on a fixed date and which the Group intends to and is able to hold until maturity. They are measured at amortised cost using the effective interest rate method.

Loans and other receivables

Loans and other receivables are non-derivative financial assets that have fixed or measurable 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 valued 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.

Financial assets available for sale

Financial assets available for sale are financial assets not included in derivatives allocated to this group. 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 financial assets available for sale, including investments in listed and unlisted shares. Listed shares are valued 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 valued at fair value are reported directly in other comprehensive income and reported in fair value reserves 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. Changes in the fair values of financial assets available for sale are reported in other comprehensive 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 and cash equivalents comprise cash in hand, deposits held at call with banks and similar investments. Other liquid funds comprise short-term highly liquid investments that are subject to only minor fluctuations in value. Other cash and cash equivalent items have a maturity of up to three months on the date of acquisition. Credit accounts related to Group 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 ceased to exist, i.e. once the contractually specified obligation has been met or repealed or once its validity has expired.

Financial liabilities recognised at amortised cost

The loans raised by the Group are included in financial liabilities recognised at amortised cost. They are valued at their initial recognition at fair value using the effective interest rate method. After the initial recognition, loans are valued 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 valued 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 consistent with the hedged item.

For derivatives eligible for hedge accounting in accordance with IAS 39, 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 as regards 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 in accordance with IAS 39. Changes in the fair value of derivative contracts that have been signed to hedge future cash flows are reported under other comprehensive income and presented in the fair value reserve in equity, provided that the hedging is effective. The ineffective portion is reported in the statement of income in the reporting period. Changes in fair value due to interest rate differences are reported in the statement of income. Any accrued profit or loss in the hedge reserve under other comprehensive income is reported as an adjustment to selling proceeds or transaction costs in the same period as any transactions relating to the hedged obligations or estimates. Currency forwards are 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.

Equity hedging in foreign units

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. Changes in the fair values of instruments determined as equity hedging are reported in other comprehensive income, provided that the hedging is effective. The ineffective portion of the change in the fair value of the hedging and the interest rate difference are immediately recognised in the statement of income in the financial items. When a foreign unit is sold or otherwise disposed of in full or in part, the cumulative translation differences in equity are transferred, for the part that has been disposed of, to the statement of income as part of the gain or loss on disposal. Currency forwards are 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 in accordance with IAS 39, changes in fair value are reported immediately 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 financial assets available for sale.

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, forecast 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 personnel concerned have been informed of the terms or a restructuring plan has been approved. The plan must indicate which activities and personnel will be affected and the timing and cost of implementation. Restructuring costs consist mainly of social plan costs.

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 profit or loss 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 all 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 2012, the Group will adopt the following new and updated standards and interpretations issued by the IASB. Other standards, their interpretations and amendments will have no material impact on the future financial statements.

- Amendment to IFRS 7 Financial Instruments: Disclosures (effective for periods beginning or after 1 July 2011): The amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment will have no significant impact on future financial statements of Wärtsilä.

In 2013, the Group will adopt the following new and updated standards and interpretations issued by the IASB. Other standards, their interpretations and amendments will have no material impact on the future financial statements.

- Amendment to IAS 19 Employee benefits (effective for periods beginning or after 1 January 2013): In the future all actuarial gains and losses are recognised in the other comprehensive income as they occur. The amendment eliminates the corridor approach, and finance costs are calculated on a net funding basis. The amendment will have no significant impact on future financial statements of Wärtsilä. The amendment has not yet been approved for application in the EU.

Notes to the Consolidated Financial Statements

1. Segment information

The business of Wärtsilä consists of one business area, the Power Business. The Power Business is subdivided into two mutually supportive market areas, Power Plants and Ship Power. 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

2011

MEUR	Finland	Other European countries	Asia	The Americas	Other	Total
Net sales	30	1 220	1 594	845	520	4 209
Non-current assets*	237	961	131	47	7	1 384

2010

MEUR	Finland	Other European countries	Asia	The Americas	Other	Total
Net sales	26	1 239	1 754	1 034	499	4 553
Non-current assets*	256	879	122	47	8	1 311

* 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 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 operative segments with individual reporting.

During the financial year 1 January-31 December 2011 and 1 January-31 December 2010, Wärtsilä did not have any individual significant customers or lands according to the definition of IFRS 8.

Net sales

MEUR	2011	2010
Power Plants	1 365	1 525
Ship Power	1 022	1 201
Services	1 816	1 823
Other	6	4
Total	4 209	4 553

2. Acquisitions and disposals

Acquisitions 2011

Overall impact on performance

MEUR	Booked in the	On full-year pro
	statement of income	forma performance
	2011	
Net sales	9	4 231
Operating result	2	448

In full-year pro forma performance the estimated impact of acquisitions on the consolidated financial statements is presented as if all the acquisitions were made on 1 January 2011.

On 31 August 2011, Wärtsilä obtained control of Cedervall, a manufacturer of shaft seal and bearing systems for the marine industry, by acquiring 100% of shares and voting interests in the company.

Taking control of Cedervall will enable Wärtsilä to strengthen its leading position in the global marine service market, in line with Wärtsilä's strategy. The combination of Wärtsilä's and Cedervall's businesses will create the market leader for oil and water lubricated seals and bearings, as well as for sterntubes.

The total consideration is calculated on the basis of Cedervall's preliminary balance sheet as per 31 August 2011, which is prepared, in all material respect, in accordance with IFRS' and Wärtsilä Group's accounting principles.

The total preliminary consideration of the transaction is EUR 81 million and the amount will be revised after the final closing of the accounts. The acquisition does not include any additional consideration. The preliminary goodwill of EUR 40 million reflects the value of know-how and expertise in marine seal and bearing systems as well as Wärtsilä's widened propulsion line product portfolio, which strengthens Wärtsilä's total propulsion solutions offering. The goodwill recognised for Cedervall is not tax deductible.

The following tables summarise the consideration paid for Cedervall, the cash flow from the acquisition and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date. The below mentioned acquisition consideration and the fair values at 31 August 2011 are preliminary until the final closing of the accounts.

Total consideration	MEUR
Cash	81
Total consideration transferred	81

Cash flow from the acquisition	MEUR
Consideration paid in cash	81
Cash and cash equivalents of the acquired companies	-6
Total cash flow from the acquisition	75

The assets and liabilities arising from the acquisition	MEUR
Intangible assets	23
Property, plant and equipment	15
Inventories	7
Trade and other receivables	6
Cash and cash equivalents	6
Total assets	56
Provisions	1
Interest-bearing liabilities	1
Trade payables and other liabilities	6
Deferred tax liabilities	8
Total liabilities	16

According to the preliminary valuation, the fair value of the net assets (including technology, customer relations, trademarks and valuation of order book) amounted to EUR 41 million.

The fair value of current trade receivables and other receivables is approximately EUR 6 million and includes trade receivables with a fair value of EUR 5 million. The fair value of trade receivables does not include any significant risk.

The Group incurred during 2011 acquisition-related costs of EUR 1 million related to external legal fees and due diligence costs. The total acquisition-related costs are estimated to be approximately EUR 1 million. The costs have been included in the other operating expenses in the consolidated statement of income.

Acquisitions 2010

In 2010, there were no acquisitions.

