



# WÄRTSILÄ ANNUAL REPORT 2009

# Contents

## ■ Business

1	Message to the shareholders
2	This is Wärtsilä
7	Strategy
11	Market environment
18	Ship Power review
21	Power Plants review
26	Services review
28	Wärtsilä Industrial Operations

## ■ Corporate Governance

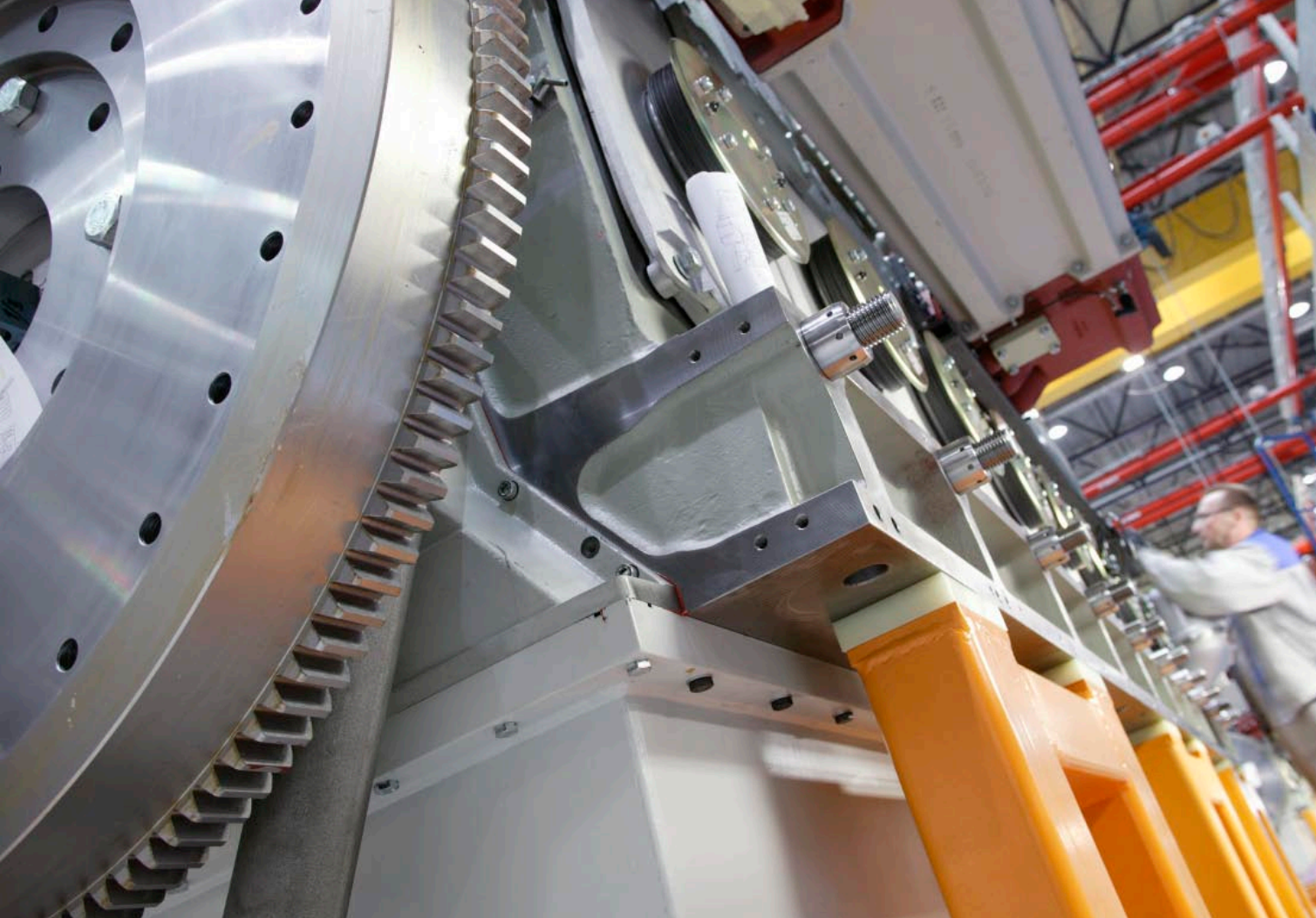
30	Corporate Governance
51	Risks and risk management
60	Shares and shareholders
66	Information for Shareholders
67	Wärtsilä on the capital markets 2009

## ■ Sustainability

71	Wärtsilä and sustainability
84	Economic performance
91	Environmental performance
123	Personnel and social performance
137	Report scope and profile
139	Independent assurance report
142	GRI content index

## ■ Financials

148	Five Years in Figures
150	Calculation of Financial Ratios
151	Review by the Board of Directors 2009
168	Consolidated Financial Statements
168	Income Statement
169	Balance Sheet
171	Cash Flow Statement
173	Statement of Changes in Shareholders' Equity
174	Accounting Principles for the Consolidated Accounts
182	Notes to the Consolidated Financial Statements
215	Parent Company Financial Statements
215	Income Statement
216	Balance Sheet
218	Cash Flow Statement
219	Accounting Principles for the Parent Company
220	Notes to the Parent Company Financial Statements
228	Proposal of the Board
229	Auditors' Report
231	Quarterly Figures 2008–2009



**WÄRTSILÄ**  
**ANNUAL REPORT 2009**

# Business

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21	Power Plants review
26	Services review
28	Wärtsilä Industrial Operations

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## Message to the shareholders

Dear shareholder,

**The autumn of 2008 marked a turning point in the development of Wärtsilä's business environment. As the first signals of what turned out to become the widest financial crisis in recent history hit Wärtsilä, we entered the new phase with a record high order book.**



Even with part of that order book being cancelled, the year 2009 was very successful in terms of delivery volumes. Group net sales, EUR 5,260 million grew by 14 percent compared to the year 2008. Operating profit reached an all time high level of EUR 638 million (525) and the operating margin stood at 12.1 percent (11.4 percent). The Services business, which structurally has a very short order book, maintained its volumes in spite of significant lay ups of vessels.

The order intake, however, was affected by weak demand, particularly for marine equipment. During the 1990's, new ships were ordered at the rate of 1,500 ships per year and during the boom years of 2003-2008 at the rate of 4,500 ships per year. In 2009 only 400 new ships were ordered. This naturally had an effect on our Ship Power business. New orders representing only EUR 317 million (1,826) were received and cancellations representing a value of EUR 410 million were recorded.

The demand for power plants continued at a healthy level. The reasons are evident: most parts of the world have neglected making adequate investments into power generation capacity for years. Environmental considerations favour investment into renewable power sources and the active search and exploration of natural resources, particularly in Africa, requires electricity. Wärtsilä's technology is well positioned to respond to the needs arising from these trends. Although economic uncertainty held contracting activity back during the first part of the year, order intake recovered towards the end of the year.

The Services business, representing 35 percent (40) of group turnover, has proven to be resilient to the financial downturn. A strong global presence, new service products and concepts combined with a broad installed base have all helped Services to maintain its business at good level of the previous year.

During the last two to three years, the demand in most industrial sectors has increased rapidly. This has put our supply chain under severe pressure and has resulted in price increases, delays and even occasional quality problems. Thanks to systematic investment and development work together with gradually decreasing demand, the situation normalised during 2009 and component prices started to fall. We expect this trend to continue.

The low contracting activity in the shipbuilding sector is expected to continue for more or less another two years. The first signs of recovery can be seen in some Offshore and Special vessel segments. The concentration of shipbuilding activity to Asia, particularly to China, is expected to continue. This is the basis for the adjustments in capacity within Wärtsilä Ship Power and Industrial Operations that were initiated during 2009. At the beginning of the year 2010, we announced our plans to strengthen our propeller and generating set production platform in China. Our Ship Power sales organisation has been adjusted to reflect the current needs of the market. These measures have had, and will have, an effect on employment within the group. This is naturally unfortunate, but unavoidable in order to stay competitive in the changing market

environment. I am confident that Wärtsilä will emerge even stronger in the marine markets as a result of this restructuring process - without compromising on our corporate values: Energy, Excellence and Excitement.

Wärtsilä is a technology company and we continue to be committed to investing into research and development. These investments have remained steady at 2.7 percent of turnover (2.6). We consider it our obligation to continue developing products and services that radically reduce the level of emissions to both the air and the sea. Improved ship design, more efficient engines and propulsors, use of gas as fuel, and optimised, flexible power plant solutions all contribute to a more sustainable environment. It is our strategy to maintain and develop this proprietary know-how and to develop new service concepts around it while strengthening our production capabilities close to the markets.

Due to the low demand in the shipbuilding sector, we expect net sales to decline by 10-20 percent in 2010. As a result of a stable service business, the good demand for power plants and proper adaptation of capacity, our operational profitability should be between 9-10 %, well within the upper end of our long term target range.

Let me take this opportunity to thank our shareholders for your interest in our company, our customers for the confidence you have shown in our products and services, and last but not least, our employees for your undivided attention and dedication to the development of Wärtsilä.



Ole Johansson

President & CEO

## This is Wärtsilä

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 2009, Wärtsilä's net sales totalled EUR 5.3 billion with over 18,000 employees. The company has operations in 160 locations in 70 countries around the world. Wärtsilä is listed on the NASDAQ OMX Helsinki, Finland.

### ■ Ship Power

Wärtsilä is the leading provider of ship power solutions including ship design, engines, generating sets, reduction gears, propulsion equipment, automation and power distribution systems, as well as sealing solutions for the marine industry. Our customers are global or local leading companies within the merchant, offshore, cruise and ferry, navy and special vessel segments. We command a strong position in all main marine segments as a supplier of highly rated ship machinery and systems.

### ■ Power Plants

Wärtsilä is a leading supplier of flexible power plants for the decentralised power generation market. We offer solutions for baseload power generation, grid stability & peaking, industrial self-generation, as well as for the oil and gas industry. We provide superior value to our customers with our distributed, flexible, efficient and environmentally advanced energy solutions, which enable a global transition to a more sustainable and modern energy infrastructure.

## ■ Services

Wärtsilä supports its customers throughout the life cycle of their installations by optimising efficiency and performance. We provide the broadest portfolio and best services in the industry for both ship power and power plants. We offer expertise, proximity and responsiveness for all customers regardless of their equipment make in the most environmentally sound way.

## The year 2009 in brief - A Strong year in challenging environment

The year 2009 was in many ways very successful for Wärtsilä. Group net sales, EUR 5,260 million grew by 14 percent compared to the year 2008. Operating profit reached an all time high level of EUR 638 million (525) and the operating margin stood at 12.1 percent (11.4 percent). The cash flow for the review period was very strong at EUR 349 million (278).

At the same time our order intake decreased clearly as a result of weak demand particularly for marine equipment. New shipbuilding orders continued to be at a standstill during the first half of the year. An environment of oversupply within the major vessel segments prevailed throughout the year. In the latter part of the year market activity picked up somewhat and first signs of recovery can be seen in some Offshore and Special vessel segments.

In the power plant markets, ordering activity during 2009 was hampered by difficulties in arranging financing although demand for power plants was at a good level and offering activity remained high. Ordering activity improved in the fourth quarter, mainly due to the improved situation in the financial markets. Most parts of the world have neglected to make adequate investments into power generation capacity for years. Environmental considerations favour investment into renewable power sources and the active search and exploration of natural resources, particularly in Africa, requires electricity. Wärtsilä's technology is well positioned to respond to the needs arising from these trends.

The situation on the Services market remained quite stable. Although approximately 10% of the total vessel fleet is laid-up and the active engine base is underutilised, the medium-speed engine base has largely maintained its planned maintenance schedules. In some market segments, fuel conversions, retrofits or other larger investments have been postponed while customers focus on essential repairs and maintenance. Demand for power plant services remained stable.

Wärtsilä's order intake for the review period totalled EUR 3,291 million (5,573), a decrease of 41%. During the year adjustments to the weakened market situation in the shipbuilding sector were started in Ship Power and manufacturing.

- Order intake for the review period decreased 41% and totalled EUR 3,291 million (5,573)
- Order book decreased 35% and totalled EUR 4,491 million (6,883)
- Net sales grew 14% to EUR 5,260 million (4,612). Ship Power accounted for 34%, Power Plants for 31% and Services for 35% of the total net sales
- Profitability grew strongly and was 12.1% of net sales (11.4). Operating result (before nonrecurring restructuring items) totalled EUR 638 million (525)
- Earnings per share excluding nonrecurring items amounted to 4.30 euros (3.88)
- Wärtsilä continued pursuing its strategy of expanding its network with new service facilities in many countries, including Ukraine, Cameroon, Hungary, Chile, Dubai, Russia and Sweden.
- The concentration of shipbuilding activity to Asia, particularly to China, is expected to continue. This is the basis for the capacity adjustments within Wärtsilä Ship Power and Industrial operations that were initiated during 2009 and early 2010.

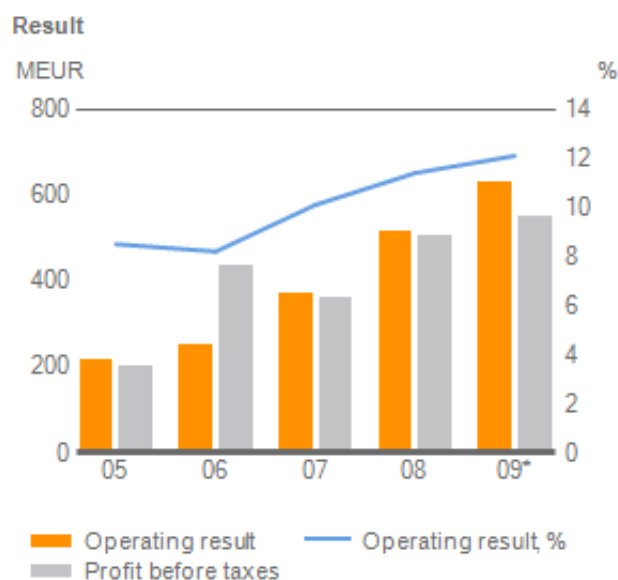


Key ratios

MEUR	2009 Q4 / 2009 Q3 / 2009 Q2 / 2009 Q1 / 2009					2008	2007
Net sales	5 260	1 519	1 167	1 333	1 241	4 612	3 763
Ship Power	1 767	538	378	479	373	1 531	1 320
Power Plants	1 645	476	360	379	431	1 261	882
Services	1 830	504	424	469	434	1 830	1 550
Depreciation and amortisations	-165	-73	-31	-30	-30	-99	-78
Operating result	638 <sup>1</sup>	219 <sup>1</sup>	133	155 <sup>1</sup>	130	525	380
Operating result, %	12.1	14.4	11.4	11.7	10.5	11.4	10.1
Profit before taxes	558	170	125	141	123	516	372
Earnings per share, EUR	3.94	1.17	0.87	1.01	0.89	3.88 <sup>2</sup>	2.74
Balance sheet total	4 655	4 655	4 935	4 998	4 782	4 743	3 749
Interest-bearing liabilities, gross	664	664	852	890	774	664	283
Cash and cash equivalents	244	244	262	118	149	197	296
ROI, %	29.9	-	-	-	-	32.4	26.0
Gearing	0.28	0.28	0.43	0.61	0.55	0.39	-0.01
Order book, end of period	4 491	4 491	5 351	5 829	6 477	6 883	6 308
Order intake	3 291	823	725	785	958	5 573	5 633
Personnel, end of period	18 541	18 541	18 806	19 016	18 844	18 812	16 336
Year-end market capitalization	2 768	2 768	2 700	2 262	1 567	2 072	5 023

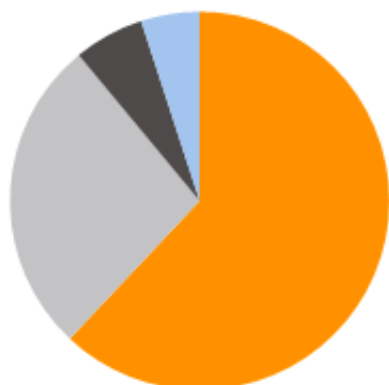
<sup>1</sup> Before nonrecurring restructuring items.

<sup>2</sup> 3.96 euros before the effect of the combination of Wärtsilä's share series.



\* Operating result before nonrecurring items

**Personnel by business**



- Services 62% (60)
- Wärtsilä Industrial Operations 27% (27)
- Ship Power 6% (9)
- Power Plants 5% (5)

**Personnel by market area**



- Europe 59% (59)
- Asia 30% (30)
- The Americas 9% (8)
- Other 3% (2)



Net sales by business area



- Services 35% (40)
- Ship Power 34% (33)
- Power Plants 31% (27)

Net sales by market area



- Asia 37% (39)
- Europe 31% (37)
- The Americas 22% (15)
- Other 9% (9)

## Strategy

Wärtsilä enhances the business of its customers by providing them with complete lifecycle power solutions. Creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products, solutions and services.

Wärtsilä's strategic aim is to strengthen its leading position in its markets and to ensure continued growth by offering customers reliability and the best lifecycle efficiency available. This is made possible by an integrated equipment and service portfolio that matches customers' needs worldwide. The foundation of Wärtsilä's competitive edge lies in its continuous focus on innovation and R&D and its aim is to be the technology leader in its industries. Wärtsilä's ability to focus on long-term business drivers, its strong financial base, and agility in adapting to changing market conditions puts the company in a strong position to pursue its strategy.

VALUES	MISSION	VISION
<ul style="list-style-type: none"> <li>• Energy: Capture opportunities and make things happen.</li> <li>• Excellence: Do things better than anyone else in our industry.</li> <li>• Excitement: Foster openness, respect and trust to create excitement.</li> </ul>	<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>We will be the most valued business partner of all our customers.</p>

## Business strategies

### ■ Ship Power

Wärtsilä Ship Power's strategy is to be a valued business partner to all our customers throughout the lifetime of their applications. Our goal is to be the biggest solution provider with the broadest product portfolio in the industry. Our extensive product portfolio enables us to combine products into larger systems and solutions, thereby maintaining our unique competitive position. We continuously explore possibilities to extend our product portfolio and the services we offer through organic growth, acquisitions and partnerships. We will continue to strengthen our geographic presence in our key markets, especially in Asia. In the future, integrated services will play an even bigger role in our business.

### ■ Power Plants

Wärtsilä Power Plants' strategic aim is to be the market leader in our target segments: flexible baseload power, industrial self-generation, grid stability & peaking, and power solutions for the oil and gas industry. Our products are based on tried and tested concepts and deliver competitive costs, high efficiency, operational flexibility, low environmental impact, and exceptional, continuously expanding fuel flexibility. In a world where fuel availability and security are major concerns, this opens strong growth opportunities, especially in gas and liquid biofuel applications. Whatever the fuel and wherever the market, Wärtsilä's solutions maximise the efficiency of the entire power plant. We focus on products and projects that

provide unquestionable environmental benefits and make economical sense. We position ourselves as a technology enabler.

### ■ Services

Wärtsilä Services' strategy is to strengthen its leading position in the marine and power plant markets and to broaden its offering in order to support its customers better. We offer our clients 24/7 support in the fields of logistics, technical support and field service. Being the only player in the market able to provide such a wide range of solutions from a single source strengthens noticeably our competitive position. The size and scope of the Services business creates stability in a changing market environment and provides a platform for future growth. While focus on growth will continue, importance is also placed on developing and consolidating acquired companies in order to further optimise customer operations.

## Research & Development and Manufacturing

### ■ Research & Development

Wärtsilä develops, designs, and manufactures competitive engines, propulsors, emission cleaning and automation products, along with systems and solutions based on these. In our research and development activities, the objective is to be a technology leader with specific emphasis on the areas of environmental technology, reliability, efficiency and operational costs. Wärtsilä's aim is to be proactive in creating innovations. The product portfolio derives from our own key competences in engineering, as well as from long-term co-operation with strategic partners.

### ■ Manufacturing

Wärtsilä maintains an effective and flexible manufacturing structure designed to cope with varying market demand by deploying internal and external capacity accordingly. Our manufacturing is process oriented and managed by our Delivery Centre structure that is accountable from order intake, product engineering, operational purchasing and assembly, to dispatch of the products. We work in close collaboration with partners and suppliers to ensure excellent supply chain performance. A top priority in this context is to secure component availability, quality, and delivery accuracy.

## 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

### ■ Long-term financial targets

The average growth target for our annual sales is 6–7% over the cycle. The growth target for the Ship Power and Power Plants businesses is 4% and for the Services business 10–15%. Our operating profit target (EBIT%) is 8–10% of net sales over the cycle with a range of +/- 2%. Our solvency target is 35–40%.

### ■ Dividend policy

Our target is to pay a dividend equivalent to 50% of operational earnings.

### ■ Prospects in 2010

Due to weakness of the shipbuilding sector, we expect net sales to decline by 10–20 percent in 2010. As a result of a stable service business, good demand for power plants and proper adaptation of capacity, our operational profitability (EBIT% before nonrecurring items) should be between 9–10 %, well within the upper end of our long-term target range.

### Dividend/share, earnings/share

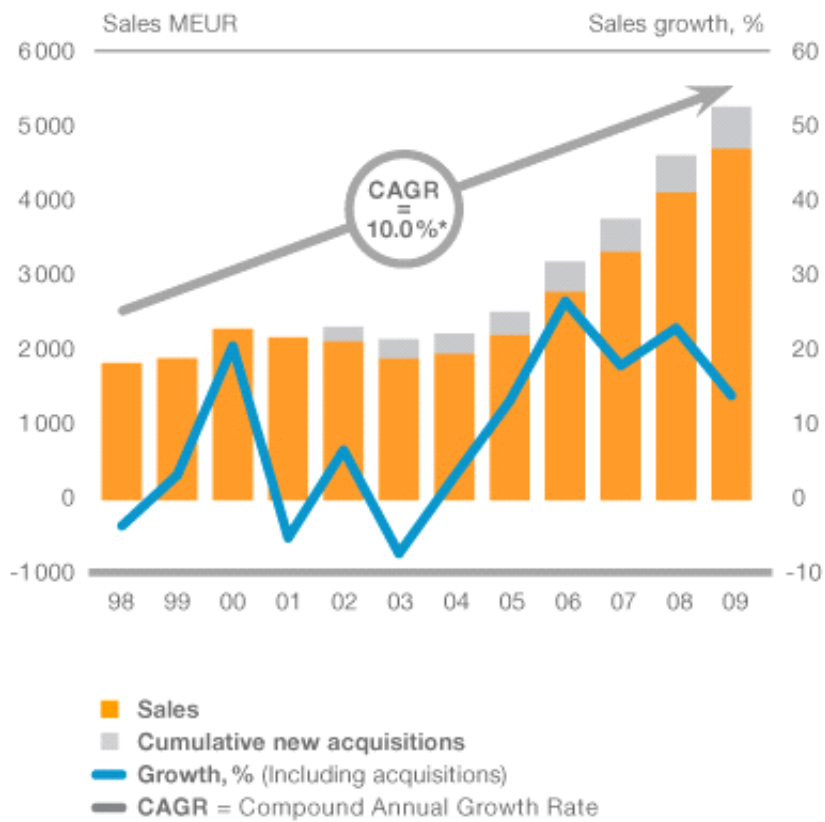
	2009	2008	2007	2006	2005
Dividend per share	1.75 <sup>1</sup>	1.50	2.25	1.75	0.90
Extra dividend per share		-	2.00	-	2.10
Earnings per share (EPS)	4.30 <sup>2</sup>	3.88	2.74	3.72 <sup>3</sup>	1.80

<sup>1</sup> Proposal by the Board.

<sup>2</sup> Excluding nonrecurring items.

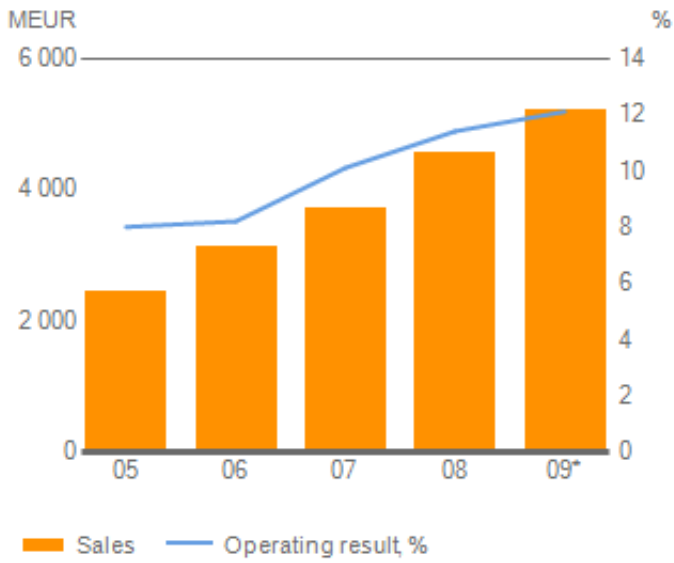
<sup>3</sup> Includes non-operational income, Assa Abloy & Ovako.

### Growth over the cycle



\* Including acquisitions; growth excluding acquisitions 8.9%  
 Note: World nominal GDP growth 1998–2009 averages 6.04% USD denominated (source: IMF)

Improved profitability

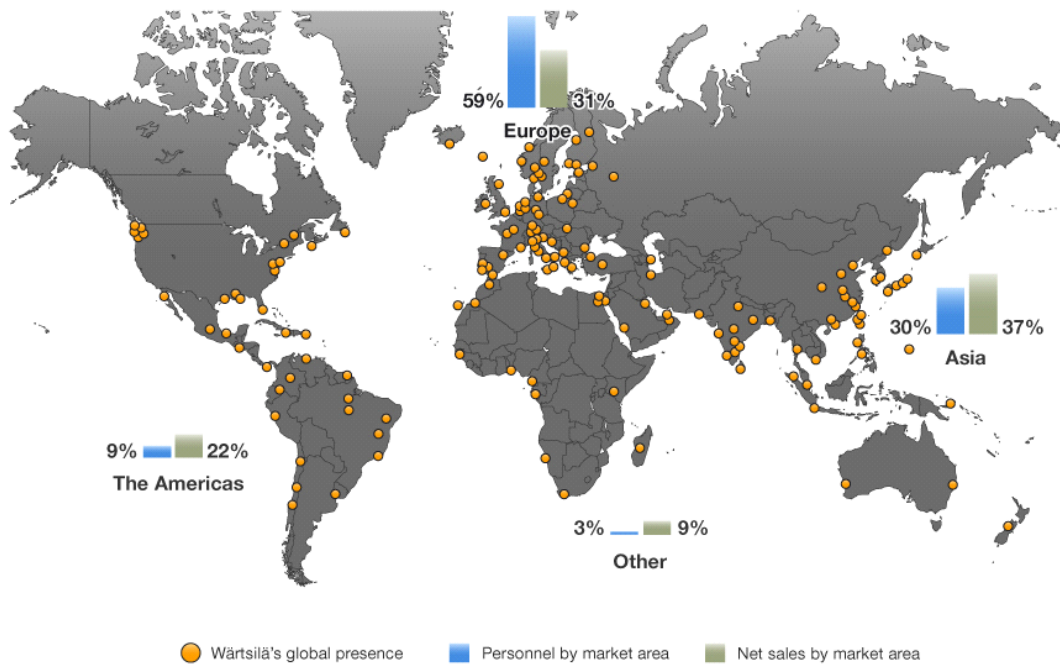


\*Operating result before nonrecurring restructuring items

Market environment

Wärtsilä's market areas

Wärtsilä's market areas



## Ship Power market

### ■ Recent shipping and shipbuilding development

The biggest boom ever in both the shipping and shipbuilding markets started in 2005. However, when the financial crisis began to take effect in 2008, the uncertainty in the global economy increased and at the end of 2008, the size of the financial crisis and its implications on the global economy became clear. Consequently, investments in new vessels and new yards were heavily hit. It led to a complete melt down of new vessel ordering and new vessel orders continued to be at a standstill during the first half of 2009. Today, the shipping industry faces overcapacity with further new vessels still on order, freight rates are at very low levels while the main economic demand drivers are without clear direction. Even though there are some signs of gradual recovery, the overall situation remains challenging and it is likely that the demand for some ship types will remain low for at least another two years. Wärtsilä's activity in a number of different shipping segments is valuable, as the weakness in some segments could be offset by an earlier recovery in others.

The importance of environmental issues, especially emission reduction and fuel consumption, has increased in shipping with the enforcement of environmental regulations at both global and local levels. This puts pressure on the marine industry to constantly explore new ways of reducing the environmental impact of ships.

### ■ General shipbuilding and shipping market drivers

Demand in the shipbuilding and shipping industries is basically driven by the development in the global economy and its impact on trade and needed transport capacity. The global economy also influences the level of oil price, which in turn has both a direct and an indirect impact on the shipping and offshore industry. 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 our 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, as well as naval contracting. Geographically the shipbuilding industry is concentrated to Asia, headed by China and Korea. European shipyards have mainly concentrated on special-purpose vessels, passenger ferries, and cruise ships. Asia is expected to take a bigger role in these vessel segments as well, once the broader market recovery begins.

### ■ Competitors and market position

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

In medium-speed main engines our largest competitors are the other main suppliers of medium-speed diesel engines, MAN Diesel and Caterpillar (MAK). The manufacturing capacity of these medium-speed main engine suppliers is mainly focused on Europe.

In the market for low-speed engines, MAN Diesel is the leading designer followed by Wärtsilä and Mitsubishi Heavy Industries. Because of their size and related transportation considerations, low-speed engines are mainly manufactured under license in Asia, close to the shipyards where the larger ships are built.

The market for auxiliary engines is fragmented and the competition is intense. As a response to this competition, we set up a joint venture company in China in 2006, concentrating on auxiliary engines. Our competitors in the auxiliary engine segment are mainly MAN Diesel and its license manufacturers, the HiMSEN engine designed and manufactured by Hyundai Heavy Industries, and high-speed engines.

In propulsion equipment, the competitive environment varies from one application area to another. Rolls-Royce and

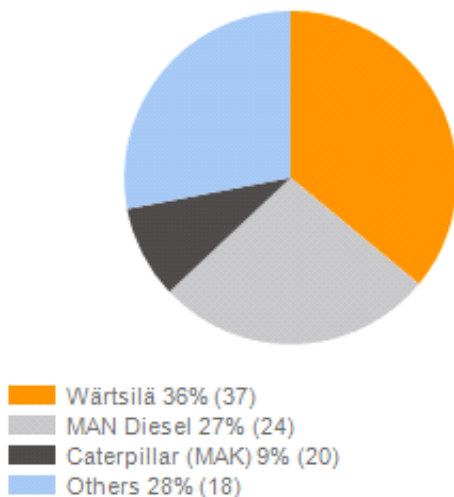


Schottel are the main competitors in controllable pitch propellers (CPP) and steerable thrusters. In fixed pitch propellers (FPP) the competition comes mainly from Asia - Hyundai Heavy Industries and Mitsubishi Heavy Industries being the main players, together with the German producer Mecklenburger Metallguss. In the thruster categories, competition is very fragmented.

In electrical appliances and automation, Wärtsilä is mainly present in selected segments with equipment designed especially for marine use. Competition in these areas consists mainly of companies that are active also in other industries than in the marine industry, and the competitive landscape is very fragmented.

Wärtsilä has acquired a significant footprint in ship design both in terms of competence and global presence. Competition in this area typically comes from local players as well as ship yards' own design offices. Wärtsilä's main areas of competence are in offshore vessels and applications, as well as in special vessels.

### Market position of medium-speed main engines



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

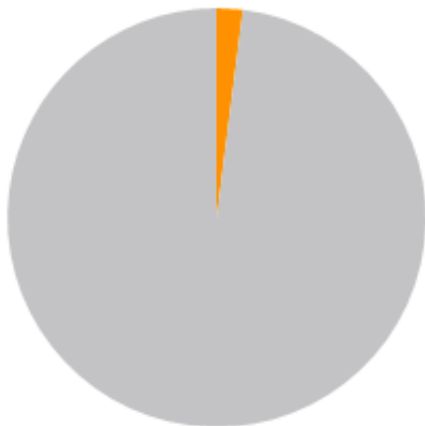
**Market position of low-speed main engines**



■ Wärtsilä 12% (15)    ■ Mitsubishi 6% (4)  
■ MAN Diesel 82% (81)

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

**Market position of auxiliary engines**



■ Wärtsilä 2% (8)    ■ Others 98% (92)

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

## Power Plants market

### ■ Recent developments within the power plant market

Investments in energy infrastructure have been low in the past and the need for investments into power generation equipment to meet the growth in energy consumption has been driving demand strongly in the power plant markets during recent years. Need to increase efficiency and versatility in power generation due to high fuel prices and environmental aspects has driven demand for Wärtsilä's power generation solutions. During recent years, countries with large oil and mineral wealth have invested heavily in new power generation infrastructure.

As electricity demand correlates with economic growth, the financial crisis that started in 2008 has affected the power plant markets. Demand and offering activity is still at the good levels of previous years and demand drivers mentioned above

still prevail, but the crisis has impacted the financing of especially larger projects. As a result, Wärtsilä's addressable markets decreased by 45% in 2009. Ordering activity improved in the fourth quarter, due mainly to the improved situation in the financial markets.

### ■ General market drivers in Power Plants

Demand for power generation is driven primarily by economic development. As energy consumption grows, the need for both new power generation equipment increases, as does demand for replacement equipment for older capacity. Climate change and the resultant stricter environmental regulations are spurring investments in renewable solutions. Renewable solutions such as wind power lead to unforeseen grid stability challenges, which require backup power. Large scale use of renewable power increases the need for flexible, reliable and efficient power that Wärtsilä's solutions provide.

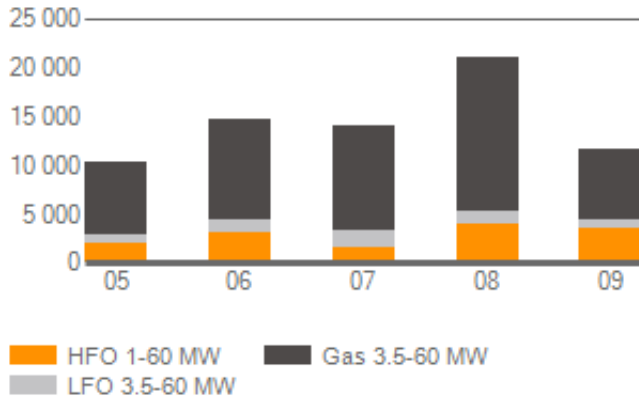
In the developing world, as well as in remote areas, demand for heavy fuel oil (HFO) power plants is driven by growth in electricity consumption and by the price of oil. Demand for power plants running on renewable fuels is today still impacted by governmental subsidy structures. Demand for gas driven plants increases along with the introduction of gas networks to the developing world. Introduction of emission trading schemes makes traditional fuels, such as coal, less competitive and increases demand for gas driven solutions.

### ■ Power Plants' competition

The power plant market is highly fragmented and this is reflected in the competitive situation as well. In larger liquid fuel or gas-fired projects, Wärtsilä often competes against gas turbine technology, coal-fired steam power plants and other manufacturers of reciprocating engines. Solutions offering optimal economic and risk profiles are advantageous in these markets. 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.

**Power Plants market development**

Target markets per fuel 2005-2009

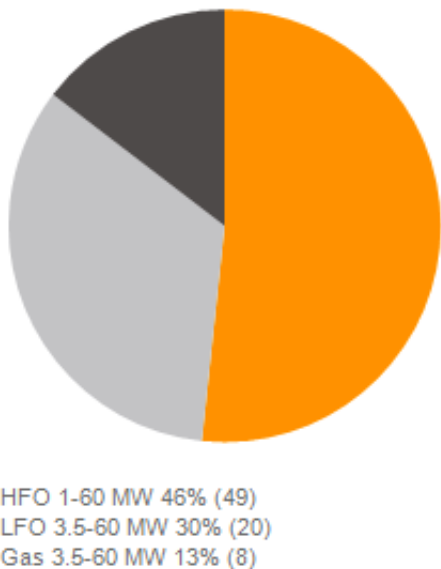


Note 1: Wärtsilä's gas power plant target markets have changed after the review period 2005, when Wärtsilä stopped manufacturing and selling high speed engines (power range less than 3.5 MW).

Note 2: The LFO figure from 2006 onwards includes liquid biofuels.

Source: Diesel and Gas turbine worldwide.

**Wärtsilä's Power Plant market shares**



**Services market**

**Recent market developments in Services**

In 2009, the imbalance between vessel capacity and vessel demand in the shipping industry led to ship owners making adjustments, such as reducing the operating frequency and speed of some vessels and laying-up parts of their fleet. In the power plant services sector, the market activity remained at high levels and several projects were developed in the fields of environmental upgrades and fuel conversions. Wärtsilä's installed engine base in the Ship Power and Power Plant

markets totals over 160,000 MW and consists of thousands of installations throughout the world. Both end markets consist of several customer segments for Services, and Wärtsilä's Services portfolio is the broadest in the market. These factors limit the impacts of fluctuations in any individual market or customer segment.

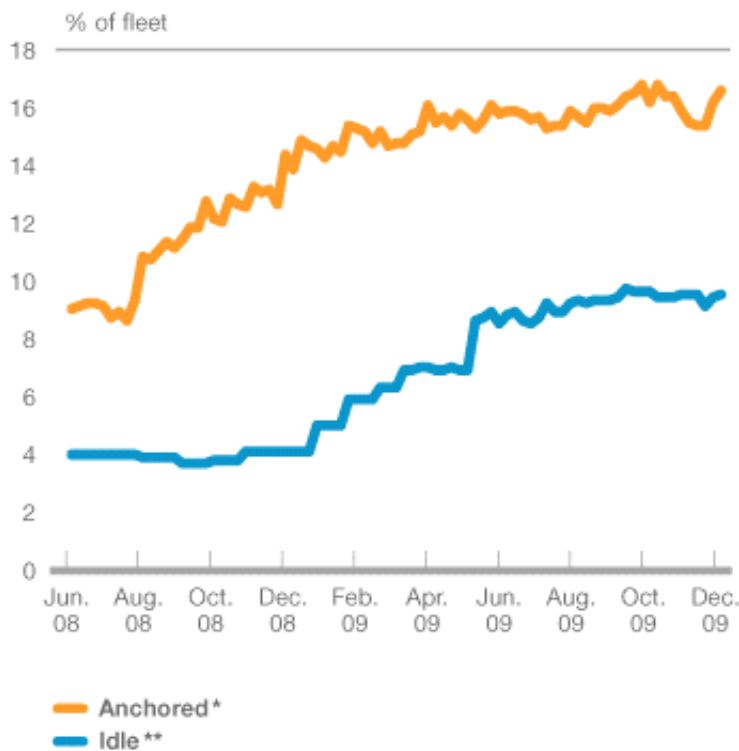
**General market drivers for Services**

The main market driver for the Services business is lifecycle efficiency, for which the availability, reliability and economic viability of the equipment are very important. The marine service business is strongly driven by existing as well as new environmental regulations. Other drivers that are highly emphasised are the need to lower operating costs, enhanced safety, and the need to outsource the operations and management of power plants. 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, 24/7 from one single source globally. Each service product has, therefore, its own set of competitors and challenges. There are only a few global players to talk of, thus competition is mainly local.

**Anchored and idled vessels**



\* Anchored (reported navigation status at anchor). Source Bloomberg (AISLive). More than 2 500 vessels (>299 GT) covered.

\*\* Idle (no movement for 19 days for containerships, others 35 days). Source Loyd's MIU. Around 15 000 vessels (>299 GT) covered.

## Ship Power review

We are the leading provider of ship power solutions. Our strong position in all main marine segments is reinforced through our highly rated ship machinery and systems. Our in-depth understanding of our customers' businesses, combined with our extensive network and broad product portfolio, enables us to support our customers throughout the lifecycle of their installations.

### ■ 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, inland navigation and special service vessels.

Our Ship design capabilities enable us to offer our customer optimised, highly efficient solutions, creating growth opportunities in lifecycle services as well as added value for our customers. By participating in the planning and designing phase, Wärtsilä is able to understand customer needs better and thereby establish a stronger competitive position.

### ■ Our customer structure is two-fold

Ship Power customers consist of 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, and ease of installations. To these considerations, issues related directly to the ship building process can also be factored in. Ship owners on the other hand, require reliability, operational efficiency and support, as well as the availability of services. Decision making is also impacted by freight rates, interest rates, and the cost of the ship.

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

### ■ We have the most extensive product portfolio in the industry

Wärtsilä's ship power solutions are reliable, economic and environmentally sound. 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
- Propulsors, propulsion packages
- Seals and bearings
- Automation systems
- Solutions
- Ship design
- New optimised vessel concepts and other solutions

Our extensive product offering 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.

### Ship Power and sustainability

The economic downturn together with increased environmental concerns has highlighted the importance of efficiency in the marine sector. The global focus on fuel economy and more stringent regulations both emphasise the need to optimise ship performance, from the initial ship design to actual operations and maintenance. Wärtsilä's solutions ensure maximum efficiency, reliability and environmental performance throughout the lifecycle of the installation.

Wärtsilä has developed a number of concepts, which improve total ship efficiency and enable the use of natural gas in the ships. Our aim is to be at the forefront of all environmental and sustainability initiatives. The main drivers for solution development are future emission legislation, fuel availability and price fluctuations, as well as customers' needs for more complete solutions rather than separate products. Our technology development, therefore, focuses on improving the efficiency across a wide front that incorporates multifuel solutions and system integration. Compliance with regulations is a natural starting point for all our product development.

Wärtsilä's main responsibility is to support sustainable shipping. This requires us to continuously develop and enhance our solutions to better meet future needs and the demand for environmentally sound solutions. It also requires Wärtsilä to conduct its business in a responsible way.

#### ■ Compliance with regulations

The future requirements of the International Maritime Organization (IMO) MARPOL Annex VI regulations regarding ship emissions and future US EPA legislation are the most significant regulations from a Wärtsilä perspective. The forthcoming NO<sub>x</sub> emission limits are being introduced in two additional tiers; Tier II represents a 20% NO<sub>x</sub> cut from the present Tier I level applied to all seas and will come into force in 2011, while the Tier III level applicable from 2016 represents a massive 80% NO<sub>x</sub> reduction when applied to specific designated NO<sub>x</sub> Emission Control Areas (ECA).

Concerning the forthcoming NO<sub>x</sub> emission requirements, all Wärtsilä products are IMO Tier II (2011) compliant with competitive fuel consumption performance. The main focus is on developing IMO Tier III (2016) solutions with the lowest lifecycle costs. Several factors influence lifecycle costs, such as time spent in ECA zones vs. total operating time, the operating profile, and variations in relative fuel costs. Wärtsilä is developing a wide range of solutions to cope with different boundary conditions.

The IMO and other regulating bodies have also set limits on the sulphur content of fuels. Wärtsilä engines are designed to operate on any fuel sulphur content. Exhaust gas scrubbing is an alternative solution for reducing SO<sub>x</sub> emissions. The Wärtsilä sulphur oxides (SO<sub>x</sub>) scrubber has been granted the Sulphur Emission Control Area (SECA) Compliance Certificate by the classification societies Det Norske Veritas and Germanischer Lloyd.