3. Long-term construction contracts and operating and maintenance agreements

Long-term construction contracts

MEUR	2011	2010
Net sales in the statement of income	720	589

Long-term construction projects in progress

MEUR	2011	2010
Cumulative net sales	1 633	1 324
Cumulative operating result	269	228
Advances received at 31 December	1 533	1 014
Receivables from the revenue recognition netted with the advances received at 31 December	100	116

Long-term operating and maintenance agreements

MEUR	2011	2010
Net sales in the statement of income	281	225

4. Other operating income

MEUR	2011	2010
Profit on sales of property, plant and equipment and intangible assets	7	4
Government grants	9	6
Sale of by-products	2	2
Sale of scrapped material	3	3
Income related to cancelled orders*	18	27
Other operating income	9	9
Total	47	52

* Expenses related to cancelled orders are recorded on respective expense accounts. The net effect of the cancellations is not material.

5. Material and services

MEUR	2011	2010
Raw material and consumables		
Purchases during the financial year	-1 228	-1 209
Change in inventories	-7	-156
External services	-1 050	-1 007
Total	-2 285	-2 372

6. Employee benefit expenses

MEUR	2011	2010
Wages and salaries	770	773
Pension costs		
Defined benefit plans	11	12
Defined contribution plans	52	51
Other compulsory personnel costs	115	112
Total	956	948

Salaries paid to the management are specified in Note 29. Related party disclosures.

Wages and salaries include bonus salaries paid, based on the bonus scheme 2008 and a provision for expenses arising from bonus schemes 2009 and 2010, totalling EUR 14 million (18). These bonus schemes are tied to the price development of the company's share.

The 2008 bonus scheme comprised 800,000 bonus rights, the 2009* bonus scheme comprises 1,584,000 bonus rights and the 2010* bonus scheme 1,672,000 bonus rights. The bonus payments for the bonus scheme 2008 were based on the share price development during a two-year period on the basis of a share price of EUR 23.04 with the maximum bonus amount per bonus right being EUR 15.00. In the 2009 and 2010 bonus schemes, the bonus payment is based on the share price development during a two-year period, for the bonus scheme 2009 on the basis of a share price of EUR 14.24 and for the bonus scheme 2010 on the basis of a share price of EUR 30.01. Both bonus schemes 2009 and 2010 are taking into account a 50% dividend payout and the paid bonuses cannot exceed EUR 7.50 per bonus right.

	2011	2010
Personnel on average	17 708	18 000

* Wärtsilä Corporation's Annual General Meeting approved the free share issue in accordance with the proposal of the Board of Directors. The free share issue was implemented so that for each old share one new share was issued. The bonus rights in 2009 and 2010 bonus schemes have been adjusted to correspond the new amount of shares.

7. Depreciation, amortisation and impairment

MEUR	2011	2010
Intangible rights	5	5
Other intangible assets	38	37
Buildings and structures	14	12
Machinery and equipment	52	58
Other tangible assets	3	3
Total	113	116

8. Financial income and expenses

MEUR	2011	2010
Dividend income on financial assets available-for-sale	3	7
Interest income on loans and other receivables	1	5
Interest income on financial assets at fair value through the statement of income	16	3
Interest income on investments held to maturity		1
Changes in fair values of financial assets/liabilities at fair value through the statement of income		1
Exchange rate differences*		5
Other financial income	6	2
Total financial income	25	25
Interest expenses on financial liabilities measured at amortised cost	-18	-18
Interest expenses on financial liabilities at fair value through the statement of income	-4	-8
Changes in fair values of financial assets/liabilities at fair value through the statement of income	-2	
Other financial expenses	-18	-12
Total financial expenses	-41	-38
Total financial income and expenses	-16	-13

* Includes the result from the ineffective portion of cash flow hedges, EUR -2 million (4).

9. Income taxes

MEUR	2011	2010
Income taxes		
for the financial year	-129	-169
for prior years	-10	-11
Change in deferred tax	3	28
Total	-136	-151
Profit before taxes	429	548
Tax calculated at the domestic corporate tax rate (26%)	-112	-143
Effect of changed tax rates	-1	
Effect of different tax rates in foreign subsidiaries	-2	-2
Effect of income not subject to tax and non-deductible expenses	-7	-7
Utilisation of previously unrecognised tax losses carried forward	5	22
Unrecognised taxes on losses carried forward	-9	-10
Other taxes	-12	-12
Other temporary differences	12	10
Income taxes for prior years	-10	-11
Tax charge in the consolidated statement of income	-136	-151

10. Earnings per share

Earnings per share is calculated by dividing the profit for the period attributable to shareholders by the weighted average number of the shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number by the dilutive effect of stock options outstanding during the period. The options have a dilutive effect if the exercise price with an option is lower than the market value of the share. During the reporting periods there were no programmes with dilutive effect.

MEUR	2011	2010
Profit for the period attributable to equity holders of the parent company	283	386
Thousands of shares		
Weighted average number of shares outstanding	197 241	197 241
Earnings per share (basic and diluted), EUR	1.44	1.96

Free share issue approved by Wäertsilä Corporation's Annual General Meeting on 3 March 2011 increased the total number of Wäertsilä shares to 197,241,130. The figures in the comparison periods have been adjusted to reflect the increased number of shares.

11. Components of other comprehensive income

MEUR		2011		2010
Exchange rate differences on translating foreign operations		-4		17
Financial assets available-for-sale				
Net change in fair value	21		40	
Transferred to the statement of income		21	-149	-108
Cash flow hedges				
Net change in fair value	-15		11	
Transferred to the statement of income	-16	-31	-18	-7
Other income/expenses				1
Income tax relating to components of other comprehensive income		2		26
Other comprehensive income		-12		-71

Tax effects relating to other comprehensive income

MEUR	2011			2010		
	Before tax amount	Tax	Net-of-tax	Before tax amount	Tax	Net-of-tax
Exchange rate differences on translating foreign operations	-4		-4	17		17
Financial assets available-for-sale	21	-5	16	-108	28	-80
Cash flow hedges	-31	7	-23	-7	-2	-9
Other income/expenses				1		1
Other comprehensive income	-14	2	-12	-97	26	-71

12. 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 two (2) separate independent cash inflow CGUs to which goodwill can directly be linked as per the below table. In addition, the goodwill allocated for companies acquired during the current period has been subject to impairment testing. These companies have been integrated into the Power Business operations.

Cash-Generating Units

MEUR	Goodwill	
	2011	2010
Ship design	114	116
Cedervall	40	
Power Business, other	462	459
Total	616	574

The recoverable amounts from the CGUs are determined based on value-in-use calculations. The calculations are on an orderbook and a discounted cash flow method basis, derived from 5-year cash flow projections from management approved strategic plans. The current market situation has been taken into account as decreased sales expectations as well as capacity adaptations. 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 five-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 2011, it has been considered that the general interest rate is currently on a lower level. Wärtsilä has used a WACC of 9.1% (9.3) in the calculations.

As a result of the impairment test, no impairment loss for any of the CGUs was recognized for the period ended December 31, 2011 and 2010 respectively. The recoverable amounts from all CGUs exceeded their carrying values by more than 200%.

Sensitivity analysis

Sensitivity analyses have been carried out for the valuation of each cash-generating unit by making downside scenarios. The change in the enterprise value was evaluated through these downside scenarios by changing the underlying assumptions in the valuations.