The IMO is also defining measures to reduce greenhouse gas (GHG) emissions from ships. A possible GHG emission trading scheme or other economic measures will impact operating costs and lead to changes in the ways vessels are operated.

#### ■ Efficiency improvements

Improving overall ship efficiency reduces lifecycle costs and emissions. CO<sub>2</sub>, SO<sub>x</sub> and particulate emissions are directly linked to fuel consumption. Wärtsilä has all the necessary solutions in its portfolio: automation, machinery, propulsion and ship design. By combining these with a solid knowledge of customer operations and treating them as an integrated solution,



a truly efficient ship operation can be achieved. We constantly strive to develop products and solutions that are more operationally efficient and cost effective for the entire ship concept.

Examples include the new W46F for cruise vessels offering the best fuel consumption in its class and the Low Loss concept for electrical propulsion which reduces losses in the electrical power train by 30-50%. It also significantly reduces the space needed and improves redundancy. Furthermore, counter-rotating propulsion is an additional efficiency gain. For smaller vessels comparable savings have already today been reported in their daily operations through the optimisation of hull design alone. Waste heat recovery technology also enables cutting emissions and reducing fuel consumption simultaneously.

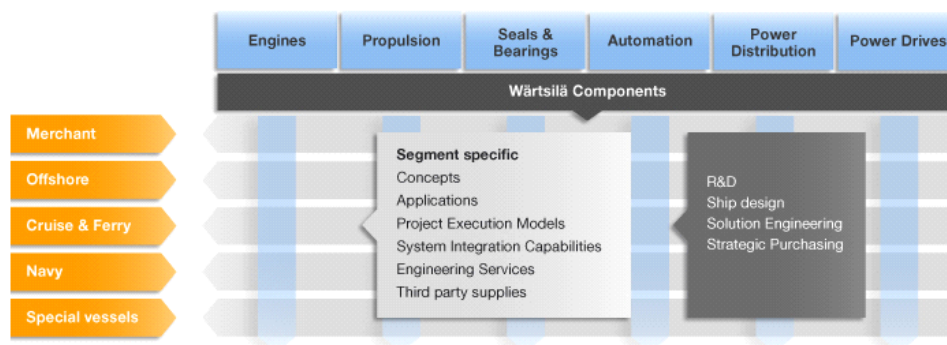
**Emissions reduction**

Pollution is one of the key environmental impacts of the shipping industry and in recent years we have seen a strong demand for low emission solutions. Wärtsilä applies the following emission reduction measures to reduce emissions to the atmosphere:

- Primary methods for NO<sub>x</sub> and particulates, e.g. combustion related measures
- Secondary methods for NO<sub>x</sub> and SO<sub>x</sub>, e.g. SCR or scrubbers
- Efficiency improvement related measures for CO<sub>2</sub>, SO<sub>x</sub> and particulates
- Alternative fuel related measures for CO<sub>2</sub>, NO<sub>x</sub>, SO<sub>x</sub> and particulates, e.g. gas operation.

To reduce emissions to the water, our sealing systems offer environmentally sound alternatives that prevent spilling of oil from ships into the environment. We also offer efficient treatment systems for sludge and bilge water.

Wärtsilä has the most extensive value proposition in the industry



CASE



“Contributing to the development of environmentally sustainable marine propulsion systems.”

## Wärtsilä has an unique role as system integrator in state-of-the-art technology project

In 2009 Wärtsilä was assigned overall responsibility for systems integration in the pioneering FellowSHIP project. Wärtsilä's specially designed equipment is being used to integrate and create synergies between leading marine technology and state-of-the-art fuel cell technology. The equipment has been installed onboard the platform supply vessel 'Viking Lady' for extensive sea tests. The innovative solution is seen as being an important contributor in the development of environmentally sustainable marine propulsion systems.

The FellowSHIP project is a joint industry research and development project managed by Det Norske Veritas. It aims to develop and demonstrate hybrid fuel cell power packs, especially suited for marine and offshore use. The power pack will be used as an auxiliary power source on the 'Viking Lady', which is owned by Eidesvik Offshore, Norway. The ship has been designed by Wärtsilä Ship Design, and its main engines and power drives have also been supplied by Wärtsilä. Wärtsilä's electrical & automation business unit in Norway has custom developed the power electronics needed to connect the fuel cell to the ship's electrical network, and Wärtsilä has, therefore, the important role of being the systems integrator for the FellowSHIP project.

The partners in the FellowSHIP project include Wärtsilä, Eidesvik, Det Norske Veritas and MTU Onsite Energy GmbH. The project is supported by the Norwegian Research Council, Innovation Norway, and the German Federal Ministry of Economics and Technology.

## Power Plants review

Wärtsilä Power Plants provides superior value to its customers by offering decentralised, flexible, efficient and environmentally advanced energy solutions. Wärtsilä's technology enables a global transition to a more sustainable and modern energy infrastructure. Our solutions are modular, tried and tested power plants, which deliver high efficiency.

### ■ Our solutions are flexible, efficient and environmentally advanced

Wärtsilä's power plant offering enables a unique combination of high electrical efficiency, fuel flexibility, operational flexibility and dynamic operating modes. Our engines can run on liquid fuels, a wide range of gases and renewable fuels. Most of our products have multi-fuel capabilities and all can be converted from one fuel to another. Furthermore, the operational flexibility of our products enables high system efficiency, flexibility in operations with varying loads, low water consumption as well as the possibility to construct in phases according to the customer's needs. These key features, combined with the full lifecycle support we offer, position Wärtsilä advantageously within the Power Plants market.

### ■ Our business is divided into four customers segments

#### Flexible baseload

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

#### Grid stability and peaking

Wärtsilä's grid stabilising power plants enable the growth of energy solutions based on wind, solar and hydro power. We offer dynamic solutions used for systems support, reserve power, peaking needs, and in regions with rapidly growing wind power capacity. Customers in this segment are mainly Utilities and IPP's. The strengths of Wärtsilä's products include rapid start and ramp up to full speed, the ability to operate at varying loads, competitive electricity generation and capacity costs, as well as 24/7 service. Grid stability and peaking plants are mainly fuelled by gas and gas turbine manufacturers are the main competitors.

#### Industrial self-generation

Wärtsilä provides Power Plant solutions to industrial manufacturers of goods in industries such as cement production, mining, and textiles. Customers are mainly private companies that rely on reliability, reduced energy costs, and independence from the grid 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 industry

Wärtsilä provides engines for mechanical drives, gas compression stations, and for field power and pumping stations to oil and gas power plants. Typical customer needs include maximum running time, reliability, long term engineering support and 24/7 service. The solutions we offer run on natural gas, associated gas and crude oil.

## Power Plants and sustainability

Traditional energy sources are being replaced by alternative solutions such as those running on renewable fuels. Wärtsilä's energy solutions have high efficiency and can utilise many different renewable fuels, thereby contributing to greenhouse gas reductions. We actively search for, develop, and deliver better, more modern and more sustainable solutions. We support our customers by providing advice on how to develop their systems and plant portfolios in order to cope with future requirements and norms.

### ■ Compliance with regulations

Compliance with the World Bank's regulations is a key principle in the development of Wärtsilä's power plants. As more and more financing institutions and export credit organisations have committed themselves to these guidelines, compliance has become increasingly widespread in power plant projects around the world. Wärtsilä's power plants are designed to enable lower emission levels as required by ambient air quality, national legislation or project-specific issues.

### ■ Efficiency development

We seek continuously new engine concepts and develop the design of our power plants accordingly. We offer only high efficiency solutions and our focus is on improving efficiency even further. Such solutions limit both the need for natural resources such as water and the emissions per unit of energy, thereby providing major environmental benefits.

### ■ Flexibility

Flexibility is one of the main features of Wärtsilä's power plant solutions. In terms of scope of delivery, our offering can vary from complete turnkey power plants to equipment supply. The high modularity of our products makes it easy for our customers to expand or modify the size of their power plants to meet future needs. Fuel flexibility has many advantages for our customers, notably the optimisation of energy production costs by using low cost fuels, the ability to use readily available fuels, and the ability to convert from one fuel to another. We are the technology enabler for power plants burning a wide range of gases and liquid fuels, including vegetable oils.

### ■ Reducing emissions

Wärtsilä places high priority on developing diverse and flexible emission reduction techniques. Since emission requirements and the fuels used differ widely, a comprehensive range of products is required as a basis for competitive solutions.

Mitigation of climate change calls for remarkable reductions in the use of greenhouse gases (GHG). The significant public and political pressure to reduce greenhouse emissions has resulted in emission trading regulations and the rising cost for CO<sub>2</sub> emissions. Wind power has seen rapid growth, and there is a clear need for products that enable the large construction of capacity without hampering the stability of the grid system. Wärtsilä is in a good position to meet this need, as the operational flexibility of our products makes it possible to easily adapt them to the needs of the grid.

We believe that the importance of natural gas will increase in the future. Consequently, the multi-fuel capability of our power plant solutions becomes an increasingly significant competitive advantage, as it enables the utilisation of all liquid and gaseous bio fuels that may become available on a wider scale. Wärtsilä focuses on developing decentralised energy solutions that emit less GHG emissions.

Emission reduction technologies

Emission component	Technology	Principle	Benefit	Typical use
Reducing particle emissions	Choosing a better fuel type (ash/sulphur)	Using a fuel with a smaller ash and sulphur content reduces the particle emissions produced during combustion.	Fuel-specific	Diesel engine/ heavy fuel oil
	Electrostatic filter	In an electrostatic filter, the particles in the flue gas are charged with an electric current and the charged particles are collected on the surfaces of the filter's collector plates. A smallish amount of flue ash is generated as an end product. The particle content achieved also depends on the quality of fuel used.	The particle content of gas discharged through the filter normally varies between 20 and 50 mg/nm <sup>3</sup> (15% O <sub>2</sub> ).	Diesel engine/ heavy fuel oil
Reducing NO <sub>x</sub> emissions	WetPac – H (humidity control)	The combustion air is humidified by injecting water into it, which lowers the combustion temperature and reduces emissions of nitrogen oxides. The amount of injected water required is determined according to air humidity, thus minimising water consumption.	Typical emissions are reduced by approx. 15–20% at the minimum air humidity level.	Diesel engine
	SCR (Selective Catalytic Reduction)	Nitrogen oxides (NO <sub>x</sub> ) are reduced into nitrogen (N <sub>2</sub> ) and water vapour (H <sub>2</sub> O) using ammonia or urea at a suitable temperature on the surface of the catalyst. Process control enables the amount of inactive ammonia in the flue gas to be kept low.	Collection efficiency 80–90%. Larger collection efficiencies are possible, but not cost-efficient.	Diesel or gas engine
Reducing SO <sub>2</sub> emissions	Lower sulphur content in fuel	The sulphur content of fuel is directly proportional to the sulphur dioxide emissions generated.	Fuel-specific	Diesel engine/ heavy fuel oil
	NaOH FGD (Flue Gas Desulphurization)	Sulphur dioxide is removed from the flue gas in a tower washer. Sodium hydroxide is used to neutralise the washing fluid. The plant produces wastewater as an end product, which should be treated.	A typical collection efficiency for SO <sub>2</sub> is approx. 90%.	Diesel engine/ heavy fuel oil with low sulphur
	Limestone FGD (Flue Gas Desulphurization)	The limestone cleaner is based on a wet tower washer in which sulphur dioxide is absorbed from the flue gas. Calcium, for which a disposal procedure should be determined, is produced as an end product.	A typical collection efficiency for SO <sub>2</sub> is 80–90%.	Diesel engine/ heavy fuel oil with high sulphur
Reducing CO emissions	Oxidation catalyst	Carbon monoxide is oxidized into carbon dioxide on the surface of the catalyst using the oxygen in the flue gas.	Depending on the amount of catalyst used, discharge efficiency is 30–90%.	Gas engines
Reducing hydrocarbon emissions	Oxidation catalyst	Hydrocarbons are oxidized into carbon dioxide and water vapour on the surface of the catalyst using the oxygen in the flue gas.	Discharge efficiency depends on both the catalyst chosen and the hydrocarbons involved.	Gas engines

Monitoring of emissions

Emission component	Technology	Principle	Benefit	Typical use
Monitoring of gaseous emissions	Secondary method – fuel and process parameters	The secondary method is based on periodical flue gas measurements as well as on the systematic monitoring and reporting of certain process and fuel parameters.	Reliable measuring, minimal need for expertise at the plant, suitable for different market areas.	Diesel engine – typically e.g. SO <sub>2</sub> emissions
	Continuous emissions monitoring (CEMS/AMS)	Emissions levels can be monitored constantly using automatic equipment. The operation and maintenance of the equipment requires personnel expertise to ensure reliable performance. The results reported may be uncertain if the necessary expertise is not available.	Actual emissions and exceedings are monitored and registered continuously.	Diesel or gas engine – typically e.g. NO <sub>x</sub> emissions
Monitoring of particle emissions	Secondary method – fuel and process parameters	The secondary method is based on periodical flue gas measurements as well as on systematic monitoring and reporting of certain process and fuel parameters.	Reliable measuring, minimal need for expertise at the plant, suitable for different market areas.	Diesel engine
	Continuous emissions monitoring	Constant particle measurement is usually based on secondary monitoring, e.g. analysers that monitor opacity or light diffusion. Calibration based on reference monitoring gives a correlation with the parameter monitored. If the fuel and load conditions vary, the monitoring may not yield reliable results.	The apparent emissions level is monitored constantly and any limits exceeded are registered automatically.	Diesel engine



CASE



Michael Packard, STEC

"Wärtsilä's efficient, cost effective, and innovative installations meet the needs of a continuously changing energy market."

## STEC

Due to changing market conditions in the Texas power market, South Texas Electric Cooperative (STEC) recognised a need to evaluate alternatives for developing competitive resources. As a result of this evaluation, Wärtsilä units were selected to back up STEC's existing generating capacity. The ability of the Wärtsilä units to respond to changing market conditions and market growth were some of the main drivers in the selection decision. Competitive heat rates, quick response, the ability to install and commission within a reasonable amount of time, and to use an existing brownfield site were highlighted as having impacted the decision.

"South Texas Electric Cooperative has a history of innovation, so when Wärtsilä was selected as our next generation resource, it should not have been an unexpected event. Wärtsilä provided an efficient, cost effective, and innovative installation, sensitive to the continuously changing energy market. Not only were the needs of our member cooperatives satisfied, but the solution also promised to be an enhancement to the ERCOT system and, ultimately, to the consumers of Texas," says Michael Packard, General Manager, STEC.

## Services review

Wärtsilä Services supports its customers by offering the broadest scope of services in the industry, thereby optimising their operations and product lifecycle. Our services network consists of over 11,000 services professionals in more than 160 locations in over 70 countries globally.

### ■ Services offering

Our Services business covers both the Ship Power and Power Plants businesses in their entirety. The base for Wärtsilä's Services business has traditionally consisted of our own installations. However, Wärtsilä has expanded its offering to cover also other brands and several non-engine related services. Expanding our offering by renewing and developing our portfolio through strategic acquisitions and innovations will continue to be our strategic focus in the future.

## ■ Our Services

### Engine Services

We provide complete engine services for Wärtsilä and other engine brands. These services cover everything from basic services to management support and performance optimiser packages.

### Electrical & Automation Services

The inclusion of automation services within our service portfolio strengthens Wärtsilä's strategy to be a total solutions provider. Automation services include the design and manufacturing of controls systems, power units and control panels for all industries. We provide a range of services from instrumentation to turnkey engineering packages or conversion projects.

### Propulsion Services

We offer complete services for propulsion systems, throughout the lifecycle of an installation. We serve both Wärtsilä and other brands' installations.

### Boiler Services

Wärtsilä Boiler Services further strengthens our position as a leading total services provider. We provide inspection services, condition based services, and spare parts for all types of boiler plants, as well as economisers and their control systems.

### O&M

Operation & maintenance agreements, in which Wärtsilä takes full control over the offered solution, ensure optimal performance of the installation. Our responsibility is to ensure that the installations meet set performance targets and lifetime criteria, allowing owners to concentrate on their core business. Operations and management agreements are more commonly made with power plants customers.

### Training Services

Our training services ensure that investments in employee development result in solid business growth. Training programmes are tailored to the requirements of our customers and range from traditional hands-on training in operations, maintenance and safety issues, and control systems, to advanced remote training systems and e-learning opportunities.

## Services and sustainability

Climate changes, the availability of liquid fuels and gas, and stricter environmental requirements all create opportunities for the Services business. Wärtsilä Services' main role in sustainability is to provide various services that ensure the operational and environmental performance of the delivered products and solutions. We also 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.

Wärtsilä Services conducts its business in a responsible way and creates added value by providing services near the customers and offering employment opportunities in local communities.



**■ Retrofitted new technology**

Wärtsilä Services offers environmentally sound primary and secondary technologies as retrofits to all installations. Changes in regulations necessitate upgrades to equipment in order for them to comply with new legislative requirements. Retrofits improve the economic and environmental performance of existing installations and ensure their safety and reliability throughout the product’s lifecycle.

**■ Condition-Based Maintenance**

CBM service is based on a unique combination of local plant inspections and the remote monitoring of its mechanical condition and operating. The system makes predictive maintenance possible, which in turn minimises interruptions to operations, increases safety, and optimises plant performance. Furthermore, it allows for the measurement and monitoring of emissions. Units linked to the CBM system are not serviced on a regular basis, but service is rather based on real need.

**■ Environmental technology**

We develop and supply a wide range of solutions that enable customer installations to comply with prevailing environmental requirements. We offer solutions that reduce CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>x</sub> 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 SCR, for power plant or marine applications.

**■ Methods for improving environmental performance**

Methods for improving environmental performance

Reduction of CO <sub>2</sub> emissions	Reduction of NO <sub>x</sub> emissions	Reduction of SO <sub>x</sub> and particulates (PM) emissions
<ul style="list-style-type: none"> <li>••• Conversion to gas operation</li> <li>•• Improved propulsion efficiency</li> <li>• In-engine modification for improved fuel efficiency</li> </ul>	<ul style="list-style-type: none"> <li>••• SCR catalyst</li> <li>•• Conversion to gas operation</li> <li>•• Wetpac DWI (Direct Water Injection)</li> <li>•• Wetpac H (Intake Air Humidification)                             <ul style="list-style-type: none"> <li>• In-engine Low NO<sub>x</sub> conversion</li> <li>• Wetpac E (Water-in-Fuel Emulsion)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>••• Conversion to gas or biofuel operation (SO<sub>x</sub> and PM)</li> <li>•• Scrubber (SO<sub>x</sub>)</li> <li>•• Electrostatic precipitator (PM)</li> <li>• Conversion to Common Rail fuel injection system (PM)</li> <li>• Wetpac E (Water-in-Fuel Emulsion) (PM)</li> <li>• Anti Polishing Ring (PM)</li> <li>• Tribo Pack (PM)</li> <li>• Pulse Lubricating System (PM)</li> </ul>
Reduction of oil spill to sea	Improvement of operation	
<ul style="list-style-type: none"> <li>••• Wärtsilä Oily Water Separator</li> <li>•• Conversion to Wärtsilä non-polluting seal system</li> <li>• Conversion of complete sterntube to water lubricated system using Wärtsilä seals and bearings package</li> </ul>	<ul style="list-style-type: none"> <li>- Emission measurement services</li> <li>- Training services</li> <li>- O&amp;M agreements</li> <li>- CBM (Condition Based Maintenance)</li> <li>- e-Services</li> <li>- System Audits</li> <li>- Control system upgrading including optimisation of operation</li> </ul>	

••• High potential •• Substantial potential • Moderate potential

CASE



”Creating long-term relationships with our customers enables us to gain an in-depth understanding of their needs, and offer them solutions accordingly.”

## Offering solutions to support sustainable shipping

Wärtsilä’s relationship with A.P. Moller-Maersk stretches back for many years. Today, our mutual understanding is that we are able to proactively focus on the implementation of RT-flex solutions, operational optimisation measures and environmental solutions. This long-term relationship was notably strengthened through a recent project in which the Moller-Maersk fleet was fitted with Wärtsilä’s RT-Flex engines and Waste Heat Recovery systems.

The co-operation between Wärtsilä Services and A.P. Moller-Maersk has resulted in significant added value benefits, such as reduced fuel consumption and lower emissions. These measures support Maersk’s environmental target of achieving a 20% reduction in emissions during a 10-year timeframe. Benefits in the form of cost savings were also realised.

“Our co-operation with Wärtsilä with the installation of Waste Heat Recovery Systems (WHRS) on our vessels, has achieved very good results,” says Eivind Kolding, Partner and CEO of the A.P. Moller-Maersk Container Business. “Thanks to WHRS we have gained an impressive 10% savings in fuel oil on our E-class vessels.”

## Wärtsilä Industrial Operations

Wärtsilä’s manufacturing focuses mainly on assembling, test running and finishing of products. Flexibility of the capacity is guaranteed through an outsourced business model with a broad network of suppliers. Flexibility and being close to the customer is important especially in the current market situation.

### ■ Wärtsilä’s broad supplier network supports flexibility in manufacturing

The flexibility of our manufacturing is supported by our broad network of suppliers. Co-operation is based on excellent relations and information sharing in order to secure component supply and short lead times. Wärtsilä has around 300 main suppliers globally and our network is developed on a continuous basis. Our sourcing strategy is to focus on carefully selected high performing suppliers. This means optimisation of the supply base emphasising performance and presence close to our manufacturing units.

### ■ Manufacturing centres situated in Europe and Asia

Manufacturing of our medium-speed main engines is concentrated to the delivery centres in Vaasa, Finland and Trieste, Italy. Our auxiliary engines are manufactured in Vaasa, Trieste, and in Shanghai, China. Manufacturing of our propulsion

components takes place in the Netherlands, Norway, the UK, China, India and Japan. Low-speed main engines are very large and therefore difficult to transport, which is why they are built under license close to shipyards in various parts of the world. We currently have 17 licensees related to low-speed engines situated in Asia, Europe and South America. As shipbuilding is moving more and more towards Asia, new capacity extensions have been initiated in Asia so as to be close to the customer. This expanded capacity enables better exploration of emerging markets, and savings can be obtained in both labour and transportation costs.

### Current manufacturing footprint

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

### ■ Wärtsilä plans to reduce its manufacturing footprint and to move part of production to China

During 2009 Wärtsilä analysed its global manufacturing footprint and at the beginning of 2010, the company announced its plans to adjust capacity to the fundamental changes in the market. Wärtsilä also plans to move the majority of its propeller production and auxiliary engine production to China, close to the main marine markets. The current propeller manufacturing in Drunen, and the component manufacturing DTS in Zwolle, both in The Netherlands, are planned to be closed. The Wärtsilä 20 generating set production in Vaasa Finland is planned to be closed and moved to China in order to stay competitive in this market.



**WÄRTSILÄ**  
**ANNUAL REPORT 2009**

# Corporate Governance

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30	Corporate Governance
51	Risks and risk management
60	Shares and Shareholders
66	Information for Shareholders
67	Wärtsilä on the capital markets 2009

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## Corporate Governance

Wärtsilä Corporation applies the guidelines and provisions of its Articles of Association, the Finnish Limited Liability Companies Act and the rules and regulations of NASDAQ OMX Helsinki Exchanges. Wärtsilä also complies with the Finnish Corporate Governance Code 2008 for listed companies. The Code is publically available on [www.cgfinland.fi](http://www.cgfinland.fi).

### ■ Governing bodies

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.

## Annual General Meeting

The ultimate decision making body in the company 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, appointing 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 (AGM) must be held no later than the end of June. Under the Articles of Association, an invitation to a General Meeting shall be published in at least two daily newspapers in common circulation in Finland, as decided by the Board of Directors, not earlier than two months prior to the meeting and not later than 17 days before the meeting. Wärtsilä also publishes its invitations to General Meetings as stock exchange announcements and on its internet website. Shareholders have, according to the law, the right to put items falling within the competence of the General Meeting on the agenda of the General Meeting, if the shareholder so notifies the Board of Directors in writing well in advance of the General Meeting so that the item can be added to the notice of the General Meeting.

### ■ Annual General meeting 2009

Wärtsilä's Annual General Meeting, held on 11 March 2009, 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 2008. All related documents can be found on Wärtsilä's website [www.wartsila.com](http://www.wartsila.com).

## 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 has between five and eight members. Board members serve for one year at a time and are elected by a General Meeting. The majority of the directors shall be independent of the company and at least two of the directors representing this majority shall be independent of significant shareholders of the company. Information on the Board composition, Board members and their independence is provided in the section Board of Directors CVs and in the full Corporate Governance statement.

The proposal for board composition shall be 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 in

corresponding order thereafter shall be disclosed separately.

The Board elects a chairman and deputy chairman from among its members. The Board steers and supervises the company's operations, and decides on policies, goals and strategies of major importance. The principles applied by the Board in 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 at its meetings on the Group's operations, financial position and risks.

The Board conducts an annual evaluation of its operations and working methods. The purpose of this evaluation is to establish how the Board has executed its tasks during the year and to act as a basis when assessing how the Board functions.

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

### ■ Board of Directors in 2009

In 2009 the Board consisted of six members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Kari Kauniskangas, Mr Antti Lagerroos (chairman), Mr Bertel Langenskiöld and Mr Matti Vuoria (deputy chairman).

During 2009, Wärtsilä's Board of Directors held 9 meetings. The average attendance of all directors was 98%.

## Board responsibilities

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

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

- 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 Directors' committees
- the granting of donations to good causes.

### The Board's committees

The Board of Directors annually appoints an Audit Committee, a Nomination Committee and a Remuneration Committee, and may also nominate any other committees, if considered necessary at its constitutive meeting following the Annual General meeting. The Board appoints the members of these committees and their chairmen. The Board also has 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 wish to do so. 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 the execution of its task of supervising the company's financial management. The Board appoints from among its members at least three members to the Committee. The 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.

#### ■ Audit Committee in 2009

Chairman Antti Lagerroos, Maarit Aarni-Sirviö, Bertel Langenskiöld. All members are independent of the company and significant shareholders. The Audit Committee met 4 times in 2009. The average attendance of all committee members was 92%. One meeting was not attended by one committee member.



### ■ 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 member. 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, when necessary, on the Committee's meetings to the Board.

### ■ Nomination Committee in 2009

Chairman Antti Lagerroos, members Matti Vuoria, Kaj-Gustaf Bergh. Two members are independent of the company and two members are independent of significant shareholders. The Nomination Committee met 2 times in 2009. The average attendance of all committee members was 100%.

### ■ The Remuneration Committee

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

The Board defines the duties of the Remuneration Committee in the charter confirmed for the Committee. The Remuneration Committee prepares, as necessary, matters concerning the nomination of the President and CEO, the 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 Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and, when necessary, on the Committee's meetings to the Board. Remuneration Committee in 2009

Chairman Antti Lagerroos, members Matti Vuoria, Bertel Langenskiöld. Two members are independent of the company and all members are independent of significant shareholders. The Remuneration Committee met once in 2009. The average attendance of all committee members was 100%.

## Board of Directors' CVs



Antti Lagerroos



Matti Vuoria



Maarit Aarni-Sirviö



Kaj-Gustaf Bergh



Kari Kauniskangas



Bertel Langenskiöld

### ■ Mr Antti Lagerroos

Independent of the company and significant shareholders. Chairman of the Board of Wärtsilä Corporation. Born 1945, LL.Lic. Member of the Board of Wärtsilä Corporation since 2002.

**Primary working experience** University of Turku, Lecturer in Process, Criminal and Public law 1971–78. Vaasa School of Economics, acting Professor of Fiscal Law 1973–79; Hollming Oy, President of Legal Affairs and Finance 1979–81; Salora Oy, Chairman & CEO 1981–84; Salora-Luxor Division, President 1984–86; Nokia Corporation, Member of the Operating Board 1984–86; Nokia Corporation, Member of Board of Directors 1986-90; Nokia Mobile Phones, Executive President 1989–90. President & CEO and Member of the Board of Finnlines Plc 1990–2007.

**Other positions of trust** Cargotec Corporation, Member of the Board.

### ■ Mr Matti Vuoria

Dependent on the company and independent of significant shareholders. Deputy Chairman of the Board of Wärtsilä Corporation. Born 1951, BA, Master of Laws. President & CEO of Varma Mutual Pension Insurance Company. Member of the Board of Wärtsilä Corporation since 2005.

**Primary working experience** Secretary General, Ministry of Trade and Industry 1992–98; 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, Member of the Board; 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.

### ■ Ms Maarit Aarni-Sirviö

Independent of the company and significant shareholders. Born 1953, MSc. (Tech.), MBA. President & CEO of Mint of Finland Ltd. Member of the Board of Wärtsilä Corporation since 2007.

**Primary working experience** Borealis Group 1994–2008, several senior leadership positions, latest Vice President, BU Phenol; and in Neste Oyj; 1977–94.

**Other positions of trust** Oy Nordic Moneta Ab and Det Norske Myntverket, Chairman of the Boards; Rautaruukki Oyj and Ponsse Oyj; Member of the Boards.

### ■ Mr Kaj-Gustaf Bergh

Independent of the company and dependent on significant shareholder. 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, 1982-83; Ane Gyllenberg Ab, Administrative manager, 1984–85; Oy Bensow Ab, Director, Executive vice president, 1985–86; Ane Gyllenberg Ab, Chief executive officer, 1986–98; SEB Asset Management, Director; 1998–2000; Skandinaviska Enskilda Banken, Member of management, 2000–9/2001; Föreningen Konstsamfundet r.f., Chief executive officer, 5/2006–.

**Other positions of trust** Chairman of Boards; Aktia Bank plc; Finaref Group Ab; Fiskars Corporation and KSF Media Holding Ab. Member of Boards; Ab Forum Capita Oy; Julius Tallberg Oy Ab; Ramirent Group and Stockmann Oyj Abp.

### ■ Mr Kari Kauniskangas

Independent of the company, dependent on significant shareholder. Born 1962. M.Sc (Econ.). President & CEO of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 2008.

**Primary working experience** Several different positions within Amer Sports Oyj since 1984; Amer Sports Europe GmbH, Germany, Managing Director, 1999–2004; Director, sales & distribution, 2004–07; Manager for the Winter & outdoor - business unit, 2007.

### ■ Mr Bertel Langenskiöld

Independent of the company and significant shareholders. Born 1950, MSc (Eng.). President of Metso Paper Inc. Member of the Board of Wärtsilä Corporation since 2002.

**Primary working experience** Tampella Power Kvaerner Pulping, Power Division, President 1994–2000; Fiskars Corporation, President 2001–03; Metso Minerals, Inc., President, 2003–06; Metso Paper, Inc., Fiber Business Line, President 8/2006–3/2007.

**Other positions of trust** Member of the Board of Luvata Group.

## 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, Services businesses and Wärtsilä Industrial Operations, the Chief Financial Officer, the Group Vice President, Legal Affairs & Human Resources and the Group Vice President, Communications & Branding. 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 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. 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 2009

In 2009 the Board of Management met 13 times. The principal issues addressed by the Board of Management were related to market development, company growth and profitability, personnel development, business strategy, as well as issues relating to development of competitiveness and cost. The development of markets, order intake and production capacity and footprint, as well as supplier relationships in a difficult global economic environment, were also vital concerns addressed by the Board of Management. Other important matters considered by the Board of Management included the development of the company's personnel and management resources worldwide as well as developing internal global processes and working practices.

## The President and 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 and 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 and CEO of the company is Mr Ole Johansson. The Board of Directors appoints, if necessary, one or several executive vice presidents. The company's Executive Vice President is its Chief Financial Officer Raimo Lind. Mr Lind also acts as the deputy to President and CEO Ole Johansson.

## Board of Management's CVs



Ole Johansson



Raimo Lind



Jaakko Eskola



Lars Hellberg



Kari Hietanen



Atte Palomäki



Vesa Riihimäki



Christoph Vitzthum

### ■ Ole Johansson

President & CEO since 2000. Born 1951, BSc (Econ.). Employed by the company in 1975–79 and rejoined in 1981.

**Primary working experience:** Wärtsilä Group 1975–79 and rejoined in 1981; Wärtsilä Diesel Inc, Vice President 1984–86; Wärtsilä Diesel Group, Vice President & Controller 1986–94; Metra Corporation, Senior Vice President & CFO 1994–96; Metra Corporation, Executive Vice President & CFO 1996–98; Wärtsilä NSD Corporation, President & CEO 1998–2000.

**Positions of trust:** Outokumpu Oyj, Chairman of the Board; Varma Mutual Pension Insurance Company, Deputy Chairman of the Board; Technology Industries of Finland, Member of the Board; Finnish Business and Policy Forum EVA, Member of the Supervisory Board.

### ■ Raimo Lind

Executive Vice President and Deputy to the President since 2005. Group Vice President, CFO since 1998. Born 1953, MSc (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 1976–80; Wärtsilä Diesel Group, Vice President & Controller 1980–84; Wärtsilä Singapore, Managing Director & Area Director 1984–88; Wärtsilä Service Division, Deputy Vice President 1988–89; Scantrailer Ajoneuvoteollisuus Oy, President 1990–92; Tamrock Oy, CFO 1992–93; Tamrock Service Business, Vice President 1994–96; Tamrock Coal Business, Vice President 1996–97.

**Positions of trust:** Sato Oyj, Deputy Chairman of the Board; Elisa Oyj, Member of the Board 2009–.

### ■ Jaakko Eskola

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

**Primary working experience:** VTT Technical Research Centre of Finland, Researcher 1983–84; Industrialisation Fund of Finland, Corporate Analyst 1984–86; National Banking Group, various managerial positions in international project finance 1986–97; PCA Corporate Finance, Executive Director 1997–98; Wärtsilä Development & Financial Services Oy, President 1998–2005; Wärtsilä Corporation, Power Plants, Vice President, Sales & Marketing 2005–06.

**Positions of trust:** EMEC, President; Finpro ry, Member of the Supervisory Board.

### ■ 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; Vice President, Industrial Operations; Vice President of Global Business & Volume Optimisation; General Manager in Volvo Car Operations BV 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. Born 1963, LL.M. Joined the company in 1989.

**Primary working experience:** Metra Corporation and Wärtsilä Diesel Group, Legal Counsel 1989–94; Wärtsilä Diesel Group, General Counsel 1994–99; Wärtsilä Power Divisions, Group General Counsel 2000–01; Wärtsilä Corporation, Vice President, Legal Affairs and Group General Counsel 2002–.

**Positions of trust:** German-Finnish Chamber of Commerce, Deputy Chairman of the Board.

### ■ Atte Palomäki

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

**Primary working experience:** MTV3, News anchor 1993–95; News producer 1995–2000; Senior economic correspondent

2000–02; Kauppalehti, Senior business correspondent 2002–05; Nordea Bank AB (publ.), Chief communication officer, Finland 2005–06; Group chief press officer 2007–08.

**Positions of trust:** Talentum Oyj, Member of the Board, Finnfacts, Member of the Board

### ■ Vesa Riihimäki

Group Vice President, Wärtsilä Power Plants as of August 2009. Born 1966, MSc (Eng.). Joined the company in 1992.

**Primary working experience:** Wärtsilä Diesel Oy, Design Engineer, Projects 1992–1993; 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, Vice President, Power Plant Technology 2004–2009.

### ■ Christoph Vitzthum

Group Vice President, Services as of August 2009. Born 1969, MSc (Econ.). Joined the company in 1995.

**Primary working experience:** Metra Finance, Foreign Exchange Dealer 1995–97; Wärtsilä NSD Corporation, Power Plants, Business Controller 1997–99; Wärtsilä Corporation, Ship Power, Vice President, Finance & Control 1999–2002; Wärtsilä Propulsion, President 2002–06. Wärtsilä Corporation, Group Vice President, Power Plants 2006-2009.

**Positions of trust:** CLEEN Oy, Member of the Board; Tamfelt Oyj Abp, Member of the Board. WADE (World Alliance for Decentralized Energy), Chairman

## Other Management

### ■ 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, Corporate Supply Management.  
Born 1958, BSc (Eng.).

#### **Päivi Castrén**

Vice President, Human Resources.  
Born 1958, MSc (Soc. Sc.).

#### **Maj-Len Ek**

Vice President, Group Control.  
Born 1948, BSc (Econ.).

#### **Per Hansson**

Vice President, Corporate Planning.  
Born 1967, MSc (Eng.).

### **Johan Jägerroos**

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

### **Esa Kivineva**

Chief Information Officer (CIO).  
Born 1961, PhD (Eng.).

### **Markus Pietikäinen**

Vice President, Group Treasury (as of 1 January 2010).  
Born 1975, MSc. (Econ.)

## **Business Management Teams**

Each business head is supported by a Business Management Team to consider issues, including the business's strategy and business operations.

### **■ Ship Power**

#### **Jaakko Eskola**

Group Vice President, Ship Power.  
Born 1958, MSc (Eng.).

#### **Lars Anderson**

Vice President, Merchant. Born 1968,  
BSc (Mech. Eng.).

#### **Arne Birkeland**

Vice President, Ship Design.  
Born 1966, MSc (Business).

#### **Carl-Henrik Björk**

Vice President, Specials.  
Born 1947, Marine Engineer.

#### **Juhani Hupli**

Vice President, Technology.  
Born 1966, MSc (Mech. Eng.).

#### **Timo Koponen**

Vice President, Finance & Control.  
Born 1969, MSc (Econ.).

#### **Magnus Miemois**

Vice President, Offshore.  
Born 1970, MSc (Eng.).



### **Henrik Wilhelms**

Vice President, Business Development.  
Born 1965, BSc (Mech. Eng.)

### ■ **Power Plants**

### **Vesa Riihimäki**

Group Vice President, Power Plants.  
Born 1966, MSc (Eng.).

### **Tore Björkman**

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

### **Frank Donnelly**

Vice President, Sales, America.  
Born 1953, Bsc (Math.).

### **Thomas Hägglund**

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

### **Osmo Härkönen**

Vice President, Delivery Management.  
Born 1949, MSc (CE).

### **Caj Malmsten**

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

### **Markus Pietikäinen**

Vice President, Development & Financial Services (as of 1 January 2010 also Vice President, Group Treasury).  
Born 1975, MSc (Econ.).

### **Rakesh Sarin**

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

### ■ **Services (as of 1 February, 2010)**

### **Christoph Vitzthum**

Group Vice President, Services.  
Born 1969, MSc (Econ.).

### **Pierpaolo Barbone**

Vice President, Area Middle East & Asia.  
Born 1957, MSc (Min. Eng.).

### **Fred van Beers**

Vice President, Area North Europe.  
Born 1962, Bachelor's degree,  
Merchant Engineer & Bachelor degree,  
BtB Marketing

### **Stefan Fant**

Vice President, Area South Europe & Africa.  
Born 1955, BSc (Mech.).

### **Tomas Hakala**

Vice President, Area Americas.  
Born 1968, BSc (Mech.)

### **Roger Holm**

Vice President, Solutions Management.  
Born 1972, MSc (Econ.).

### **Stefan Nysjö**

Vice President, Delivery Management.  
Born 1970, BSc (Mech.).

### **Mikko Ruohisto**

Director, Human Resources.  
Born 1954, MSc. (Mech. Eng.).

### **Eva-Stina Rönholm**

Vice President, Finance.  
Born 1967, MSc (Econ.).

## ■ Industrial Operations

### **Lars Hellberg**

Group Vice President, Industrial Operations.  
Born 1959, BSc (Eng.)

### **Stefan Damlin**

Vice President, Business & Finance Centre.  
Born 1968, MSc (Econ.)

### **Klaus Heim**

Vice President, Research & Development.  
Born 1962, MSc (Eng.)

### **Juha Kytölä**

Vice President, Product Centre Ecotech.  
President of Wärtsilä Finland Oy.  
Born 1964, MSc (Eng.)

**Erik Pettersson**

Vice President, Strategic Ventures.  
Born 1953, BSc (Eng.)

**Sergio Razeto**

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

**Arto Lehtinen**

Vice President, Product Centre Propulsion.  
Born 1971, MSc (Eng.)

**Paolo Tonon**

Vice President, Automation.  
Born 1970, MSc (Eng.)

**Martin Wernli**

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

## Managing Directors of the subsidiaries

The Managing Directors of the Group's subsidiaries are responsible for ensuring that the local service, sales and manufacturing 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 applies 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 and CEO, the Executive Vice President and 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 from the SIRE system of the Finnish Central Securities Depository Ltd. The same information is also available on Wärtsilä's homepage.

## 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, and 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 assigned by the Board of Management.

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 with 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's financial statements and accounting records, and the administration of the parent company.

On closing of the annual accounts, the external auditor submits the statutory auditor's report to the company's shareholders, and it also regularly reports the 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 2009

In 2009, the AGM appointed the firm of public auditors KPMG Oy Ab as Wärtsilä Corporation's auditor. Auditing fees paid to all the auditors of the Group companies amounted to EUR 2.0 million in 2009. Consultancy fees unrelated to auditing duties paid to the auditors totalled EUR 2.0 million. These latter fees concerned acquisitions and consultation on taxation matters.

## Internal control

### ■ Main components of Wärtsilä's internal control

Wärtsilä has defined its objectives for internal control based on the international COSO framework. According to Wärtsilä's definition, internal control is a process taken part by Wärtsilä's Board of Directors, management, the Boards of Directors of Group companies and other personnel, 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, and that the company's assets, including its brand, are safeguarded and that financial reporting is correct. Internal control is not a separate process or set of activities, but it is embedded in 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.

### ■ 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 of 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 include 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 the reasonable assurance regarding Wärtsilä achieving 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 the example for the corporate culture, which create the basis for the control environment. The same parties, together with Ship Power, Power Plants and Services (hereafter Business) and Wärtsilä Industrial Operations (hereafter WIO) management, are responsible for communicating Wärtsilä's values to the organisation.

### ■ 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 on the Group level. 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 single instance ERP system and a common chart of accounts. The international financial reporting standards (IFRS) are applied in the whole 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. The Group Finance and Control supports the Businesses and WIO in decision-making and analysis to ensure attaining 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, and also for developing the financial reporting processes and respective controls.

### ■ HR Management

Human resource management practices and processes have a key role in Wärtsilä's system of internal control. Human resource management mechanisms are the primary way through which to influence the personnel's control attitudes, for example towards the controls designed to uphold reliable financial reporting, and control awareness, i.e. knowledge about all the controls in place in Wärtsilä.

Wärtsilä's key human resource management processes with respect to internal control are compensation and benefits, HR development, recruitment and resourcing management and individual performance management, as well as processes for collecting feedback from the employees. These processes for their part help ensure the effectiveness of internal control in Wärtsilä. The HR function is responsible for maintaining and developing Wärtsilä's HR processes to enable effective internal control also on the individual level.

### ■ Other management systems

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

#### Quality

The quality of Wärtsilä's solutions, and thus quality management, is a top priority in 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. Acting in compliance with all applicable laws and regulations in all countries in which it operates, also regarding financial reporting, is a central part in Wärtsilä's sustainability performance.

#### 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 to be able to manage them. Thus, 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 systems controls. Control activities at different levels are needed to directly mitigate risks at the respective levels. Wärtsilä's risk management processes consist of a Group-wide risk assessment and management processes, as well as project-specific risk assessments and project risk management. The Group-wide risk assessment process results in the creation of action plans for the identified and prioritised risks.

Each Business 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.

### **■ Business processes**

The controls embedded in Wärtsilä's business processes have a key role in ensuring effective internal control in Wärtsilä. 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 Wärtsilä'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 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. The Board of Management of Wärtsilä Corporation approves Wärtsilä's Group level policies and any changes to them.

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**

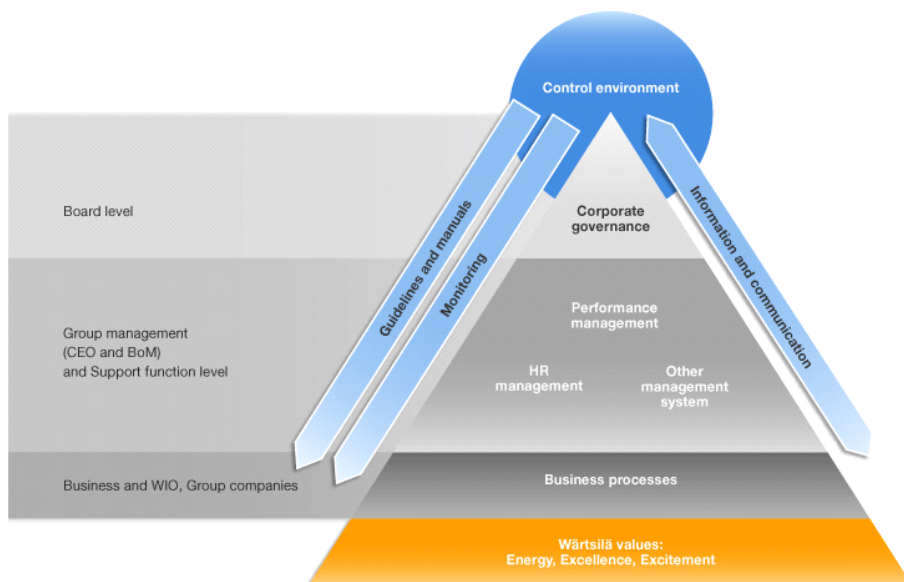
An effective internal control system needs sufficient, timely and reliable information to enable the management to follow up the achievement of the company's objectives. Both financial and non-financial information is needed, relating to both internal and external events and activities. Informal ways for employees to give feedback to management and to communicate suspected misconducts (for example directly to the Internal Audit function) are used on an ongoing basis. All external communication is 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 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 External Auditors verify the correctness of external annual financial reports.

Main components of Wärtsilä's internal control



## Salary and remuneration report 2009

### ■ 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 2009:

- To the ordinary members EUR 55,000/year
- To the deputy chairman EUR 82,500/year
- To the chairman EUR 110,000/year



In addition, each member will be paid EUR 400/meeting attended, the chairman's meeting fee being double this amount. Roughly 40% of the annual fee is paid in Wärtsilä shares.

The six members of Wärtsilä's Board of Directors, none of whom are employees of the company, were paid altogether 454,580 euros for the financial period that ended 31 December 2009. The Board's members were not covered by the company's stock option scheme or bonus scheme.

### ■ Remuneration of the President and CEO and the Board of Management

The remuneration paid to the President and 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 and CEO and the other members of the Board of Management consists of a monthly salary and a bonus. The Board of Directors determines the terms for the bonus payment. The bonus payments for the President and CEO and the Board of Management are paid according to the achievement of the company's profit targets. Monthly updated information on shares held by the President and CEO and the other members of the Board of Management can be found on the website at [www.wartsila.com](http://www.wartsila.com).

The President and CEO is eligible to take retirement on reaching the age of sixty and his retirement pension is 60% of his statutory (TyEL) earnings. Remuneration paid to the President and CEO if dismissed by the company, corresponds to 24 month's salary plus six months' period of notice salary. The retirement age of some of the members of the Board of Management is sixty years.

Financial benefits of President and CEO Ole Johansson

- Salary 2009: EUR 649 thousand
- Bonuses 2009: EUR 177 thousand \*)
- Shares and share related rights granted as remuneration: -
- Retirement age: 60
- Period of notice: 6 months
- Compensation paid if dismissed by the company: 24 months' salary + 6 months' period of notice salary.

\*) In addition, EUR 396 thousand has been reserved for long term bonus programs based on share price development.

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

### ■ Management 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.

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. Approximately 1,700 directors and managers are covered by this bonus 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 bonus scheme applies to approximately 50 directors.

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 scheme and various other profit-based incentive schemes.

Consolidated Financial Statement, Note 6: Employee benefit expenses

**Fees paid in Wärtsilä shares in 2009**

<b>Board of Directors</b>	<b>No. of shares</b>
Chairman Antti Lagerroos	1 652
Deputy Chairman Matti Vuoria	1 239
Maarit Aarni-Sirviö	827
Kaj-Gustaf Bergh	827
Kari Kauniskangas	827
Bertel Langenskiöld	827

**Board of Directors share ownership in Wärtsilä  
31.December 2009**

<b>Board of Directors</b>	<b>Share</b>
Antti Lagerroos	26 951
Change in 2009	+11 652
Matti Vuoria	3 301
Change in 2009	+1 239
Maarit Aarni-Sirviö	2 001
Change in 2009	+827
Kaj-Gustaf Bergh	1 297
Change in 2009	+827
Kari Kauniskangas	2 297
Change in 2009	+827
Bertel Langenskiöld	5 822
Change in 2009	+827

**Board of Management share ownership in Wärtsilä  
31.December 2009**

<b>Board of Management</b>	<b>Share</b>
Ole Johansson	24 533
Change in 2009	-
Raimo Lind	3 383
Change in 2009	-
Jaakko Eskola	5
Change in 2009	-
Lars Hellberg	0
Change in 2009	-
Kari Hietanen	72
Change in 2009	-
Atte Palomäki	300
Change in 2009	-
Vesa Riihimäki	0
Change in 2009	-
Christoph Vitzthum	466
Change in 2009	-

## Risks and risk management

### ■ 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 to achieve its goals and to ensure 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 on the principle that "everybody is responsible". In the long term this is the only way to reduce the total risk costs.

The relevant risks for Wärtsilä have been classified in four sections: 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.

### ■ Risk management process

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 all 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 risk management. The risk management policy is endorsed by the Board of Directors.

### ■ Risk reporting

Wärtsilä has strengthened its risk reporting during 2009. The Board of Management in its meetings carries annual Management Reviews on each Business, including their risks and risk mitigation. The risk map of the Group and all Businesses is then presented in the Finance Management Review in the autumn before the budgeting round. The risks are quantified in euros, their probabilities are estimated and risk mitigation actions, including potential investments, are decided in the normal course of business. The Group Risk report is then presented to the Board of Directors.

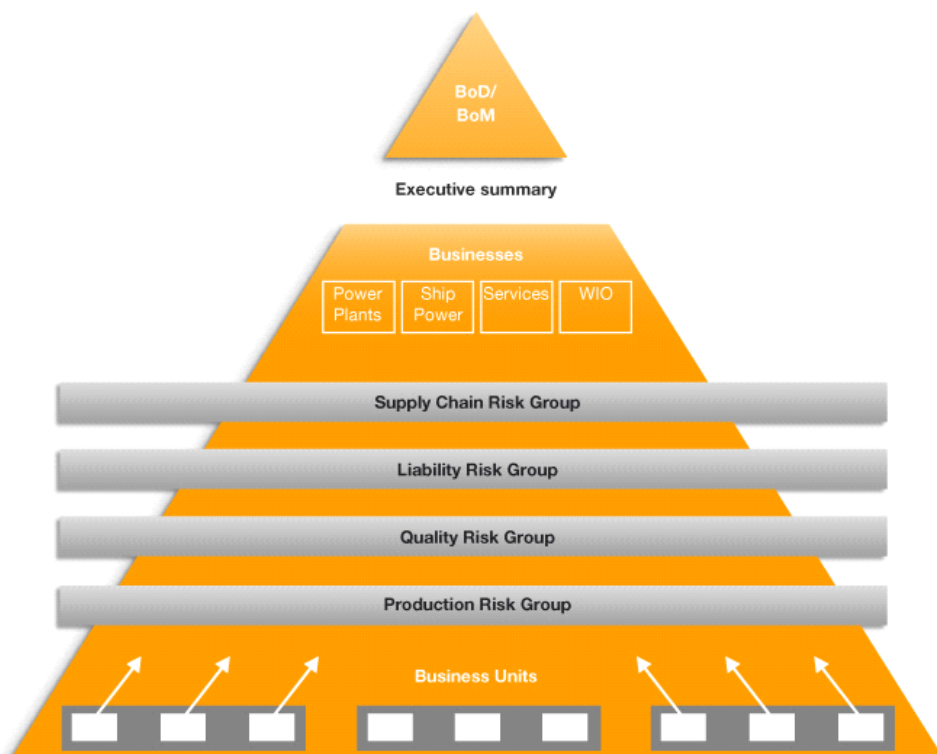
The Business Management Teams have risk management as a separate item on their agenda. The Businesses are responsible for organising, follow-up actions, and reporting on risk management from underlying Business units. In addition to divisional risk reporting, Wärtsilä has four cross-business risk groups (production, supply chain, quality, and liability risk groups). These forums concentrate on risk identification and mitigation from the corporate view. The groups have approximately four meetings annually.

The Corporate Risk Management function co-ordinates risk management activities and reporting within the Group.

Risk management process



Risk reporting



Strategic risks

A specific strategic risk assessment was conducted in 2009. It is a part of the strategic planning process within the Group.

■ Business Environment risks

Business cycles in the global economy and in our customer industries influence the demand for our products, as well as our financial conditions and operating result. Our flexible manufacturing model based on capacity outsourcing, plus a stable business mix with a large share of sales deriving from Services, brings Wärtsilä certain stability in a cyclical market. In 2009, the biggest risk for Wärtsilä's future success was the turmoil experienced in the financial markets and the subsequent slump in the world economy. Important economic matters that will 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 willingness to

extend credits, the counter cyclical stimulus programmes adopted by governments - especially in the power and infrastructure sectors, the enhanced activities of multilateral institutions such as IFC, the availability of export credit schemes and guarantees, and other such factors. However, the relatively large order book gives Wärtsilä some time to adapt to the market conditions.

### ■ Market and Customer risk

New orders for ships collapsed in 2009. Despite signs of a slow recovery in the world economy, the shipping industry still faces problems with overcapacity and idle anchored ships within the major vessel segments. Once the broader recovery commences, the Asian shipbuilding market will emerge stronger than earlier. Wärtsilä is well prepared for this development by having delivery centres and joint ventures with local players in China, Korea and Japan, and by locating the top management of its Ship Power Business in Shanghai. Wärtsilä is well represented in all the major shipbuilding areas and is active in all major vessel segments. This mitigates both single customer related and geography related risks. However, the financial position of some clients has weakened. Thus, Wärtsilä is constantly following the financial situation of its customer base. The most vulnerable shipping sub-segments are bulkers and containers, where the market is expected to remain very quiet for the next two years or so. Other sub-segments will most likely recover earlier. Ship Power business has had several order cancellations during the year, but the risk of new cancellations decreased during the course of the year. Instead, postponements and rescheduling of orders are being made and expected.

In the Power Plant business, the number of projects under bidding remained at a good level but financial closures of the deals were often postponed due to the difficulties in the financial markets. The bigger projects in particular were difficult to finalise, whereas the market for smaller power plants was less affected. However, existing orders and thus net sales, were not affected. Geographically, Europe, the Middle-East and Africa were the most active. Wärtsilä has four types of customers: Industrial customers, IPPs, utilities, and oil & gas sector customers. The IPP segment is currently challenging, but the market is likely to recover once financing possibilities become more favourable for clients. Power Plants' strategic objective is to support its customers by offering energy efficient, fuel flexible, and operationally flexible solutions that offer optimal means for managing the varying load profiles of the grids. Wärtsilä's solutions also enable the introduction of a higher share of renewable energy sources, which need backup generation in order to ensure capacity at all times.

Wärtsilä's Services Business has expanded both through acquisitions and organically. During recent years Wärtsilä has acquired new capabilities within propulsion, automation and boiler services, which are being copied globally to other relevant Wärtsilä locations. Wärtsilä has over 14,000 customers and an active engine base of nearly 170,000 MW, which means that its dependency on any single customer or customer segment is insignificant. The rapid growth of Services has currently levelled out, but Services' long-term volumes are still expected to grow faster than new equipment sales. The recession also creates new opportunities for Services as customers want to reduce fixed costs through increased outsourcing. Wärtsilä will develop its service portfolio accordingly.

### ■ Competitive situation and price risk

Demand for Ship Power Business was weak during 2009 due to the financial crisis. The overcapacity in the market is expected to create more competition and price pressure in the future. Ship Power's largest competitors in main engines are MAN Diesel and Caterpillar (MAK). No significant changes took place in the competitive situation during 2009. In the Propulsion Business, competition is more fragmented and varies by product segment. The concept of selling packaged solutions rather than merely components reduces price volatility. The concept of being a system integrator with Ship Design capability will prove to be even more important in the future.

In the power plant market, Wärtsilä's main competitors are the same engine manufacturers as for Ship Power, plus in some cases also other technologies, notably gas turbines. Wärtsilä managed to maintain its power plant market share in the challenging market conditions of 2009.

In the Services Business, Wärtsilä has no direct competitors that offer a similar portfolio of services from a single source. Each service has therefore its own identified set of competitors. Excluding the service networks of other engine manufacturers, there are few global players in the service market. Consolidation within the customer interface and

increased cost consciousness will enhance Wärtsilä's possibilities for offering a wider scope of service solutions, especially to ship owners.

### ■ Political and legislative risks

Wärtsilä is present in 160 locations in more than 70 countries and has delivered power plants to 160 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 in projects of importance to Wärtsilä's operations. Much of this engagement takes place through interest groups and trade organisations. The company monitors legislative changes at both corporate and subsidiary levels.

### ■ Climate change and Sustainability risks

The potential business risks related to climate change and Wärtsilä's products are in the areas of regulatory emission restrictions, and in changes in customer attitudes to using combustion engines.

The International Maritime Organization (IMO) has approved amendments to the MARPOL Annex VI regulations on ship emissions. These regulations set stricter limits on emissions of Nitrogen Oxides ( $\text{NO}_x$ ) from the engines, as well as on the sulphur content of the fuel. The new requirements will enter into force in various phases during the years 2010–2020. As regards  $\text{NO}_x$  emissions, Wärtsilä has already introduced solutions that comply with these requirements. Wärtsilä engines are designed for operation on any fuel sulphur content. As a response to the tightening Sulphur Oxides ( $\text{SO}_x$ ) emissions, Wärtsilä has developed scrubber technology by which exhaust gases can be cleaned to meet the tight regulations. Additionally, Wärtsilä has a multifaceted gas engine strategy and can provide gas engines to vessels. Being at the forefront of technological developments gives Wärtsilä many opportunities arising from tightening environmental regulations. Shipping can reduce its carbon footprint through ship design, efficient engines, and optimal propulsion solutions.

In 2008, the final version of the "Thermal Power Plants EHS (Environmental Health and Safety) Guidelines" was published by the World Bank/IFC (International Finance Corporation). This publication concluded the review and update work of the World Bank Group's EHS Guidelines, which consisted in total of 62 Industry Sector EHS Guidelines, and the General EHS Guidelines. The EHS Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practices (GIIP). Leading international banks have reached agreement with IFC to follow guidelines based on 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 is currently in the process of preparing its Industrial Emissions Directive. UNECE Gothenburg Protocol revision work is also on-going, and is expected to be finalised during spring 2010. An intensive interaction between the various stakeholders is currently taking place. Wärtsilä is actively engaged in the dialogue between different authorities, associations, industry and customers, in order to ascertain the optimal solution for meeting market needs.

Tightening regulations will create new opportunities for Wärtsilä. In Power Plants, Wärtsilä is a technological forerunner and can offer further improvements, such as more efficient engines, fuel flexibility (such as bio fuels and natural gas) and CHP (combined heat and power) applications with very high total efficiency. Services can offer several retrofit solutions in the after sales market to reduce emissions and increase efficiency. Wärtsilä can also offer environmentally sound solutions for a number of applications, including bilge and ballast water handling.

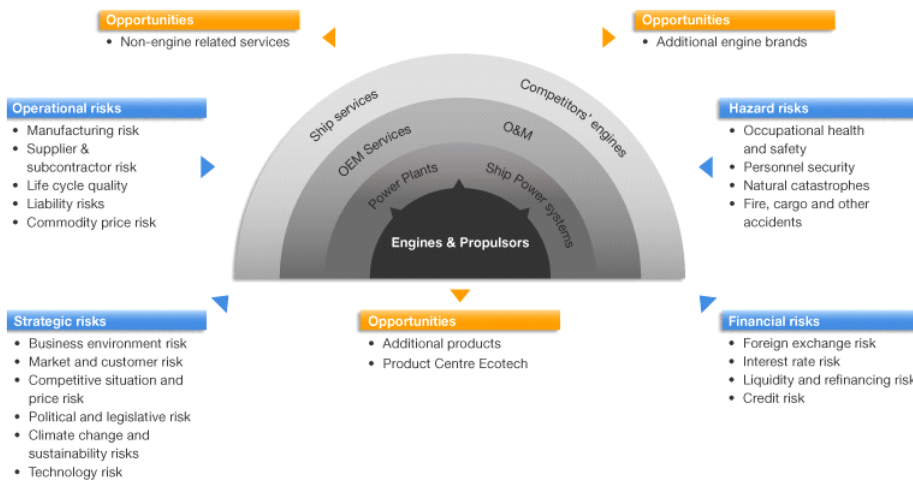
The risks in environmental legislation changes are related to the complexity of the overall field of different emissions, the balance between commercially available fuels and resulting emissions, available abatement technologies, the impact on overall energy efficiency, and the resulting financial feasibility. Wärtsilä's new Delivery Center Ecotech unit began operations in 2009. It will focus on centralising environmental technologies that are related to products other than the engines in order to quickly respond to market and customer needs with fully integrated and validated solutions.

Wärtsilä has also assessed wider sustainability risks, both in strategic and operative risk assessments. However, these were not found to be significant. For more information, please see the separate Sustainability report included in this annual report.

**Technology risks**

As a technology leader Wärtsilä needs to maintain its cost competitiveness and places high emphasis on engine efficiency and emissions control. New products are developed from the viewpoint of lifecycle service and efficiency e.g. through utilising Ship Design, electrical & automation and Ecotech capabilities. Wärtsilä aims to increase the competitiveness of its solutions through solid R&D work.

Operations, risks and opportunities



**Operational risks**

Operational Risk Management is part of the daily work of the Businesses. Apart from normal risk management work, specific Operational Risk Groups that include members from each Business, have been established and have been operative since the beginning of 2009. Their aim is to establish a continuous process of operational improvements.



### ■ Manufacturing risk

In 2009 risk assessments were made with insurers in the biggest delivery centres, Vaasa and Trieste. Other locations inspected included the major propulsion factories in the Netherlands and UK. Significant safety and risk mitigation investments were completed in Trieste. Wärtsilä is using management systems for quality, environmental, occupational health and safety, and other systems to improve productivity and safety. Wärtsilä has begun a process to create comprehensive business continuity plans (BCP) for all its key delivery centres.

With the Ship Power market remaining weak, and as the majority of ship construction has already shifted to Asia, Wärtsilä needs to analyse constantly its manufacturing footprint and capacity costs, including the supply chain. The analysis comprises all manufacturing units with major focus on capacity adjustments in European units with product deliveries to marine markets.

### ■ Supplier and subcontractor risk

The centralised Corporate Supply Management (CSM) function 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. An on-going and deeper co-operation with suppliers has been initiated to cover interruption risks, as well as for sharing information on risk management issues and business continuity planning. Several supplier risk audits were completed during 2009 together with the insurer. These audits are now part of the regular work for the CSM and Risk Management functions.

Due to the financial markets crisis, a more comprehensive follow-up of suppliers' creditworthiness has been set in place. The Corporate Supply Management function has developed its activities by creating close collaboration and relationships with its main suppliers, by emphasising quality, cost, lead-times, and long-term delivery agreements, and by sharing innovative solutions in order to drive down costs. In addition, Wärtsilä has also increased its number of suppliers of certain critical components, and its sourcing in emerging markets. Wärtsilä currently sees opportunities for reducing supply chain costs due to over-capacity and increased pricing pressure within the markets.

### ■ 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, a risk elimination tool, a single issue list, and in-house validation testing. Furthermore, Wärtsilä seeks to control quality risks by controlling 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 the full release given to the sales organisations. The 5S (including 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 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. Product liability insurance covers unexpected damages.

### ■ Contractual risks

Wärtsilä's non-service sales consist of project deliveries of various sizes. The biggest deliveries concern turnkey power plants of 100 MW or bigger. However, the risks from individual projects do not reach significant levels considering the total volume of business. Wärtsilä is sometimes also involved in product liability claims. The lifecycle quality of the products and work, initiating from design and including the field service work, plus the use of standard sales contracts, reduce the risk of claims. There is no significant litigation currently under process.

■ Commodity price risk

Oil

The direct effect of oil price changes on production in Wärtsilä 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.

Metals

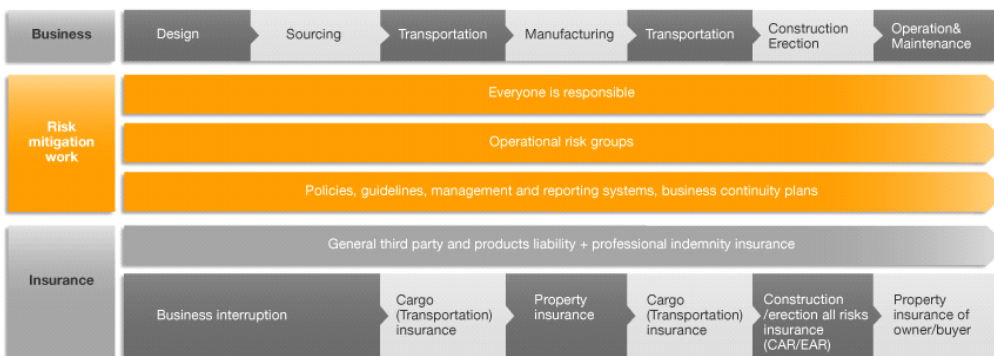
Metal prices have an indirect effect on engine component costs. This exposure is not hedged but annual agreements are in place to balance the short-term fluctuations. Furthermore, some key components are sourced with long-term contracts and thus raw material price volatility is generally smoothed. The Propulsion Business hedges its exposures to different metal prices, including copper, nickel and aluminium. These risks are small from the Group's perspective.

Electricity

Electricity prices have no substantial impact on Wärtsilä's production costs.

■ Which insurance covers our business?

Which insurance covers our business?



Wärtsilä's product life cycle is described against the simultaneous risk mitigation work done and the respective insurance coverage for accidents.

Hazard risks

Occupational health and safety systems, travel safety instructions, and crises management guidelines are aimed at protecting Wärtsilä employees. Wärtsilä has appropriate insurances for its personnel. 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 within Natural Catastrophe areas.

Risks that Wärtsilä is unable to influence through its own efforts are transferred to insurance companies, where possible. 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 reinsurance company, Vulcan Insurance PCC Ltd, as a risk management tool for this purpose.

**Risk radar**

Risk radar

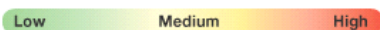


## Financial risks

The 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 plans	Wärtsilä Board of Directors (BoD), Board of Management (BoM) and Wärtsilä's Businesses (Businesses)
Business environment risk	●●●●●●●●	Wärtsilä's strategy and business plans	BoM and Businesses
Market and customer risk	●●●●●●●●	Wärtsilä's strategy and business plans	BoM and Businesses
Competitive situation and price risk	●●●●●●●●	Wärtsilä's strategy and business plans	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, Production Risk Group
Supplier and subcontractor risk	●●●●●●●●	Supplier requirements and supplier management system, Business Continuity Plan (BCP)	Businesses and Corporate Supply Management (CSM), Supply Chain Risk Group
Life cycle quality of products and product liability risk	●●●●●●●●	Management system (ISO 9001), Safety instructions and manuals, risk management policy, R&D risk elimination instructions	WIO, R&D function, Businesses and RM and Legal functions, Quality Risk Group
Contractual risks	●●●●●●●●	Standard contracts	Legal function and Businesses, Liability Risk Group
Commodity price risk	●	Production cost control	Businesses and Treasury function
Data security risk	●	Data security principles	Businesses and IM function
Hazard risk		Risk management policy and guidelines	Wärtsilä's 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 function
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



## Shares and shareholders

Wärtsilä Corporation's shares are listed on the Nasdaq OMX Large Cap list on the Helsinki Stock Exchange. Wärtsilä's total number of shares at the end of the review period was 98,620,565.

### The Wärtsilä share on the Helsinki Stock Exchange

		2009	2008	2007	2006	2005
Trading volume	MEUR					
Series A <sup>1</sup>		-	13.5	665.7	55.6	72.2
WRT1V <sup>2</sup>		<b>3 215.8</b>	5 220.5	6 018.1	2 963.2	1 796.6
Total		<b>3 215.8</b>	5 234.0	6 683.8	3 018.8	1 868.8
Number of traded	x 1 000					
Series A <sup>1</sup>		-	289	13 412	1 716	3 160
WRT1V <sup>2</sup>		<b>137 102</b>	147 205	125 257	92 322	79 635
Total		<b>137 102</b>	147 595	138 669	94 038	82 795
Stock turnover	%					
Series A <sup>1</sup>		-	4.5	56.8	7.2	13.4
WRT1V <sup>2</sup>		<b>139.0</b>	149.3	173.0	128.2	112.9
Total		<b>139.0</b>	149.3	144.4	98.4	88.0
Average share price	EUR					
Series A <sup>1</sup>		-	46.79	49.63	32.52	22.73
WRT1V <sup>2</sup>		<b>23.46</b>	35.41	48.04	32.07	22.46
Trading low/high	EUR					
Series A <sup>1</sup>	low	-	33.05	38.05	24.60	15.31
	high	-	53.00	58.00	40.99	26.70
WRT1V <sup>2</sup>	low	<b>15.81</b>	15.50	38.44	24.80	15.68
	high	<b>30.91</b>	52.40	58.89	41.20	27.09
Share price at the year-end						
Series A <sup>1</sup>		-	-	53.09	40.75	24.84
WRT1V <sup>2</sup>		<b>28.07</b>	21.01	52.09	40.81	25.00
Year-end market capitalisation	MEUR	<b>2 768</b>	2 072	5 023	3 898	2 349

<sup>1</sup> Series A until 26 March 2008.

<sup>2</sup> Series B until 26 March 2008, thereafter WRT1V.

Key figures for Wärtsilä share

		2009	2008	2007	2006	2005
Earnings per share (EPS)	EUR	<b>3.94</b>	3.88 <sup>2</sup>	2.74	3.72	1.80
Book value of equity per share	EUR	<b>15.17</b>	12.01	13.70	12.74	12.25
Dividend per share		<b>1.75<sup>1</sup></b>	1.50	4.25	1.75	3.00
Dividend per earnings	EUR	<b>44.40<sup>1</sup></b>	38.70	155.10	47.00	166.70
Dividend yield	%					
Series A	%	-	-	8.01	4.29	12.08
WRT1V <sup>3</sup>		<b>6.23<sup>1</sup></b>	7.14	8.16	4.29	12.00
Price per earnings (P/E)						
Series A		-	-	19.4	11.0	13.8
WRT1V <sup>3</sup>		<b>7.12</b>	5.41	19.0	11.0	13.9
Price to book- value (P/BV)						
Series A		-	-	3.9	3.2	2.0
WRT1V <sup>3</sup>		<b>1.9</b>	1.7	3.8	3.2	2.0
Adjusted number of shares	x 1 000					
end of financial year		<b>98 621</b>	98 621	95 970	95 554	94 107
on average		<b>98 621</b>	97 944	95 751	94 429	93 010

<sup>1</sup> Proposal of the Board of Directors.

<sup>2</sup> 3.96 euros before the effect of the combination of Wärtsilä's share series.

<sup>3</sup> Series B until 26 March 2008, thereafter WRT1V.

## Shareholders

Wärtsilä has approximately 42,400 shareholders. At the end of the period, approximately 45% of the capital was held by foreign shareholders. At the end of 2008, the corresponding figure was 46%.

### Ownership structure on 31 December 2009

Group	Number of shareholders	%	Number of shares	%
Private corporations	1 974	4.7	3 807 547	3.9
Banks and insurance companies	87	0.2	1 660 092	1.7
Public sector entities	52	0.1	10 006 204	10.1
Non-profit organisations	830	2.0	12 558 156	12.7
Households	39 131	92.3	25 800 286	26.2
Outside Finland	314	0.7	18 151 295	18.4
Nominee registered			26 636 985	27.0
<b>Total</b>	<b>42 402</b>	<b>100.0</b>	<b>98 620 565</b>	<b>100.0</b>

### Division of shares 31 December 2009

Number of shares	Number of shareholders	%	Number of shares	%
1-50	7 325	17.3	230 462	0.2
51-1000	6 628	15.6	576 287	0.6
101-1 000	22 506	53.1	8 480 418	8.6
1 001-5 000	4 888	11.5	10 220 446	10.4
5 001-10 000	575	1.4	4 069 891	4.1
10 001-100 000	426	1.0	10 608 441	10.8
100 001-500 000	41	0.1	9 094 133	9.2
500 001-1 000 000	6	0.0	3 847 626	3.9
1000 001-	4	0.0	24 855 876	25.2
Nominee registered			26 636 985	27.0
<b>Total</b>	<b>42 402</b>	<b>100.0</b>	<b>98 620 565</b>	<b>100.0</b>

### Major shareholders 31 December 2009

Owner	Shares	Shares %
1 Avlis AB (Subsidiary of Fiskars Plc)	16 846 301	17.08
2 Varma Mutual Pension Insurance Company	5 130 087	5.20
3 Ilmarinen Mutual Pension Insurance Company	1 850 309	1.88
4 Svenska Litteratursällskapet	1 761 416	1.79
5 The Social Insurance Institution of Finland	967 955	0.98
6 Sigrid Jusélius Foundation	665 398	0.67
7 Jenny and Antti Wihuri Foundation	631 608	0.64
8 The Finnish Cultural Foundation	540 000	0.55
9 State Pension Fund	531 148	0.54
10 Inez och Julius Polins Fond	511 517	0.52
11 Brita Maria Renlund Foundation	438 550	0.44
12 Livränteanstalten Hereditas	427 749	0.43
13 Ella and Georg Ehrnrooth Foundation	421 465	0.43
14 The Signe and Ane Gyllenberg foundation	414 444	0.42
15 Samfundet Folkhälsan i Svenska Finland rf	408 825	0.41
16 Savox Investments S.A.	365 000	0.37
17 Åbo Akademi Foundation	300 555	0.30
18 Svenska Kulturfonden i Björneborg	277 505	0.28
19 Sijoitusrahasto Alfred Berg Finland	260 500	0.26
20 Pensionsförsäkringsaktiebolaget	255 986	0.26



21	Mutual Insurance Company Eläke-Fennia	250 000	0.25
22	Magnus Ehrnroot Foundation	246 222	0.25
23	William Thuring's Stiftelse	242 222	0.25
24	Rantanen Tuula Anneli	241 333	0.24
25	Folkhälsans Forskningsstiftelse - Kansanterveyden tutkimussäätiö	240 489	0.24
26	Odin Finland	223 667	0.23
27	Kuntien Eläkevakuutus	221 652	0.22
28	Blåberg Meeri	220 000	0.22
29	Oy Ingman Finance Ab	210 000	0.21
30	Svenska Folkskolans Vänner	206 218	0.21
31	Louise och Göran Ehrnrooths Stiftelse	188 815	0.19
32	Folketrygdfondet	177 000	0.18
33	SR Danske Invest Suomi Osake	161 532	0.16
34	Fromond Elsa	155 478	0.16
35	Von Fieandt Johan	154 246	0.16
36	Relander Harald Bertel	150 000	0.15
37	Emil Aaltosen Säätiö	146 000	0.15
38	Oy H. Kuningas & Co Ab	145 000	0.15
39	Tallberg Carl Johan	143 341	0.15
40	Riihimäen Konepajakoulun Säätiö	141 293	0.14
41	Stockmann Marita	135 613	0.14
42	Neste Oil Eläkesäätiö	128 700	0.13
43	Etera	125 000	0.13
44	Petter och Margit Forsströms Stiftelse	115 000	0.12
45	Blomberg Anne-Sofie	111 752	0.11
46	Maanpuolustuksen Kannatussäätiö	107 708	0.11
47	Liikesivistysrahasto	103 918	0.11
48	Bergsr. Dr H.C. Marcus Wallenbergs Stiftelse	103 300	0.10
49	SR Danske Invest Suomi Yhteisosake	101 853	0.10
50	Nordea Henkivakuutus Suomi Oy	100 000	0.10
<b>Total</b>		<b>38 003 670</b>	<b>38.54</b>

■ **Management holdings**

The members of the Board of Directors, the CEO, the CEO's deputy, and the corporations under their control own altogether 69.585 Wärtsilä Corporation shares, which represent 0.07% of the stock and of the voting rights.

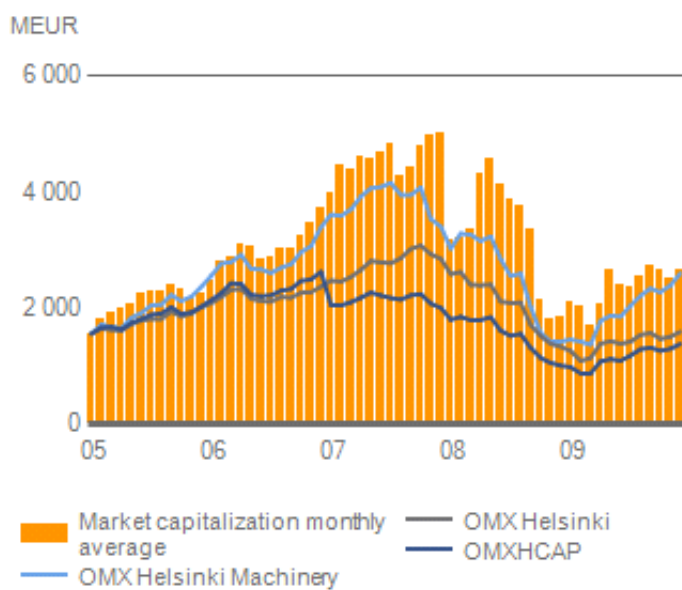
■ **Authorisations granted to the Board of Directors**

Following the Annual General meeting (11 March 2009), there are no current authorisations.

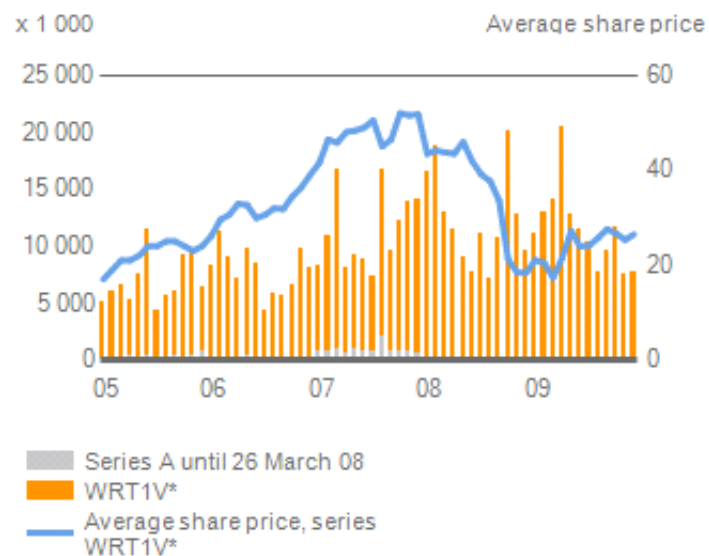
■ **The Board of Directors' dividend proposal**

The Board of Directors proposes that a dividend of 1.75 euros per share be distributed for the financial period that ended 31 December 2009.

Market capitalization 2005-2009

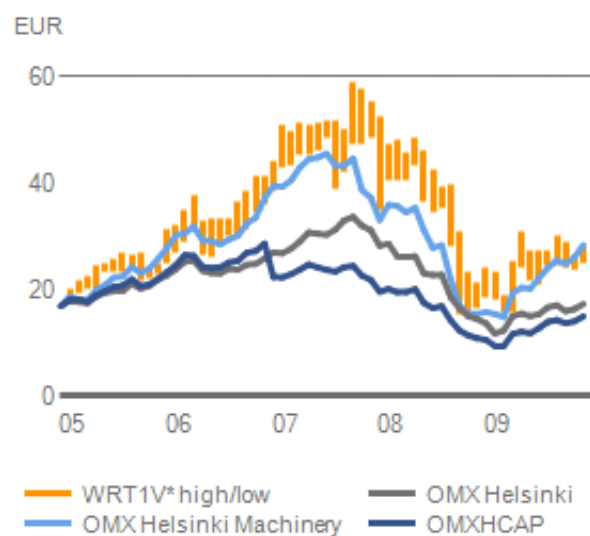


Traded shares/month 2005-2009



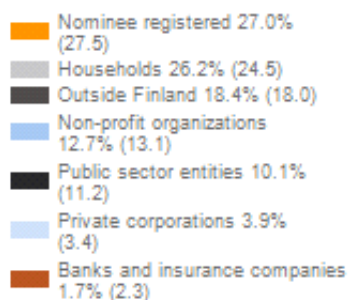
\* Series B until 26 March 2008, thereafter WRT1V.

WRT1V\* quotations 2005-2009



\* Series B until 26 March 2008, thereafter WRT1V.

## Ownership structure 31 December 2009



## Information for Shareholders

### ■ Annual General Meeting

The Annual General Meeting of Wärtsilä Corporation will take place on Thursday, 4 March 2010, 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 22 February 2010 in the company's list of shareholders maintained by the Finnish Central Securities Depository 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 1 March 2010 either by letter, by e-mail, by fax or by 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 (noon) on weekdays  
Fax: +358 10 709 5283  
E-mail: [yk@wartsila.com](mailto:yk@wartsila.com)  
Internet: [www.wartsila.com/agm\\_register](http://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 1 March 2010. Letters authorising a proxy to exercise a shareholder's voting right at the Annual General Meeting should reach the Company before the notification period expires.

### ■ Payment of dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.75 per share will be paid for the 2009 financial period. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by the Finnish Central Securities Depository Ltd on the record date, which is 9 March 2010. The dividend payment date proposed by the Board is 16 March 2010.

### ■ Financial information 2010

#### Annual Report 2009

The electronic Annual Report 2009 and the printed summary are also available in Finnish and Swedish and are published on Wärtsilä's Internet site, [www.wartsila.com](http://www.wartsila.com).

#### Interim Reports 2010

- January-March on Friday 23 April 2010
- January-June on Wednesday 21 July 2010
- January-September on Wednesday 20 October 2010
- Interim Reports are available in English, Finnish and Swedish on Wärtsilä's Internet site.

#### Stock Exchange Releases

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

#### Ordering information material

Wärtsilä's Annual Report 2009 summary, Annual and Interim Reports published before 2010, as well as releases and brochures can be ordered from the Communications Department either by telephone +358 10 709 0000, fax +358 10 709 5219, e-mail: [corporate.communications@wartsila.com](mailto:corporate.communications@wartsila.com) or via the Internet at [www.wartsila.com](http://www.wartsila.com), Contact-section.

## Wärtsilä on the capital markets 2009

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 2009

During 2009, Wärtsilä conducted 200 IR meetings in Helsinki, London, Edinburgh, Paris, Frankfurt, Stockholm, Copenhagen, Oslo, Boston, New York and Shanghai. In addition to one-on-one meetings, several group meetings were hosted at Wärtsilä's offices during the year. The IR team also gave presentations at a number of investor conferences, both in Finland and abroad.

### ■ 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 about the company and its shares in order to determine the fair value of our shares. To reach this objective we annually publish three interim reports, a financial statement bulletin, an annual report and stock exchange releases. Furthermore, Wärtsilä 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 and result forecast is published in the Financial Statements Bulletin for the financial year (and repeated also in the Annual Report) and in the interim reports. The forecasted prospects are approved by the Board of Directors.

Wärtsilä does not publish quarterly result forecasts. Should business circumstances change causing the prospects to be affected, Wärtsilä will publish changes to the prospects in accordance with regulations.

### ■ Market estimates

The company will review, upon request by an analyst, his or her earnings model or report only on factual accuracy or information that is in the public domain. Wärtsilä does not comment or take any responsibility for estimates or forecasts published by capital market representatives.

### ■ Silent period

Wärtsilä observes a three-week silent period preceding the publication of its results. During this time the company's representatives do not meet with investors or analysts, or comment on the company's financial position.

### ■ Communications policy and financial communication

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. Our communications activities comprise internal and external corporate communications and investor relations. 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 technology. All releases are published in Finnish, Swedish and English except those to the trade press, which are only produced in English. The stock exchange releases and press releases are available on Wärtsilä's web page immediately after they are published.

### ■ Contacts

Relations with the company's investors and analysts are handled by Joséphine Mickwitz.

Joséphine Mickwitz  
Director, Investor Relations  
Tel. +358 (0)10 709 5216  
Mobile: +358 400 784 889  
E-mail: josephine.mickwitz@wartsila.com

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

## Annual summary of stock exchange releases

22.10.2009 Interim Report January – September 2009

22.07.2009 Interim Report January – June 2009

25.06.2009 Wärtsilä Ship Power's organisational adjustment proceeds - formal processes have ended in Finland and certain other countries

26.05.2009 Appointments to Wärtsilä's Board of Management

14.05.2009 Wärtsilä adjusts its Ship Power business to reflect current market situation

24.04.2009 Interim Report January – March 2009

23.03.2009 Wärtsilä to deliver another major power plant to Pakistan - value of the deal EUR 137 million

11.03.2009 Constitutive meeting of the Board Of Directors of Wärtsilä Corporation

11.03.2009 Decisions of Wärtsilä's Annual General Meeting 11.3.2009

12.02.2009 Wärtsilä Corporation's annual report and annual summary of releases 2008 published

30.01.2009 Notice to convene Wärtsilä Corporation's Annual General Meeting

30.01.2009 Correction to Wärtsilä's Financial Statements Bulletin 2008

30.01.2009 Wärtsilä's financial statements bulletin 2008



## Analysts

To the best of our knowledge, the following analysts and possibly more have, on their own initiative, followed Wärtsilä's development during the past 12 months. They have analysed Wärtsilä and 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.