The changes in the assumptions and their effects are:

- sales growth and EBIT profitability lowered based on scenario analysis in each business, effect 24% (28)
- terminal growth rate lowered by 50%, effect 15% (12)
- WACC increased by 2%, effect 29% (28).

According to the performed sensitivity analyses, none of the downside scenarios would change the long term key assumptions on which Wärtsilä's recoverable amounts are based and none would cause their respective values to fall short of their carrying amounts.

As a result of performed impairment tests, there is no need for write-downs of the goodwill in a particular cash generating unit.

In management's opinion, the changes in the basic assumptions provided in these theoretical downside scenarios 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.

2011

MEUR	Intangible rights	Construction in progress and advances paid	Other intangible assets	Goodwill	Total
Acquisition cost at 1 January 2011	81	18	414	579	1 091
Changes in exchange rates			2	4	6
Acquisitions			23	40	64
Additions		12	9		21
Disposals and reclassifications	-1	-5	4	-2	-4
Acquisition cost at 31 December					
2011	80	25	452	621	1 177
Accumulated amortisation and impairment at 1 January 2011	-46		-261	-4	-311
Changes in exchange rates					-1
Accumulated amortisation on disposals	1		2		3
Amortisation during the financial year	-5		-38		-44
Accumulated amortisation and impairment at 31 December 2011	-51		-298	-4	-352
Carrying amount at 31 December					
2011	28	25	156	616	826

Developing costs for internally produced assets amounting to EUR 14 million (6) were capitalised during the financial period, and the asset value was EUR 47 million (38).

2010

MEUR	Intangible rights	Construction in progress and advances paid	Other intangible assets	Goodwill	Total
Acquisition cost at 1 January 2010	74	27	395	562	1 058
Changes in exchange rates			3	17	21
Additions	2	8	7		17
Disposals and reclassifications	5	-17	8		-4
Acquisition cost at 31 December 2010	81	18	414	579	1 091
Accumulated amortisation and impairment at 1 January 2010	-43		-231	-4	-279
Changes in exchange rates			-2		-2
Accumulated amortisation on disposals	2		9		11
Amortisation during the financial year	-5		-37		-42
Accumulated amortisation and impairment at 31 December 2010	-46		-261	-4	-311
Carrying amount at 31 December 2010	35	18	153	574	780

13. Property, plant & equipment

2011

MEUR	Construction						Investment properties	Total
	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets			
Acquisition cost at 1 January 2011	25	258	724	70	65	11	1 153	
Changes in exchange rates		2	4	1			8	
Acquisitions	1	6	7				15	
Additions	2	3	19	42	3		69	
Disposals		-10	-43	-1	-1	-1	-56	
Reclassification	2	34	33	-75	4			
Acquisition cost at 31 December 2011	30	294	745	38	70	9	1 186	
Accumulated depreciation and impairment at 1 January 2011		-128	-510		-48		-686	
Changes in exchange rates		-1	-3				-4	
Accumulated depreciation on disposals		9	34		1		46	
Depreciation during the financial year		-14	-52		-3		-69	
Reclassification			1					
Accumulated depreciation and impairment at 31 December 2011		-134	-530		-51		-714	
Carrying amount at 31 December 2011	30	161	215	38	20	9	472	
Value of finance-leased assets included in carrying amount		2	1				3	

Investment properties include land areas not used by the Group. Their estimated market value is around EUR 33 million (32). During the period, investment properties were sold totalling EUR 7 million (1) generating a profit of EUR 3 million (0).

2010

MEUR	Construction						Investment properties	Total
	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets			
Acquisition cost at 1 January 2010	25	251	682	60	63	9	1 092	
Changes in exchange rates		8	17	1	1		27	
Additions		2	25	43	3	2	75	
Disposals	-3	-5	-32		-2		-42	
Reclassification	3	1	30	-33				
Acquisition cost at 31 December 2010	25	258	724	70	65	11	1 153	
Accumulated depreciation and impairment at 1 January 2010		-117	-471		-46		-634	
Changes in exchange rates		-3	-10		-1		-14	
Accumulated depreciation on disposals		5	29		1		35	
Depreciation during the financial year		-12	-58		-3		-73	
Reclassification			1					
Accumulated depreciation and impairment at 31 December 2010		-128	-510		-48		-686	
Carrying amount at 31 December 2010	25	130	214	70	17	11	466	
Value of finance-leased assets included in carrying amount		2	8				10	

14. Investments in associates and joint ventures

MEUR	2011	2010
Carrying amount at 1 January	65	56
Acquired shares	16	
Share of result	8	5
Dividends	-2	-1
Changes in exchange rates	1	4
Carrying amount at 31 December	87	65

Summary of financial information (100%):

2011

MEUR	Holding	%	Assets	Equity	Liabilities	Net sales	Profit for
							the financial period
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	44	22	22	53	7
Wärtsilä Hyundai Engine Co Ltd.	Korea	50.0	206	60	146	60	1
Wärtsilä TMH Diesel Engine Company LLC	Russia	50.0	9	9			
Repropel Sociedad de reparacao de helices	Portugal	50.0	1	1		1	
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		-2	2	1	
MW Power Oy	Finland	40.0	89	24	65	102	6
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	4	2	2	4	
Neptun Maritime AS	Norway	40.0		1		2	
Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co Ltd.	China	33.8	229	69	161	85	
WD Power Investment Ky	Finland	21.7	2	2			

2010

MEUR		Holding				Net sales	Profit for the financial period
		%	Assets	Equity	Liabilities		
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	29	14	15	28	2
Wärtsilä Hyundai Engine Co Ltd.	Korea	50.0	153	59	94	89	6
Repropel Sociedad de reparacao de helices	Portugal	50.0	1	1		1	
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		-1	1	1	
MW Power Oy	Finland	40.0	135	36	98	111	7
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	4	2	2	4	
Neptun Maritime AS	Norway	40.0	1		1	1	
EI-Design AS	Norway	37.0	1	1			
Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co Ltd.	China	27.0	208	40	168	58	-3
AWEK Industrial Patents Ltd. Oy	Finland	25.0	1			3	
WD Power Investment Ky	Finland	21.7	1	1			

15. Financial assets available-for-sale

Financial assets available-for-sale includes listed and unlisted shares. The listed shares are measured at fair value. For the unlisted other shares the fair value cannot be measured reliably, in which case the investment is carried at cost.

MEUR	2011	2010
Carrying amount at January 1	18	151
Acquired shares		5
Fair value adjustments	21	40
Changes in exchange rates		1
Decrease of shares		-179
Carrying amount at December 31	39	18

MEUR	2011		2010	
	Acquisition cost	Market value	Acquisition cost	Market value
Listed shares (level 1)				
Lyxor ETF MSCI Emerging Markets	2	2	2	2
Unlisted shares (level 3)				
Sato Oyj	2	23	2	2
Other shares	14	14	14	14
Total shares	18	39	18	18

In 2011, no shares were sold. In 2010, EUR 149 million gain was recognised in the consolidated statement of income, of which EUR 32 million is related to the sale of Sampo plc shares and EUR 117 million to the sale of Assa Abloy AB shares.

16. Inventories

MEUR	2011	2010
Materials and consumables	463	470
Work in progress	640	596
Finished products	47	53
Advances paid	72	126
Total	1 222	1 244

17. Financial assets and liabilities by measurement category

2011

	Cash flow and net investment hedges	through the statement of income	Loans and receivables	Financial assets available- for-sale	Investments held to maturity	Financial liabilities measured at amortised cost	Carrying amounts of the statement of financial position items	Fair value
MEUR								
Non-current financial assets								
Financial assets available-for-sale				39			39	39
Interest-bearing investments			1				1	1
Other receivables			20				20	20
Current financial assets								
Interest-bearing receivables			1				1	1
Trade receivables			877				877	877
Derivatives	5						5	5
Other receivables		11					11	11
Cash and cash equivalents		592					592	592
Carrying amount by category	5	603	899	39			1 546	1 546
Non-current financial liabilities								
Interest-bearing debt						485	485	479
Current financial liabilities								
Interest-bearing debt						167	167	167
Trade payables						348	348	348
Derivatives	22	4					26	26
Other liabilities						10	10	10
Carrying amount by category	22	4				1 010	1 036	1 030

2010

	Financial assets/ liabilities at fair value					Carrying amounts of the statement of financial position	Fair value	
	Cash flow and net investment hedges	through the statement of income	Loans and receivables	Financial assets available- for-sale	Investments held to maturity	Financial liabilities measured at amortised cost		
MEUR								
Non-current financial assets								
Financial assets available-for-sale				18			18	18
Interest-bearing investments			1		15		16	16
Other receivables			3				3	3
Current financial assets								
Interest-bearing receivables			1				1	1
Trade receivables			860				860	860
Derivatives	10						10	10
Other receivables		6	3				9	9
Cash and cash equivalents		776					776	776
Carrying amount by category	10	782	868	18	15		1 693	1 693
Non-current financial liabilities								
Interest-bearing debt						572	572	572
Current financial liabilities								
Interest-bearing debt						56	56	56
Trade payables						366	366	366
Derivatives	6	2					8	8
Other liabilities						15	15	15
Carrying amount by category	6	2				1 009	1 017	1 017

18. Other receivables

MEUR	2011	2010
Derivatives	5	10
Interest and other financial items	11	8
Insurance receivables	26	14
Rental accruals	4	4
Project accruals	13	12
Accruals from long-term contracts	99	103
Other accruals	37	47
Loan receivables	20	5
Defined benefit plan	14	12
VAT receivables	54	66
Other receivables	44	40
Total	327	321
Non-current	33	16
Current	294	305

19. Cash and cash equivalents

MEUR	2011	2010
Cash and bank balances	585	751
Current deposits	7	26
Total	592	776

20. Deferred taxes

Change in deferred taxes during 2011

MEUR	1 January 2011	Recognised in		Translation differences	Acquisitions	31 December 2011
		the consolidated statement of income	Other comprehensive income			
Deferred tax assets						
Tax loss carry-forwards	42	2		1		45
Pension obligations	5					4
Provisions	15	4				19
Intra-group margin in stock	9	-1				7
Other temporary differences	51	-13	4			43
Total	122	-8	4	1		119
Deferred tax liabilities						
Intangible assets and property, plant and equipment	26	-3			7	31
Fair value reserve	8	1	2			11
Other temporary differences	36	-9				27
Total	70	-11	2		7	69
Net deferred tax assets/liabilities	52	3	2	1	-7	50

At 31 December 2011, the Group had unrecognised deferred tax assets totalling EUR 21 million (15), as it is uncertain if they will be realised. Most of them were related to cumulative losses.

Change in deferred taxes during 2010

MEUR	1 January 2010	Recognised in			Translation differences	Acquisitions	31 December 2010
		the consolidated statement of income	Other comprehensive income				
Deferred tax assets							
Tax loss carry-forwards	23	19					42
Pension obligations	4				1		5
Provisions	10	4					15
Intra-group margin in stock	10	-1					9
Other temporary differences	41	8			2		51
Total	88	30			4		122
Deferred tax liabilities							
Intangible assets and property, plant and equipment	26						26
Fair value reserve	31	3	-27				8
Other temporary differences	35	-1			1		36
Total	93	2	-26		2		70
Net deferred tax assets/liabilities	-4	28	26		2		52

21. Pension obligations

MEUR	2011	2010
Recognised asset for defined benefit plan at 31 December	14	12
Recognised liability for defined benefit obligations	22	20
Long-service leave and other past service obligations	35	36
Total past service obligations at 31 December	57	56

Pension cover is based on the legislation and agreement 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 Great Britain. Most of these defined benefit pension plans are managed by pension funds, and their assets are not included in the Group's assets. Wärtsilä's subsidiaries make their payments to pension funds in accordance with the local legislation and practice in each country. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans.

Long-service leave and other past service obligations are mainly obligations to benefit payments in Italy and France.

Movement in defined benefit obligations	2011	2010
Defined benefit obligations at 1 January	315	254
Exchange rate differences	7	32
Current service costs	12	13
Interest cost	10	11
Benefits paid	-28	-12
Curtailments and settlements	-1	-2
Changes in actuarial gains and losses		14
Plan members and insurer contribution	3	
Impact of acquired and disposed companies and other changes		4
Defined benefit obligations at 31 December	318	315

Movement in plan assets	2011	2010
Fair value of plan assets at 1 January	275	227
Exchange rate differences	6	30
Contribution paid to the fund	15	16
Benefits paid by the plan	-26	-9
Expected return on plan assets	12	11
Actuarial gains and losses	-13	
Recognised fair value of plan assets at 31 December	269	275
Unrecognised actuarial gains and losses		
Unrecognised actuarial gains and losses at 1 January	-32	-18
Exchange rate differences	-1	-2
Curtailments and settlements	1	
Actuarial gains and losses for year - obligations		-13
Actuarial gains and losses for year - plan assets	-13	
Impact of acquired/disposed companies and other changes		1
Total	-44	-32
Actuarial gains and losses recognised	1	
Unrecognised actuarial gains and losses at 31 December	-43	-32
Recognised net liability for defined benefit obligations	7	9

Expenses recognised in the statement of income	2011	2010
Current service costs	12	13
Interest on obligation	10	11
Expected return on plan assets	-12	-11
Actuarial gains and losses	1	1
Gains and losses on curtailments and settlements	-1	-2
Defined benefit expenses	11	12

Actual return on plan assets	-1	10
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Historical information	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	319	315	254	229	212
Fair value of plan assets	-269	-275	-227	-198	-202
Deficit in the plan	50	40	28	31	9

Plan assets invested in:	2011	2010
Equity instruments (%)	24	24
Bonds and other financial instruments (%)	45	47
Properties (%)	21	16
Other assets (%)	10	13

Actuarial assumptions 2011	Europe	Other
Discount rate (%)	2.3–5.5	1.5–12.5
Expected return on plan assets (%)	4.0–7.2	1.9–12.5
Future salary increases (%)	1.0–4.0	3.0–15.0

Actuarial assumptions 2010	Europe	Other
Discount rate (%)	2.5–5.4	1.5–12.5
Expected return on plan assets (%)	4.0–7.2	1.8–10.5
Future salary increases (%)	1.0–4.0	4.0–15.0

22. Share capital of the parent company

MEUR

Share capital	Number of shares	Share capital	Share premium	Total
1 January 2010	98 620 565	336	61	397
31 December 2010	98 620 565	336	61	397
Free share issue	98 620 565			
31 December 2011	197 241 130	336	61	397

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.