CA Cheuvreux	Patrik Sjöblom	+46 8 723 5115
Carnegie Investment Bank AB, Finland Branch	Sasu Ristimäki	+358 (0)9 618 711
Danske Bank A/S, Helsinki Branch	Antti Suttelin	+358 (0)10 236 4708
Deutsche Bank AG, Helsinki Branch	Timo Pirskanen	+358 (0)9 2525 2553
Evli Bank	Jussi Kallasvuo	+358 (0)9 4766 9197
E. Öhman J:or Securities	Jari Harjunpää	+358 (0)9 8866 6021
Fearnley Fonds ASA	Richard Vabo	+47 2293 6000
FIM	Mark Mattila	+358 (0)9 6134 6430
Goldman Sachs International	Maty Ndiaye	+44 (0)20 7552 9374
	Samson Edmunds	+44 (0)20 7552 3724
Handelsbanken Capital Markets	Tom Skogman	+358 (0)10 444 2752
HSBC Bank plc	Tarun Bhatnagar	+91 80 30013726
	Colin Gibson	+44 (0)20 7991 6592
Jefferies International Ltd	John Dean	+44 (0)20 7029 8682
Nordea Markets	Jan Kaijala	+358 (0)9 1655 9706
Pohjola Bank plc	Pekka Spolander	+358 (0)10 252 4351
SEB Enskilda	Tomi Railo	+358 (0)9 6162 8727
Sofia Pankki	Lauri Saarela	+358 (0)10 241 5157
Standard & Poor's	Jawahar Hingorani	+44 (0)20 7176 7847
UBS Deutschland AG	Sven Weier	+49 (0)69 1369 8278
Ålandsbanken Equities	Johan Lindh	+358 (0)20 429 3762



**WÄRTSILÄ**  
**ANNUAL REPORT 2009**

# Sustainability

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71	Wärtsilä and sustainability
84	Economic performance
91	Environmental performance
123	Personnel and social performance
137	Report scope and profile
139	Independent assurance report
142	GRI content index

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## Wärtsilä and sustainability

Wärtsilä has an important role in meeting the world's increased demand for energy in a sustainable way. This is the cornerstone of our commitment to sustainability.

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, Health & Safety and Environmental policy (QHSE 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 above, 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 and sustainability

Wärtsilä and sustainability



## 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:

- Economics: Profitability
- Environment: Environmentally sound products and services
- Social: Responsible business conduct

The other important areas of sustainability are presented in the picture [Wärtsilä and sustainability](#). Wärtsilä's target for environment and social responsibility are presented in [the Strategy section](#). Wärtsilä's key operational sustainability targets are 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 society. 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 combating 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 sets 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 the development of 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 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**

<b>Performance indicators</b>	<b>2009<sup>5</sup></b>	<b>2008<sup>4</sup></b>	<b>2007<sup>3</sup></b>	<b>2006<sup>2</sup></b>	<b>2005<sup>1</sup></b>
<b>Economic (EUR million)</b>					
Net sales	<b>5 260</b>	4 612	3 763	3 190	2 639
Cost of goods, materials and services purchased	<b>-3 593</b>	-3 134	-2 576	-2 034	-1 791
Value-added distributed to stakeholders	<b>1 667</b>	1 479	1 187	1 156	847
Wages and salaries	<b>735</b>	693	592	511	434
Taxes and social dues	<b>337</b>	288	242	213	150
Net financial items	<b>34</b>	9	8	7	23
Dividends	<b>173</b>	148	408	167	283
Retained earnings for business development	<b>388</b>	340	-64	257	-43
R&D expenses	<b>141</b>	121	122	85	70
<b>Environmental</b>					
Total energy consumption (TJ)	<b>2 194</b>	2 383	2 595	1 837	1 881
Electricity consumption (MWh)	<b>164 022</b>	151 169	134 543	120 782	123 857
Heat consumption (MWh)	<b>37 060</b>	50 193	40 085	104 381	102 265
Light fuel oil (t)	<b>5 662</b>	5 432	5 816	6 825	5 232
Heavy fuel oils (t)	<b>15 652</b>	22 145	16 237	8 147	10 743
Natural gas (t)	<b>11 792</b>	11 160	22 379	10 300	10 079
Other fuels (t)	<b>3 326</b>	1 711	1 380	145	135
Total water consumption (1 000 m <sup>3</sup> )	<b>8 128</b>	11 712	11 160	5 794	7 328
Consumption of domestic water (1 000 m <sup>3</sup> )	<b>808</b>	622	634	739	626
Consumption of cooling water (1 000 m <sup>3</sup> )	<b>7 320</b>	11 090	10 526	5 055	6 702
Emissions of nitrogen oxides (t)	<b>1 290</b>	1 633	1 348	945	859
Emissions of carbon dioxide (t)	<b>96 749</b>	122 669	101 705	71 092	70 771
Emissions of sulphur oxides (t)	<b>595</b>	840	471	206	260
Particulates (t)	<b>28</b>	65	30	13	15
VOC (t)	<b>170</b>	152	79	97	57
Non-hazardous waste (t)	<b>49 946</b>	35 055	32 142	29 513	22 845
Hazardous waste (t)	<b>5 857</b>	5 154	7 472	5 308	4 296
<b>Social</b>					
Training days (days/employee)	<b>3.7</b>	3.3	3.3	3.3	2.9
Number of lost-time injuries	<b>470</b>	548	444	435	370
Lost-time injuries (number/million working hours)	<b>12.9</b>	16.3	14.6	18.0	16.8
Absence rate (% of total working hours)	<b>2.6</b>	2.4	2.3	2.7	2.6

<sup>1</sup>The data include all Wärtsilä companies except those mentioned in the Sustainability Report 2005 Report Scope section.

<sup>2</sup>The data include all Wärtsilä companies except those mentioned in the Sustainability Report 2006 Report Scope section.

<sup>3</sup>The data include all Wärtsilä companies except those mentioned in the Sustainability Report 2007 Report Scope section.

<sup>4</sup>The data include all Wärtsilä companies except those mentioned in the Sustainability Report 2008 Report Scope section.

<sup>5</sup>The data include 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 coordinating sustainability programmes and preparing instructions.

Wärtsilä has clearly defined responsibilities supported by necessary instructions and training. This training includes e.g. environmental issues, Code of Conduct, anti-corruption, 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 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: QHSE Policy and Code of Conduct	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

Continuous improvement process: performance measurement, target setting, taking actions and review of the results

## Code of Conduct

### ■ General

Wärtsilä's vision, mission and core values, together with its solid financial performance, form the platform for sustainable development in the Group. The Group's Board of Management has made a strong commitment to responsible action and sustainable development by creating a sustainability strategy and by defining its targets.



In order to promote the long-term interests of the Group and its stakeholders, Wärtsilä strives to maintain the highest legal and ethical standards in its business practices as described in this code.

### ■ Compliance with the law

Any and all business transactions and other activities of Wärtsilä shall be carried out strictly in compliance with applicable laws and under the requirements of good citizenship in each jurisdiction where such activities take place. This includes, but is not restricted to, laws and regulations on competition, corporate governance, taxation, financial disclosure, employee rights and environmental protection. Strong attention is paid to the integrity of each business transaction.

### ■ Openness

As part of its social responsibility engagement, Wärtsilä promotes openness and transparency as well as a continuous dialogue with its stakeholders, including customers, shareholders, personnel, suppliers, the media, students and society. Surveys and regular feedback from stakeholders provide guidance for enhancing these relations. It is, however, understood that stock exchange rules and competitive considerations may lead to certain restrictions in this openness.

Wärtsilä maintains constructive co-operation with authorities and regulatory bodies both at local and international levels, e.g. with regard to the development of new environmental abatement technologies.

### ■ Respect for human rights

Wärtsilä supports and respects the protection of internationally proclaimed human rights, as defined in the United Nation's Universal Declaration on Human Rights. Wärtsilä promotes freedom from any discrimination based for example on race, nationality, sex, religion and age, and works for equal opportunities throughout the Group. Employee selection is based on personal qualification for the job in question.

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

### ■ Conflicts of interest

Wärtsilä expects full loyalty from and avoidance of any conflict of interest by all its employees. Consequently, the employees of Wärtsilä must avoid situations where their personal interests may conflict with those of Wärtsilä or Wärtsilä's stakeholders. This means, for instance, that the employees are not allowed to accept or provide a personal gift or entertainment to a stakeholder, except for a personal gift or entertainment of nominal value accepted or provided on an occasional basis. Any deviation from this shall be subject to the approval of the superior, but this approval shall not be given if it gives rise to a breach of loyalty or a conflict of interest.

Neither Wärtsilä company nor any of its employees may solicit, accept or offer bribes or kickbacks of any kind. This includes money, benefits, services and anything of value. Such payments and favours may be considered bribery, which violates local legislation and internationally recognized principles for combating corruption and bribery.

### ■ Environment

Wärtsilä's target is to develop and produce environmentally advanced solutions and services for its customers that fulfil all their vital requirements. High priority is given to developing systems and services that have low emissions and high efficiency. Efforts are taken to achieve sustainable development by means of raw materials, processes, products, wastes and emissions by making use of the latest technical advances. Wärtsilä applies certified Environment Management Systems based on ISO 14001.



### ■ Occupational health and safety

Wärtsilä strives to offer its employees an interesting and exciting working environment where openness, respect, trust and equal opportunities prevail. The company endeavours to create hazard-free workplaces for its employees, contractors and others working in different parts of the corporation by applying high standards of occupational health and safety. The Group also applies such product development and manufacturing processes as well as such quality assurance methods that minimise health and safety risks related to the use of its products and services.

### ■ Suppliers

Suppliers are an important and integral part of the total supply chain of the Group. They are expected to conduct their business in compliance with the same high legal, ethical, environmental and employee related standards that Wärtsilä itself applies. Wärtsilä promotes the application of these standards among its suppliers and endeavours to monitor their actions in this respect.

### ■ Implementation

The purpose of this Code of Business Conduct is to define Wärtsilä's ethical way of working in all its activities. The company expects both its management and its employees to comply with the standards set in the code. The code deals with the most important situations that could give rise to legal or ethical problems but must not be seen as being exclusive.

Wärtsilä takes an active approach to the application of this code and promotes its implementation through effective communication of its contents to the employees. Wärtsilä monitors the application of this code internally. The company has, for example, created compliance programmes in certain fields related to the code.

In case questions regarding interpretation or compliance with this Code of Conduct arise, the responsible manager or president of the respective Wärtsilä company should be contacted.

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

## 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 Management Team	Quality	Quality strategy and guidelines for quality
Wärtsilä EHS Management Team	Environmental, Occupational health and safety	Management system development, corporate level measuring and target setting and monitoring of the legislation development
Wärtsilä Environmental Forum	Environmental aspects related to Wärtsilä products	Create and update Wärtsilä's environmental strategy, coordinate environmental technology development and monitor the legislation development

## Management systems

Proportion of Wärtsilä companies with certification	
ISO 14001	62%
ISO 9001	73%
OHSAS 18001	49%

## Business Process Management

The Wärtsilä corporate business processes, including business information and supporting business applications, are developed on a continuous basis to improve the quality and effectiveness of customer service. A Process Management Structure has been defined and implemented to ensure that the company's operations are developed consistently and in line with its strategic directions. This structure includes the Quality and Process Board.

## 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 offering these solutions for use with products that are already in operation. Engine and component reconditioning lengthens the service life of products, while modernising engines can improve the performance of installations to the level where they meet both 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 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 regularly controls that suppliers comply with these requirements using performance indicators and audits. Suppliers must demonstrate 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 open and constructive dialogue with its various stakeholders. Wärtsilä actively maintains 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 above, include local residents close to production plants, as well as 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.

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



Channels of dialogue and assessments of stakeholder relations

Stakeholder	Channels of dialogue	Assessments
Customers	Regular contact with customers, life cycle support for products, customer events and seminars, customer magazines, the internet, conferences and exhibitions, product documentation, customer feedback system, customer relationship on-line (CROL®)	System for measuring customer satisfaction and quality
Employees	Open and continuous communication between management and employees, annual development discussions, information meetings and internal communication (intranet), employee magazines, training events, national statutory employee bodies and European Works Council, occupational health and safety committees, suggestions 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, Open Doors days, sustainability reports, 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 degree theses, R&D projects, participation in recruitment fairs and seminars, sponsorship of student activities	Preferred employer surveys

<b>The media</b>	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
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Wärtsilä participates in the activities of the following organisations:

Stakeholder	Organisation	Nature of activity
<b>Interest groups (Finland)</b>	Confederation of Finnish Industries (EK), Chambers of Commerce, The Federation of Finnish Technology Industries	Active membership
<b>Industrial and trade organisations</b>	European Association of a Engine Manufacturers (Euromot), European Marine Equipment Council (EMEC), Engine Manufacturers Association (EMA), Cogen Europe and VDMA	Participation in activities Presidency (EMEC)
<b>Standardisation organisations</b>	European Committee for Standardization (CEN), International Organization for Standardization (ISO)	Participation in activities
<b>International organisations</b>	International Maritime Organization (IMO) International Council on Combustion Engines (CIMAC)	Participation in activities Board membership and participation in activities
<b>Other</b>	World Alliance for Decentralized Energy (WADE), European Federation for Quality Management (EFQM)	Chairmanship Participation in activities

CASE



“Emphasising the importance of business responsibility and our commitment to active development of sustainability management.”

## Wärtsilä joins UN Global Compact

In 2009, Wärtsilä signed the United Nations Global Compact initiative and was registered as a participant by the UN Global Compact Office. By doing so, Wärtsilä further consolidates its commitment to sustainable business practices, and to the compact’s underlying principles in the areas of human rights, labour, environment and anti-corruption.

Wärtsilä’s Code of Conduct and sustainability programmes are well in line with the ten principles of the UN Global Compact. Sustainability has long been at the top of Wärtsilä’s business agenda, not only in terms of product development, but also in the company’s way of working. By participating in the initiative, Wärtsilä emphasises the importance of business responsibility and furthers its commitment to active development of sustainability management and performance.

The UN Global Compact is the world’s largest corporate responsibility initiative with over 5,000 business participants in 135 countries.



## Wärtsilä's Power scenarios provide alternative views of the future

### ■ What will electricity production and consumption look like in 2023?

Today, two major global challenges top the economic, social and environmental agenda of the world. How to produce enough electricity? And how to curb climate change? The power sector is central to solving these challenges.

To support its strategy work, to make sense of a complex environment, and to understand the future needs of its clients, Wärtsilä has analysed the electricity production and consumption in 2023. The project brought together the views of academics, NGOs, business leaders, government representatives and other experts.

### ■ What are scenarios?

Scenarios are fact-based, challenging, plausible but essentially imaginary answers to the question of what might lie ahead. They provide alternative views of the future. They take into consideration significant trends, events and actors, and try to model how they might interact.

Governments, companies, and individual citizens all have the power to make choices that affect our common future. The very nature of scenarios is that of a multi-dimensional discussion. The discussions with the various experts in producing these scenarios turned out to be so fascinating that Wärtsilä decided to share the results. We hope that the outcome will provide a useful contribution to the worldwide debate on power sector issues.

### ■ Will the World be green, blue or grey?

The project formulated descriptions of three possible futures; Green Earth, Blue Globe and Grey World.

The Green Earth scenario is shaped by individual citizens who have decided to tackle the challenge posed by climate change. The world economy grows at a modest pace, and the use of renewable energy sources increases. People accept the scarcity of resources and live sustainably.

The Blue Globe is a market-oriented, prosperous world, powered by large utilities. Policy is driven by two key factors: the need for economic growth and the need to curb emissions. Carbon capture and storage allows us to continue using coal.

The Grey World is ruled by governments. Scarcity of resources and energy security are major issues – climate change is



not. Scarcity leads to considerable changes in society, and political tensions run high due to the uneven geographical distribution of energy resources.

We invite you to read more about our scenarios, to share your views, challenge us, and give us feedback at [www.wartsila.com/scenarios](http://www.wartsila.com/scenarios) or at [Facebook](#) or by e-mail to [powerscenarios@wartsila.com](mailto:powerscenarios@wartsila.com).





CASE



"External stakeholder feedback supports our efforts to develop sustainability reporting."

## Wärtsilä collects stakeholder feedback to improve sustainability reporting

In 2009, Wärtsilä engaged with external stakeholders to review its sustainability report. A study was made among sustainability analysts, responsible investors, customers as well as peer group representatives representing a range of stakeholders that have expertise in environmental, social and governance issues. In reviewing this report, the team considered whether the company adequately reported on its sustainability performance and key impacts, including targets, systems, data and initiatives. Through this review process, the stakeholders provided Wärtsilä extensive feedback, which was considered in the preparation of this year's report. Listed below is their key input and Wärtsilä's response.

### ■ Feedback: More measurable targets both in environmental and social performance

**Wärtsilä's response:** Sustainability target setting is an important tool for improving the sustainability performance. Improving the product performance and developing environmentally sound products is the most significant sustainability goal for us. Wärtsilä has many very detailed and measurable product related targets, which cannot be publicly disclosed due to business sensitivity. We have set corporate level operational targets for both environmental and social issues. E.g. energy efficiency and zero injuries targets are measurable and are currently a top priority for Wärtsilä. The structures and activities of Wärtsilä subsidiaries are quite different; and most of the target setting has been conducted at local company level through the certified EHS management systems.

### ■ Feedback: More specific motivations behind changes in graphs and numbers

**Wärtsilä's response:** Generally speaking some of Wärtsilä's operational environmental figures have remarkable fluctuations from year to year due to impact of scale of R&D activities. Therefore, any attempt to explain these changes on annual basis does not add so much value. However, there have been cases in the past, where explanations would have been beneficial for our stakeholder. This is an area of improvement for us.

### ■ Feedback: Personnel and social performance; more information on female executive ratios

**Wärtsilä's response:** Wärtsilä has disclosed the female/male ratio and the composition of Board of Directors, Board of Management, Business Management Teams and Corporate Management. However, this does not fully cover all the female executive positions. This is an area of improvement for us.

### ■ Feedback: Enhanced information on how competitive Wärtsilä is in the sustainability issues compared to competitors

**Wärtsilä's response:** Wärtsilä wants to disclose its sustainability performance in an open, honest and well-balanced way. This should give our stakeholders the means to compare our performance to other companies. The perceptions of our stakeholders indicate how well we have succeeded in this.

## Economic performance

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

### ■ 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 uncertain market conditions, our success supported our strategy of profitable growth. Our target is to grow 6–7% over the cycle and our profitability target (EBIT) is 8–10% of net sales over the cycle with a range of +/- 2%. In 2009, Wärtsilä's net sales grew 14% and totalled EUR 5,260 million. Europe's share of net sales was 31%, Asia's 37%, Americas' 22% and others' 9%. Profitability improved significantly by 21% to EUR 638 million.

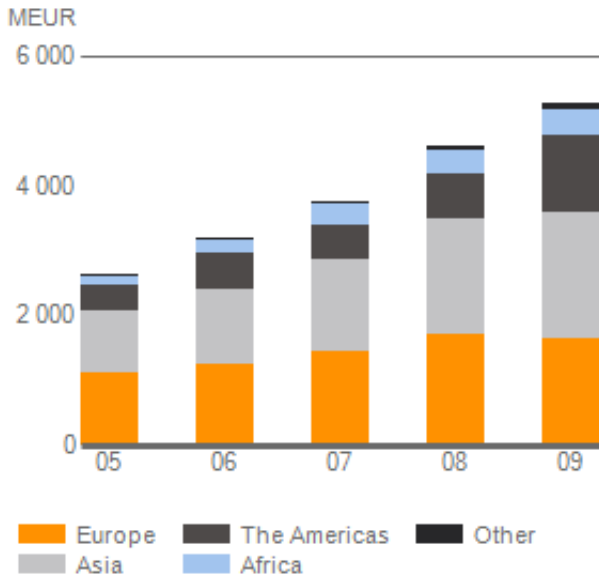
#### Added value to Wärtsilä's stakeholders

MEUR		2009	2008	2007	2006	2005
Customers	Net sales	<b>5 260</b>	4 612	3 763	3 190	2 639
Suppliers	Cost of goods, materials and services purchased	<b>-3 593</b>	-3 134	-2 576	-2 034	-1 791
	Value added	<b>1 667</b>	1 479	1 187	1 156	847
Distribution of value added	Distributed to stakeholders					
Employees	Wages and salaries	<b>735</b>	693	592	511	434
Public sector	Taxes and social dues	<b>337</b>	288	242	213	150
Creditors	Net financial items	<b>34</b>	9	8	7	23
Shareholder	Dividends	<b>173</b>	148	408	167	283
Communities	Donations given	<b>1</b>	1	1	1	
For business development		<b>388</b>	340	-64	257	-43

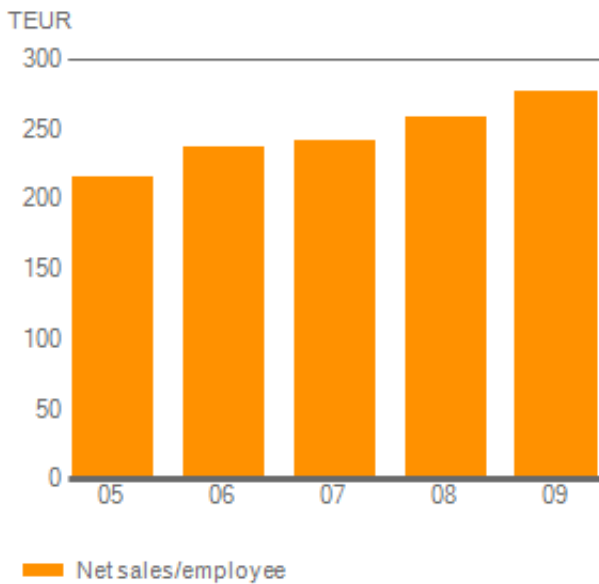
## Customers

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 life cycle, thus ensuring optimal performance during the product's lifetime. The modernisation of installed products can also extend their service life.

**Net sales by market area**



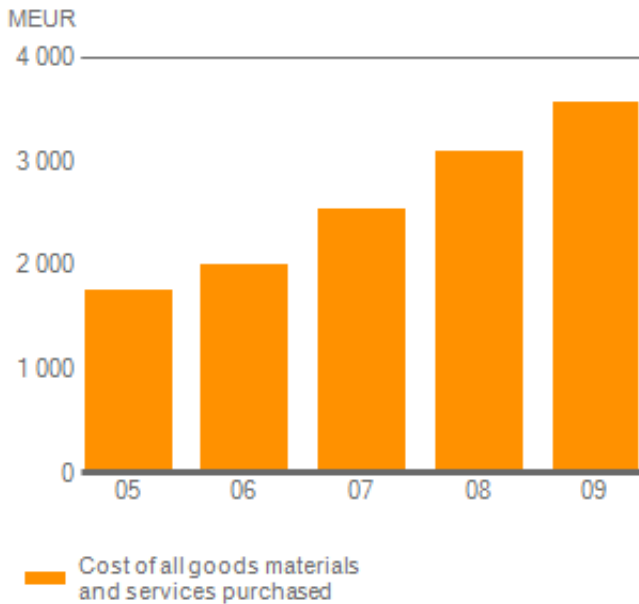
**Net sales/employee**



**Suppliers**

Suppliers play a significant role in our delivery process. We aim to have deep partnerships with our key suppliers in order to ensure that both parties mutually understand 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 Wärtsilä gains from the supplier competence. Successful partnership can also assist a local supplier in expanding internationally by becoming a part of our global supply chain. In 2009, the value of goods, materials and services purchased by Wärtsilä was EUR 3,593 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.

Cost of all goods, materials and services purchased



## Employees

At the end of 2009 Wärtsilä had 18,541 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 the employees. Wages and salaries totalled EUR 735 million in 2009. 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 practise 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](#).

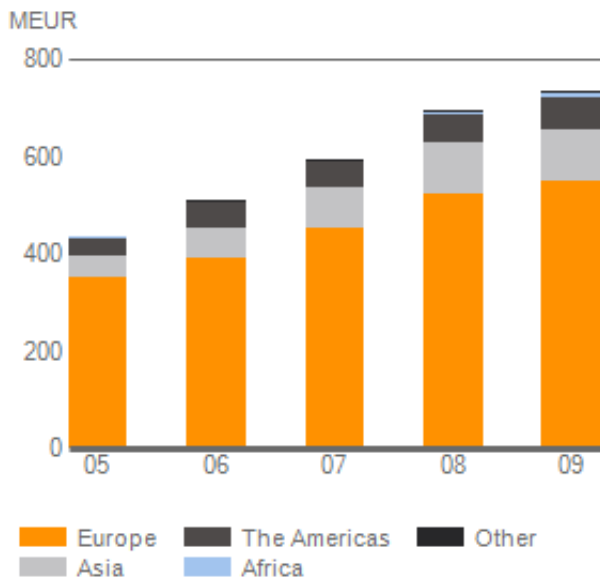
### ■ Wage levels

Wärtsilä applies and follows in all countries the local employment legislation and respects the local collective labour agreements, which often define the minimum wage levels. In addition to that, 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. Total compensation package is tailored for each country aligned with both 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 principal all open vacancies are published both externally and internally ensuring equal opportunity to apply to Wärtsilä positions. If there is no specific reason, like competence transfer need from other countries, to hire expatriate 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.

Salaries and wages by market area

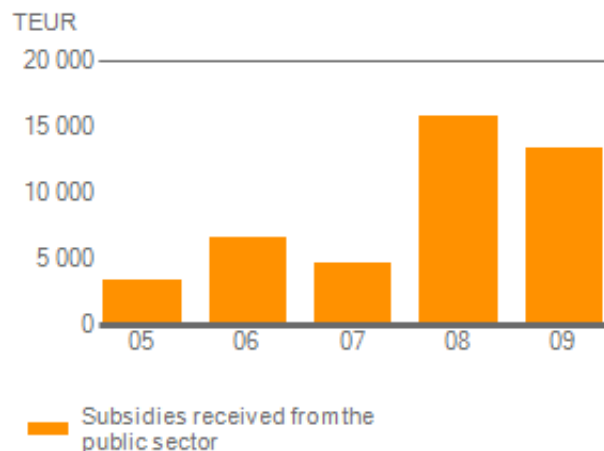


**Public sector**

Wärtsilä pays various social dues and taxes to the governments of different countries. Income taxes and social dues in the financial period 2009 were EUR 337 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.

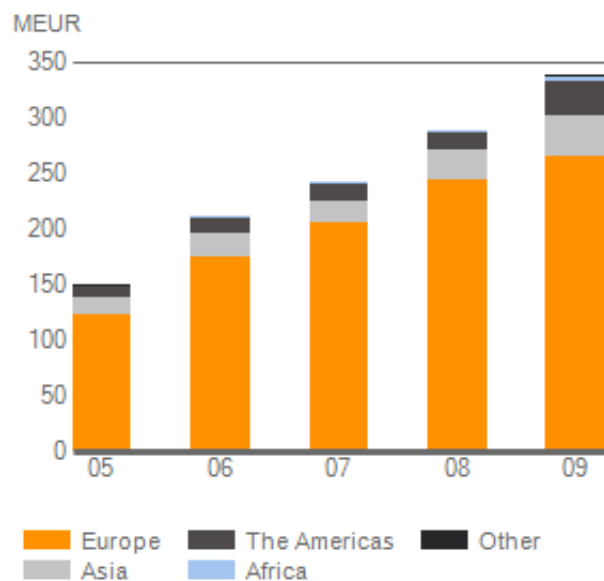
Wärtsilä companies also receive subsidies from the public sector. The value of the subsidies received in 2009 was EUR 14 million and they were among others related to R&D projects, such as the major HERCULES cooperative research project.

**Subsidies received from the public sector**



The 2005-2006 figures from 12 major Wärtsilä companies and the 2007-2008 figures from 14 major Wärtsilä companies. The 2009 figures from 15 major Wärtsilä companies and parent company.

**Taxes and social costs by market area**



**Creditors and shareholders**

**Creditors**

In 2009, Wärtsilä's net financial items totalled EUR 34 million. At the end of the year Wärtsilä's net interest bearing debt amounted to EUR 414 million, the solvency ratio was 40.0% and gearing was 0.28.

## Shareholder value

Dividends totalling EUR 173 million are proposed to be paid to the company's shareholders. Our dividend policy is to pay a dividend equivalent to 50% of its operational earnings per share. The dividends paid per share are presented in notes to the financial statements. Earnings per share (EPS) was EUR 3.94 and Wärtsilä's market capitalisation at the end of 2009 was EUR 2,768 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 young people, national defence, disabled war veterans, and medical and technical research. Wärtsilä's Board of Directors contributed altogether EUR 70,000 to these activities in 2009.

### Donations to good causes by the Board of Directors

TEUR	2009	2008	2007	2006	2005
Total	70	70	70	70	70

### Donations to local organisations<sup>1</sup>

TEUR	2009	2008	2007	2006	2005
Total	527	463	485	614	344

<sup>1</sup> The 2005–2006 figures include the data from 12 major Wärtsilä companies and the 2007–2008 figures from 14 major Wärtsilä companies. The 2009 figure includes the data from 15 major Wärtsilä companies and the parent company.

## Wärtsilä and climate change

Wärtsilä Italia S.p.A is the only subsidiary that falls into the scope of EU Emission Trading Scheme (ETS) because of the heating plant of the factory. EU ETS has not had any impact on profitability. Wärtsilä's main responsibility concerning the climate change is to develop and provide products, solutions and services that enable our customers to reduce their greenhouse gas (GHG) emissions. We also support our customers to utilise the Kyoto 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 Climate change and Sustainability risks in the Risk Management chapter of the [Corporate Governance](#) review.

## Wärtsilä in sustainable development indices

Wärtsilä has been admitted to the Ethibel Investment Register and the Ethibel Pioneer Sustainability Index, ASPI Eurozone® Index and FSTE4Good Index.



FTSE4Good



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.



European Corporate Social Responsibility Ratings Agency [www.vigeo.com](http://www.vigeo.com)



The ASPI EurozoneIndex®

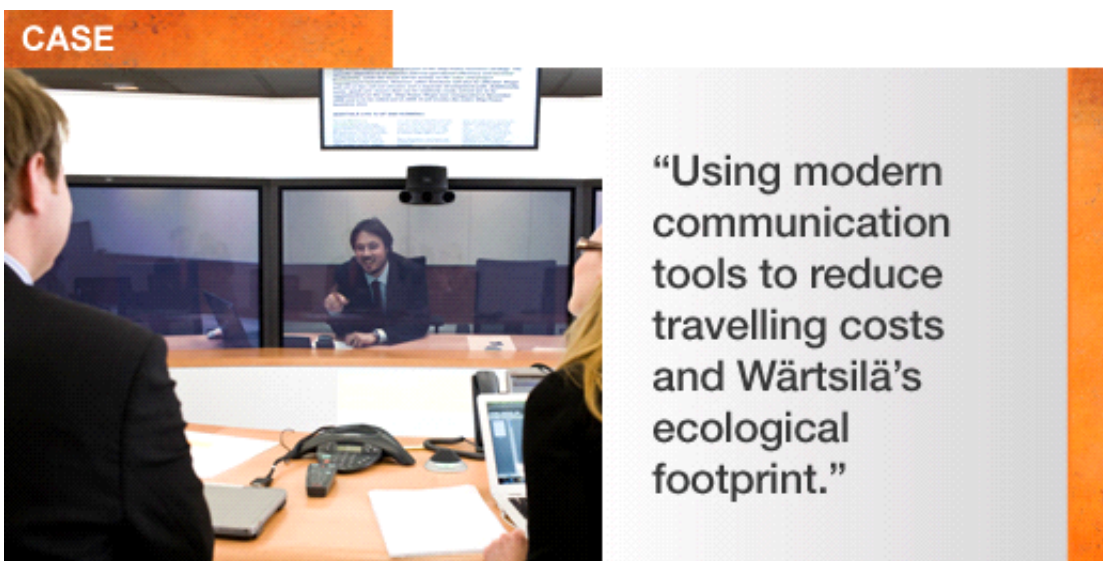
This index consists of the 120 listed Eurozone companies that perform best in social and environmental terms. The stocks are selected on the basis of Vigeo ratings.



The Ethibel Pioneer Index® & The Ethibel Excellence Index®

Wärtsilä has been selected for inclusion in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers (see [www.ethibel.org](http://www.ethibel.org)) since 28/01/2005 and recently reconfirmed on 12/06/2009) and is being 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.



## Virtual meeting concepts bring environmental benefits and improve quality of life

At the beginning of 2009, Wärtsilä’s focus on reducing its own environmental impact as well as the target of reducing costs resulted in several different virtual meeting concepts being introduced in the group. Three main virtual meeting concepts have been taken into use during the year: Office Communicator, which enables live chats between two persons or more; Live meetings allowing multi-person meetings from personal computers in which presentation material can be shared; and the Telepresence videoconferencing system. Telepresence enables life-size images to create a sense of face-to-face meeting between parties in different parts of the world.

At the end of 2009, video conferencing facilities amounted to 18 in locations all over the world from Shanghai to Brazil. Furthermore, several new facilities were under construction. By the end of the year, the amount of virtual meetings had risen to 300-500 per day and the average use of our video conferencing equipment was 7 hours per day. The amount of virtual meetings will continue to increase as more applications are being installed throughout Wärtsilä’s locations.

Wärtsilä’s new way of working has led to a substantial reduction in travelling costs, while at the same time reducing our ecological footprint. It has also improved the quality of life of our employees by decreasing travelling days, as well as supported team work across locations.

## Environmental performance

The element of environmental responsibility is emphasised 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, including 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

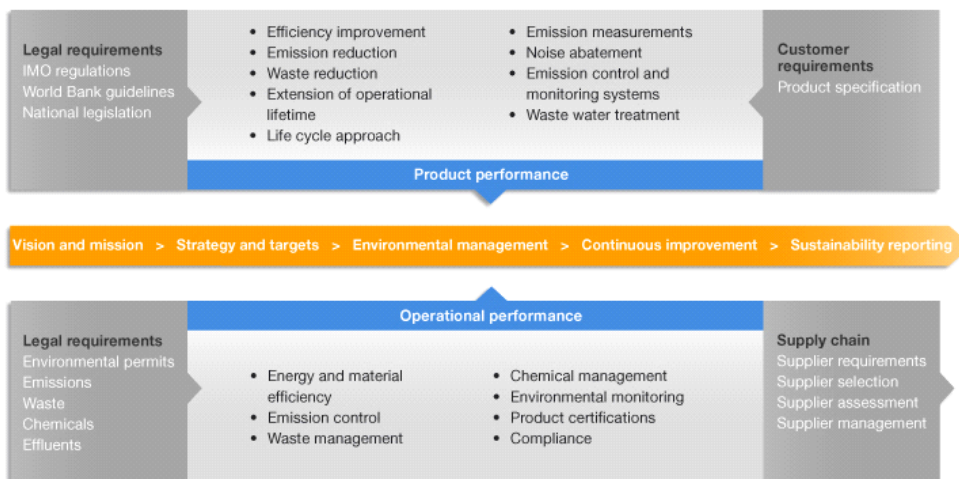
company’s policies relating to Quality, Occupational Health and Safety and the Environment, and is co-ordinated and monitored by the Environmental Forum and the EHS management team. In developing our operations, processes and products, we endeavour to use the latest technologies available for improving efficiency in areas such as material and energy consumption, and for reducing and managing emissions and wastes.

Wärtsilä continuously develops and improves its operations and products with the help of certified environmental management systems. Our principle is to apply 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 compliance 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 2009, 39 Wärtsilä companies had operated with a certified environmental management system. These certified environmental management systems cover roughly 87% of Wärtsilä’s total workforce.

■ Environmental management in Wärtsilä

Environmental management in Wärtsilä



## Environmental targets

Target	Status
<p>Reduced energy consumption by at least 10% in terms of absolute consumption (GWh) by 2016 compared to mean energy consumption in 2005.</p>	<p>In 2009 Wärtsilä conducted an initial energy survey, which provides recommendations to each participating company. Wärtsilä will conduct energy audits in companies, which have the biggest energy consumption and potential for energy savings. Energy saving actions are monitored on an annual basis.</p>
<p>R&amp;D: The full release of 710 ppm NO<sub>x</sub> engine concepts for power plant engines and, in the case of marine engines, compliance with upcoming US and EU regulations.</p>	<p>The emission levels for power plant engines have been reached and the engine types have been released in various release stages. The full releases of various engine types are dependent on sufficient installation feedback. Wärtsilä 26 marine engine was EPA certified in 2007.</p>
<p>R&amp;D: Reducing the fuel consumption of diesel and gas engines, reducing fuel consumption and emission levels in the 2-stroke engines, and reducing emission levels in common-rail engines.</p>	<p>All new Wärtsilä engines are compliant with IMO Tier II emission regulations. The development of marine engines has focused on improving the engine efficiency (reducing CO<sub>2</sub>) of the Tier II compliant engines. Technology for reaching Tier I engine efficiency with Tier II NO<sub>x</sub> emission levels (-20%) has been developed and is under validation. The demand for improved output and efficiency in gas engines has resulted in the upgrade of gas engine products. The first products with increased output and improved efficiency have been successfully developed and are now in the validation phase.</p>
<p>Ship Power: Broadening of the gas concept, increasing sales of environmental seals, and improving the propulsive performance of seagoing vessels.</p>	<p>Gas-powered solution have been introduced to the market for LNG fuelled vessels other than LNG carriers. The new offering includes a small gas engine, mechanical propulsion for bigger gas engines and an onboard fuel supply system called LNGPac. The target concerning broadening the gas concept has been reached. The target related to seals has already been reached. In certain ship types it has been demonstrated that efficiency targets have been clearly exceeded. Projects for further improving total vessel efficiency are ongoing.</p>
<p>Services: Increase in diesel-to-gas engine conversions, sales of exhaust gas scrubbers, and an increase in the number of engines covered by CBM and O&amp;M agreements.</p>	<p>CBM target (5,000 MW) has been reached. Several gas conversion projects were recorded in 2009. Wärtsilä's scrubber solutions has been the first ever IMO certified system, which opens the door to market adoption. Service agreements have proceeded according to plan with a record year in order intake.</p>
<p>Power Plants: Introduction of a combined effluent treatment unit for treating various plant effluents, the market launch of wet techniques for optimised NO<sub>x</sub> reduction and fuel economy, and the active sales and marketing of power plant technology based on renewable fuels.</p>	<p>Wet techniques for optimised NO<sub>x</sub> reduction and fuel economy has been developed and validated. Further development of the solution is on hold as interest from market has been low. The other targets have already been reached.</p>

## 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.

## Towards more sustainable solutions

Wärtsilä's main role in sustainability is to supply environmentally sound solutions and services, which enable its customers to develop their business in a sustainable way. This requires continuous investment in technology development and an on going 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, be prepared for future requirements, and 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 and effluent treatment. With a proactive approach to meeting future demands, Wärtsilä has developed both primary and secondary technologies and broadened the range of usable fuels.

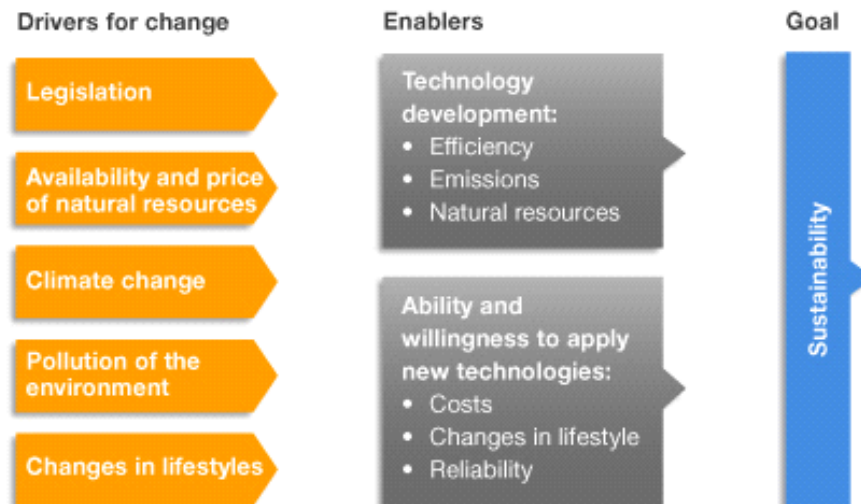
Key features of Wärtsilä's environmentally sound solutions include

- Reliability, safety and long life-time
- Solutions to reduce emissions
- Alternatives to heavy fuel oil
- Flexibility in fuel use
- Solutions to maximise efficiency with lowest life-cycle cost
- Solutions to minimise the water consumption
- Optimization 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. 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.

■ The drivers of sustainable development

### The drivers of sustainable development



### Environmental legislation and initiatives

Concerning Wärtsilä products, the environmental requirements are set at the international level mainly by the International Maritime Organization (IMO) and the World Bank. Other important environmental restrictions that affect our products include the US EPA and the German TA-Luft regulations that are often applied to gas engine plants, and the emission limits on diesel engines set by India and Japan.

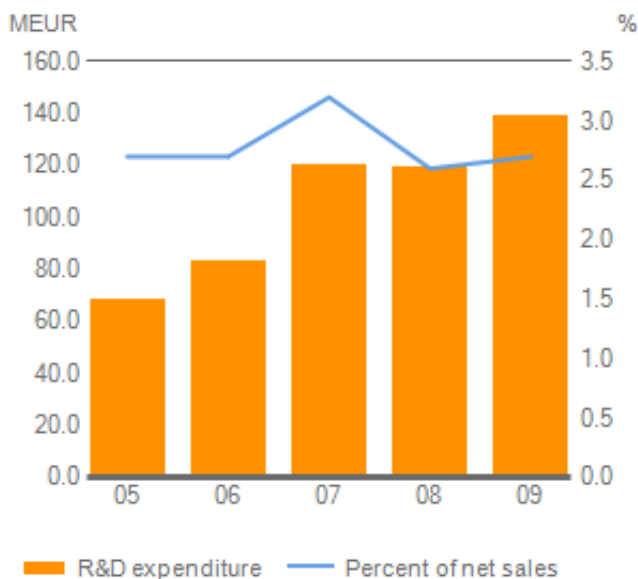
Wärtsilä actively monitors legislative initiatives and changes in environmental legislation to ensure the company's ability to respond appropriately to future operating limitations. Wärtsilä's R&D activities follow the requirements of the changing operating environment, developing products that give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

## 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.

Research and Development expenditure



## Ensuring reliability and safety

The long operational lifetime and the application of Wärtsilä products highlights 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.

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 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 the performance meets Wärtsilä's high standards, it can be realised to the market.

### Product development process



## Improving efficiency

The 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.

### ■ Engine efficiency

Engine efficiency has always been high on our agenda. However, the improvement of efficiency is becoming 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 have several on-going programmes aimed at ensuring the high efficiency of its engines, while 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.

### ■ Heat recovery and energy conversion improvements

The utilisation of fuel energy can be further improved by using heat recovery concepts and secondary cycles. Combined cycles are applied widely in stationary engine applications, and will also be the focus of development and commercialisation activities within the marine markets during the coming years. Both traditional steam and organic rankine cycles (ORC) are likely to be used in different applications. Further improvements can be expected by designing engines for secondary cycles.