23. Fair value reserve

MEUR	Cash flow hedges	Financial assets available-for-sale	Total
Difference between fair value and carrying amount at 1 January			
2010	22	109	131
Deferred tax liabilities/assets	-3	-28	-31
Fair value reserve at 1 January 2010	19	80	99
Transferred to the statement of income, net of taxes	-13	-110	-123
Fair value adjustments	9	40	49
Deferred tax liabilities/assets	-3	-11	-14
Fair value reserve at 31 December 2010	12		12
Transferred to the statement of income, net of taxes	-11		-11
Fair value adjustments	-15	21	6
Deferred tax liabilities/assets	3	-5	-2
Fair value reserve at 31 December 2011	-11	16	5

24. Provisions

2011

MEUR	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total
Provisions at 1 January 2011	14	175	20	27	42	277
Changes in exchange rates		1				1
Additions	1	46	13	7	18	85
Used provisions	-2	-56	-9	-15	-6	-87
Released provisions	-1		-2	-1	-5	-10
Provisions at 31 December 2011	11	167	22	18	49	267
Non-current						52
Current						215

2010

MEUR	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total
Provisions at 1 January 2010	10	151	11	7	26	205
Changes in exchange rates		2				2
Additions	5	81	19	46	24	176
Used provisions	-2	-59	-7	-25	-4	-98
Released provisions			-3	-1	-5	-10
Provisions at 31 December 2010	14	175	20	27	42	277
Non-current						45
Current						233

Group companies are defendants in a number of legal cases that arise out of, or are incidental to, the ordinary course of its business. These lawsuits concern issues such as product liability, labour relations, property damage and personal injury. It is the Group's policy to provide for amounts related to these legal matters if liability is ascertainable with reasonable certainty.

25. Financial liabilities

2011

MEUR	Current	Non-current		Total
	< 1 year	1–5 years	> 5 years	
Loans from pension insurance companies*	58**	189**	42**	289**
Loans from other financial institutions*	33**	156**	95**	284**
Finance lease liabilities	1**	2**	1**	4**
Other interest-bearing loans	76**			76**
Trade payables	348			348
Derivatives	26			26
Other liabilities	10			10
Total	552**	347**	138**	1 037**
* Estimated interest expenses, total	15	32	7	54

2010

MEUR	Current	Non-current		Total
	< 1 year	1–5 years	> 5 years	
Loans from pension insurance companies*	34	210	79	323
Loans from other financial institutions*	15	132	142	290
Finance lease liabilities	3	7	1	11
Other interest-bearing loans	4			4
Trade payables	366			366
Derivatives	8			8
Other liabilities	15			15
Total	445	349	222	1 017
* Estimated interest expenses, total	15	42	9	66

Fair values of financial liabilities are presented in Note 17. Financial assets and liabilities by measurement category.

** These marked figures have been corrected on March 13th 2012, after the Annual Report publication.

26. Other liabilities

MEUR	2011	2010
Project costs	628	611
Personnel costs	144	153
Derivatives	26	8
Interest and other financial items	10	15
Other accruals	64	60
VAT liabilities	4	17
Other liabilities	65	65
Total	941	929
Current	941	929

27. Financial instruments

The Group applies hedge accounting to significant foreign currency forward contracts. Detailed financial information is presented in Note 33. Financial risks.

MEUR	2011	of which closed	2010	of which closed
Nominal values of derivative financial instruments (level 2)				
Interest rate swaps	20		20	
Currency forwards				
Transaction risk	841	291	608	114
Translation risk	465		415	
Currency options, written	108	18	19	
Currency options, purchased	96	18		
Total	1 530	327	1 063	114
Fair values of derivative financial instruments (level 2)				
Interest rate swaps	-1		-1	
Currency forwards				
Transaction risk	-13		7	
Translation risk	-4		-4	
Currency options, written	-3			
Currency options, purchased			-1	
Total	-21		2	

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 20 months.

Currency distribution of currency forwards and currency options

MEUR	Order book	Net loans	Translation risk
Currency forwards			
USD	418	16	109
NOK	18	51	131
CHF	22	31	2
SGD	6	41	32
JPY	60		21
GBP	7	25	18
SEK	17	2	58
Other*	20	47	97
Currency options			
USD	78		
Total	646	213	468

* Other does not include any material single currencies.

28. Collateral, contingent liabilities and other commitments

MEUR	2011		2010	
	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	22	43	33	43
Other commitments	16	14	16	16
Total	38	57	49	59
Chattel mortgages and other pledges given as collateral for liabilities and commitments				
Loans from credit institutions	46	25		
Other commitments		16		18
Total	46	41		18
Guarantees and contingent liabilities				
On behalf of Group companies		903		623
On behalf of associated companies		10		9
Total		912		632
Nominal amounts of rents according to leasing contracts				
Payable within one year		18		22
Payable later		46		52
Total		64		74

29. 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.

Salaries and bonuses paid to management

In thousands of euros	2011	2010
President and CEO and his deputy		
Salaries and other short-term benefits	1 082	924
Bonuses*	590	367
Share based bonuses	1 125	675
	2 797	1 966
Other members of the Board of Management		
Salaries and other short-term benefits	1 752	1 503
Bonuses*	719	561
Share based bonuses	2 250	1 350
	4 721	3 415
Board of Directors at 31 December 2011		
Mikael Lilius, chairman	135	62
Matti Vuoria, deputy chairman	100	97
Maarit Aarni-Sirviö, member	68	67
Kaj-Gustaf Bergh, member	70	66
Alexander Ehrnrooth, member	68	64
Paul Ehrnrooth, member	67	63
Lars Josefsson, member	65	
Bertel Langenskiöld, member	71	67
Markus Rauramo, member	68	
Board of Directors, until 3 March 2011		
Antti Lagerroos, chairman	11	138
Ole Johansson, member		
Board of Directors, until 4 March 2010		
Kari Kauniskangas, member		2
	722	626
Salaries and bonuses paid to management, total	8 240	6 006

* In addition, a cost reserve of EUR 3,188 thousand (4,876) has been made for the expenses arising from the bonus schemes tied to the price development of the company's share for President and CEO and his deputy and the other members of the Board of Management.

The holdings of Wartsilä shares of the President and CEO, and some of the members of the Board of Directors and Board of Management at the year end were 62,167 shares (76,009).

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	2011	2010
Net sales to the associates and joint ventures in the consolidated statement of income	10	5
Purchases from the associates and joint ventures in the consolidated statement of income	94	85
Receivables from the associates and joint ventures in the consolidated statement of financial position	20	12
Advances paid to the associates and joint ventures in the consolidated statement of financial position	18	52
Payables to the associates and joint ventures in the consolidated statement of financial position	13	8

Detailed financial information on the associated companies and joint ventures is presented in Note 14. Investments in associated companies and joint ventures.

30. 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 2011, the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditor.

Auditors' fees

MEUR	KPMG		Others	
	2011	2010	2011	2010
Audit	2.2	2.1	0.2	0.2
Tax advisory	0.8	0.9	0.1	0.1
Other services	0.8	0.4	0.1	0.1
Total	3.9	3.5	0.4	0.4

31. 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 2011	31 December 2010	2011	2010
USD	1.29390	1.33620	1.39171	1.33126
NOK	7.75400	7.80000	7.79304	8.00948
CHF	1.21560	1.25040	1.23398	1.37888
GBP	0.83530	0.86075	0.86777	0.85896
SGD	1.68190	1.71360	1.74907	1.80993
BRL	2.41590	2.21770	2.32591	2.33874
INR	68.71300	59.75800	64.86687	60.64895
JPY	100.20000	108.65000	111.02107	116.80901
CNY	8.15880	8.82200	8.99606	9.00655

32. Subsidiaries

Geographical

area	Company name	Location	Share %
Europe	Wärtsilä Technology Oy Ab	Finland	100.0
	Wärtsilä Finland Oy	Finland	100.0
	Wärtsilä Sweden AB	Sweden	100.0
	Wärtsilä Norway A/S	Norway	100.0
	Wärtsilä Ship Design Norway A/S	Norway	100.0
	Wärtsilä Danmark A/S	Denmark	100.0
	Wärtsilä Italia S.p.A.	Italy	100.0
	Wärtsilä France S.A.S.	France	100.0
	Wärtsilä Defence S.A.	France	100.0
	Wärtsilä Switzerland Ltd.	Switzerland	100.0
	Wärtsilä Netherlands B.V.	The Netherlands	100.0
	DTS-Zwolle B.V.	The Netherlands	100.0
	Wärtsilä Ibérica S.A.	Spain	100.0
	Wärtsilä Portugal Lda.	Portugal	100.0
	Wärtsilä Deutschland GmbH	Germany	100.0
	Wärtsilä Ship Design Germany GmbH	Germany	100.0
	Wärtsilä UK Ltd	Great Britain	100.0
	Vulcan Insurance Ltd.	Great Britain	100.0
	Wärtsilä Greece S.A.	Greece	100.0
	Wärtsilä Ireland Ltd.	Ireland	100.0
	Wärtsilä Polska Sp.z.o.o.	Poland	100.0
	Wärtsilä Ship Design Poland Sp.z.o.o.	Poland	100.0
	Wärtsilä-Enpa A.S.	Turkey	51.0
	Wärtsilä BLRT Estonia Oü	Estonia	51.7
	Wärtsilä BLRT Lietuva UAB	Lithuania	51.0
	Wärtsilä Vostok, LLC	Russia	100.0
	Wärtsilä Hungary Kft	Hungary	100.0
	Wärtsilä Ukraine LLC	Ukraine	100.0
	Cedervall Söner AB	Sweden	100.0
	Cedervall Espana S.A.	Spain	100.0

The Americas	Wärtsilä North America, Inc.	USA	100.0	
	Wärtsilä Defence Inc.	USA	100.0	
	Wärtsilä Development & Financial Services 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.	Brasil	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	
	Wärtsilä Panama S.A.	Panama	100.0	
	Asia	Wärtsilä China Ltd.	Hong Kong	100.0
		Wärtsilä-CME Zhenjiang Propeller Co. Ltd	China	55.0
		Wärtsilä Engine (Shanghai) Co Ltd	China	100.0
Wärtsilä Shangai Services Ltd.		China	100.0	
Wärtsilä Propulsion (Wuxi) Co. Ltd.		China	100.0	
Wärtsilä Singapore Pte Ltd.		Singapore	100.0	
Wärtsilä Ship Design Singapore Pte Ltd		Singapore	100.0	
Wärtsilä Japan Company 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 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 Ships Repairing & Maintenance LLC		United Arab Emirates	100.0	
Cedervall Zhangjiagang Marine Products Co. Ltd.	China	100.0		
Cedervall Singapore Pte	Singapore	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 Tanzania Ltd	Tanzania	100.0

A complete list of shares and securities in accordance with the Accounting Ordinance is included in the official financial statements of the parent company.

33. 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 shareholders' 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 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 2012. The cancellation of orders could lead to ineffective currency hedge. Approximately 68% of sales and 61% of operating costs in 2011 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 27. 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 48 million.

Since Wärtsilä has subsidiaries and joint ventures outside the euro zone, the Group's shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2011, the net assets of Wärtsilä's foreign subsidiaries and joint ventures outside the euro zone totalled EUR 472 million, of which EUR 329 million was hedged. The ineffective portion of the equity hedges was not significant.

IFRS hedge accounting has been applied to EUR 1,111 million currency forwards. 10% change in the exchange rates would cause from these currency forwards an approximately EUR 82 million after tax influence on the equity. In 2011, EUR -12 million fair value adjustments related to cash flow hedges were booked in equity. EUR 11 million of the fair value adjustments were transferred from equity to the statement of income as net sales or operating expenses during 2011. The result from ineffective portion of the cash flow hedges, EUR -2 million, has been booked in financial items.

Currency distribution 2011

%	Net sales	Operating costs	Trade	
			receivables	Trade payables
EUR	68	61	56	82
USD	13	6	3	
NOK	2	5	6	4
CHF	2	2	5	3
Other EU currencies	2	4	3	2
SGD	2	2	5	1
BRL	2	3	2	1
INR	2	2	3	1
CNY	2	3	1	1
JPY		2	1	1
Other currencies	6	10	14	4
	100	100	100	100

Interest rate risk

Wärtsilä 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). Wärtsilä 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 booked 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 2011 totalled EUR 652 (628) million. The average interest rate was 2.7% (2.5) and the average re-fixing time 16 (22) months. At the end of 2011, a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 8 million increase/decrease in the value of the net debt portfolio, including derivatives.

Wärtsilä 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 2011 the floating rate portion of total loans was 44% after adjustment for interest rate derivatives. A one percentage point change in the interest level would cause a EUR 3 million change in the following year's interest expenses of the debt portfolio, including derivatives.

Additional information related to loans can be found in Note 17. Financial assets and liabilities by measurement group and Note 25. 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 494 million.
- Finnish Commercial Paper programmes totalling EUR 700 million.

The average maturity of the long-term loans is 40 months and the average maturity of the confirmed credit lines is 34 months.

Additional information in Note 25. Financial liabilities.

Wärtsilä Group's liquidity is strong. Wärtsilä had cash and cash equivalents totalling EUR 592 million at the year end as well as EUR 494 million non-utilised committed credit facilities and undrawn EUR 150 million long-term loan. Commercial Paper programme utilisation amounted to EUR 70 million. The estimated net cash outflow resulting from Hamworthy acquisition is EUR 375 million. Wärtsilä minimises its refinancing risk by having a balanced and sufficiently long loan portfolio.

Revolving credit facilities

MEUR

Year	Maturing	Available (end of period)
2011		494
2012	35	459
2013	170	289
2014	30	259
2015	160	99
2016	99	

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 company did not have long-term suppliers' credits at the end of 2011. No losses were recorded on suppliers' credits.

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	Trade receivables	2011		2010	
		of which impaired	Trade receivables	of which impaired	
Not past due	560		568		
Past due 1–30 days	125		100		
Past due 31–180 days	115	1	121	1	
Past due 181–360 days	44	5	42	5	
Past due 1 year	91	52	81	45	
Total	935	58	911	51	

In 2011, EUR 18 million provisions for doubtful receivables have been recognised in the consolidated statement of income.