### ■ Total efficiency for ships

Improving total ship efficiency reduces life-cycle costs and emissions. By combining our knowledge of automation, machinery, propulsion and ship design and through treating them as an integrated solution, a truly efficient ship operation can be achieved. From longer viewpoint, the potential for improving energy efficiency has been estimated at 30–50%. This will be achieved by optimising component performances, ship design, waste heat recovery and the recovery of other losses, weather and voyage routing and taking advantage of potential new technologies.

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

- 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 on-going aimed at significantly reducing their operating costs.

System integration enables efficiency improvements while at the same time customers benefit from having proven solutions from a single supplier. Yards can better optimise their building schedules and owners get proven solutions with lifecycle support that are easier to manage.

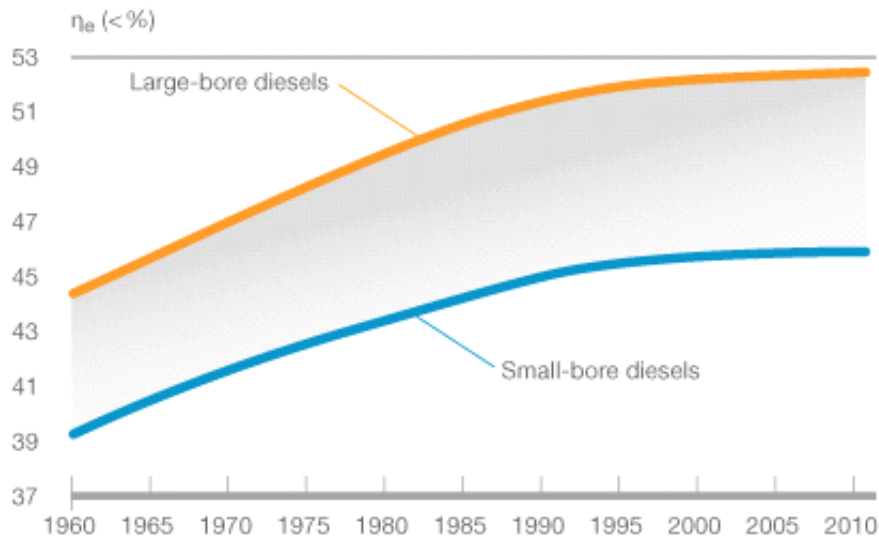
### ■ Propeller efficiency upgrades

Successful conversions to achieve propeller efficiency increases up to 10% can be established in different vessel markets, such as the dredging industry, ferries and fishing vessels and tankers. This improvement is made possible by exchanging the open type propeller for one operating in a nozzle. Additionally, project specific knowledge is being explored 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 lead to efficiency losses of 3–7%. For ships such as oil tankers and container vessels with annual fuel costs exceeding 5 million euros, such propulsion degradation can easily cost several hundred thousands of euros 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 life cycle.

## Wärtsilä engine fuel efficiency development

Wärtsilä marine diesel engines 1960–2010 –  $\eta_e$  for production engines, 5% tolerance



## Reducing sulphur oxides emissions

### ■ Marine scrubber

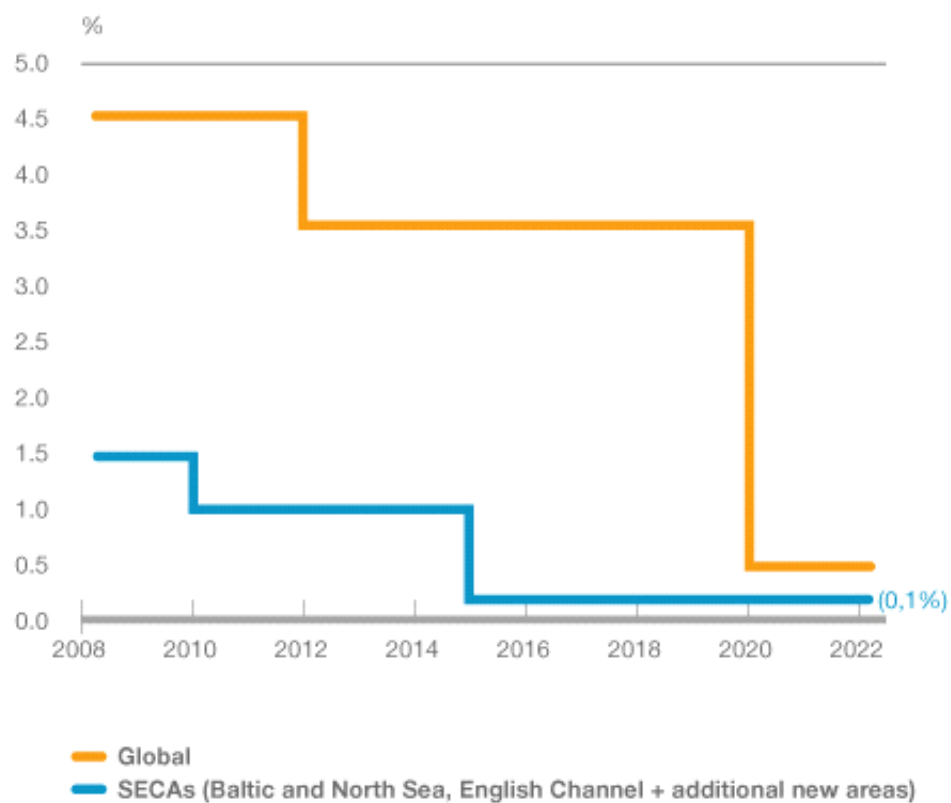
Various desulphurisation techniques have been used in Wärtsilä power plant applications. On the marine side, scrubbers can be found economically very attractive in meeting the future IMO sulphur requirements. Wärtsilä's on-going development and commercialisation project regarding a fresh water marine scrubber is successfully proceeding. The technology developed by Wärtsilä was approved during summer 2009 by two major classification societies and is thus the first such certified solution in the world. As a next stage, a development project for a novel hybrid scrubber capable of being operated both with fresh and sea water, is to be started.

### ■ 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 fuel, and this will affect the behaviour of the fuel injection systems in diesel engines. Therefore, modifications are often recommended, not only to the engine but also possibly to boilers as well. Wärtsilä will be able to offer its customers support in adapting to future low sulphur fuel qualities.

### Emission legislation – IMO fuel Sulphur cap

Fuel Sulphur content



SECA

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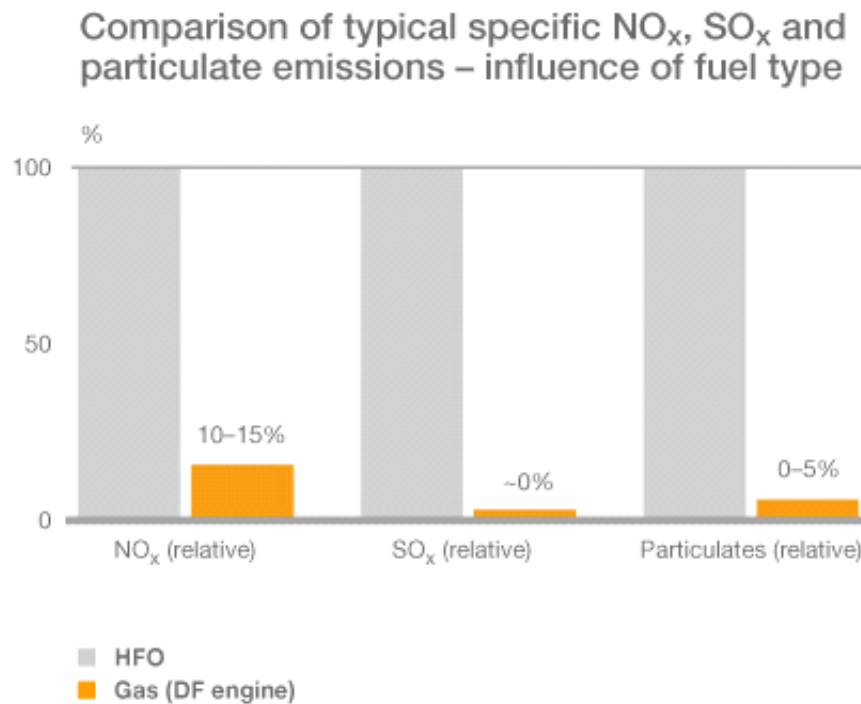


Future expected SECA/NECA area (proposal submitted)

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United States Environmental Protection Agency, Office of Transportation and Air Quality, EPA-420-F-09-015, 'Proposal of Emission Control Area Designation for Geographic Control of Emissions from Ships', April 2009, [www.epa.gov/otaq/oceanvessels.htm](http://www.epa.gov/otaq/oceanvessels.htm)



## Reducing nitrogen oxide emissions

The new IMO Tier II rules will be active from 2011. The NO<sub>x</sub> emissions are to be reduced by 20% from current emission levels. In addition, a global restriction in use of fuels with sulphur contents above 3.5% is anticipated. In restricted SECA areas, a maximum sulphur content of 1% is expected. All Wärtsilä portfolio products are today Tier II compliant.

The next emissions level, IMO Tier III, will be valid from 2016 onwards. This is expected to demand a reduction in NO<sub>x</sub> levels of 80% from today's levels. An 80% NO<sub>x</sub> reduction requires a step change in terms of engine technology and product offerings. Wärtsilä is looking into different solutions involving:

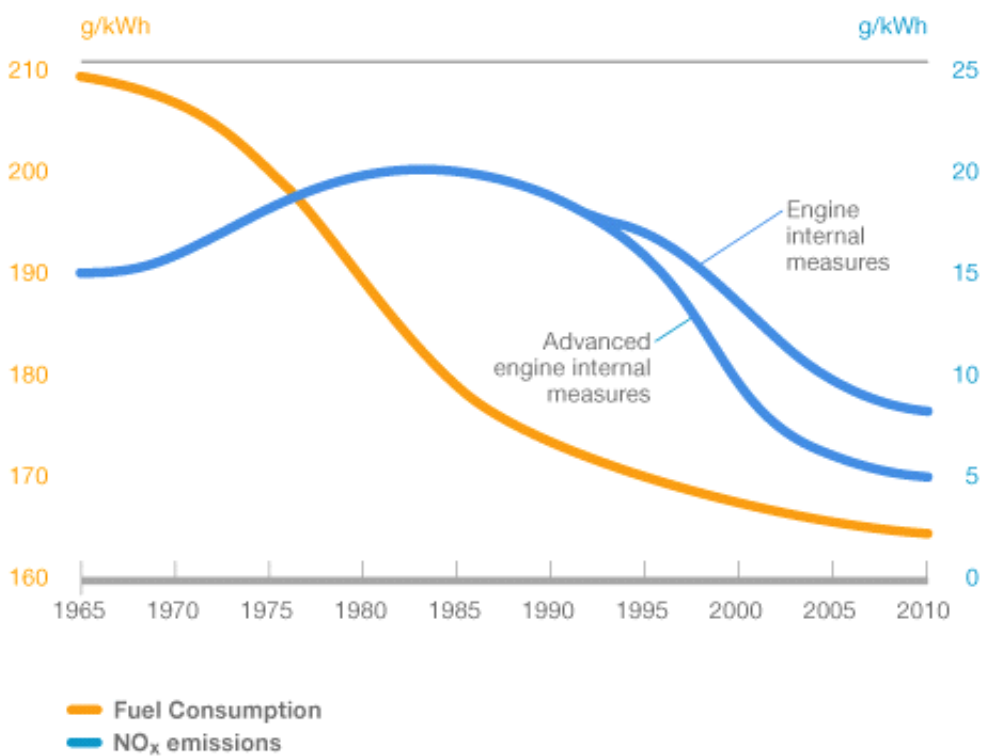
- Engine internal technologies
- After treatment technologies
- Fuel (Gas) related technologies.

Development of all these technologies will be needed, as will the integration between them. A driving factor in this work will be the lifecycle cost of the solution. Since lifecycle costs in 2016 are difficult to predict today, Wärtsilä is working on multiple solutions for meeting these future emission levels. Regardless of the technology preferred by our customers, Wärtsilä intends to have a competitive product in line with our status of being the preferred supplier.

SCR (Selective Catalytic Reduction) is expected to play a more important role in the future, and it is essential to ensure that combinations of SCR and scrubbers can be applied. Wärtsilä has developed a SCR system for stationary applications, which can be applied where high sulphur levels are present. However, further development 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.

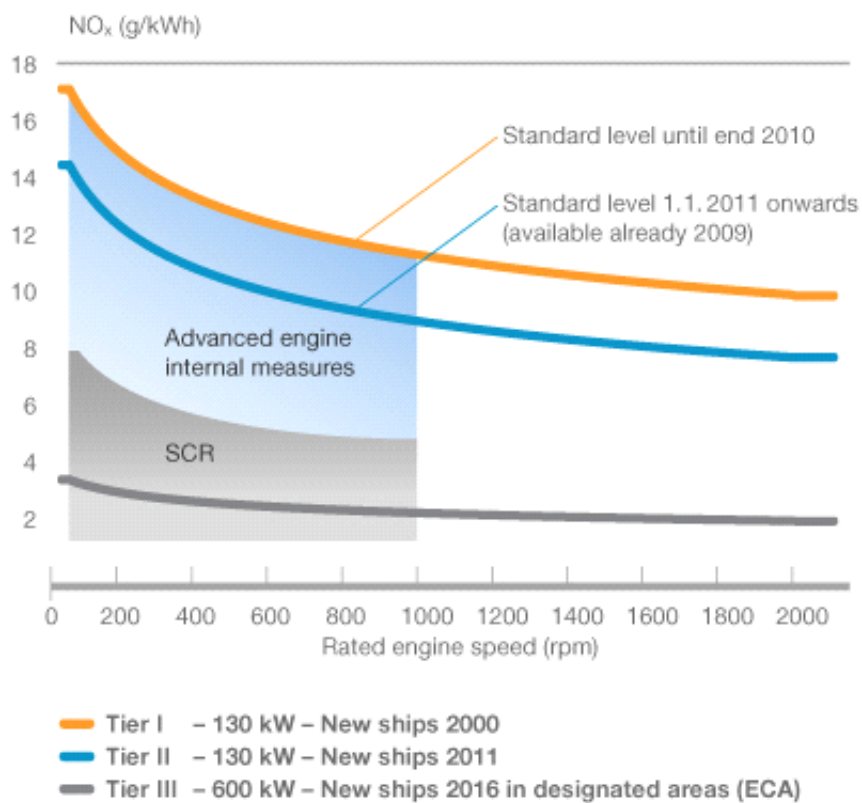
The forthcoming IMO emission legislation concerns not only new ships, but also some ships already delivered. For ships delivered during the years 1990–2000 with a certain minimum engine output and minimum cylinder volume, retroactive legislation is applicable making Low-NO<sub>x</sub> upgrades mandatory, if available. Wärtsilä will be able to offer its customers such upgrades for many two-stroke products.

### Development of diesel engine specific fuel consumption and NO<sub>x</sub> emissions

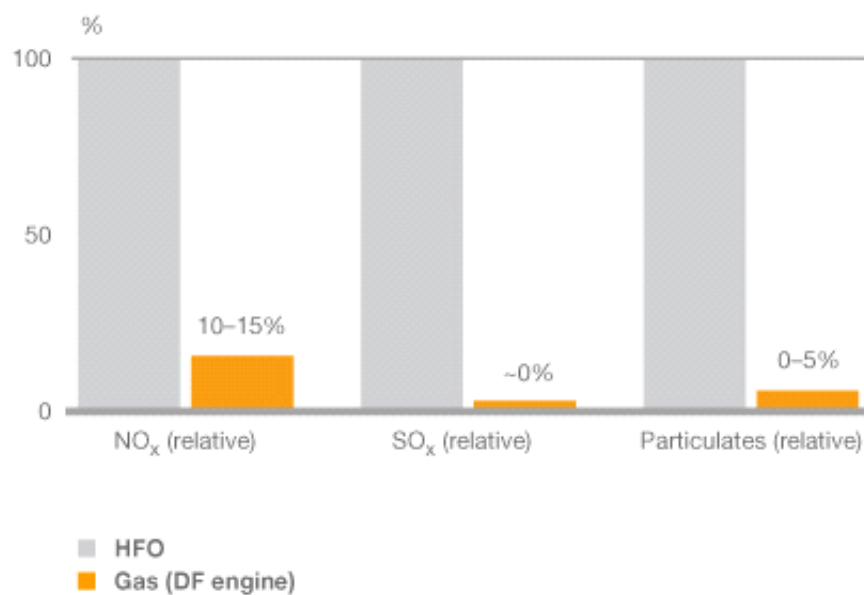


## Emission legislation – marine application (IMO)

### Revised MARPOL Annex VI



### Comparison of typical specific NO<sub>x</sub>, SO<sub>x</sub> and particulate emissions – influence of fuel type

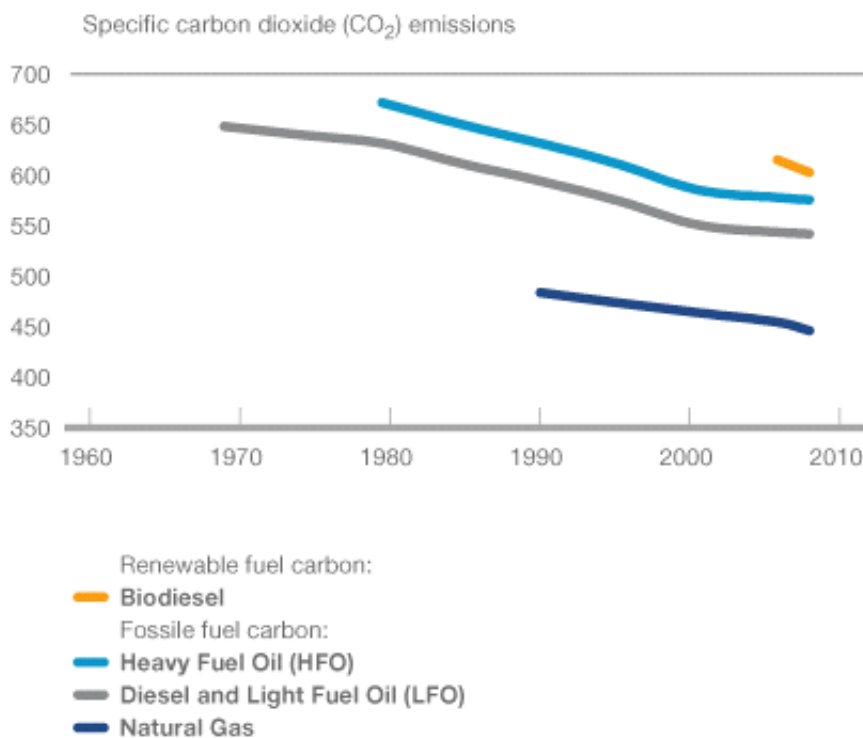




## Reducing greenhouse gas emissions

In addition for improving the efficiency of its solutions, Wärtsilä is continuously developing technologies for reducing the CO<sub>2</sub> and THC (total hydrocarbons) emissions for both diesel and gas engines. For gas engines Wärtsilä has developed a concept that reduces THC (Methane Slip) by 20%. The first pilot installations are already operative with positive results. Complementing the pure engine development work, efforts are underway to design, test and validate a combined catalyst-based methane reduction system for the engine.

### Development of specific carbon dioxide emissions of Wärtsilä engines



## Creating new solutions

### ■ Advanced diesel generating set

This 4-year project was ended in June 2009 at total cost of EUR 6.5 million. It was partly financed by TEKES (the Finnish Funding Agency for Technology and Innovation). The project was part of a larger programme aimed at investigating breakthrough technologies and radical applications that might have large business potential.

The project was coordinated by Wärtsilä, while the main research activities were subcontracted to technical universities in

Finland. Wärtsilä contributed 37,000 working hours to the project, equivalent to over 20 man-years of work. The Wärtsilä 4L20 laboratory test engine accumulated over 2,600 running hours.

The main achievements have been in the areas of the injection systems, the novel turbocharging equipment, variable valve trains and a prototype for engine noise reduction covers. Very interesting results were achieved with a permanent magnet generator prototype. As an academic outcome of the project, more than ten master's theses were completed, and roughly 15 conference and journal papers were submitted. Several university postgraduate students have worked within the project while working on their doctoral theses. Intellectual property rights were secured with 28 invention disclosures and more than 10 filed patent applications.

### ■ 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 the year 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, 20 kW and 50 kW SOFC units. Wärtsilä has continued operation of the first demonstration unit in Vaasa, where the fuel cell is driven by biogas collected from a landfill. Progress with larger units has also been good, and the manufacturing of two WFC50 units is proceeding according to the plan at the Vaasa pilot factory. Commercialisation of fuel cell units for onshore and offshore power plant applications will start at the beginning of the next decade.

### ■ Enabling gas operations in Ships

Multifuel operation using Wärtsilä's Dual Fuel (DF) technology offers environmental advantages of gas engines. It allows low CO<sub>2</sub>, NO<sub>x</sub>, SO<sub>x</sub> 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 vs. 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 4-stroke gas engines and related fuel handling equipment in order to be able to deliver solutions for LNG tankers and gas-fuelled ships in general.

### ■ Expanding the fuel versatility

Wärtsilä is utilising 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. One part of this work was the opening of a new fuel laboratory where different fuel sources, such as vegetable oils, animal fats and emulsions, will be studied. During this year, we have tested engines running on jatropha oil, fish oil, chicken oil and different kinds of synthetic bio oils.

### ■ Enabling controlled transition to more sustainable electricity infrastructure

Wärtsilä develops its products and market approach in order to offer high value solutions that allow a more modern and more sustainable energy infrastructure. Wärtsilä's dynamic grid stability solutions make it possible to install much larger quantities of non-dispatchable wind power to the electrical grid without losing system stability. This requires high flexibility with regard to dynamic features such as fast starting, loading and stopping times, high efficiency over a wide load range, multifuel operation and the ability to locate the power generation facility in the load pockets, i.e. inside cities without external outlook and noise issues, or water and emission problems. The combination of wind power and Wärtsilä dynamic power plants offers high potential for dramatically reducing CO<sub>2</sub> worldwide.

## Long-term research activities

### ■ The HERCULES β project

Hercules Beta, was launched in September 2008 within the EUs 7<sup>th</sup> framework programme. This 36 month and EUR 26 million project is steered by two leading engine designers and manufacturers, Wärtsilä and MAN Diesel, and it brings together 32 partners across Europe. Continuation of research under this framework will ensure the exploitation of the created know-how and partnerships within the first HERCULES project, and will penetrate into new areas. One aim of the project is to develop new technologies to reduce gaseous and particulate emissions from marine engines. A second objective is to increase engine efficiency and reliability, which in turn will reduce specific fuel consumption, carbon dioxide emissions and life cycle costs. Reductions of more than 70% in NO<sub>x</sub> emissions (compared to 2000 level) and 10% in fuel consumption is sought by the year 2020.

### ■ Cleen

The Future Combustion Engine Power Plant (FCEP) research programme focuses on research topics and development efforts in the area 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 10.2 million) and research institutes (EUR 5.0 million). The remaining EUR 22.7 million has been applied from the Finnish Funding Agency for Technology and Innovation (Tekes). The three year programme will start on January 1<sup>st</sup> 2010 and end December 31<sup>st</sup> 2012.

The consortium consists of the leading combustion engine and power equipment manufacturers, supported by local research institutes and universities. The seventeen consortium partners represent a very high level in technical and scientific excellence.

## Collaboration 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 conducting 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 collaborates with Mitsubishi Heavy Industries and Hyundai Heavy Industries in the fields of product development, manufacturing and distribution. Wärtsilä also collaborates with Becker Marine Systems with the aim of furthering the development of marine propeller-rudder systems.

Wärtsilä is now involved in an increasing number of customer development cases in which innovative solutions are researched to build the next generation of more efficient ships.

### **The importance of understanding lifecycle impacts**

Since Wärtsilä's products have such a long operational life, identifying their lifecycle impacts is essential in understanding their total environmental impact. Based on the results of 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 choosing of suppliers, production methods, optimising transportation, through maintenance and repair during the products' operational lifetime, and by training and advising customers.

Summary of environmental aspects of Wärtsilä's products and solutions

Environmental aspect and product	Environmental impact and component	Wärtsilä's solution	Customer's options
Emissions into the air	Pollution of air		
Engines and power plants	Climate warming: Carbon dioxide (CO <sub>2</sub> )	Increasing engine and plant efficiency, multifuel engines	<ul style="list-style-type: none"> <li>- Using a different fuel</li> <li>- Using a fuel with a lower sulphur content</li> <li>- Investment in secondary emission reduction technologies</li> <li>- Planned or optimised maintenance and correct operation</li> </ul>
	Acidification: Sulphur oxides (SO <sub>x</sub> )	Increasing engine efficiency, several emission reduction technologies, multifuel engines	
	Acidification, eutrophication, lower atmosphere ozone formation: Nitrogen oxides (NO <sub>x</sub> )	Low NO <sub>x</sub> combustion, air humidification technologies, SCR, multifuel engines	
	Human health impacts, visual impact: Particles, smoke (PM)	Optimising the combustion process, common-rail fuel injection, electrical filters	
	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 <sub>4</sub> ), ozone formation in the lower atmosphere, some carcinogenic compounds: Hydrocarbon (THC, VOC)	Oxidation catalysts in gas engines for VOC emissions, optimising the combustion process	
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"> <li>- Planned or optimised maintenance and correct operation</li> <li>- Personnel training</li> <li>- Overhauling</li> <li>- Recycling components</li> <li>- Recycling catalysts</li> <li>- Optimising process parameters</li> </ul>
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, seals, 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 in collaboration with equipment manufacturers	
Consumption of fuel & lubricating oils	Depletion of natural resources		
Engines and power plants	Liquid oil-based fuels (e.g. LFO, HFO, Orimulsion®), 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"> <li>- Planned and optimised maintenance and correct operation</li> <li>- Personnel training</li> <li>- Using environmentally benign fuels</li> <li>- Using environmentally favorable lubricating oils</li> <li>- Using environmentally favourable seals</li> </ul>
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	
Solid and liquid waste	Increased waste at landfill sites		
Engines	Lubricating oil used, filters and components, waste oil	Using recyclable materials and optimising the use of materials, automated filters, long service intervals, overhauling components, reducing the consumption of fuel	<ul style="list-style-type: none"> <li>- Planned and optimised maintenance and correct operation</li> <li>- Personnel training</li> <li>- Recycling and proper waste disposal</li> <li>- Evaluation of the potential uses of end products</li> <li>- Optimising process parameters</li> </ul>
Power plants	Construction waste, ash, waste water, waste oil, office waste	Prefabricated, ready-to-install modules	
Secondary cleaning systems	End products and catalysts of flue gas decontamination	Evaluating the potential uses of end products, developing dry primary technologies	
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"> <li>- Planned maintenance and correct operation of power plant</li> </ul>
Heat emissions	Warming of the atmosphere		
Engines and power plants	Waste heat from exhaust gases	Heat recovery systems	<ul style="list-style-type: none"> <li>- Optimising process parameters</li> </ul>

CASE



"With the help of environmentally advanced solutions, Wärtsilä reduces the GHG emissions of its customers and of its own operations."

## Solutions for Greenhouse Gas Emissions reduction

### ■ Wärtsilä and climate change

Wärtsilä has developed various solutions to assist in reducing greenhouse gases. As a result of our long-span development work, we have managed to develop a range of engines that feature both high efficiency and low emissions.

These engines are used for both marine and energy production solutions. 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.

The Wärtsilä dual-fuel (DF) engine is another innovation having 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.

In addition to power plant applications, DF-engines are also used for powering LNG-carriers and in the future, also for other types of vessels. This single solution means that the total CO<sub>2</sub> emissions from all our current customers' 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. CO<sub>2</sub> emissions can be reduced even more effectively with renewable energy sources, such as liquid bio fuels.

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 bio-fuel use.

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 the main role of Wärtsilä in the combat against climate change.

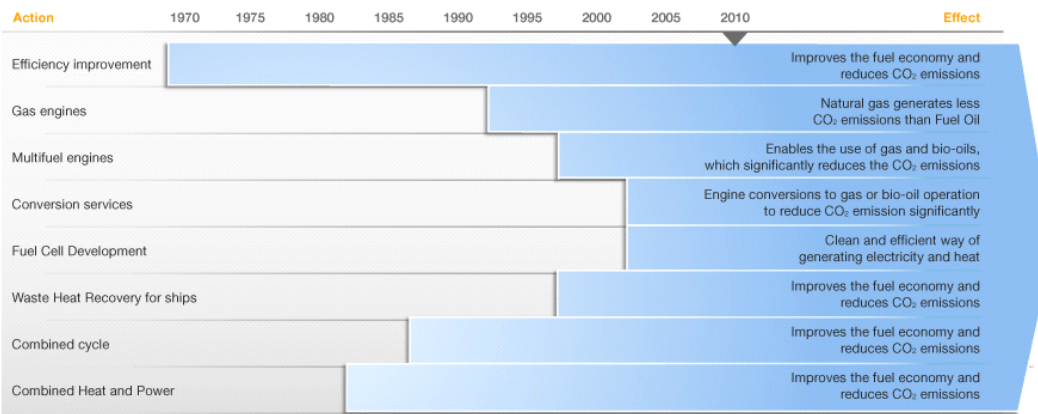


**GHG reduction potential**

Solution	Power (MW)	Fuel	Annual CO <sub>2</sub> 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	Simple 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

**Wärtsilä's actions to reduce GHG emissions**

Wärtsilä's actions to reduce GHG emissions





## 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 life cycle into account.

The main reasons that there have been 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 indexes 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 do increase the absolute value of the indicator.

## 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 material and supplier in question. E.g. recycled material, such as end-of-life coins and bronze propellers, is used in the casting of new propellers. In 2009 the total material usage was 129,320 tons (113,772). The major material groups were various metals 66% (83), sand 21% (11) and various chemicals 10% (4).

### ■ Energy

#### Total energy consumption

The total energy consumption (in terajoules, TJ) includes the electricity, heat and fuels used in Wärtsilä companies in recent years.

#### 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 a local power company. 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 a local power company.

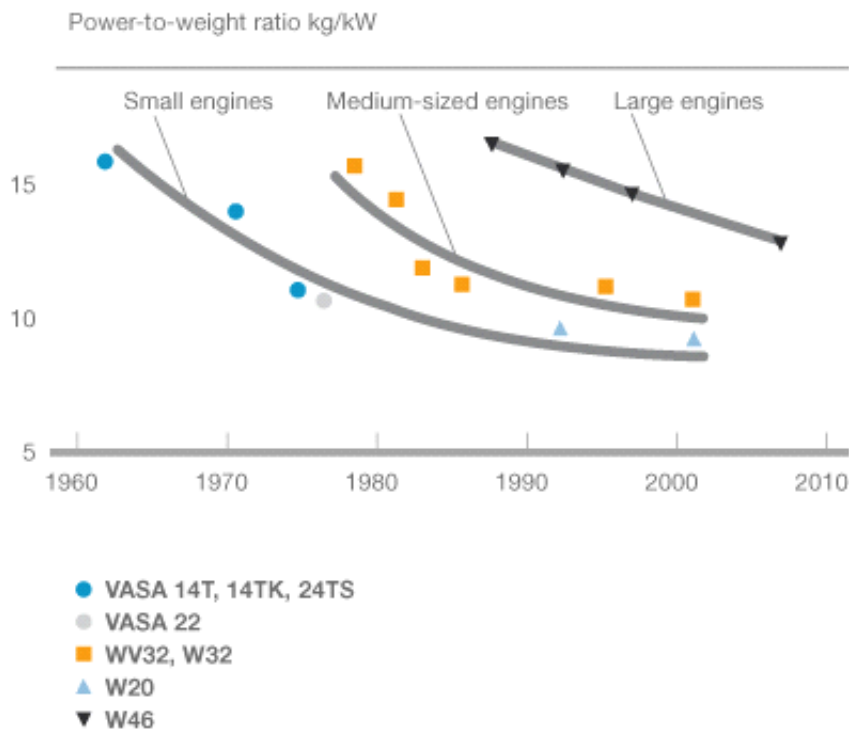
#### Heat

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.

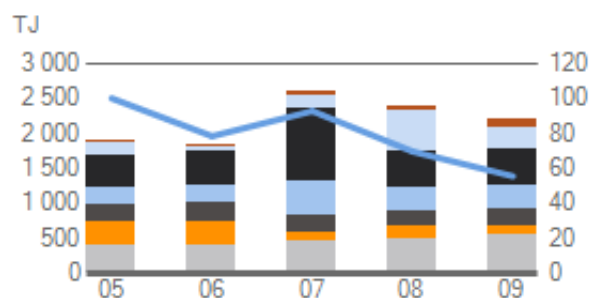
Water

The water consumed by Wärtsilä 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 sewerred and piped to the local wastewater treatment plant. If effluent is not suitable for sewage treatment, it is taken away for appropriate processing, for example to a special treatment plant for hazardous wastes.

Power-to-weight ratio of Wärtsilä's medium-speed engines for 6-cylinder in-line engines

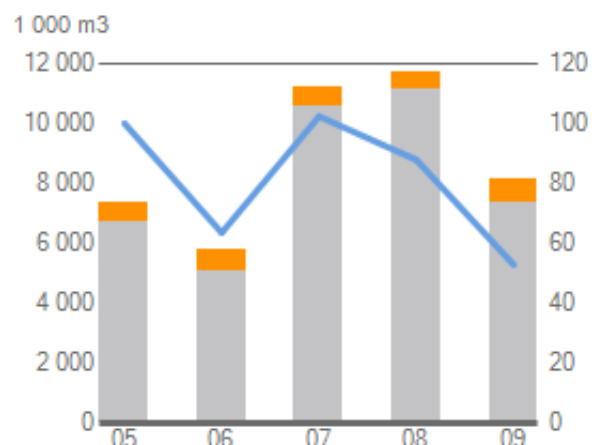


Annual energy consumption



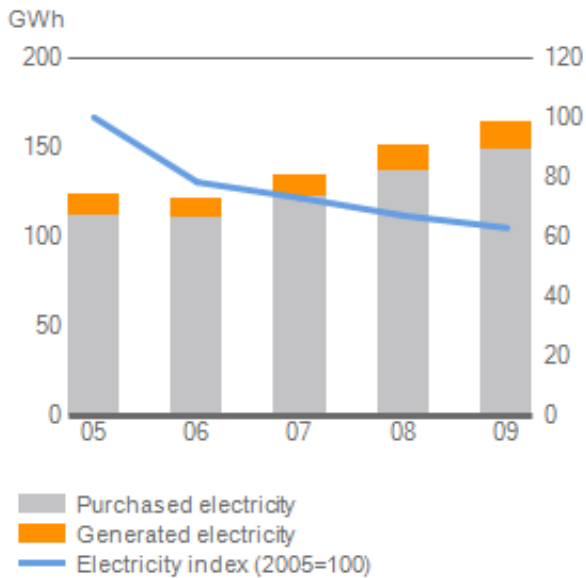
- Electricity
- Heating
- LFO
- HFO (low ash)
- Natural gas
- HFO (high ash)
- Other fuels
- Energy index (2005=100)

Annual water consumption

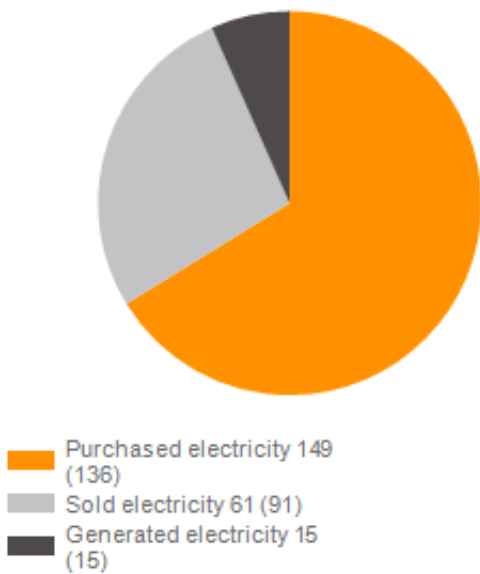


- Cooling water
- Domestic water
- Water index (2005=100)

Annual electricity consumption



Electricity balance 2009 in GWh



Emissions and wastes

■ Emissions to the air

The primary source of manufacturing noise is engine test runs and 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<sub>x</sub>), sulphur dioxide (SO<sub>2</sub>), carbon dioxides (CO<sub>2</sub>) 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.

In addition to direct CO<sub>2</sub> emissions, Wärtsilä's operations generate indirect CO<sub>2</sub> emissions. In 2009, the calculated secondary CO<sub>2</sub> emissions were 62,211 tons (54,112) (from purchased electricity and heat) and CO<sub>2</sub> emissions from flights totalled 37,882 tons (45,014).

### ■ 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

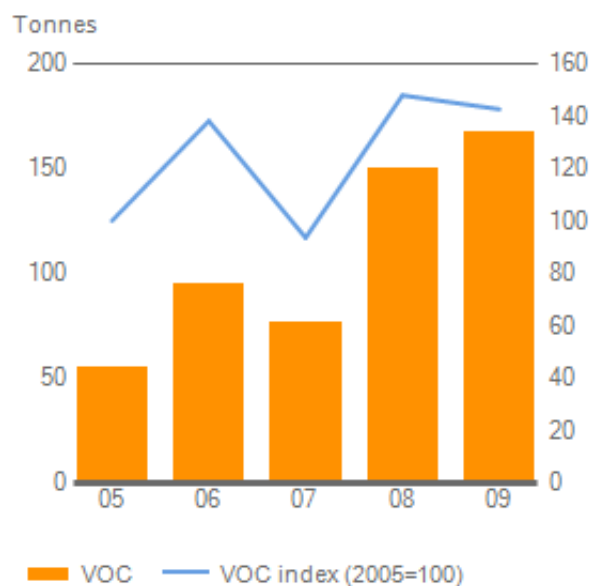
### ■ Waste management

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 and 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.

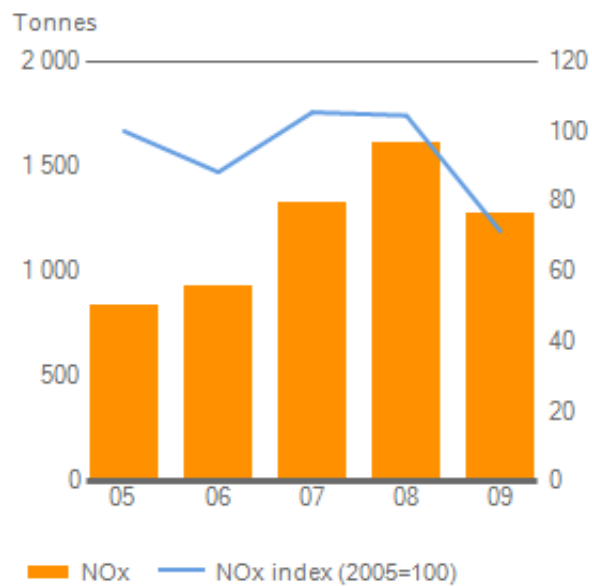
**Waste management in Wärtsilä has four aims:**

- 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

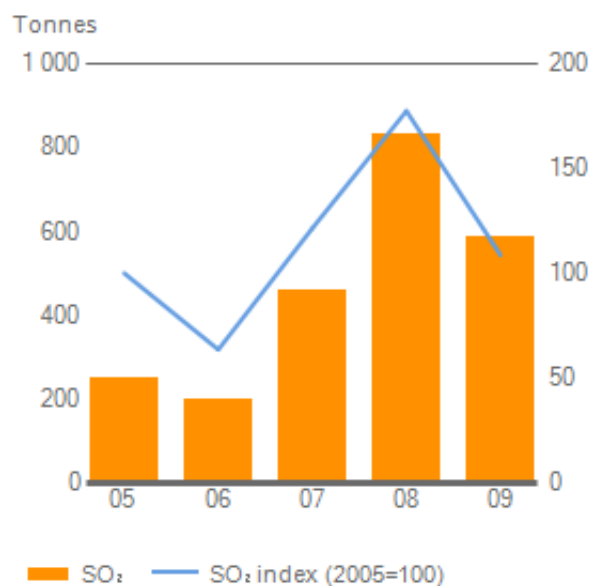
**Annual VOC emissions**



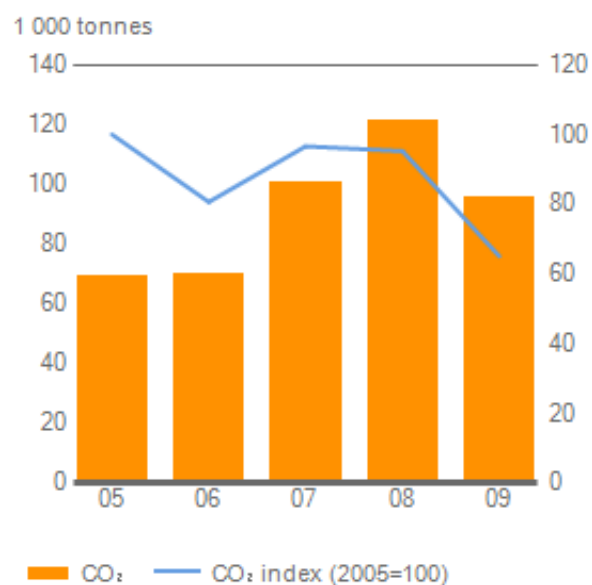
**Annual NOx emissions**



Annual SO<sub>2</sub> emissions

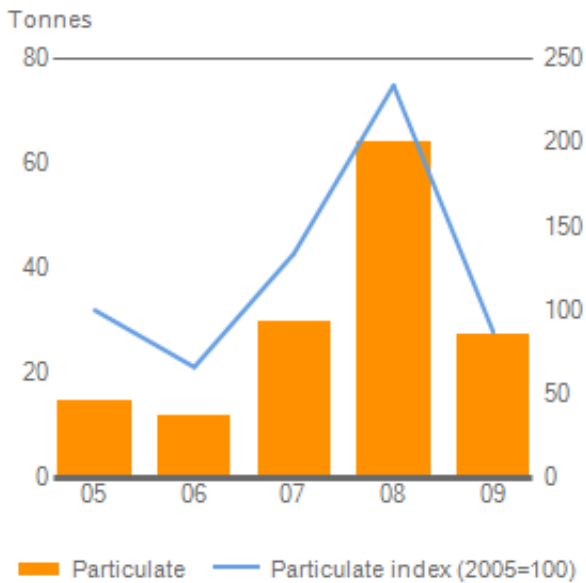


Annual CO<sub>2</sub> emissions

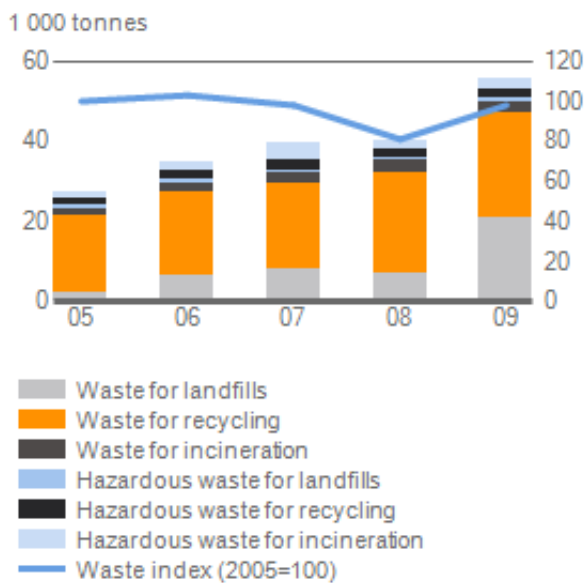




**Annual particulate emissions**



**Annual waste**



**Compliance with legislation**

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

**Environmental disturbances and complaints**

The number of disturbances, complaints and incidents of noncompliance are presented in the figure. 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 at Wärtsilä’s business locations in 2009:

- 1 nuisance due to noise
- 1 sludge spillage
- 2 fires
- 2 fuel oil leakages
- 1 oily water spillage
- 1 uncontrolled odour

All the above disturbances were investigated and appropriate corrective action was 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.

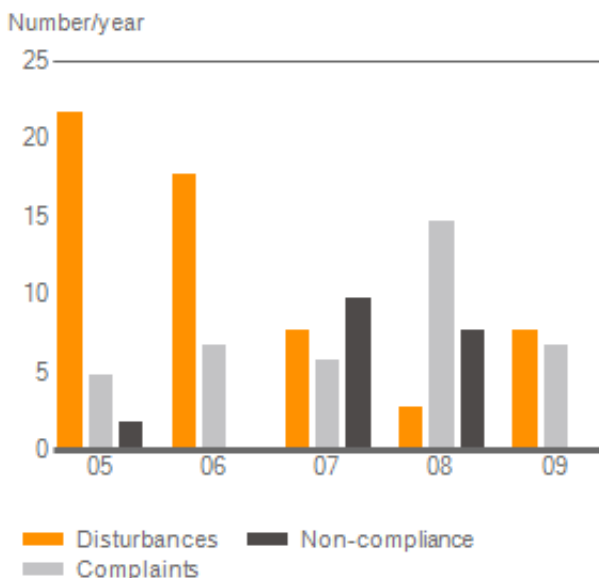
**Cases of non-compliance**

There were no non-compliance cases during the reporting period.

**Non-compliance cases presented in previous reports**

Wärtsilä Guatemala S.A. has taken all the corrective actions proposed by the technical study. Wärtsilä France S.A. identified a solution which was not feasible. Alternative solutions are being explored. Wärtsilä Denmark A/S has taken necessary actions as a temporary solution in order to comply with the requirements. However, Wärtsilä Denmark A/S is still looking for a permanent solution for the waste water issue. Wärtsilä Iberica S.A. and Wärtsilä Singapore have taken the corrective actions for their cases.

**Disturbances, complaints and non-compliance**



**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 a part of 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	2009	2008	2007	2006	2005
Environmental capital expenditures	1.1	2.6	2.5	1.8	2.5
Environmental operating expenditures	4.2	5.4	4.1	3.5	3.0

**CASE**



"Wärtsilä's energy surveys highlight our commitment to overall energy efficiency improvement."

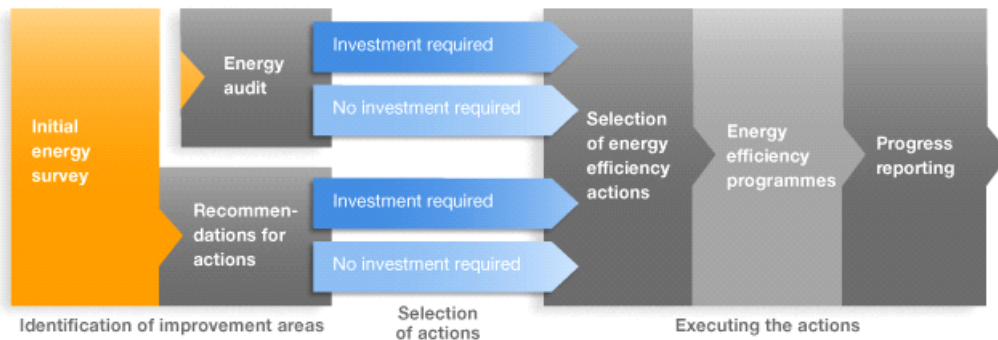
**Initial Energy Survey**

In line with its commitment to energy efficiency, Wärtsilä performed an initial energy survey during 2009. The objective of the initial survey was to identify the current energy efficiency performance and energy consciousness, to gather basic information needed for future planning, to evaluate the actual and potential need for in-depth energy analysis in each country and/or site and identify measures for improved energy efficiency. The survey was conducted by an external company and altogether 143 Wärtsilä sites in 60 countries participated in the survey.

The results of the survey included recommendations for company and/or site level actions. The results showed that the top 10 energy consuming companies in 2008 used 85% of electricity, 98% of fuels and 95% of heat. During 2010, Wärtsilä will conduct energy analysis at least in China, Spain and Italy. In Finland energy audits have already taken place and a detailed plan for improving the energy efficiency exists.

The total energy saving target in absolute terms is 47 GWh by 2016.

Overall energy efficiency improvement process



Personnel and social performance

Wärtsilä’s social responsibility objectives are defined within its strategy. The aim is to have energetic, competent and motivated personnel with exciting and meaningful jobs and career opportunities led by excellent leaders.

Good corporate citizenship is accomplished through open communication and good relationships with relevant stakeholders. Wärtsilä’s operations and relations with its stakeholders are based on the company’s Code of Conduct, with which each Wärtsilä employee is required to comply.

The company also endeavours, by applying high standards of occupational health and safety, to offer hazard-free workplaces to its employees, contractors, and others working in different parts of the corporation.

In its Ship Power business, Wärtsilä began adjusting its resources and organisation as a result of the global economic crisis and collapse in the shipping and shipbuilding markets, after a long period of high demand. In handling local readjustment plans, Wärtsilä has given support to managers in dealing with difficult situations, and especially to employees made redundant. This support has been mainly in finding employment, in providing assistance with health care services, and through other HR support activities.

Implementation of social responsibility targets approved by Wärtsilä's Board of Management

Target	Status
Defining guideline for Corporate Equal Opportunities.	Corporate Equal Opportunity guideline has been defined in 2009, and will be communicated by the end of Q1/2010.
95% of key suppliers covered in the supplier ratings by 2010. All of these suppliers should reach Wärtsilä approval and 50% of those should reach the highest approval level.	The target is scheduled for 2010. Supplier ratings are monitored by Wärtsilä Supply Management. At the end of 2009 supplier ratings covered 90% of the key suppliers of which 67% had reached the highest approval status.

Development discussion coverage 100% by the end of 2009.	Development discussion coverage was 78% at the end of 2009. The coverage of 100% remains as general target and principle among salaried employees. Harmonized guideline for the process of development discussions among blue collars has been defined in December 2009.
EHS management systems implemented in subsidiaries.	Wärtsilä subsidiaries have implemented the EHS management systems according to the plan. At the end of 2009 Wärtsilä had 39 certified ISO 14001 companies (covering 87% of employees) and 31 certified OHSAS 18001 companies (covering 72% of employees).
Long-term goal for zero lost time injuries.	Subsidiaries have been implementing their action plans for the target. Positive results have been achieved already, the lost-time injury frequency rate was 12.9 compared to the previous year's 16.3.
Work safety card for all Field Service employees.	Wärtsilä Land & Sea Academy has prepared corporate safety handbook and an e-learning safety training module, which will be released and made available to all Wärtsilä employees by April 2010. Safety cards will be delivered to each participant, who has successfully completed the training.

## Personnel

### ■ Personnel and structural changes in 2009

The number of personnel has remained at the same level throughout 2009. Recruiting has been carried out with careful consideration, and the focus has been on internal and cross-functional rotation and transfers.

Wärtsilä and Metso completed the transaction to combine Metso's Heat & Power business and Wärtsilä's Biopower business into a joint venture, MW Power Oy. The transaction was finalised on 1 January, 2009. 44 employees from Wärtsilä transferred to this newly established joint venture.

In May 2009, Wärtsilä acquired the remaining 60 per cent of the shares of Wärtsilä Navim Diesel of Italy, thereby increasing its ownership of the company to 100 per cent. The company has all of its operations in Genoa, Italy. Wärtsilä Navim Diesel employed 88 people. Its business has been integrated into Wärtsilä Services in Italy, and all personnel continued as Wärtsilä employees. Wärtsilä also continued its acquisition and integration of Ship Design companies. In April Wärtsilä acquired Vik-Sandvik Albatross d.o.o in Serbia, a company employing 40 people. In October CJSC Vik-Sandvik Rusland of Russia and its 11 employees, and in May Vik-Sandvik IHB Design AD of Bulgaria, which is reported as an associate company with a Wärtsilä shareholding of 50%, were acquired.

In addition to direct employment, Wärtsilä also indirectly employed an external workforce totalling 2,730 man-years in subcontracting at its factories and units. The units in Finland had a total personnel of 3,469 employees.

Ship Power's organisational and resource realignment to adjust to the substantially weakened global marine market situation was initiated. Some 400-450 jobs will be eliminated from its global operations. In taking these measures, Wärtsilä is looking for annual savings of approximately EUR 30 million. The effect of the savings started to materialise gradually from the

second part of 2009 and will achieve full effect by the end of 2010. In addition to a reduction in the number of Ship Power employees, other cost efficiency measures have been taken into use. These include the use of virtual meeting and conferencing systems instead of travelling, and following the corporate guidelines in not increasing salaries.

At the same time, Ship Power is aiming to achieve a significant change by establishing a unified way of working. This change should maintain the benefits of our strong local presence by improving our way of working in selling, engineering, and in executing projects, as well as developing operational skills and capabilities, and creating a mindset of continuous improvement within the whole Ship Power team.

## Number of employees per business

	No. of employees	Change
Services	11 219	208
Ship Power	1 140	-461
Power Plants	835	-69
Industrial Operations	4 911	28
Other	436	23

## ■ People management in 2009

The main goal of Wärtsilä's human resources strategy is to support implementation of the company's business targets by ensuring that the businesses have the requisite resources as well as skilled and motivated people at their disposal. This means support for organisation design and changes, continuous competence development, performance management and recognition of strong performance, and finally, strengthening leadership and management competencies within the organisation.

Wärtsilä Human Resources continued its development of the common people management processes and tools, and common ways of working across national and organisational boundaries. A major step has been taken by implementing new technologies and tools enabling virtual collaboration and conferencing. These measures bring cost savings, and more importantly they increase efficiency and enhance the balance between work and home life by reducing the time needed for travelling.

During 2009, Wärtsilä further developed its core people management processes, and increased the efficiency of the tools needed by managers and employees to deploy the processes. The development discussion tool fully supports the annual process, and a single common human resource information system is in use globally. Good employee data quality and accuracy provide a solid platform for the further development of tool-supported people processes, resource planning, reporting and analysis.

## ■ Performance Management

The Performance Management process supports Wärtsilä in reaching its business targets by translating business strategies to people management actions and individual and team objectives. Each Wärtsilä employee needs to know and understand Wärtsilä's business strategy and its goals, and more importantly, to know the targets set for their own units and the main target areas related to their own work. Wärtsilä continued to put emphasis on performance management.

In 2009, eight defined Wärtsilä value based behaviours were integrated into both the target setting definition and the overall performance evaluation at the end of the result period. Expectations regarding behaviour are discussed in the development discussions. Development discussions with individuals or teams are done at least once a year. In 2009, the aim was to have 100% compliance with the annual development discussion by year end. In many units this target was reached, but on average compliance was 78%.

Within the Performance and Competence Management processes, Wärtsilä has defined 15 global job families. These include a framework for job levels and grades and generic job profiles, which enables the analysing of organisational structures and harmonises key qualifications for the jobs, remuneration frameworks and comparisons to market data.

**■ Development of leadership skills**

Wärtsilä continued its leadership development activities in many areas. An annual executive development programme was held in November, and three new leadership development global programmes for senior managers were implemented and will be carried out with the same scope during 2010. The number of managerial training days is also followed regularly as one of the HR KPIs.

Learning at work, self learning, mentoring, coaching and job assignments designed to enable the transfer of competence and skills from experienced to younger employees are integral parts of the development of learning and competence in the company. Employees are given formal 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 67,834 training days a year, averaging 3.7 days per employee. This indicates the broad scope of this function. Most of the training events are tailored to the specific needs of departments.

**Training days**

Days/employee	2009	2008	2007	2006	2005
Managers and superiors	3.9	2.7	5.3	3.3	3.0
Other white-collar employees	3.8	3.3	2.9	3.9	3.3
Blue-collar employees	3.5	3.5	2.8	2.4	2.3

**■ Future talent through international graduate programmes**

In order to ensure future leadership and functional expertise, Wärtsilä has been running three international top graduate programmes in Finance, R&D and Information Management. Altogether, 26 young professionals have been learning through work assignments, project work and training, both the way of working in Wärtsilä and more deeply, on their substance matters. Such programmes form an integral part of talent development. As part of this project, participants undertake various roles and work on diverse cases across Wärtsilä’s international organisation. All three programmes will end in January 2010.

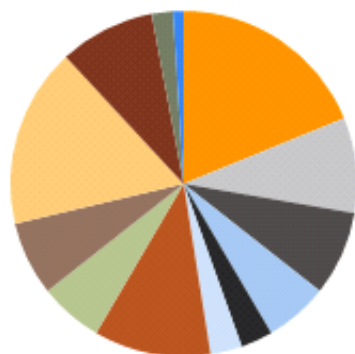
**■ Challenges for personnel management and priorities in 2010**

Wärtsilä is preparing to optimise its production to meet the changing business environment. Wärtsilä needs to improve and change the organisation continuously to match both short term and long term changes in the market and to prepare for future sustainable growth and profitability. This involves diverse challenges, and Wärtsilä aims to treat its people in the best possible way and to give full support to both managers and employees during these times of change.

Wärtsilä wants to be seen as a potential and an attractive employer, both for newly graduated and experienced professionals while at the same time offering opportunities for personal development and career development opportunities to those who are already working in the company.

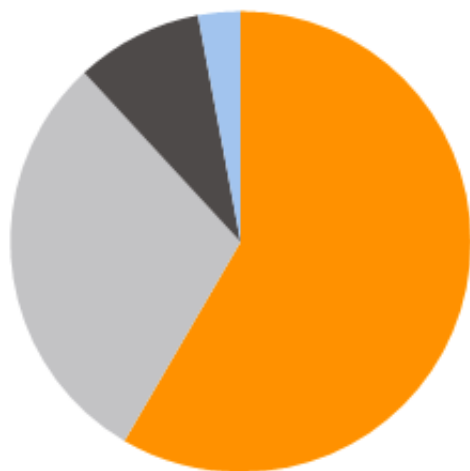
Leadership competence development remains as one of the key development targets in all areas. Additionally, high priority is given to well implemented and deployed performance management processes, including quality in target setting, performance coaching, regular performance and achievement reviews and the rewarding of good and excellent performance.

Personnel by country



Finland 19% (19)	India 6% (6)
Italy 9% (8)	China 7% (7)
The Netherlands 8% (9)	Other Asia 17% (18)
Norway 6% (6)	America 9% (8)
Switzerland 3% (3)	Africa 2% (2)
France 3% (3)	Other 1% (4)
Other Europe 11% (11)	

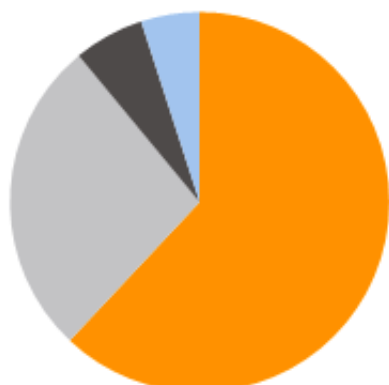
Personnel by market area



Europe 59% (59)	The Americas 9% (8)
Asia 30% (30)	Other 3% (2)

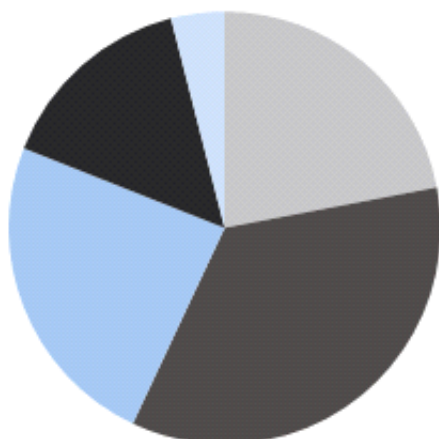


**Personnel by business**



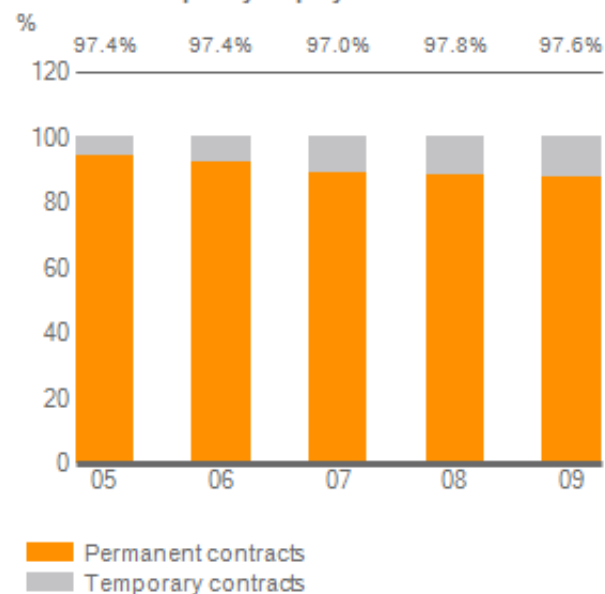
- Services 62% (60)
- Wärtsilä Industrial Operations 27% (27)
- Ship Power 6% (9)
- Power Plants 5% (5)

**Age structure**

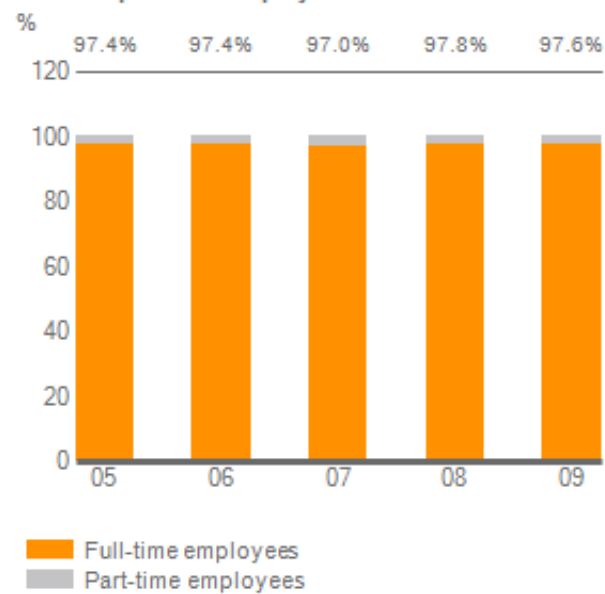


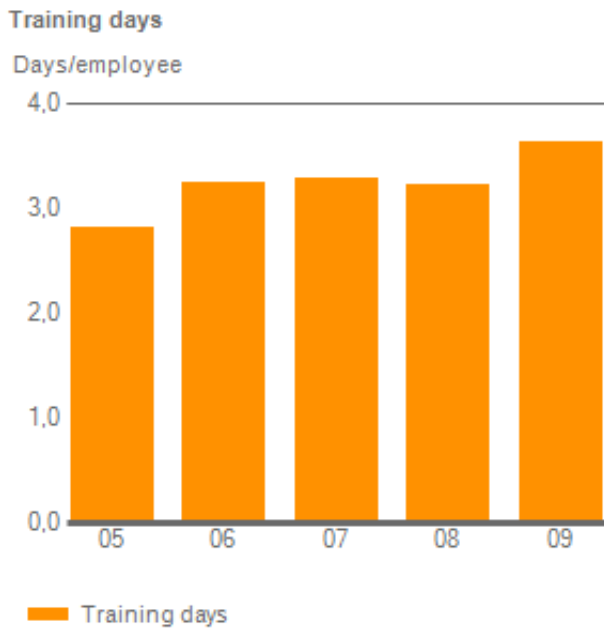
- Under 20 0%
- 20-29 22%
- 30-39 35%
- 40-49 24%
- 50-59 15%
- Over 60 4%

### Permanent/temporary employees



### Full-time/part-time employees





## Employee practices

### ■ Employee benefits and remuneration

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 contracts. The financial performance is assessed and the bonus 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 wellbeing, fitness and health services are planned and implemented locally taking into account both company guidelines and local market practices.

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.

### ■ Minimum notice period

In the case of occurrences having significant business or social implications, such as personnel dismissals, the transfer in full or part of production facility location, structural changes, etc., 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 inform at the time of planning any significant operational change.

Wärtsilä applies European Union directives, local acts of cooperation in the companies and corporations, collective agreements, and equivalent regulations concerning consultation and local bargaining.

### ■ Competence Management process

Wärtsilä's Competence Management process is an effective and structured way to carry out long-term competence

development plans within our business functions. In order to know where to focus our competence development actions, we need to recognise the required competencies that are critical to the success of our company today and in the future. Through the same process, we are able to identify both the short- and longterm individual competence development needs. Competence assessment of our personnel and comparison with competence targets allows us to analyse competence gaps.

All training and development activities in Wärtsilä strive to develop, maintain and renew the 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.

## ■ Consulting and informing in Group companies

Wärtsilä's procedures for consulting and informing 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 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 consulting and informing 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 annually. The subjects dealt with 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 through either 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.

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, environmentally sound, 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 2009

Number of employees at 31 Dec. 2009		18 541
Number of nationalities		110
Change in number of employees (net employment creation)		-310
Average age of employees	years	38.8
Male/female ratio	%	86/14
Executive positions globally: male/female ratio	%	87/13
Employee turnover (resigned)	%	10.5
Total payroll costs	MEUR	735
Aggregate coverage of different bonus schemes	%	60
Development discussions held annually	%	78.1

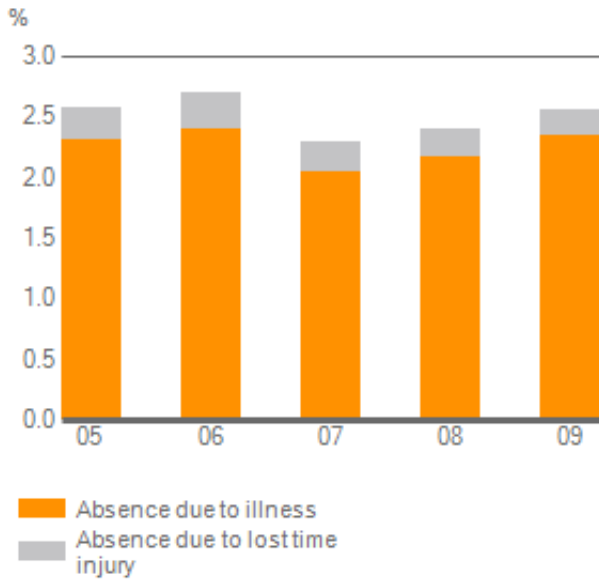
### Occupational health and safety

Wärtsilä's occupational health and safety principles are defined in the company's QHSE policy and directive on occupational health and safety (OHS). Wärtsilä's subsidiaries are required to have a management system in use that conforms to the QHSE policy and OHS directive. The main aspects of the management system relate to compliance with legislation, identifying and minimizing occupational health and safety risks, personnel training, providing written instructions, the use of protective equipment, and the continuous improvement of OHS performance.

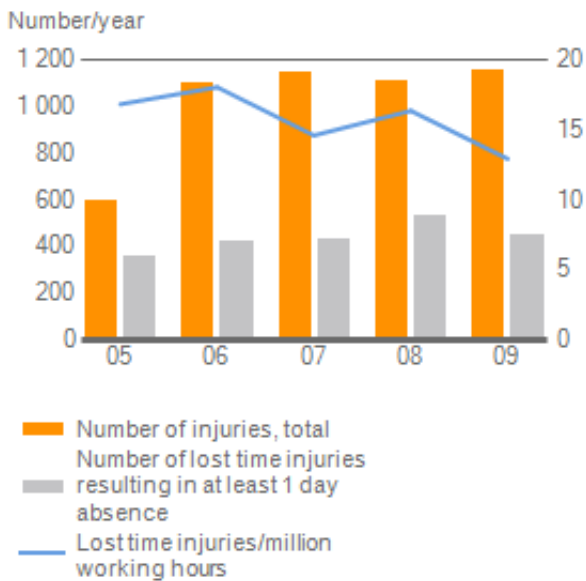
The objective of Wärtsilä's QHSE policy is to prevent and manage health and safety risks to personnel and stakeholders. In addition to the management system, Wärtsilä companies apply OHS programmes as required by local legislation, which are normally implemented by OHS committees consisting of representatives of the companies' management and personnel. Accidents are recorded and investigated in the manner required by local legislation. Altogether 70% 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 amount of absence due to sickness, and the frequency of accidents. There were two fatal incidents during the review period. A Wärtsilä employee lost his life when travelling back from customer premises in China, and an employee of a Wärtsilä subcontractor had a fatal accident in our customer's premises in Pakistan. There were 2 minor non-compliance cases during the reporting period. Wärtsilä Argentina received recommendations from its injury insurance company to improve awareness of health and safety legislation in order to ensure compliance, while Wärtsilä UK received a warning concerning the guarding of machinery. The companies in question have taken appropriate corrective actions.

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 requires actions from all Wärtsilä companies and employees. The safety performance of the companies is followed on a monthly basis. In 2009, Wärtsilä continued the implementation of zero injury action plans in all of its subsidiaries. Wärtsilä subsidiaries have set intermediate targets for achieving zero lost time injuries. Wärtsilä has developed and released several guidelines and supporting documents to help in reaching the long term goal of zero injuries, while Wärtsilä subsidiaries have installed injury counters and calendars. Strong efforts were made to communicate and spread the new safety culture. Wärtsilä began creating a Safety Handbook and E-learning training module for safety, which will be introduced in 2010. Wärtsilä consolidated the trend in reducing lost time injuries, achieving a good result in 2009 with a lost time frequency index of more than 20% below that of the previous year.

**Absence rate**



**Injuries**



**Human rights**

Wärtsilä supports and respects basic human values as outlined in the UN's Universal Declaration of Human Rights.

Wärtsilä's employees represent 110 different nationalities. The company supports equal treatment of all its employees irrespective of race, colour, nationality, gender, age or religion. The company's employees are selected on their qualification and competence for each specific job. Programmes and instructions related to promoting equal rights are applied in the subsidiaries.

Wärtsilä supports the work-related rights defined by the International Labour Organization (ILO). Therefore the company works to ensure 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 17,659 for not fulfilling its legal obligation to hire disabled persons covering 2% of the total headcount. The company has mainly hired blue collar employees, which limits the suitable job offerings to disabled persons. Wärtsilä Argentina S.A. was required to change its payroll procedures and dates to meet the national regulations.

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. The integral part of these due diligence assessments is compliance with relevant legislation.

## Security practices

Wärtsilä has a security policy and guidelines, which incorporate human rights considerations and international best practices. The policy is also applied to third party organisations. The security personnel of Wärtsilä have been trained according to our policy and guidelines. Our Security Manager is a member of the board of ASIS Finland.

## Impact on communities

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. Measures to evaluate the impacts on local communities in conjunction with operational changes of Wärtsilä subsidiaries are determined case by case. Wärtsilä's activities for charitable purposes are described in the [Economic Performance](#) section of this report.

## 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 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: preassessment, auditing, and performance review. A pre-assessment is made of potential new suppliers before the supplier relationship begins. Audits are conducted on new suppliers and on suppliers whose performance does not meet Wärtsilä's requirements. Performance reviews are performed to solve a single deviation from requirements. In the assessment of a supplier, Wärtsilä focuses on several critical indicators, where Wärtsilä expect the supplier 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 2009, Wärtsilä rated 180 of its key suppliers and conducted dozens of supplier evaluations. Wärtsilä Supplier Development activities are continuously implemented globally. By the utilisation of the "Supplier Development Toolbox", we will improve our supplier's 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. The quality assurance activities will also ensure that the parts are made according to the agreed technical specification defined in the order, and that the parts meet the quality criteria.

### Preventing corruption and bribery

Wärtsilä's Code of Business Conduct and the Broker Directive expressly prohibit the company and its employees from accepting or offering any kind of benefit considered to be a bribe, and from actions that could give rise to a conflict of interest or breach of loyalty. Because of this, without a specific consent, business gifts of nominal value only may be given or accepted. The instructions make it compulsory to comply with local anti-bribery provisions and internationally recognised anti-corruption and anti-bribery principles, and to report any cases of bribery. The company renders extensive training for its personnel, particularly the sales organisation, on anti-corruption principles and the relevant instructions.

The company had one bribery allegation during the review period related to a project in Kenya which was completed in 2001. 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. The charges related to a consulting agreement which was made in conjunction with the project in Kenya. The case was heard before the Mustasaari District Court in November 2009. By its decision of December 18, 2009, the District Court dismissed all the charges against the individual and the demands against Wärtsilä Finland.

### Political lobbying

Wärtsilä's policy is to engage in open dialogue and discussion with both local and international public authorities and officials. An important area of co-operation in this forum is the reduction of emissions from energy production. Stakeholder co-operation with public bodies is a part of Wärtsilä's business operations and not a political activity.

### Competition regulations

Wärtsilä has in place a compliance programme for managing risks relating to competition law, and the company's corporate management is strongly committed to implementing this programme. The cornerstone of the programme is a competition law manual, which provides information about competition rules and instructions for Wärtsilä's internal procedures. As before, also in 2009 Wärtsilä arranged a number of competition law seminars for key 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 develops and deepens continuously relations with its customers. Wärtsilä supports its customers in design, startup 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.

In its most important market areas, Wärtsilä arranges Customer Days for existing and potential customers. These days are used to review subjects of topical interest and to discuss existing and future needs and challenges. In 2009, Ship Power and Power Plants businesses arranged and 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.

Wärtsilä uses a Customer Relationship On-Line (CROL®) process for measuring the company's sales, delivery and service performance in individual projects and customer relationships. The system requires Wärtsilä to make a self-assessment with the same questions as given to customers, thereby enabling a comparison with feedback from customers. This highlights actions necessary to rectify any issues during the customer relationship life cycle. Low scores in customer feedback triggers automatic requests for corrective actions. The customer responsible persons are responsible for documenting and carrying out corrective actions, as well as for communicating these to the customers. In addition, Industrial Operations, the Product Companies and Business Process Management are responsible for taking action regarding feedback that is directly related to their activities. The status and effects of the corrective actions is followed up by upper management on a quarterly basis.

The customer opinions collected during 2009 has triggered over 500 project/customer specific action plans which Wärtsilä representatives are working on. The action plans vary from simply agreeing with customer upon a communication plan, to more complex technical problem solving cases. The goal for each action plan is to react on specific customer feedback and to improve customer perception of Wärtsilä.

Wärtsilä measures its performance using a questionnaire in which customers are asked to comment on statements related to the quality of Wärtsilä products and solutions, the organisation and the professional competence of Wärtsilä employees. The assessment has a scale of 1–10, the highest grade being 10.

### The average results for the customer satisfaction survey

	2009	2008	2007	2006	2005
Ship Power	7.4	7.4	7.5	7.4	7.2
Services	7.9	7.8	7.7	7.6	7.7
Power Plants	8.1	8.3	8.1	7.9	8.1
Sample	1 859	2 204	1 575	1 477	1 167

## Ship Power adapts to market situation

In May 2009, Wärtsilä's Ship Power business initiated global measures for adapting capacity in order to adjust to the market situation. The rapid growth in ship building markets ceased suddenly during the fourth quarter of 2008, which, in combination with low order intake volumes, strengthened the impression that a rapid recovery to the industry recession was improbable.

Through these measures 400–450 jobs will be reduced by the end of 2010, in addition to the realisation of other cost savings. The target is to save annually approximately EUR 30 million. At the end of 2009, 202 jobs were reduced.

A significant number of reductions have been carried out through internal transfers, in which Ship Power employees have been relocated to other businesses areas with open positions. Wärtsilä's HR organisation has been active in providing

employees with information regarding vacancies. Ended fixed term contracts have not been renewed and these positions have not been filled by new employees. Furthermore, employees have been made redundant. The process of reducing personnel will extend over a longer time period. In order to cause as little inconvenience as possible to the customers, the decrease in resources will be aligned with the delivery of the existing order book

Labour legislation and practices differ from country to country. Decisions regarding necessary support measures and implementation of such measures have, therefore, been made on a local level. Employee representatives have participated in the planning and implementation of support measures. For instance, employees under threat of redundancy in Norway were offered assistance with relocation from an external specialist. In Finland, both employees and managers were offered change management training and support in search for new employment. Such support measures were organised in cooperation with occupational health care.

## Report scope and profile

### ■ Report scope

Wärtsilä's Sustainability Reporting 2009 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](http://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 the Group's Ship Power, Power Plants and Services businesses and its 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:

- Whessoe S.A., Whessoe Total Automation Ltd.
- Wärtsilä Automation Services, France S.A.S.
- Wärtsilä Ship Design Poland Sp.z.o.o., Wärtsilä Ship Desing Serbia d.o.o.
- Wärtsilä Hungary Kft, Wärtsilä Ukraine LLC, Wärtsilä Cyprus Limited
- Wärtsilä Tanzania Ltd., Wärtsilä Uganda Ltd.
- Wärtsilä Uruguay S.A., Wärtsilä Belize Ltd.

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					
	2009	2008	2007	2006	2005
Economic	100	100	100	100	100
Environmental	84	85	90	90	90
Social	84	85	90	90	90

Operational data, % of personnel					
	2009	2008	2007	2006	2005
Economic	100	100	100	100	100
Environmental	98	95	96	91	95
Social	98	95	96	91	95

Operational data, % of product manufacturing					
	2009	2008	2007	2006	2005
Economic	100	100	100	100	100
Environmental	100	100	100	96	98
Social	100	100	100	96	98

## Reporting profile

### Data collection

The data on product 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 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 completeness, accuracy and consistency of the data in the report. Site assurances were carried out in Havant and Segensworth, UK, and in Vaasa, Finland.

Wärtsilä declares an Application level of "A+" according to the GRI G3 guidelines for this report, which is also third-party checked.

### 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.

These reports and their sustainability data are available on Wärtsilä's website: [www.wartsila.com](http://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

**Arnauld Filancia** Director, Marketing & Communications, Services

**Joséphine Mickwitz** Director, Investor Relations

**Marko Vainikka** General Manager, Sustainability

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## 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.–31.12.2009 presented in connection with the electronic Wärtsilä Annual Report 2009 (hereafter: the Report), and to perform an application level check on Wärtsilä's sustainability reporting.

The Sustainability Information subject to the limited assurance engagement 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 on product sustainability performance presented on selected and marked pages at [www.wartsila.com](http://www.wartsila.com).

The application level check refers to evaluation of the scope of Wärtsilä's sustainability reporting, according to the application level guidelines defined by Global Reporting Initiative ([www.globalreporting.org](http://www.globalreporting.org)). The purpose of the application level check is to assess whether Wärtsilä has reported on its sustainability aspects as self-declared in the Report.

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 Sustainability Reporting Guidelines of the Global Reporting Initiative 3.0 (G3) and the declared application level. 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 conclusion on the Sustainability Information subject to the assurance based on the work performed. It is also our responsibility to carry out an application level check, as described above, and to express our independent conclusion on Wärtsilä's reporting application level.

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 possesses the specific knowledge, skills and professional competence needed to understand and review the information to be assured, and that the assuring party complies with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence.

The evaluation criteria used for our assurance are the Sustainability Reporting Guidelines of the Global Reporting Initiative 3.0 (G3).

### **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 (G3)* 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 to gather and consolidate the presented Sustainability Information, and a review of Wärtsilä's related internal documents;
- 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;
- Testing of data accuracy and completeness through samples from the Group's information systems and original numerical information received from Wärtsilä's subsidiaries;
- Visits to two sites selected on the basis of a risk analysis taking into account both qualitative and quantitative information.

For the application level check we have performed the following additional procedures:

- An assessment of the presented sustainability aspects relevant to G3 reporting and referred to in the GRI content index of the Report, to determine, whether the requirements of the self-declared application level have been met. All the sections referred to in the GRI content index were included in this assessment, whether or not subject to assurance.
- An assessment of the Report against the GRI reporting principles
- Assessment of the accuracy of the GRI content index

### **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 Statement for the year ended 31 December 2009 is to be consulted.

The sections of the Report included in the application level check were only considered from the sustainability point of view as relevant to G3 reporting guidelines. The information presented in the sections was not part of the assurance engagement, except when included in the Sustainability Information scope as defined above.

### **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 prepared, in all material respects, in accordance with the *Sustainability Reporting Guidelines of the Global Reporting Initiative 3.0 (G3)* or that Wärtsilä's reporting does not correspond to the self-declared A+ reporting application level.