Equity price risk

Wärtsilä has investments in publicly quoted shares (Note 15. Financial assets available-for-sale). The market value of these shares at the end of 2011 was EUR 2 million. A 10% strengthening or weakening in share price does not have any significant impact on the Group's equity after taxes.

Wärtsilä has also equity investments totalling EUR 12 million in power plants companies, most of which are located in developing countries and performing well according to expectations.

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 have a solvency ratio of 35–40% and to pay a dividend equivalent to 50% of operational earnings per share.

MEUR	31.12.2011	31.12.2010
Equity and liabilities	4 600	4 696
Advances received	-563	-616
	4 037	4 080
Total equity	1 666	1 664
Solvency ratio, %	41.3	40.8

In the capital management Wärtsilä also follows the gearing development:

Interest-bearing liabilities, non-current	485	572
Interest-bearing liabilities, current	167	56
Cash and cash equivalents	-592	-776
	60	-148
Loan receivables	-2	-17
Net interest-bearing loan capital	58	-165
Gearing	0.04	-0.09

34. Events after the balance sheet date

On 22 November 2011, Wärtsilä announced that it had reached agreement with the Board of Hamworthy in regards to a recommended cash offer for the acquisition of Hamworthy, a global provider of specialist equipment and services to the marine, oil & gas and industrial sectors. Under the terms of the acquisition Hamworthy shareholders will receive 825 pence in cash for each Hamworthy share. Hamworthy is listed on the London Stock Exchange's Alternative Investment Market. The acquisition will be effected by means of a Scheme of Arrangement under English law. On 9 January 2012, all the resolutions proposed received the strong support of Scheme Shareholders at both the Court Meeting and General Meeting of Hamworthy plc. The Court sanctioned the Scheme on 26 January 2012. Subject to the Court hearing confirming the associated Reduction of Capital on 30 January 2012, the Scheme is expected to become effective and the control transferred to Wärtsilä on 31 January 2012.

Parent Company Income Statement (FAS)

MEUR	Note	2011	2010
Other operating income	1	86	72
Personnel expenses	2	-37	-48
Depreciation and amortisation	3	-16	-14
Other operating expenses		-84	-102
Operating result		-51	-93
Financial income and expenses	4		
Income from financial assets		188	377
Interest income and other financial income		41	27
Exchange gains and losses		-11	-39
Interest expenses and other financial expenses		-42	-42
		176	324
Result before extraordinary items		125	231
Group contribution	5	273	360
Result before appropriations and taxes		398	591
Change in depreciation difference		2	-2
Result before taxes		400	589
Income taxes	6	-55	-101
Result for the financial period		345	488

Parent Company Balance Sheet (FAS)

MEUR	Note	31.12.2011	31.12.2010
ASSETS			
Fixed assets	7		
Intangible assets			
Other long-term expenditure		24	32
Construction in progress		7	6
		32	38
Tangible assets			
Land and water		7	8
Buildings and structures		1	1
Machinery and equipment			1
Other tangible assets		1	1
Construction in progress		2	2
		10	13
Financial assets			
Shares in Group companies		450	450
Loan receivables from Group companies		1	
Other shares and securities		6	6
		456	456
Fixed assets and other non-current financial assets		498	507

Non-current receivables

Receivables from Group companies	8	287	172
Loan receivables		16	17
		303	188

Current receivables

Trade receivables			1
Receivables from Group companies	9	1 523	1 401
Other receivables		2	1
Prepaid expenses and accrued income	10	22	15
		1 546	1 419

Cash and bank balances

		474	665
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Total current assets

		2 323	2 272
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Assets

		2 822	2 779
--	--	--------------	--------------

MEUR	Note	31.12.2011	31.12.2010
EQUITY AND LIABILITIES			
Equity	11		
Share capital		336	336
Share premium reserve		61	61
Retained earnings		630	413
Result for the financial year		345	488
Total equity		1 371	1 298
Accumulated appropriations			
Depreciation difference		8	10
Provisions		16	17
Liabilities	12		
Non-current			
Loans from credit institutions		228	249
Loans from pension insurance companies		168	217
Liabilities to Group companies	14	63	72
		459	538
Current			
Loans from credit institutions		21	14
Loans from pension insurance companies		48	29
Trade payables		7	5
Liabilities to Group companies	14	765	766
Other current liabilities		71	2
Accrued expenses and deferred income	13	55	99
		967	915
Total liabilities		1 426	1 453
Equity and liabilities		2 822	2 779

Parent Company Cash Flow Statement (FAS)

MEUR	2011	2010
Cash flow from operating activities:		
Operating result	-51	-93
Adjustments for:		
Depreciation and amortisation	16	14
Selling profit and loss of fixed assets	-3	
Cash flow before changes in working capital	-38	-78
Changes in working capital:		
Assets, non-interest-bearing, increase (-) / decrease (+)	-126	-40
Liabilities, non-interest-bearing, increase (+) / decrease (-)	5	7
	-121	-33
Cash flow from operating activities before financial items and taxes	-159	-112
Interest and other financial expenses	-59	-96
Dividends received from operating activities	188	217
Interest and other financial income from operating activities	47	22
Income taxes paid	-124	-68
	51	76
Cash flow from operating activities	-108	-36
Cash flow from investing activities:		
Investments in tangible and intangible assets	-9	-8
Proceeds from sale of investments		13
Proceeds from sale of tangible and intangible assets	5	155
Loan receivables, increase (-) / decrease (+) and other changes		-14
Dividends received	1	5
Cash flow from investing activities	-3	151
Cash flow after investing activities	-111	115

Cash flow from financing activities:

Loans receivables, increase (-) / decrease (+)	-197	82
Current loans, increase (+) / decrease (-)	80	140
Proceeds from non-current borrowing		25
Repayments and other changes of non-current loans	-53	-69
Group contributions	360	393
Dividends paid	-271	-173
Cash flow from financing activities	-80	399

Change in cash and bank balances, increase (+)

/ decrease (-)	-191	514
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Cash and bank at beginning of period	665	151
Cash and bank at end of period	474	665

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 practices, 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

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation. Certain land areas also include revaluations.

Depreciation 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 the 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.