Helsinki, 8 February 2010

KPMG OY AB






Pekka Pajamo

*Authorized Public Accountant*

Nina Killström

*Corporate Responsibility Advisor*

GRI content index

Fully reported	
Partly reported	
Not reported	
Core indicator	
Additional indicator	

GRI content	Links	Remarks
Profile		
<b>1 Strategy and Analysis</b>		
1.1 CEO's statement	<a href="#">Message to the Shareholders</a>	
1.2 Key impacts, risks, and opportunities	<a href="#">Risks and risk management</a> <a href="#">Wärtsilä and sustainability</a>	
<b>2 Organisational profile</b>		
2.1 Name of the organisation	<a href="#">This is Wärtsilä</a>	
2.2 Primary brands, products and services	<a href="#">This is Wärtsilä</a> <a href="#">Business</a>	
2.3 Operational structure	<a href="#">This is Wärtsilä</a> <a href="#">Market environment</a> <a href="#">Notes to the Consolidated Financial Statements</a>	
2.4 Location of organisation's headquarters	<a href="#">Shares and shareholders</a>	Helsinki, Finland
2.5 Number of countries and location of operations	<a href="#">This is Wärtsilä</a> <a href="#">Market environment</a> <a href="#">Notes to the Consolidated Financial Statements</a>	<a href="http://www.wartsila.com">www.wartsila.com</a>
2.6 Nature of ownership and legal form	<a href="#">Shares and shareholders</a>	
2.7 Markets served	<a href="#">This is Wärtsilä</a> <a href="#">Market environment</a>	
2.8 Scale of reporting organisation	<a href="#">This is Wärtsilä</a> <a href="#">Market environment</a>	
2.9 Significant changes	<a href="#">Business</a>  <a href="#">Review by the Board of Directors</a>	
2.10 Awards received in the reporting period		Not applicable
<b>3 Report Parameters</b>		
3.1 Reporting period	<a href="#">Report scope and profile</a>	
3.2 Date of most recent report	<a href="#">Report scope and profile</a>	
3.3 Reporting cycle	<a href="#">Report scope and profile</a>	
3.4 Contact point for questions regarding the report	<a href="#">Report scope and profile</a>	

3.5	Process for defining report content	<a href="#">Report scope and profile</a>
3.6	Boundary of the report	<a href="#">Report scope and profile</a>
3.7	Limitations on the report's scope or boundary	<a href="#">Report scope and profile</a>
3.8	Basis for reporting subsidiaries and joint ventures	<a href="#">Report scope and profile</a>
3.9	Data measurement techniques and bases of calculations	<a href="#">Report scope and profile</a>
3.10	Explanation of re-statements	<a href="#">Report scope and profile</a>
3.11	Significant changes from previous reporting periods	<a href="#">Report scope and profile</a>
3.13	Assurance policy and practice	<a href="#">Report scope and profile</a>
<b>4</b>	<b>Governance, Commitments and Engagement</b>	
4.1	Governance structure	<a href="#">Corporate Governance</a>
4.2	Position of the Chairman of the Board	<a href="#">Corporate Governance</a>
4.3	Independence of the Board members	<a href="#">Corporate Governance</a>
4.4	Mechanism for shareholder and employee consultation	<a href="#">Corporate Governance</a>
4.5	Executive compensation and linkage to organisation's performance	<a href="#">Corporate Governance</a>
4.6	Processes for avoiding conflicts of interest	<a href="#">Corporate Governance</a>
4.7	Processes for determining expertise	<a href="#">Corporate Governance</a>
4.8	Implementation of mission and values statements; code of conduct	<a href="#">Strategy</a> <a href="#">Wärtsilä and sustainability</a>
4.9	Procedures of the Board for overseeing risk management	<a href="#">Corporate Governance</a>
4.10	Processes for evaluating the Board's performance	<a href="#">Corporate Governance</a>
4.11	Precautionary principle	<a href="#">Risks and risk management</a> <a href="#">Wärtsilä and sustainability</a> <a href="#">Environmental performance</a>
4.12	Voluntary charters and other initiatives	<a href="#">Strategy</a> <a href="#">Sustainability performance management</a>
4.13	Memberships in associations	<a href="#">Stakeholder relations</a>
4.14	List of stakeholder groups	<a href="#">Stakeholder relations</a>
4.15	Identification and selection of stakeholders	<a href="#">Stakeholder relations</a>
4.16	Approaches to stakeholder engagement	<a href="#">Wärtsilä and sustainability</a>
4.17	Key topics raised through stakeholder engagement	<a href="#">Wärtsilä and sustainability</a>

**5 Management Approach and Performance Indicators**



Economic Performance Indicators			
EC1	Direct economic value generated and distributed	<a href="#">Economic performance</a>	
EC2	Risks and opportunities due to climate change	<a href="#">Risks and risk management</a> <a href="#">Economic performance</a>	
EC3	Coverage of defined benefit plan obligations	<a href="#">Economic performance</a>	
EC4	Significant subsidies received from government	<a href="#">Economic performance</a>	
EC5	Entry level wage compared to minimum wage	<a href="#">Economic performance</a>	
EC6	Spending on local suppliers	<a href="#">Economic performance</a>	
EC7	Local hiring	<a href="#">Economic performance</a>	
EC8	Infrastructure investments provided for public benefit	<a href="#">Economic performance</a>	
EC9	Significant indirect impacts	<a href="#">Economic performance</a> <a href="#">Personnel and social performance</a>	
Environmental			
EN1	Materials used by weight or volume	<a href="#">Environmental performance indicators</a>	
EN2	Recycled materials used	<a href="#">Environmental performance indicators</a>	Reporting system under development
EN3	Direct energy consumption	<a href="#">Environmental performance indicators</a>	
EN4	Indirect energy consumption	<a href="#">Environmental performance indicators</a>	
EN5	Energy saved due to conservation and efficiency improvements	<a href="#">Environmental performance</a>	
EN6	Initiatives to provide energy efficient or renewable energy based products and services	<a href="#">Environmental performance</a>	<a href="http://www.wartsila.com/sustainability">www.wartsila.com/sustainability</a>
EN7	Initiatives to reduce indirect energy consumption	<a href="#">Economic performance</a> <a href="#">Environmental performance</a>	
EN8	Total water withdrawal	<a href="#">Environmental performance indicators</a>	
EN9	Water sources significantly affected	<a href="#">Environmental performance indicators</a>	
EN10	Percentage and total volume of water recycled and reused	<a href="#">Environmental performance indicators</a>	
EN11	Location and size of land holdings in biodiversity-rich habitats	<a href="#">Environmental performance</a>	

EN12	Description of significant impact of activities, products, and services on biodiversity	<a href="#">Environmental performance</a>	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	<a href="#">Environmental performance indicators</a>	
EN17	Other relevant indirect greenhouse gas emissions	<a href="#">Environmental performance indicators</a>	Reporting system under development
EN18	Initiatives to reduce greenhouse gas emission	<a href="#">Environmental performance</a>	<a href="http://www.wartsila.com/sustainability">www.wartsila.com/sustainability</a>
EN19	Emissions of ozone-depleting substances		Not applicable
EN20	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions	<a href="#">Environmental performance indicators</a>	
EN21	Total water discharge	<a href="#">Environmental performance indicators</a>	
EN22	Total amount of waste	<a href="#">Environmental performance indicators</a>	
EN23	Significant spills	<a href="#">Environmental performance indicators</a>	
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	<a href="#">Ship Power review</a> <a href="#">Power Plants review</a> <a href="#">Services review</a> <a href="#">Environmental performance</a>	<a href="http://www.wartsila.com/sustainability">www.wartsila.com/sustainability</a>
EN27	Reclaimable products and reuse		<a href="http://www.wartsila.com/sustainability">www.wartsila.com/sustainability</a>
EN28	Significant fines and sanctions for non-compliance with environmental regulations	<a href="#">Environmental performance indicators</a>	
EN29	Environmental impacts of transportation		
EN30	Total environmental protection expenditures and investments	<a href="#">Environmental performance indicators</a>	
Social			
LA1	Breakdown of workforce	<a href="#">Personnel and social performance</a>	
LA2	Breakdown of employee turnover	<a href="#">Personnel and social performance</a>	
LA3	Employee benefits	<a href="#">Personnel and social performance</a>	

LA4	Coverage of collective bargaining agreements	<a href="#">Personnel and social performance</a>	
LA5	Minimum notice period regarding operational changes	<a href="#">Personnel and social performance</a>	
LA6	Representation in joint health and safety committees	<a href="#">Personnel and social performance</a>	
LA7	Injury, lost time injury, fatalitites, absence rates	<a href="#">Personnel and social performance</a>	
LA8	Education and prevention programmes regarding serious diseases	<a href="#">Personnel and social performance</a>	Part of 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	<a href="#">Personnel and social performance</a>	
LA11	Programmes for skills management	<a href="#">Personnel and social performance</a>	
LA12	Employees receiving regular performance and career development reviews	<a href="#">Personnel and social performance</a>	
LA13	Composition of governance bodies and breakdown of employees	<a href="#">Corporate Governance</a>	
		<a href="#">Personnel and social performance</a>	
LA14	Ratio of basic salary of men to women by employee category	<a href="#">Personnel and social performance</a>	
Human rights			
HR1	Investment agreements that include human rights clauses	<a href="#">Personnel and social performance</a>	
HR2	Suppliers and contractors that have undergone human rights screening	<a href="#">Personnel and social performance</a>	
HR3	Human rights related training for employees	<a href="#">Sustainability performance management</a>	Part of Code of Conduct training
HR4	Incidents of discrimination and actions taken	<a href="#">Personnel and social performance</a>	
HR5	Supporting right to freedom of association and collective bargaining in risk areas	<a href="#">Personnel and social performance</a>	
HR6	Measures taken to eliminate child labour in risk areas	<a href="#">Wärtsilä and sustainability</a>	
		<a href="#">Personnel and social performance</a>	
HR7	Measures taken to eliminate forced labour in risk areas	<a href="#">Wärtsilä and sustainability</a>	
		<a href="#">Personnel and social performance</a>	

HR8	Human rights related training for security personnel	<a href="#">Personnel and social performance</a>	
HR9	Incidents involving rights of indigenous people and actions taken	<a href="#">Personnel and social performance</a>	
Society performance			
SO1	Managing impacts of operations on communities	<a href="#">Personnel and social performance</a>	
SO2	Business units analysed for corruption risks	<a href="#">Personnel and social performance</a> <a href="#">Risks and risk management</a>	
SO3	Anti-corruption training	<a href="#">Personnel and social performance</a>	
SO4	Actions taken in response to incidents of corruption	<a href="#">Personnel and social performance</a>	
SO5	Public policy positions and participation in public policy development and lobbying	<a href="#">Personnel and social performance</a>	
SO6	Contributions to politicians and related institutions	<a href="#">Personnel and social performance</a>	
SO7	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	<a href="#">Personnel and social performance</a>	
SO8	Fines and sanctions for non-compliance with laws and regulations	<a href="#">Personnel and social performance</a>	
Product responsibility			
PR1	Assessment of health and safety impacts of products	<a href="#">Wärtsilä and sustainability</a>	
PR2	Non-compliance with regulations concerning health and safety impacts of products	<a href="#">Personnel and social performance</a>	
PR3	Product information required by procedures	<a href="#">Wärtsilä and sustainability</a>	
PR4	Non-compliance with regulations concerning product information and labelling	<a href="#">Personnel and social performance</a>	
PR5	Customer satisfaction	<a href="#">Personnel and social performance</a>	
PR6	Adherence to marketing communications laws, standards and voluntary codes	<a href="#">Personnel and social performance</a>	
PR7	Non-compliance with marketing communications regulations and voluntary codes	<a href="#">Personnel and social performance</a>	
PR8	Complaints regarding breaches of customer privacy	<a href="#">Personnel and social performance</a>	
PR9	Fines for non-compliance concerning the provision and use of products and services	<a href="#">Personnel and social performance</a>	



## WÄRTSILÄ ANNUAL REPORT 2009

# Financials

148	Five Years in Figures	215	Parent Company Financial Statements
150	Calculation of Financial Ratios	215	Income Statement
151	Review by the Board of Directors 2009	216	Balance Sheet
168	Consolidated Financial Statements	218	Cash Flow Statement
168	Income Statement	219	Accounting Principles for the Parent Company
169	Balance Sheet	220	Notes to the Parent Company Financial Statements
171	Cash Flow Statement	228	Proposal of the Board
173	Statement of Changes in Shareholders' Equity	229	Auditors' Report
174	Accounting Principles for the Consolidated Accounts	231	Quarterly Figures 2008–2009
182	Notes to the Consolidated Financial Statements		

Five Years in Figures

MEUR		2009	2008	2007	2006	2005
<b>Net sales</b>		5 260	4 612	3 763	3 190	2 639
of which outside Finland	%	99.3	98.1	98.2	98.5	97.7
Exports from Finland		3 114	2 574	2 017	1 726	1 405
Personnel on average		18 830	17 623	15 337	13 264	12 049
of which in Finland		3 506	3 378	3 010	2 641	2 572
Order book		4 491	6 883	6 308	4 439	2 906
<b>From the income statement</b>						
Depreciation and amortisations		165	99	78	72	72
Share of profit of associates and joint ventures		6	-	1	1	-
Operating result		592	525	380	263	225*
as a percentage of net sales	%	11.2	11.4	10.1	8.2	8.5
Net financial items		-34	-9	-8	-7	-23
as a percentage of net sales	%	-0.6	-0.2	-0.2	-0.2	-0.9
Net income from investments available for sale		-	-	-	124	1
Share of profit of associates; Ovako**		-	-	-	67	10
Profit before taxes		558	516	372	447	212
as a percentage of net sales	%	10.6	11.2	9.9	14.0	8.0
Profit for the financial year		396	389	265	353	167
as a percentage of net sales	%	7.5	8.4	7.1	11.1	6.3
<b>From the balance sheet</b>						
Non-current assets		1 548	1 498	1 283	1 233	1 316
Current assets		3 108	3 245	2 466	1 955	1 553
Shareholders' equity attributable to equity holders of the parent		1 496	1 184	1 315	1 217	1 153
Minority interest		16	15	10	13	10
Interest-bearing liabilities		664	664	283	270	404
Non-interest-bearing liabilities		2 479	2 880	2 141	1 687	1 302
Balance sheet total		4 655	4 743	3 749	3 188	2 869
Gross capital expenditure		152	366	231	193	231
as a percentage of net sales	%	2.9	7.9	6.1	6.1	8.8
Research and development expenses		141	121	122	85	70
as a percentage of net sales	%	2.7	2.6	3.2	2.7	2.7
Dividends paid for the financial year		173***	148	216	167	85
Supplementary dividend		-	-	192	-	198
Dividends total		173	148	408	167	283
<b>Financial ratios</b>						
Earnings per share (EPS)	EUR	3.94	3.88	2.74	3.72	1.80
Diluted EPS	EUR	3.94	3.88	2.73	3.71	1.78
Dividend per share	EUR	1.75***	1.50	4.25	1.75	3.00
Dividend per earnings	%	44.4***	38.7	155.1	47.0	166.7
Interest coverage		16.4	14.0	13.7	13.1	8.3
Return on investment (ROI)	%	29.9	32.4	26.0	31.8	18.0
Return on equity (ROE)	%	29.2	30.8	20.8	29.5	16.3

Solvency ratio	%	40.0	34.3	45.9	47.0	46.6
Gearing		0.28	0.39	-0.01	0.07	0.24
Equity per share	EUR	15.17	12.01	13.7	12.74	12.25

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\* Includes result of Imatra Steel EUR 22 million.

\*\* Share of profit of associates excluding Oy Ovako Ab has been transferred above operating profit.

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



## Calculation of Financial Ratios

### Return on investment (ROI)

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

### Return on equity (ROE)

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

### Interest coverage

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

### Solvency ratio

$$\frac{\text{Shareholders' equity}}{\text{Balance sheet total – advances received}} \times 100$$

### Gearing

$$\frac{\text{Interest-bearing liabilities – cash and bank balances}}{\text{Shareholders' equity}}$$

### Earnings per share (EPS)

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

### Equity per share

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

### Dividend per share

$$\frac{\text{Dividends paid for the financial year}}{\text{Adjusted number of shares at the end of the financial year}}$$

### Payout ratio

$$\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}} \times 100$$

### Effective dividend yield

$$\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the financial year}} \times 100$$

### Price/earnings (P/E)

$$\frac{\text{Adjusted share price at the end of the financial year}}{\text{Earnings per share (EPS)}}$$

### Price/book value per share (P/BV)

$$\frac{\text{Adjusted share price at the end of the financial year}}{\text{Equity per share}}$$



## Review by the Board of Directors 2009

### ■ Highlights of 2009

#### A strong year in challenging environment

The year 2009 was in many ways very successful for Wärtsilä. Group net sales, EUR 5,260 million grew by 14 percent compared to the year 2008. Operating profit reached an all time high level of EUR 638 million (525) and the operating margin stood at 12.1 percent (11.4 percent). The cash flow for the review period was very strong EUR 349 million (278).

At the same time our order intake decreased clearly as a result of weak demand particularly for marine equipment. New shipbuilding orders continued to be at a standstill during the first half of the year. An environment of oversupply within the major vessel segments prevailed throughout the year. In the latter part of the year market activity picked up somewhat. While the standstill of new shipbuilding orders at large is expected to continue for another two years, first signs of recovery can be seen in some Offshore and Special vessel segments.

In the power plant markets ordering activity during 2009 was hampered by difficulties in arranging financing although demand for power plants was at a good level and offering activity remained high. Ordering activity improved in the fourth quarter, due mainly to the improved situation in the financial markets. Most parts of the world have neglected making adequate investments into power generation capacity for years. Environmental considerations favour investment into renewable power sources and the active search and exploration of natural resources, particularly in Africa, requires electricity. Wärtsilä's technology is well positioned to respond to the needs arising from these trends.

The situation on the Services market remained quite stable. Although approximately 10% of the total vessel fleet is laid-up and the active engine base is underutilised, the medium-speed engine base has largely maintained its planned maintenance schedules. In some market segments, fuel conversions, retrofits or other larger investments have been postponed while customers focus on essential repairs and maintenance. Demand for power plant services remained stable.

Wärtsilä's order intake for the review period totalled EUR 3,291 million (5,573), a decrease of 41%. During the year adjustments to the weakened market situation in the shipbuilding sector were started in Ship Power and manufacturing.

#### Net sales

MEUR	2009	2008	Change, %
Ship Power	1 767	1 531	15
Services	1 830	1 830	0
Power Plants	1 645	1 261	30
Eliminations and adjustments	17	-9	
<b>Group</b>	<b>5 260</b>	<b>4 612</b>	<b>14</b>

### ■ Strategy

Wärtsilä enhances the business of its customers by providing them with complete lifecycle power solutions. Creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products, solutions and services.

Wärtsilä's strategic aim is to strengthen its leading position in its markets and to ensure continued growth by offering customers reliability and the best lifecycle efficiency available. This is made possible by an integrated equipment and service portfolio that matches customers' needs worldwide. The foundation of Wärtsilä's competitive edge lies in its

continuous focus on innovation and R&D and its aim is to be the technology leader in its industries. Wärtsilä's ability to focus on long-term business drivers, its strong financial base, and agility in adapting to changing market conditions puts the company in a strong position to pursue its strategy.

### **Strategic acquisitions, joint ventures and expansion of the network**

Wärtsilä continued pursuing its strategy of expanding its network with new service facilities in many countries, including Ukraine, Cameroon, Hungary, Chile, Dubai, Russia and Sweden. These facilities provide a good base for future service growth, and expansion of the network will continue to be one of Wärtsilä's strategic focus areas in the future.

In May, Wärtsilä acquired 60% of the shares of Wärtsilä Navim Diesel of Italy, thus increasing its ownership of the company to 100%. Wärtsilä Navim Diesel, which specialises in marine sales and service, has a strong market position, particularly in the Cruise & Ferry segment. The transaction resulted in EUR 8 million of new goodwill.

### **Long-term financial targets**

The average growth target for our annual sales is 6-7% over the cycle. The growth target for the Ship Power and Power Plants businesses is 4% and for the Services business 10-15%. Our operating profit target (EBIT%) is 8-10% of net sales over the cycle with a range of +/- 2%. Our solvency target is 35-40%.

## **■ The year 2009**

### **Operating environment and market development**

#### **Continued weakness in the Ship Power market**

In 2009, only 400 new ships were ordered, which is less than 10% of average new orders during the all time high years. The first half of the year was particularly difficult, an environment of oversupply within the major vessel segments prevailed throughout the year. In the latter part of the year market activity picked up somewhat and a slight recovery was seen. Project financing still seems to remain the most important factor in many new investments, and this can be seen for example in offshore projects where there has not yet been a recovery, despite a surge in the price of oil. The strong and on-going recession in the shipping and shipbuilding industry has left its marks on the market, with both freight rates and new build prices at very low levels. Cancellations and rearrangements of existing orders will continue.

#### **Ship Power geographical markets**

In 2009, China secured approximately 50% (39) of global new building orders in terms of number of vessels, followed by Korea with approximately 30% (29) of the orders. China's gain of market share continues to be at the expense of Japan 2% (16) and Europe 9% (10). In terms of Dead Weight Tons (DWT), China and Korea each secured around 45% of the global contracted volume. Once the broader recovery commences, the Asian shipbuilding market is expected to emerge even stronger than earlier. The dominance will grow in all areas, including the more specialised vessel segments.

#### **Ship Power market shares**

Wärtsilä's market share in medium speed main engines increased from 31% at the end of the previous quarter to 36%. The company's market share in low speed main engines remained stable at 12% (13). In auxiliary engines the market shares decreased to 2% (4). Market shares have become more sensitive to individual orders since the total contracting volume is low.

### **Power Plants markets recovered slightly by the end of the year**

In 2009, demand for power plants was at a good level and offering activity remained high. Ordering activity was hampered by difficulties in arranging financing and customer decision-making processes were slow. Ordering activity improved in the fourth quarter, due mainly to the improved situation in the financial markets.

### **Power Plants market shares**

According to statistics compiled by Diesel and Gas Turbine magazine, the global market for oil and gas power plants in Wärtsilä's power range declined to 11,570 MW (20,980) between June 2008 and May 2009. The market for gas power plants, including both reciprocating engines and gas turbines, declined to 7,090 MW (15,630), Wärtsilä's share of the market being 13% (8). The market for heavy fuel oil plants decreased to 3,430 MW (4,050), Wärtsilä's share being 46% (49). In light fuel oil plants the market decreased to 1,050 MW (1,300) and Wärtsilä's market share was 3% (20). For Wärtsilä the relevant markets for light fuel oil power plants are those running on liquid bio-fuels where hardly any new plants were ordered.

### **Services business stable despite challenging marine market**

The economic crisis has affected customers' businesses, cash flow and investment levels. Marine customers have been especially hit and this has also impacted the maintenance of their installations, especially in the Merchant vessel segment. However, although approximately 10% of the total vessel fleet is laid-up and the active engine base is underutilised, the medium-speed engine base has largely maintained its planned maintenance schedules. In some market segments, fuel conversions, retrofits or other larger investments have been postponed while customers focus on essential repairs and maintenance. Power plant installations continue to run at high levels with a stable demand for maintenance.

Wärtsilä's installed engine base in the Ship Power and Power Plant markets totals over 160,000 MW and consists of thousands of installations distributed throughout the world. Both end markets consist of several customer segments for Services, and Wärtsilä's portfolio is the broadest in the market. These factors limit the impacts of fluctuations in any individual market or customer segment.

### **Order intake decreased in difficult market environment**

Wärtsilä's order intake for the review period January-December 2009 totalled EUR 3,291 million (5,573), a decrease of 41%. Wärtsilä Ship Power's order intake for the review period was EUR 317 million (1,826), a decrease of 83% from the corresponding period last year. The main part of the year reflected the very difficult circumstances in the market. The Merchant customer segment represented 36%, Offshore 17%, Navy 16% and Cruise & Ferry 15% of total orders received in Ship Power during the review period.

For the review period January-December 2009, the Power Plants order intake totalled EUR 1,048 million (1,883), a 44% decrease compared to last year. Ordering activity was low during the first three quarters of the review period due to the financial crisis but improved during the fourth quarter. Although the financing of bigger projects was challenging during the review period, Wärtsilä received significant orders from Nigeria and Pakistan at the beginning of the year. Wärtsilä strengthened its leading position in the Mediterranean and received several orders from Greece, Cyprus and Turkey. During the last quarter of the year Wärtsilä received an order for an oil fuelled power plant in Kenya. Wärtsilä Power Plants' order intake for the review period is the third highest order intake in the business' history, which is notable considering the challenging market environment.

Services' order intake for the review period January-December totalled EUR 1,917 million (1,858). During the review period Wärtsilä Services signed several operations and maintenance contracts in Brazil, Pakistan and the Philippines among others.

## Order book

At the end of the review period Wärtsilä's total order book stood at EUR 4,491 million (6,883), a decrease of 35%.

The Ship Power order book stood at EUR 2,553 million (4,486), -43%. During the review period January-December 2009, cancellations of EUR 410 million materialised and were deducted from the order book. The cancellations were mainly within the Merchant and Offshore segments. Wärtsilä sees a cancellation risk in the year-end order book of approximately EUR 500 million (EUR 800 million at the end of 2008).

At the end of the review period the Power Plants order book amounted to EUR 1,362 million (1,949), which is 30% lower than at the same date last year.

The Services order book totalled EUR 576 million (445) at the end of the review period, an increase of 29%.

## Strong sales growth

Wärtsilä's net sales for January-December 2009 grew by 14% and totalled EUR 5,260 million (4,612). Ship Power's net sales grew 15% to EUR 1,767 million (1,531). Net Sales for Power Plants totalled EUR 1,645 million (1,261), a growth of 30%. Net sales from the Services business remained stable and on a good level amounting to EUR 1,830 million (1,830). Net sales were evenly distributed between the businesses during the review period, Ship Power accounted for 34%, Power Plants for 31% and Services for 35% of the total net sales.

## Profitability improved considerably

For the review period 2009, the operating result before nonrecurring expenses rose to an all time high EUR 638 million (525), 12.1% of net sales (11.4). Including the nonrecurring expenses, the operating result was EUR 592 million or 11,2% of net sales. Wärtsilä recognised EUR 46 million of nonrecurring expenses related to the restructuring measures during the year.

Financial items amounted to EUR -34 million (-9). Net interest totalled EUR -17 million (-19). Dividends received totalled EUR 6 million (7). Other financial items include impairment write-offs of non-operating receivables of EUR 10 million and the interest rate differences on derivatives amounted to EUR 1 million (10). Profit before taxes amounted to EUR 558 million (516). Taxes in the reporting period amounted to EUR 161 million (127). The profit for the financial period amounted to EUR 396 million (389). Earnings per share were EUR 3.94 (3.88). Return on Investment (ROI) was 29.9% (32). Return on equity (ROE) was 29.2% (31).

## Balance sheet, financing and cash flow

For 2009 the cash flow from operating activities was EUR 349 million (278). Net working capital at the end of the period totalled EUR 482 million (267). Advances received at the end of the period totalled EUR 879 million (1,243). Net working capital has been exceptionally low during the past years due to the high amount of advances received. Cash and cash equivalents at the end of the period amounted to EUR 244 million (197).

Net interest-bearing loan capital totalled EUR 414 million (455). Wärtsilä had interest bearing loans totalling EUR 664 million (664) at the end of December 2009. The existing funding programmes include long-term loans of EUR 591 million, unutilised

Committed Revolving Credit Facilities totalling EUR 555 million and Finnish Commercial Paper programmes totalling EUR 700 million. The total amount of short-term debt maturing within the next 12 months is EUR 73 million.

The solvency ratio was 40.0% (34.3) and gearing was 0.28 (0.39).

## Interest-bearing loan capital

MEUR	2009	2008
Long-term liabilities	591	448
Current liabilities	73	216
Loan receivables	-6	-12
Cash and bank balances	-244	-197
<b>Net</b>	<b>414</b>	<b>455</b>

## Holdings

Wärtsilä owns 7,270,350 B shares in Assa Abloy, or 2.0% of the total. This holding has been booked in the balance sheet at its market value at the end of the reporting period, EUR 98 million.

## Capital expenditure

Gross capital expenditure in the review period totalled EUR 152 million (366), which comprised EUR 16 million (198) in acquisitions and investments in securities, and EUR 136 million (168) in production and information technology investments. Depreciation and amortisations for the review period amounted to EUR 165 million (99), of which EUR 40 million is related to the restructuring measures announced at the beginning of 2010.

Maintenance capital expenditure for 2010 will be in line with or below depreciation. Wärtsilä continues to pursue its strategy to expand the Services offering and network, and any acquisition opportunities in this market may affect total capital expenditure for the year.

## Gross capital expenditure

MEUR	2009	2008
Investments in securities and acquisitions	16	198
Other investments	136	168
<b>Group</b>	<b>152</b>	<b>366</b>

## Manufacturing

In April, Wärtsilä, China Shipbuilding Industry Corporation (CSIC) and Mitsubishi Heavy Industries (MHI) inaugurated a jointly owned, low-speed marine engine factory in Qingdao, Shandong Province, China. The joint venture company Qingdao Qiyao Wartsila MHI Linshan Marine Diesel Co. Ltd. (QMD) is owned by CSIC (50%), Wärtsilä Corporation (27%), and MHI (23%).

In May, Wärtsilä and 3. Maj Shipbuilding Industry Ltd. of Croatia signed a ten-year renewal of the existing licence agreement for the marketing, sale, manufacturing and servicing of Wärtsilä low-speed marine diesel engines.

During the second quarter, an important milestone was reached for the Wärtsilä 32 engine with the 6000th engine produced in Vaasa, Finland factory.

The newest expansion investment in the Wärtsilä CME Zhenjiang Propeller Co. Ltd joint venture in Zhenjiang, China was concluded and inaugurated in the second quarter according to plan.

The concentration of shipbuilding activity to Asia, particularly to China is expected to continue. This is the basis for the adjustments of capacity within Wärtsilä Industrial Operations that were initiated during 2009. At the beginning of the year 2010 a plan was announced to move the main part of the propeller and W20 generating set production to China.

## Megawatts delivered

	2009	2008	Change, %
Power Plant engines	2 886	2 324	24.2
Ship Power, own engines	3 293	3 205	2.7
Wärtsilä total	6 179	5 529	11.7
By licensees	3 311	3 725	-11.1
BioPower, thermal energy		49	-100.0
<b>Engine delivery total</b>	<b>9 490</b>	<b>9 303</b>	<b>2.0</b>

## Research & development

During 2009 several R&D milestones were passed. The Hercules-Beta research project proposal was approved by the European Commission in March. Hercules-Beta represents a major international co-operative effort to maximise fuel efficiency while producing ultra-low emissions, and to develop future generations of optimally efficient and clean marine diesel engines.

After performing successfully in a series of tests, the Wärtsilä sulphur oxides (SOx) scrubber was awarded the Sulphur Emission Control Area (SECA) Compliance Certificate during the third quarter, by the classification societies Det Norske Veritas and Germanischer Lloyd.

In the fourth quarter, Wärtsilä extended its dual-fuel technology to the lower power range with the launch of the new environmentally advanced Wärtsilä 20DF engine. The new Wärtsilä 20DF engine is a testimony to Wärtsilä's ability to successfully utilise gas as a main fuel for marine operations.

The joint development project between Wärtsilä and Mitsubishi Heavy Industries Ltd. to design and develop new small, low-speed marine diesel engines of less than 450 mm cylinder bore, proceeded according to plan. This agreement is an extension of the strategic alliance created by Wärtsilä and Mitsubishi in 2005.

Wärtsilä is one of the three leading companies driving a major national three-year combustion engine research programme in Finland. The initiative has been set up by a wide and cross-functional consortium of Finnish technology companies and leading research institutes. The principle aim of the Future Combustion Engine Power Plant (FCEP) programme is to develop reciprocating engine and related power plant technologies. The aim is to maintain a leading position in global markets while meeting the requirements of tightening environmental legislation.

In 2009, Wärtsilä's research and development expenses totalled EUR 141 million (121), or 2.7% of net sales.

## Sustainable development

At the beginning of 2009, Wärtsilä was for the first time included in the list of the 100 most sustainable companies in the world. The list was published at the World Economic Forum in Davos, Switzerland.

To illustrate its strong commitment to sustainability, Wärtsilä signed the United Nations Global Compact in 2009.

Wärtsilä's Sustainability Report, which is part of the annual report, is prepared in accordance with the GRI G3 guidelines. It represents a balanced and reasonable view of Wärtsilä's economic, environmental and social performance. The Sustainability Report is assured.

### **Personnel**

In May 2009, Wärtsilä Ship Power announced that it had initiated the formal process to reduce 400-450 jobs. The negotiations were initiated to adjust to the substantially weakened global marine market situation. The annual savings from these measures will be approximately EUR 30 million. The effect of the savings started to materialise gradually from the second half of 2009, and will take full effect by the end of 2010. In the second quarter Wärtsilä recognised EUR 6 million of nonrecurring expenses in its operating result related to the adjustment measures taken in the Ship Power business. Altogether, Wärtsilä Ship Power employs sales, project management, engineering services and ship design personnel in 30 countries.

As the order book started to diminish also the Industrial Operations commenced personnel reductions in the form of temporary lay-offs and by reducing temporary employment contracts. In January 2010 Wärtsilä announced its plans to adjust to the fundamental changes in the market by reducing its manufacturing capacity. Wärtsilä also plans to move the majority of its propeller production and W20-generating set production to China, close to the main marine markets. In the course of 2010 Wärtsilä plans to reduce approximately 1,400 jobs globally within the Group.

During the review period Wärtsilä's personnel on average was 18,830 (17,623). At the end of December Wärtsilä had 18,541 (18,812) employees. As the biggest single business, Services had 11,219 employees (11,011) globally.

### **Changes in management**

The following appointments were made to Wärtsilä Corporation's Board of Management, with effect from 1 August 2009:

Christoph Vitzthum (40) MSc (Econ.) was appointed Group Vice President, Services.

Vesa Riihimäki (43) MSc (Eng.) was appointed Group Vice President, Power Plants and a member of the Board of Management.

Tage Blomberg, Group Vice President, Services, retired during 2009 in line with his employment contract.

### **Shares and shareholders**

Wärtsilä Corporation's shares are listed on the Nasdaq OMX Large Cap list on the Helsinki Stock Exchange. Wärtsilä's total number of shares at the end of the review period was 98,620,565. Wärtsilä has approximately 42,400 shareholders. At the end of the period, approximately 45.4% (45.8) of the capital was held by foreign shareholders.

### **The share on the Helsinki Stock Exchange**

More information about Wärtsilä shares and shareholders can be found in the Corporate Governance review in the annual report.

**Shares and shareholders**

<b>31 December 2009</b>	<b>Number of shares</b>	<b>Number of votes</b>	<b>Number of shares traded 1-12/2009</b>
WRT1V	98 620 565	98 620 565	137 102 273

<b>1 Jan. -31 Dec. 2009</b>	<b>High</b>	<b>Low</b>	<b>Average <sup>1</sup></b>	<b>Close</b>
WRT1V	30.91	15.81	23.46	28.07

<sup>1</sup> Trade-weighted average price

<b>Market capitalization</b>	<b>31 Dec. 2009</b>	<b>31. Dec. 2008</b>
<b>MEUR</b>	2 768	2 072

<b>Foreign shareholders</b>	<b>31 Dec. 2009</b>	<b>31. Dec. 2008</b>
	45.4%	45.8%

**Decisions taken by the annual general meeting**

Wärtsilä's Annual General Meeting held on 11 March 2009 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 2008. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.50 per share totalling EUR 148 million. Dividends were paid on 23 March 2009.

The Annual General Meeting decided that the Board of Directors shall have six members. The following were elected to the Board: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Kari Kauniskangas, Mr Antti Lagerroos, Mr Bertel Langenskiöld and Mr Matti Vuoria.

The firm of authorised public accountants KPMG Oy Ab, was appointed as the company's auditors.

**Organisation of the Board of Directors**

The Board of Directors of Wärtsilä Corporation elected Antti Lagerroos as its chairman and Matti Vuoria as the deputy chairman. The Board decided to establish an Audit Committee, a Nomination Committee and a Compensation Committee. The Board appointed from among its members, the following members to the Committees:

**Audit Committee:**

Chairman Antti Lagerroos, Maarit Aarni-Sirviö, Bertel Langenskiöld

**Nomination Committee:**

Chairman Antti Lagerroos, Matti Vuoria, Kaj-Gustaf Bergh

**Compensation Committee:**

Chairman Antti Lagerroos, Matti Vuoria, Bertel Langenskiöld



## Risks and business uncertainties

Due to the uncertainties within the shipping industry, the main risk in Ship Power remains the slippage of ship yard delivery schedules and it seems probable that some orders will be rescheduled or cancelled. As a result of this development, Wärtsilä sees a cancellation risk of approximately EUR 500 million.

In the Power Plants business, the impact from the financial crisis can mainly be seen in the timing of larger projects.

In Services, the biggest risks still relate to the further deterioration of the shipping industry leading to a larger scale lay-up of ships, which could reduce demand for maintenance and services within this segment.

The current market situation has impacted the entire supply chain during 2009 and Wärtsilä is continuously monitoring its supplier base. The risk level has not significantly changed during the year.

The annual report for 2009 contains a thorough description of Wärtsilä's risks and risk management.

## Events after the reporting period

On January 19th 2010, Wärtsilä announced its plans to adjust to the fundamental changes in the market by reducing its manufacturing capacity. Wärtsilä also plans to move the majority of its propeller production and W20-generating set production to China, close to the main marine markets. The current propeller manufacturing in Drunen, and the component manufacturing DTS in Zwolle, both in The Netherlands, are planned to be closed. The Wärtsilä 20 generating set production in Vaasa Finland is planned to be closed and moved to China in order to stay competitive in this market.

In the course of 2010 Wärtsilä plans to reduce approximately 1,400 jobs globally within the Group. Of these reductions 570 are planned to be in the Netherlands, where Wärtsilä employs 1,561 people. The remaining reduction will impact various divisions, functions and countries and will be clarified during the first half of this year.

The nonrecurring costs related to the restructuring will be approximately EUR 140 million. This includes non-cash write-offs of approximately EUR 50 million of which EUR 40 million is recognised in 2009. Wärtsilä is looking for an annual cost savings of approximately EUR 80-90 million. The effect of the savings will start to materialise gradually during 2010, and will take full effect in the first half of 2011.

## ■ Market outlook

At the end of the year, signs of easing in the financing of new projects have spurred project development, especially in the Offshore segment. The gradual normalisation of the financial markets is also expected to result in revitalisation in investments for various special vessels. These vessel categories have not faced any significant over supply issues during recent years. Some recovery in new ordering of Offshore and Special vessels is expected in the first two quarters of 2010. In the Merchant segment, demand for the biggest vessel categories is expected to remain low for another two years. The market is still burdened by overcapacity and finance related issues. It is expected that more cancellations, swaps and splits of old orders will be seen, all of which will hamper new ordering activity.

Even though markets seem to have bottomed out, it is clear that current overcapacity and prevailing conditions will lead to more intense competition and price pressure among shipbuilding suppliers. Wärtsilä Ship Power estimates order intake in 2010 to be moderately better than in 2009.

In 2010, the power generation market is expected to recover gradually, along with the improvements in the financial sector. The recovery is expected to happen at varying pace in different regions and countries, while emerging markets are

expected to be in the forefront of the recovery. The flexible baseload and grid stability & peaking customer segments are expected to recover first. Wärtsilä Power Plants estimates order intake to improve in 2010.

Uncertainty will continue in 2010 with regards to larger service projects, as many customers are still adapting to the economic crisis. Power plant installations continue to be run at high operating levels. Environmental compliance and economic considerations have been the main drivers of this business, and will remain so in the foreseeable future. Wärtsilä is continuously developing its portfolio in these areas. Customers are increasingly looking for remote management and optimisation of their assets, as this allows them to reduce both their costs and environmental footprint at the same time. Wärtsilä also sees an increased interest in maintenance partnerships, which reduce the fixed costs for our marine, offshore and power plant customers.

In 2010, Services will continue its stable development.

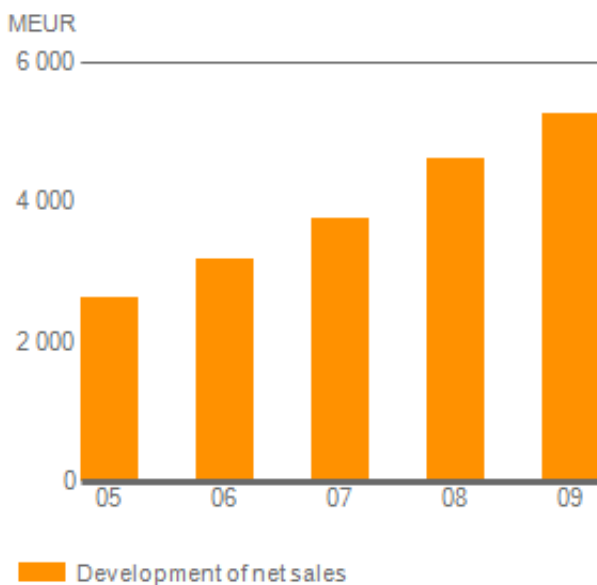
### ■ Wärtsilä's prospects for 2009

Due to the weakness of the shipbuilding sector we expect net sales to decline by 10-20 percent in 2010. As a result of a stable service business, good demand for power plants and proper adaptation of capacity, our operational profitability (EBIT% before nonrecurring items) should be between 9-10 %, well within the upper end of our long-term target range.

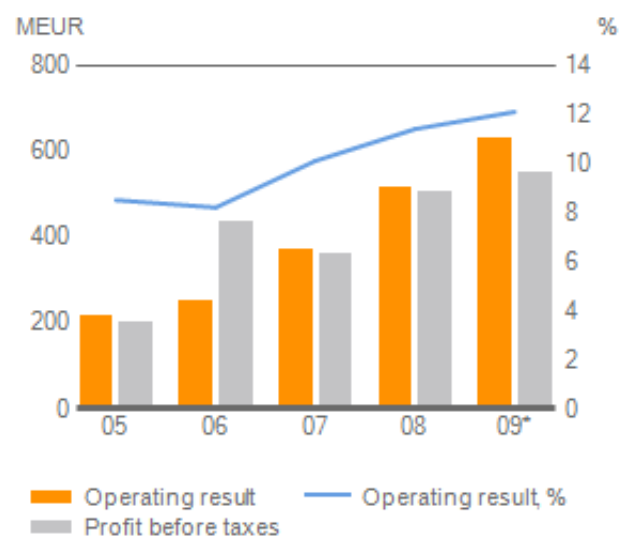
### ■ Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 1,75 euros per share be paid for the financial year 2009. Wärtsilä's distributable funds at the end of the period totalled EUR 585,892,877.82.