Notes to the Parent Company Financial Statements

1. Other operating income

MEUR	2011	2010
Rental income	2	2
Profit on sales of fixed assets	4	
Services to Group companies	78	69
Other operating income	1	1
Total	86	72

2. Personnel expenses

MEUR	2011	2010
Wages and salaries	30	41
Pension costs	5	6
Other compulsory personnel costs	1	2
Total	37	48

Salaries and remunerations to senior management

The President and CEO and his deputy and members of the Board of Directors	4	3
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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	303	389
--------------------------------------	-----	-----

3. Depreciation and amortisation

MEUR	2011	2010
Depreciation according to plan		
Other long-term expenditure	15	14
Other depreciations	1	1
Total depreciation according to plan	16	14
Tax depreciations	14	17
Depreciation difference	2	-2
Depreciation difference		
Depreciation difference on 1 January	10	8
Change in the depreciation difference	-2	2
Depreciation difference on 31 December	8	10

4. Financial income and expenses

MEUR	2011	2010
Dividend income		
From Group companies	188	217
From other companies	1	5
Total	188	222
Other interest income		
From Group companies	30	22
From other companies	7	2
Total	37	24
Other financial income		
From Group companies	3	4
From other companies	7	6
Total	10	10
Exchange gains and losses	-11	-39
Interest expenses		
To Group companies	-11	-8
To other companies	-14	-13
Total	-25	-21
Other financial expenses		
To Group companies	-5	-3
To other companies	-18	-15
Total	-23	-18
Impairments of non-current receivables		-9
Net income from financial assets available for sale		155
Financial income and expenses, total	176	324

5. Extraordinary income and expenses

MEUR	2011	2010
Group contributions received	273	360

6. Income taxes

MEUR	2011	2010
Income taxes		
for the financial year	-55	-100
for prior years		-1
Total	-55	-101
Income taxes on extraordinary items	71	94

7. Fixed assets

Intangible assets

MEUR	Other long- term expenditures	Construction in progress	Total 2011	Total 2010
Acquisition cost at January 1	125	6	132	126
Additions	5	2	8	6
Reclassifications	2	-1	1	
Acquisition cost at December 31	132	7	140	132
Accumulated amortisation at January 1	-93		-93	-80
Amortisation during the financial year	-15		-15	-14
Accumulated amortisation at December 31	-107		-107	-94
Carrying amount at 31 December 2011	24	7	32	
Carrying amount at 31 December 2010	32	6		38

Tangible assets

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress	Other tangible assets	Total 2011	Total 2010
Acquisition cost at January 1	8	11	12	2	2	35	32
Additions				1		1	3
Disposals	-1		-1			-2	
Reclassifications				-1		-1	
Acquisition cost at December 31	7	11	11	2	2	33	35
Accumulated amortisation at January 1		-10	-11		-1	-22	-21
Amortisation during the financial year			-1			-1	-1
Accumulated amortisation at December 31		-10	-11		-1	-23	-22
Carrying amount at 31 December 2011	7	1		2	1	10	
Carrying amount at 31 December 2010	8	1	1	2	1		13

Shares and securities

MEUR	Shares in Group companies	Receivables from Group companies	Shares in other companies	Total 2011	Total 2010
Acquisition cost at January 1	450		6	456	470
Additions					
Disposals				0	-15
Acquisition cost at December 31	450		6	456	456
Carrying amount at 31 December 2011	450		6	456	
Carrying amount at 31 December 2010	450		6		456

8. Non-current receivables

MEUR	2011	2010
Receivables from Group companies		
Loan receivables	287	172
Total	287	172

9. Current receivables from Group companies

MEUR	2011	2010
Trade receivables	4	3
Loan receivables	1 498	1 390
Prepaid expenses and accrued income	22	8
Total	1 523	1 401

10. Prepaid expenses and accrued income

MEUR	2011	2010
Derivatives	10	13
Other financial items	1	2
Income and other taxes	6	
Other	5	
Total	22	15

11. Shareholders' equity

MEUR	2011	2010
Share capital		
Share capital on 1 January	336	336
Share capital on 31 December	336	336
Share premium reserve		
Share premium reserve on 1 January	61	61
Share premium reserve on 31 December	61	61
Retained earnings		
Retained earnings on 1 January	901	586
Dividends paid	-272	-173
Result for the financial period	345	488
Retained earnings on 31 December	974	901
Total shareholders' equity	1 371	1 298
Distributable equity	974	901

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	2011	2010
Non-current		
Interest-bearing	459	538
Total	459	538
Current		
Non-interest-bearing	79	135
Interest-bearing	889	781
Total	967	915

Debt with maturity profile

2011	Current	Long-term		
MEUR	< 1 year	1-5 years	> 5 years	Total
Loans from financial institutions	21	144	84	249
Loans from pension institutions	48	150	18	217
Total	69	294	102	466

2010	Current	Long-term		
MEUR	< 1 year	1-5 years	> 5 years	Total
Loans from financial institutions	14	121	128	263
Loans from pension institutions	29	172	45	246
Total	43	293	173	509

13. Accrued expenses and deferred income

MEUR	2011	2010
Income and other taxes	1	64
Derivatives	30	10
Personnel costs	14	18
Interest and other financial items	4	3
Other	6	4
Total	55	99

14. Liabilities to Group companies

MEUR	2011	2010
Other long-term liabilities	63	72
Trade payables	5	3
Other current liabilities	749	738
Accrued expenses and deferred income	10	26
Total	827	839

15. Collateral, contingent liabilities and other commitments

MEUR	2011 Debt in balance sheet	2010 Debt in balance sheet
Guarantees and contingent liabilities		
On behalf of Group companies	903	623
On behalf of associated companies	10	9
Total	913	632
Nominal amounts of rents according to leasing contracts		
Payable within one year	2	3
Payable after one year	3	9
Total	5	12

16. Related party loans and other commitments

There are no loans 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 29 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 remuneration was paid to auditors and accounting firms for audits and other reviews based on applicable legislations and for advice as well as for independent advice.

In 2011, the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditor.

Auditor's fees

TEUR	2011	2010
Audit	159	166
Tax advisory	140	284
Other services	644	102
Total	943	552

Proposal of the Board

The parent company's distributable funds total 974,384,311.79 euro, which includes 344,851,783.06 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 0.90 per share be paid, making a total of	177,517,017.00
That the following sum be retained in shareholders' equity	796,867,294.79
Totalling	974,384,311.79

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, 26 January 2012

Mikael Lilius

Matti Vuoria

Maarit Aarni-Sirviö

Kaj-Gustaf Bergh

Alexander Ehrnrooth

Paul Ehrnrooth

Lars Josefsson

Bertel Langenskiöld

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 December 31, 2011. 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 26, 2012

KPMG OY AB

Pekka Pajamo

Authorized Public Accountant

Quarterly Figures 2010–2011

Condensed Statement of Income

MEUR	Q4/2011	Q3/2011	Q2/2011	Q1/2011	Q4/2010	Q3/2010	Q2/2010	Q1/2010
Net sales	1 238	851	1 036	1 083	1 462	1 039	1 131	922
Other operating income	13	20	4	10	21	13	11	7
Expenses	-1 086	-758	-906	-956	-1 313	-910	-1 007	-851
Depreciation, amortisation and impairment	-29	-27	-28	-29	-29	-29	-28	-30
Share of result of associates and joint ventures	2	2	1	3	2	2		2
Operating result	138	88	108	111	143	114	105	49
Financial income and expenses	-6	-5		-4	-10	-6	4	
Net income from assets available-for-sale					117	32		
Profit before taxes	131	83	108	107	251	140	109	49
Income taxes	-39	-30	-35	-31	-71	-35	-31	-14
Profit for the financial period	92	53	73	76	179	104	79	35
Earnings per share, EUR	0.45	0.26	0.35	0.38	0.89	0.51	0.39	0.17
Order intake	1 250	1 118	1 170	979	1 003	1 004	1 117	881
Order book, at the end of period	4 007	4 042	3 779	3 669	3 795	4 243	4 315	4 330
Personnel, at the end of period	17 913	17 875	17 654	17 526	17 528	17 704	17 905	18 410