#### Group net sales development

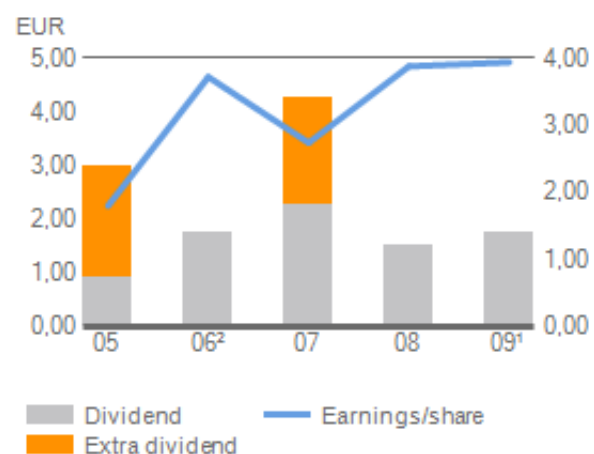


**Result**



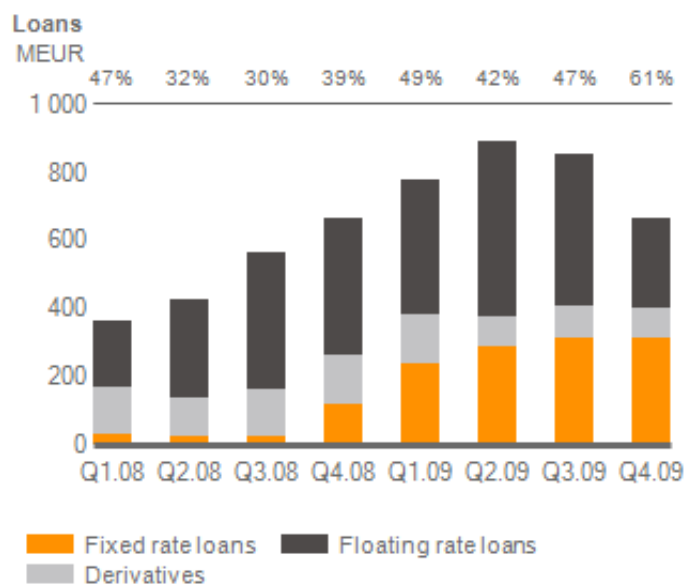
\*Operating result before nonrecurring items

**Earnings/share, dividend/share**



1 Proposal by the Board 2009. Earnings per share include nonrecurring items.

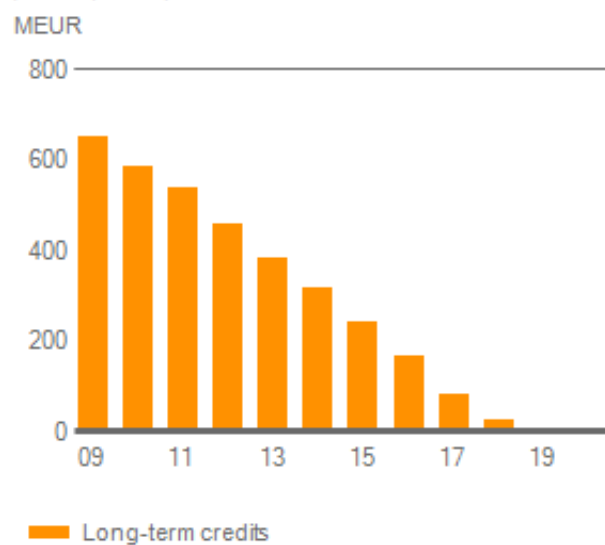
2 Includes non-operational income; Assa Abloy and Ovako



% = Fixed portion of loans (incl. derivatives)

**Maturity profile of long term loans**

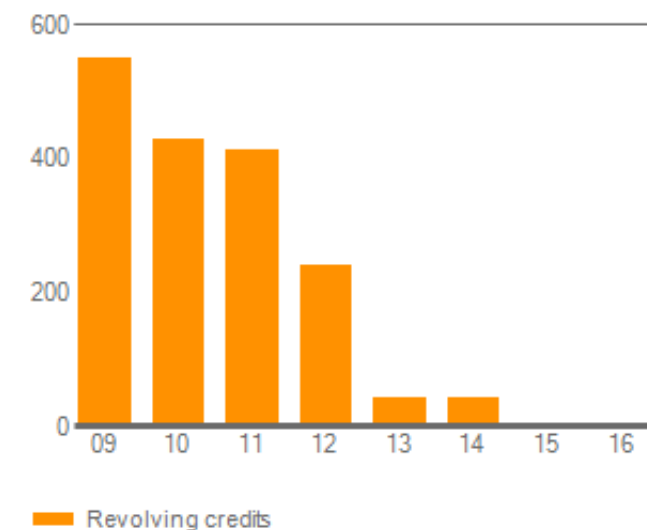
(end of period)



**Maturity profile of committed revolving credit facilities**

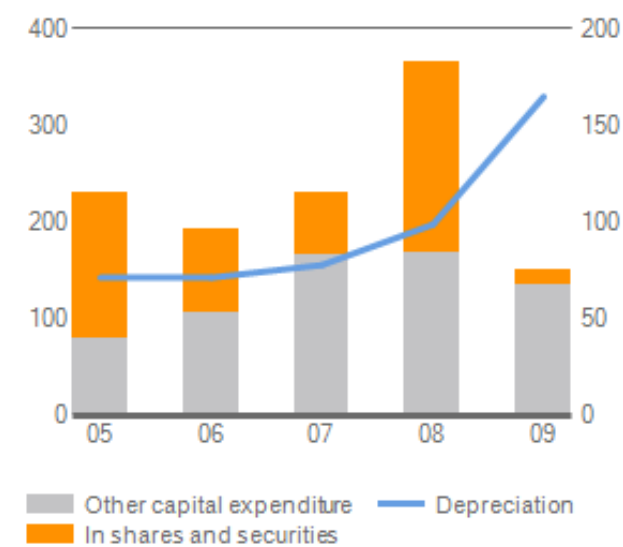
(end of period)

MEUR

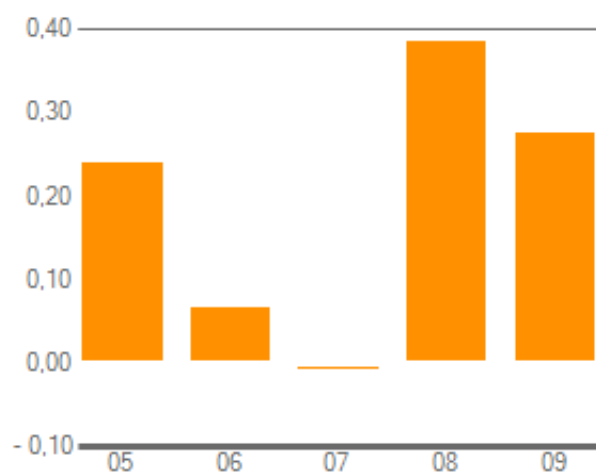


**Gross capital expenditure**

MEUR

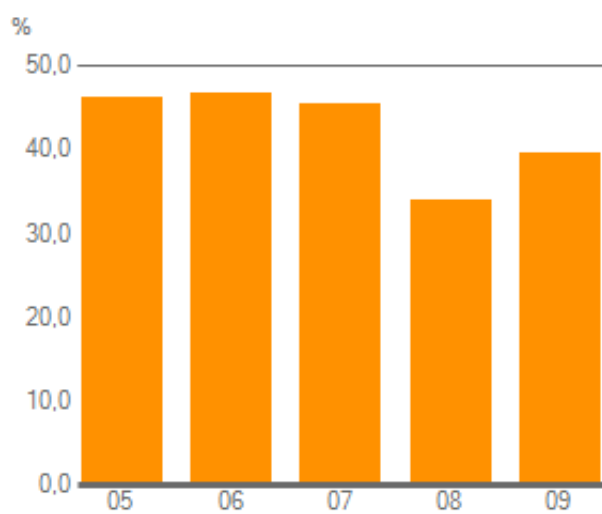


### Gearing



■ Gearing

### Solvency ratio



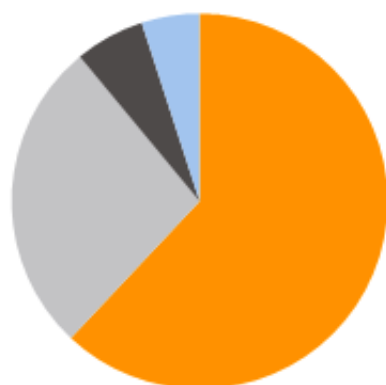
■ Solvency

**Net sales by business area**



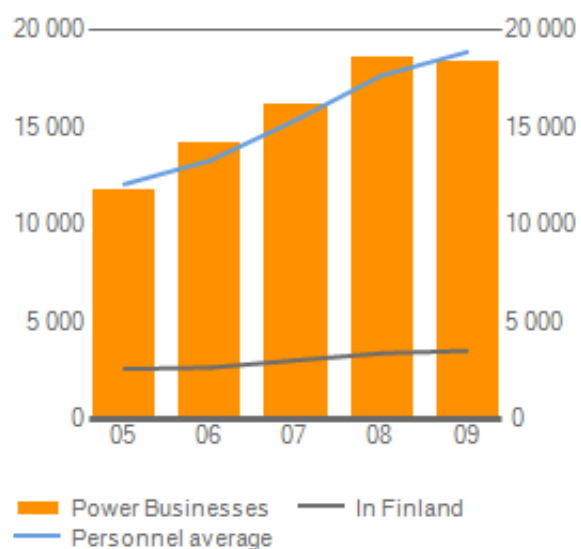
- Services 35% (40)
- Ship Power 34% (33)
- Power Plants 31% (27)

**Personnel by business**

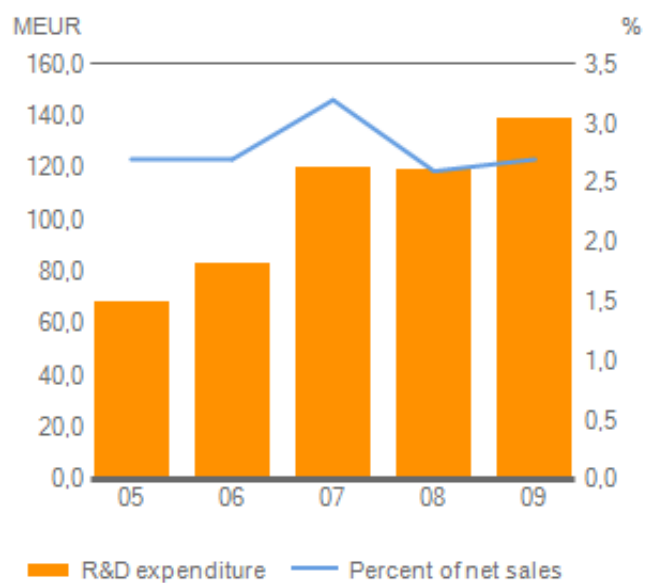


- Services 62% (60)
- Wärtsilä Industrial Operations 27% (27)
- Ship Power 6% (9)
- Power Plants 5% (5)

Personnel

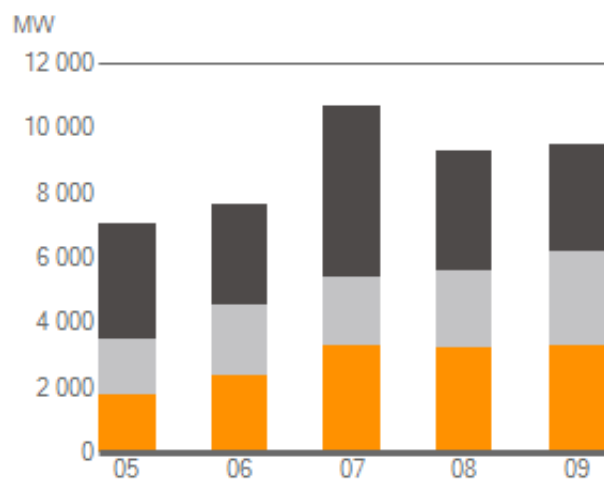


Research and Development expenditure





**Megawatts delivered**



Ship Power      Licence-built  
Power Plants

## Consolidated Financial Statements

### Consolidated Income Statement

MEUR	Note	2009	%	2008	%
<b>Net sales</b>	<u>1</u> , <u>3</u>	<b>5 260</b>	100.0	4 612	100.0
Change in inventories of finished goods & work in progress		<b>98</b>		304	
Work performed by the Group and capitalised		<b>1</b>		7	
Other income	<u>4</u>	<b>50</b>		26	
Material and services	<u>5</u>	<b>-3 183</b>		-2 999	
Employee benefit expenses	<u>6</u>	<b>-910</b>		-854	
Depreciation and amortisations	<u>7</u>	<b>-165</b>		-99	
Other expenses		<b>-564</b>		-474	
Share of profit of associates and joint ventures	<u>14</u>	<b>6</b>			
<b>Operating result</b>		<b>592</b>	11.2	525	11.4
Income from financial assets	<u>8</u>	<b>6</b>		7	
Interest income	<u>8</u>	<b>4</b>		9	
Other financial income	<u>8</u>	<b>12</b>		22	
Interest expenses	<u>8</u>	<b>-21</b>		-27	
Other financial expenses	<u>8</u>	<b>-35</b>		-20	
<b>Profit before taxes</b>		<b>558</b>		516	
Income taxes	<u>9</u>	<b>-161</b>		-127	
<b>Profit for the financial period</b>		<b>396</b>	7.5	389	8.4
Attributable to:					
Equity holders of the parent company	<u>10</u>	<b>389</b>		380	
Minority interest		<b>8</b>		9	
		<b>396</b>		389	
Earnings per share attributable to equity holders of the parent company:					
Earnings per share (basic and diluted), EUR		<b>3.94</b>		3.88	
<b>Statement of Comprehensive Income</b>	<u>11</u>				
<b>Profit for the financial period</b>		<b>396</b>		389	
<b>Other comprehensive income after tax:</b>					
Exchange differences on translating foreign operations		<b>18</b>		-27	

Investments available for sale	34	-37
Cash flow hedges	20	-44
Share of other comprehensive income of associates and joint ventures	1	-1
Other income/expenses		6
<b>Other comprehensive income for the period</b>	<b>73</b>	<b>-103</b>
<b>Total comprehensive income for the period</b>	<b>469</b>	<b>286</b>
Total comprehensive income attributable to:		
Owners of the parent	460	277
Minority interest	9	9
	<b>469</b>	<b>286</b>

**Consolidated Balance Sheet, Assets**

MEUR	Note	31.12.2009	%	31.12.2008	%
<b>Non-current assets</b>					
Goodwill	<u>12</u>	558		549	
Intangible assets	<u>12</u>	222		244	
Property, plant and equipment	<u>13</u>	449		435	
Investment properties	<u>13</u>	9		11	
Equity in associates and joint ventures	<u>14</u>	56		41	
Investments available for sale	<u>15, 17</u>	151		106	
Interest-bearing investments	<u>17</u>	2		11	
Deferred tax receivables	<u>20</u>	88		85	
Trade receivables	<u>17</u>	2		3	
Other receivables	<u>18</u>	12		12	
		<b>1 548</b>	33.2	<b>1 498</b>	31.6
<b>Current assets</b>					
Inventories	<u>16</u>	1 577		1 656	
Interest-bearing receivables	<u>17</u>	4		1	
Trade receivables	<u>17</u>	1 028		891	
Income tax receivables		10		14	
Other receivables	<u>18</u>	244		486	
Cash and cash equivalents	<u>19</u>	244		197	
		<b>3 108</b>	66.8	<b>3 245</b>	68.4
<b>Assets</b>		<b>4 655</b>	100.0	<b>4 743</b>	100.0

Consolidated Balance Sheet, Shareholders' equity and liabilities

MEUR	Note	31.12.2009	%	31.12.2008	%
<b>Shareholders' equity</b>					
Share capital	<u>22</u>	336		336	
Share premium reserve	<u>22</u>	61		61	
Translation differences		-6		-27	
Fair value reserve	<u>23</u>	99		50	
Retained earnings		1 006		764	
Total equity attributable to equity holders of the parent		1 496	32.1	1 184	25.0
Minority interest		16	0.3	15	0.3
<b>Total shareholders' equity</b>		<b>1 512</b>	<b>32.5</b>	<b>1 199</b>	<b>25.3</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Interest-bearing debt	<u>17, 25</u>	591		448	
Deferred tax liabilities	<u>20</u>	93		86	
Pension obligations	<u>21</u>	46		40	
Provisions	<u>24</u>	24		24	
Advances received		187		329	
Other liabilities	<u>17, 26</u>	1		1	
		941	20.2	927	19.6
<b>Current liabilities</b>					
Interest-bearing debt	<u>17, 25</u>	73		216	
Provisions	<u>24</u>	181		165	
Advances received		691		915	
Trade payables	<u>17, 25</u>	299		444	
Income tax liabilities		75		58	
Other liabilities	<u>17, 26</u>	883		819	
		2 202	47.3	2 616	55.2
<b>Total liabilities</b>		<b>3 143</b>	<b>67.5</b>	<b>3 544</b>	<b>74.7</b>
<b>Shareholders' equity and liabilities</b>		<b>4 655</b>	<b>100.0</b>	<b>4 743</b>	<b>100.0</b>

Consolidated Cash Flow Statement

MEUR	2009	2008
<b>Cash flow from operating activities:</b>		
Profit before taxes	558	516
Adjustments:		
Depreciation and amortisations	165	99
Financial income and expenses	34	9
Selling profit and loss of fixed assets and other changes	-7	2
Share of profit of associates and joint ventures	-6	
Cash flow before changes in working capital	743	626
<b>Changes in working capital:</b>		
Assets, non-interest-bearing, increase (-) / decrease (+)	114	-278
Inventories, increase (-) / decrease (+)	66	-561
Liabilities, non-interest-bearing, increase (+) / decrease (-)	-358	589
Changes in working capital	-179	-250
<b>Cash flow from operating activities before financial items and taxes</b>	<b>564</b>	<b>377</b>
<b>Financial items and taxes:</b>		
Interest and other financial expenses	-72	-45
Interest and other financial income	15	50
Income taxes	-158	-104
Financial items and taxes	-215	-99
<b>Cash flow from operating activities</b>	<b>349</b>	<b>278</b>
<b>Cash flow from investing activities:</b>		
Investments in shares and acquisitions	-16	-198
Investments in tangible and intangible assets	-136	-168
Proceeds from sale of shares	3	9
Proceeds from sale of tangible and intangible assets	-21	21
Loan receivables, increase (-) / decrease (+) and other changes	-1	1
Dividends received from investments	8	7
<b>Cash flow from investing activities</b>	<b>-163</b>	<b>-329</b>
<b>Cash flow after investing activities</b>	<b>187</b>	<b>-51</b>
<b>Cash flow from financing activities:</b>		
New long-term loans	263	260
Amortisation and other changes in long-term loans	-109	-4
Loan receivables, increase (-) / decrease (+)	3	
Current loans, increase (+) / decrease (-)	-141	129
Dividends paid	-156	-412

<b>Cash flow from financing activities</b>	<b>-140</b>	<b>-26</b>
<b>Change in cash and cash equivalents, increase (+) / decrease (-)</b>	<b>47</b>	<b>-76</b>
Cash and cash equivalents at beginning of period	<b>197</b>	296
Cash and cash equivalents of joint ventures at beginning of period		-18
Fair value adjustments, investments		1
Exchange rate changes		-6
Cash and cash equivalents at end of period	<b>244</b>	197

Statement of Changes in Shareholders' Equity

MEUR	Total equity attributable to equity holders of the parent						Minority interest	Total equity
	Share capital	Share issue premium	Translation difference	Fair value reserve	Retained earnings	Total		
<b>Shareholders' equity on 1 January 2008</b>	336	61	3	127	788	1 315	10	1 325
Translation differences			-30			-30		-30
Other changes					4	4		4
Investments available for sale								
gain / loss arising from fair valuation, net of taxes				-37		-37		-37
Cash flow hedges								
gain / loss arising from fair valuation, net of taxes				-18		-18		-18
transferred to income statement, net of taxes				-22		-22		-22
<b>Comprehensive income</b>			-30	-77	4	-103		-103
Profit for the financial period					380	380	9	389
<b>Total comprehensive income for the period</b>			-30	-77	384	277	9	286
Dividends paid					-408	-408	-4	-412
<b>Shareholders' equity on 31 December 2008</b>	<b>336</b>	<b>61</b>	<b>-27</b>	<b>50</b>	<b>764</b>	<b>1 184</b>	<b>15</b>	<b>1 199</b>
Translation differences			21			21		21
Other changes					1	1		1
Investments available for sale								
gain / loss arising from fair valuation, net of taxes				34		34		34
Cash flow hedges								
gain / loss arising from fair valuation, net of taxes				3		3		3
transferred to income statement, net of taxes				12		12	2	14
<b>Comprehensive income</b>			21	49	1	71	1	73
Profit for the financial period					389	389	8	396
<b>Total comprehensive income for the period</b>			21	49	390	460	9	469
Dividends paid					-148	-148	-8	-156
<b>Shareholders' equity on 31 December 2009</b>	<b>336</b>	<b>61</b>	<b>-6</b>	<b>99</b>	<b>1 006</b>	<b>1 496</b>	<b>16</b>	<b>1 512</b>

Additional information on share capital is presented in Note 22 and for fair value and other reserves in Note 23.

## Accounting Principles for the Consolidated Accounts

### ■ Basic information

Wärtsilä Corporation is a Finnish listed company organized under the laws of Finland and domiciled in Helsinki.

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 2009, Wärtsilä's net sales totalled EUR 5.3 billion with more than 18,000 employees. The company has operations in 160 locations in 70 countries around the world.

### ■ 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 2009. 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 Finnish accounting principles and corporate legislation.

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

Since 1 January 2009 the Group has applied the following updated standards, amendments and interpretations which have effect on the notes of the consolidated financial statements:

- *IFRS 8 Operating segments.* According to the IFRS 8, segment reporting is based on the internal management reporting and the measurement principles used therein. IFRS 8 did not significantly change the presented information.
- *Amendment to IAS 1 Presentation of Financial Statements.* The amendment mainly affected the presentation of the changes in the statement of comprehensive income and in the shareholders' equity. In addition, the standard has also changed the terminology used in other standards.
- *Amendment to IFRS 7 Improving Disclosures about Financial Instruments.* The amendment introduces the three-level hierarchy of the fair values of financial instruments. The amendment also requires further information about the relative reliability of fair values to facilitate the evaluation. In addition, the amendment extends the presentation requirements of liquidity risk.
- *Amendment to IAS 23 Borrowing Costs.* According to the amendment, an entity shall immediately capitalise to relating assets the borrowing costs that are directly attributable to the acquisition, construction or production. Wärtsilä has earlier expensed borrowing costs during the reporting period to which they relate. The standard amendment had no impact on the financial statements of Wärtsilä.

Since 1 January 2009 the Group has applied the following updated standards, amendments and interpretations which have no significant impact on the notes of the consolidated financial statements:

- *Amendment to IFRS 2 Share Based Payment – Vesting Conditions and Cancellations*
- *Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*



- *Improvements to IFRSs*
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation.*

### ■ Use of estimates

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

Sales revenue is typically recognized when the product or service has been delivered, its value has been determined and it is probable that the receivable will be collected. These estimates affect the amount of sales revenue recognized. Revenue from long-term projects, and long-term operations and maintenance agreements is recognized 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 realization of the project or agreement. These estimates are reviewed regularly. Recognized sales revenue and profit 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 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 such provisions are not always sufficient.

The Group is a defendant in several court cases arising from its business operations. A provision 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 tangible and intangible assets and goodwill are determined for all cash-generating units annually or, if it is shown that the asset has lost value, 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 growth, operating margin, useful life, future investment needs, and the discount interest rate. Changes in these assumptions can significantly affect future estimates.

Estimates of pension obligations in the case of 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

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 per cent of the voting rights or in which Wärtsilä is otherwise in control, as well as the Group's associated companies (20 to 50 per cent voting rights and significant influence over the company but not control over its financial and operating policies). Associated companies and joint ventures are included in the consolidated financial statements using the equity method. 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.

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. The Group's share of the associated company's or joint venture's changes recorded in other comprehensive income are recorded in the Group's other comprehensive income.

Acquired or established subsidiaries, associated companies and joint ventures are included in the consolidated financial statements from the day the company was acquired or established, until ownership of the company legally terminates.

Acquired companies are accounted for using the purchase method of accounting. Accordingly the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The difference between the purchase price and the company's net identifiable assets, liabilities and contingent liabilities is reported as goodwill. In the acquisition of minority interests, if the Group already has control before the minority acquisition, the acquired assets and liabilities are measured at book value on the date of acquisition, and the difference between the purchase price and the book value of the net assets is reported as goodwill. Goodwill is tested for impairment at least annually.

All intra-group transactions, dividend distributions, receivables and liabilities and unrealized margins are eliminated in the consolidated financial statements. In the income statement, minority interests have been separated from the income for the reporting period. In the Group's balance sheet, minority interests are shown as a separate item under equity.

### ■ Measurement of fair value of assets acquired in business combinations

In major business combinations, the Group has employed an external advisor when measuring the fair values of the tangible and intangible assets acquired. In the case of tangible assets, comparisons have been made with the market prices of corresponding assets, and the decrease in value resulting from the assets' age, degree of wear and other similar factors has been estimated. Measurement of the fair value of intangible assets is based on estimates of cash flows related to these assets.

### ■ Joint ventures

Joint ventures are companies in which the Group shares control with another party. The Group's holdings in joint ventures are consolidated by using the equity method. The Group's proportion of profit is shown in the income statement on line Share of profit in associates and joint ventures. Wärtsilä's proportion of retained earnings post acquisition is included in the shareholders' equity.

### ■ Foreign subsidiaries

The income statements and other comprehensive income of foreign subsidiaries are translated into euros at the quarterly average exchange rates. Balance sheets are translated into euros at the exchange rates prevailing at the end of the reporting period. The translation of the profit of the period and other comprehensive income using different exchange rates in the statement of comprehensive income and the balance sheet cause translation differences, which are recognized in equity and which are recorded 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 euros 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 income statement and are included in operating result. Exchange rate differences related to financial receivables and financial liabilities are reported as financial items in the income statement.

### ■ Net sales and revenue recognition

Sales are presented net of indirect sales taxes and discounts. Sales are recognized 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 contracts and long-term operating and maintenance agreements is recognized 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 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.

### ■ Research and development costs

Research costs are expensed in the reporting period during which they occur. Development costs are capitalized 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. Capitalized development costs are amortized and the cost of buildings, machinery and facilities for development depreciated on a systematic basis over their expected useful lives. Grants received are reported as other income.

### ■ 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 contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation arising from defined benefit plans is determined using the projected unit credit method and the plan assets are measured at fair value as at the measurement date. The Group's obligation with respect to a plan is calculated by identifying the extent to which the cumulative unrecognized actuarial gain or loss exceeds by more than 10 per cent the greater of the present value of the defined benefit obligation and the fair value of the plan assets. The excess is recognized in the income statement over the expected average remaining working lives of employees participating in the plan. Defined benefit plans are calculated by qualified actuaries.

### ■ Share-based payments

The fair value of employee options is reported as an expense and an increase in shareholders' equity.

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 income statement for the term-to-maturity of the bonus programme.

### ■ Goodwill and other intangible assets

The difference between the purchase price and the fair value of a company's net assets and contingent liabilities at the date of acquisition is reported as goodwill. Goodwill consists of the future economic benefit of those assets whose value the Group is unable to calculate either separately or individually at the date of acquisition. Goodwill is not amortized but tested for impairment at least annually, and more often if there are indications of impairment.

Other intangible assets include patents, licenses, capitalized development costs, software, customer relations and other intellectual property rights. These are valued at cost except for intangible assets identified in connection with acquisitions, which are valued at the fair value at the acquisition date. Intangible assets are amortized 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 amortized over the life of the contract.

The general guidelines for scheduled amortization are:

Development costs 5 –10 years

Software 3 –7 years

Other intangible assets 5 – 20 years

### ■ Property, plants and equipment and depreciation

Fixed assets acquired by the Group are recorded in the balance sheet at cost less accumulated depreciation and impairment losses. Grants received are reported as a reduction in acquisition costs. The fixed assets of acquired subsidiaries are valued at their fair value at the acquisition date.

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

The estimated useful lives of tangible and intangible assets are reviewed at the end of each reporting period, and if they differ significantly from previous estimates, depreciation periods are adjusted accordingly.

### ■ Borrowing costs

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 activated in the balance sheet as part of the cost of the asset. Other than immediate borrowing cost related costs are expensed in the period in which they are incurred.

### ■ 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 treated as long-term investments and are valued at cost less accumulated depreciation and impairments.

### ■ Leases

Lease agreements where all material rewards and risks of ownership have been transferred to the Group are classified as finance leases. Assets acquired under finance lease are recognized 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 liabilities with the interest element of the finance charge being recognized in the income statement 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 other similar fixed assets.

Lease agreements where the risks and benefits of ownership have not been transferred to the Group are classified as operating leases. Operating lease payments are reported as rental expenses.

### ■ Inventory valuation

Inventories are carried at the lower of cost or net realizable 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 financial liabilities

Financial assets are classified into the following categories: financial assets designated at fair value through profit or loss, 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.

#### Financial assets at fair value through profit and loss

The financial assets at fair value through profit or loss category includes derivatives that do not qualify for hedge accounting, cash and cash equivalents, as well as other financial assets recognised at fair value through income statement, which are financial assets held for trading. The financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Financial assets are recognised at fair value at the end of the reporting period using prevailing market rates.

Derivatives are initially reported at cost in the balance sheet and are thereafter valued at their fair value at the end of each reporting period.

#### Investments held to maturity

Investments held to maturity are valued at cost. Investments held to maturity are assets with fixed or determinable payments, that mature on a fixed date, and which the Group intends and is able to hold until maturity.

Loan receivables as well as financial liabilities are recognized at the settlement date and measured at amortized cost using the effective interest rate method. Transaction costs are included in the initially recognized amount.

#### Loans and other receivables

Trade receivables are recognized at their anticipated realizable value, which is the original invoiced amount, less an estimated valuation allowance for impairment. Receivables are valued individually. Credit losses are expensed in the income statement.

#### Financial assets available for sale

Investments in other companies are classified as investments available for sale and are recognized at fair value. Listed shares are valued at their market value. Unlisted shares for which the fair value cannot be reliably measured are valued at cost less impairment. Changes in fair value are reported directly in other comprehensive income until the shares are disposed of, at which point the accumulated fair value changes are released from equity to the income statement. If the fair value of shares becomes permanently impaired or there is objective evidence that it is impaired, impairment is recognized in the income statement.

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.

### Derivatives

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, provided that they meet the requirements for hedge accounting. Changes in fair value due to interest rate differences are reported in the income statement. 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.

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.

Equity in foreign subsidiaries situated outside the euro zone is hedged against exchange rate fluctuations, mainly through foreign exchange derivatives and foreign currency borrowings using the equity hedging method to reduce the effect of exchange rates on the Group's equity. When a foreign subsidiary is sold, these translation differences are included in the gain or loss on disposal reported in the income statement.

For derivatives that do not satisfy the conditions for hedge accounting in accordance with IAS 39, changes in fair value are reported directly in the income statement.

The fair value of interest rate swaps is calculated by discounting the underlying future cash flows. Currency forwards are valued at existing forward rates at the end of the reporting period. Currency options are valued at their market value at the end of the reporting period.

### 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 within 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 profit and loss and investments available for sale.

### ■ Impairments

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. The assets are divided into the smallest possible cash-generating units that are effectively independent of any other assets of the Group. An impairment loss is recognized whenever the carrying value of the assets or cash-generating unit exceeds their fair value. An asset's value in use is the higher of its net realizable value or the recoverable amount from the asset. The recoverable amount is based on discounted future cash flows. Previously reported impairment losses of tangible assets are reversed if the assumptions for calculating the recoverable amount have changed.

## ■ Provisions

Provisions are recognized in the balance sheet 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.

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 established. The plan must indicate which activities and personnel will be affected and the timing and cost of implementation.

## ■ Income taxes

The income statement 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. 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 balance sheet 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

The standards, interpretations and their amendments described below have been released but the Group will not adopt them until the mandatory adoption date. In 2010 the Group will adopt the following new and updated standards and interpretations issued by the IASB:

- *Revised IFRS 3 Business Combinations* (effective for periods beginning on or after 1 July 2009). The scope of the revised standard is broadened. The revised standard includes several material changes to the Group. Changes will have an impact on the amount recognised as goodwill and gain or loss resulting from the sale of business. The revised standard will also impact the items recognised in the income statement both when the business combination is carried out, and in the subsequent periods during which an additional purchase price is paid or additional acquisitions are made.
- *Amendment to IAS 27 Consolidated and Separate Financial Statements* (effective for periods beginning on or after 1 July 2009). According to the amendment the effects, arising from changes in subsidiary ownership, are recognized directly in the Group's equity when the parent company remains in control. When the Group loses the control in a subsidiary, the remaining investment is recognized at fair value through the income statement.
- *Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (effective for periods beginning on or after 1 July 2009). The amendment provides clarification in relation to hedge accounting. It clarifies the hedging of one-sided risk and the inflation risk of financial assets and liabilities in IAS 39. The amendment will have no considerable impact on future financial statements.
- *IFRIC 18 Transfers of Assets from Customers* (effective for periods beginning on or after 1 July 2009). The interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from customers an item of property, plant and equipment. The interpretation will have no impact on the Group's financial statements.

- *Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives* (effective for periods beginning on or after 30 June 2009). The amendments clarify the treatment of embedded derivatives when a hybrid financial asset is reclassified out of the fair value through the income statement. The amendments will have no impact on the Group's financial statements.

## Notes to the Consolidated Financial Statements

### 1. Segment information

The business of Wärtsilä consists of one business area, the Power Businesses. The Power Businesses are subdivided into two mutually supportive market areas, Ship Power and Power Plants. These offer customers the same product concept modified for specific applications. The main products for both these markets are gas and diesel engines and related services. The market segments are highly dependent on each other.

In the Power Businesses, 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. 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, Americas, Asia and other continents. In the geographical information net sales is split by the customer's destination and non-current assets by origin.

#### Geographical information

##### 2009

MEUR	Finland	Other European countries	Asia	Americas	Other	Group
Net sales	37	1 618	1 937	1 176	493	5 260
Non-current assets*	273	856	113	45	6	1 293

##### 2008

MEUR	Finland	Other European countries	Asia	Americas	Other	Group
Net sales	87	1 608	1 792	689	436	4 612
Non-current assets*	246	850	136	45	4	1 281

\* Non-current assets consist of property, plant and equipment, investment properties and investment 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 Group President with the support of the Board of Management and, in some cases, the Board of Directors. The Group President 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 2009 and 1 January-31 December 2008, Wärtsilä did not have individual significant customers or lands according to the definition of IFRS 8.

### 2009

MEUR	Ship Power	Power Plants	Services	Other	Group
Net sales	1 767	1 645	1 830	17	5 260
Order intake	317	1 048	1 917	9	3 291
Order book*	2 553	1 362	576		4 491

\* Cancellations amounting to EUR 410 million have been eliminated from the order book during the review period January-December 2009.

### 2008

MEUR	Ship Power	Power Plants	Services	Other	Group
Net sales	1 531	1 261	1 830	-9	4 612
Order intake	1 826	1 883	1 858	5	5 573
Order book	4 486	1 949	445	3	6 883

## 2. Acquisitions and disposals

### Acquisitions 2009

#### Overall impact on performance

MEUR	Booked in income statement 2009	On full-year pro forma performance
Net sales	24	5 271
Operating income	-1	592

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.

The acquisition of 60% of the shares in the Italian company Wärtsilä Navim Diesel was the most significant acquisition for Wärtsilä during the year. After the acquisition Wärtsilä's ownership in the company is 100%. The assets, liabilities and contingent liabilities of the company are measured at fair value at the time of acquisition. The valuation of customer

relations and goodwill in intangible assets amounted to EUR 8 million. The goodwill calculated on this acquisition is based on synergic effects expected to materialise when the entire operation can be integrated into the Group's former operation in Italy.

The other acquisitions are related to Ship Design companies in Serbia and Russia, with whom negotiations have been finished during the year.

<b>Acquisition price</b>	<b>MEUR</b>
Consideration paid in cash	13
Acquisition costs	-
	<b>13</b>
Acquired assets to fair value	-5
Goodwill	8
<b>Cash flow from the acquisitions</b>	
Consideration paid in cash	13

#### Specification of acquired assets

	<b>Book value</b>	<b>Fair value</b>
Intangible assets	1	4
Property, plant and equipment	1	1
Inventories	1	1
Receivables	10	10
Liabilities	-10	-10
Deferred tax liabilities		-1
<b>Total</b>	<b>4</b>	<b>5</b>

#### Acquisitions 2008

##### Overall impact on performance

<b>MEUR</b>	<b>Booked in income statement 2008</b>	<b>On full-year pro forma performance</b>
Net sales	42	4 674
Operating income	16	558

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.

#### Vik-Sandvik Group

In August Wärtsilä acquired the global ship design group Vik-Sandvik, a group providing design and engineering services to ship owners and the ship building industry worldwide. This acquisition was a major step in Wärtsilä's strategy to strengthen its position as a total solutions provider and to be the most valued partner for its customers. By combining ship design capability with its existing offerings in propulsion systems and automation, Wärtsilä will be able to provide more added value to its customers, with further growth potential in new life cycle services. Wärtsilä's goal is to become the leading provider of ship design services in various segments.

Vik-Sandvik's sales between August and December amounted to EUR 30 million.

<b>Acquisition price</b>	<b>MEUR</b>
Consideration paid in cash	165
Acquisition costs	-
	165
Acquired assets to fair value	-68
Goodwill	97

<b>Cash flow from the acquisitions</b>	
Consideration paid in cash	165
Cash and cash equivalents of the acquired companies	-24
	141

#### Specification of acquired assets

	<b>Book value</b>	<b>Fair value</b>
Intangible assets		51
Property, plant and equipment	5	5
Investments available for sale	8	6
Receivables	34	34
Cash and cash equivalents	24	24
Liabilities	-4	-4
Deferred tax liabilities	-33	-47
<b>Total</b>	<b>34</b>	<b>68</b>

#### Other acquisitions

In March Wärtsilä acquired the Norwegian company Maritime Service AS, which specialises in ship service, and mechanical and reconditioning services.

In April Wärtsilä acquired the Danish company International Combustion Engineering A/S (I.C.E.) that specialises in project engineering and the service and repair of steam boilers and ancillary burner systems. This acquisition expands Wärtsilä's service offering into the new category of boiler services, which in turn further improves Wärtsilä's competitiveness as a leading total services provider. Wärtsilä continued to expand its boiler services capability in June with the acquisition of the boiler services business of I.C.E.'s former subsidiary in Dubai.

In June Wärtsilä acquired the German company Claus D. Christophel Mess- und Regeltechnik GmbH (CDC), which specialises in the design, delivery and service of automation systems.

In September Wärtsilä acquired Navelec SAS, a French company specialising in marine navigation and communication systems, electrical marine services, and control and automation services. Through this acquisition Wärtsilä is able to broaden its service offering and technological knowledge in the areas of navigation and communication. It also strengthens Wärtsilä's position as the leading service provider within electrical marine and automation services.

In October Wärtsilä continued to expand within the field of ship design by acquiring Conan Wu & Associates Pte Ltd (CWA), a leading naval architecture and ship design company, in Singapore. The deal also included partnership agreements regarding CWA's businesses in Malaysia and China.

<b>Acquisition price</b>	<b>MEUR</b>
Consideration paid in cash	49
Acquisition costs	1
	49
Acquired assets to fair value	-20
Goodwill	29

**Cash flow from the acquisitions**

Consideration paid in cash	49
Acquisition costs	1
Cash and cash equivalents of the acquired companies	-3
	46

**Specification of acquired assets**

	Book value	Fair value
Intangible assets		14
Property, plant and equipment	3	4
Inventories	4	4
Receivables	9	9
Cash and cash equivalents	3	3
Liabilities	-10	-10
Deferred tax liabilities		-3
<b>Total</b>	<b>8</b>	<b>20</b>

The assets, liabilities and contingent liabilities of the companies are measured at fair value at the time of acquisition. Intangible assets include drawing database, customer relations, trademarks and valuation of order book, the values of which are based on discounted cash flows over a useful life of 1–10 years. The goodwill calculated on these acquisitions is based on the expertise of the companies' employees and on synergies that are expected to materialise as the Group gains a broader product range. Due to the acquisitions Wärtsilä has a significantly stronger position in ship design which broadens the supply in life cycle services and adds the growth possibilities.

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

**Long-term construction contracts**

MEUR	2009	2008
Net sales in the income statement	585	544

**Long-term construction projects in progress**

MEUR	2009	2008
Cumulative net sales	1 705	1 215
Cumulative result	218	160
Advances received at 31 December	705	922
Receivables from the revenue recognition netted with the advances received at 31 December	92	160

**Long-term operating and maintenance agreements**

MEUR	2009	2008
Net sales in the income statement	225	207

4. Other income

MEUR	2009	2008
Rental income		1
Profit on sales of fixed assets	3	9
Government grants	7	6
Sale of by-products	3	4
Cancellations*	30	
Other income	7	6
<b>Total</b>	<b>50</b>	<b>26</b>

\* Cancellation expenses are recorded on respective expense accounts. The net effect of the cancellations is not material.

5. Material and services

MEUR	2009	2008
<b>Raw material and consumables</b>		
Purchases during the financial year	-1 809	-1 981
Change in inventories	-122	186
External services	-1 253	-1 204
<b>Total</b>	<b>-3 183</b>	<b>-2 999</b>

6. Employee benefit expenses

MEUR	2009	2008
Wages and salaries	735	693
Pension costs		
Defined benefit plans	12	8
Other pension and past service costs	58	49
Other compulsory personnel costs	106	103
<b>Total</b>	<b>910</b>	<b>854</b>

Salaries paid to the management are specified in Note 29.

A provision of EUR 6 million (-2) for expenses arising from the bonus schemes tied to the price development of the company's share has been booked in the income statement. The provision amount is based on the market value of the share at the end of the reporting period with a lead time.

The 2007 bonus scheme comprises 687,500 bonus rights and the 2008 bonus scheme 835,000 bonus rights. The bonus payment is based on the share price development during a two-year and nine months period on the basis of a share price of EUR 22.63 for the 2007 bonus scheme. In the 2008 bonus scheme, the bonus payment is based on the share price development during a two-year period on the basis of a share price of EUR 23.04. Both bonus schemes are taking into account a 50% dividend payout. The bonus can not exceed EUR 9 per bonus right for the 2007 bonus scheme, and EUR 15 per bonus right for the 2008 bonus scheme. The 2007 bonus scheme will be due for payment in November 2010 and the 2008 bonus scheme will be due for payment in November 2011.

	2009	2008
Personnel on average	18 830	17 623

7. Depreciation and amortisations

Depreciation according to plan and amortisations

MEUR	2009	2008
Intangible rights	6	6
Other intangible assets	52	37
Buildings and structures	10	9
Machinery and equipment	54	45
Other tangible assets	3	2
Impairments*	40	
<b>Total</b>	<b>165</b>	<b>99</b>

\* Refers to restructuring programs published in 2010.

8. Financial income and expenses

MEUR	2009	2008
Dividend income on investments available for sale	6	7
Interest income on loans and other receivables	4	9
Interest income on financial assets/liabilities at fair value through income statement	11	19
Exchange rate differences*		1
Other financial income	2	2
<b>Total financial income</b>	<b>22</b>	<b>38</b>
Interest expenses on financial liabilities measured at amortised cost	-21	-27
Interest expenses on financial assets/liabilities at fair value through income statement	-10	-9
Changes in fair values of financial assets/liabilities at fair value through income statement	-1	-5
Write-down of loan receivables	-10	
Exchange rate differences*	-6	
Other financial expenses	-9	-6
<b>Total financial expenses</b>	<b>-57</b>	<b>-47</b>
<b>Total financial income and expenses</b>	<b>-34</b>	<b>-9</b>

\* Includes the result from the ineffective portion of cash flow hedges, EUR -5 million (-2).

9. Income taxes

MEUR	2009	2008
Income taxes		
for the financial year	-174	-138
for prior years	-7	13
Change in deferred tax	20	-2
<b>Total</b>	<b>-161</b>	<b>-127</b>
Profit before taxes	558	516
Tax calculated at the domestic corporate tax rate (26%)	-145	-134
Effect of changed tax rates	1	6
Effect of different tax rates in foreign subsidiaries	1	-1
Effect of income not subject to tax and non-deductible expenses	-6	-9
Utilisation of previously unrecognised tax losses carried forward	5	5
Unrecognised taxes on losses carried forward	-2	-5
Other taxes	-10	-9
Other temporary differences	2	8
Income taxes for prior years	-7	13
<b>Tax charge in the consolidated income statement</b>	<b>-161</b>	<b>-127</b>

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	2009	2008
Profit attributable to equity holders of the parent company	389	380
Thousands of shares		
Weighted average number of shares outstanding	98 621	97 994
Effect of issued share options		11
Diluted weighted average number of shares outstanding	98 621	98 005
Earnings per share (basic and diluted), EUR	3.94	3.88

11. Components of other comprehensive income

Period ended 31 December	2009	2008
Exchange rate differences on translating foreign operations	18	-27
Investments available for sale	46	-50
Cash flow hedges		
Gains (losses) arising during the period	3	-31
Adjustments for amounts transferred to initial amount of hedge items	23	-30
Share of other comprehensive income of associates and joint ventures	1	-1
Other income/expenses		6
Income tax relating to components of other comprehensive income	-19	29
Other comprehensive income for the period	73	-103

Tax effects relating to each component of other comprehensive income

	2009			2008		
	Before-tax amount	Tax	Net-of-tax	Before-tax amount	Tax	Net-of-tax
Exchange rate differences on translating foreign operations	18		18	-27		-27
Investments available for sale	46	-12	34	-50	13	-37
Cash flow hedges	26	-7	20	-61	16	-44
Share of other comprehensive income of associates and joint ventures	1		1	-1		-1
Other income/expenses				6		6
Other comprehensive income	91	-19	73	-132	29	-103

12. Intangible assets

Impairment testing of goodwill

Goodwill from acquisitions is allocated to the Group's cash-generating units (CGUs) being the lowest level of assets for which there are separately identifiable cash flows. Currently Wärtsilä identifies 3 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 separately. These companies have all been integrated into the Power Business operations and will not constitute a separately identifiable CGU in the future.

Cash-Generating Units (CGU)

MEUR	Goodwill	
	2009	2008
Automation	36	36
Ship design	110	124
Other acquired companies, non-integrated	7	7
Power Businesses, other	405	383
<b>Total</b>	<b>558</b>	<b>549</b>



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 adapting capacity. 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 of the CGU Power Business is the growth in the global economy and in particular the development of the global power market, the global shipbuilding industry and demand for related services. The projected development of total costs in the market affects the profitability, whereas any single cost item has not been seen as having material impact. The valuation drivers for the new equipment sales are 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 costs.

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 2009 it has been considered that the general interest rate is currently on a lower level and that the market risk premium on a higher level. Wärtsilä has used a WACC of 10.0% (2008: 10.4) in the calculations.

As a result of the impairment test no impairment loss for any of the CGUs was recognised for the period ended December 31, 2008 and 2009 respectively. The recoverable amounts from all CGUs exceeded their carrying values by more than 50%.

The Group has initiated a project concerning the reduction of production capacity. As a result, impairment of 40 million euros on the value of certain intangible and tangible assets have been booked, of which 4 million euros refer to goodwill.

### **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 lowered by 15%, effect 6% (8)
- terminal growth rate lowered by 50%, effect 10% (11)
- EBIT profitability lowered by 10%, effect 10% (11)
- WACC increased by 15%, effect 16% (15).

According to the performed sensitivity analyses, none of the downside scenarios would change the long term key assumptions for which Wärtsilä's recoverable amounts are based, and would also not 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, 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.

2009

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total
Acquisition cost at 1 January 2009	73	19	368	549	1 009
Changes in exchange rates	1		8	18	27
Acquisitions			4	8	12
Additions		17	7		24
Disposals and reclassifications		-8	8	-14	-14
Acquisition cost at 31 December 2009	74	27	395	562	1 058
Accumulated amortisation at 1 January 2009	-37		-179		-216
Changes in exchange rates			-1		-1
Amortisation during the financial year	-6		-52		-58
Impairments				-4	-4
Accumulated amortisation at 31 December 2009	-43		-231	-4	-279
<b>Book value at 31 December 2009</b>	<b>31</b>	<b>27</b>	<b>164</b>	<b>558</b>	<b>779</b>

Developing costs for internally produced assets amounting to EUR 7 million (6) were activated during the financial period and the asset value was EUR 36 million (35).

2008

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total
Acquisition cost at 1 January 2008	68	14	297	445	824
Changes in exchange rates	-1		-7	-21	-30
Acquisitions			65	127	191
Additions	6	14	9		29
Disposals and reclassifications		-9	4		-5
Acquisition cost at 31 December 2008	73	19	368	549	1 009
Accumulated amortisation at 1 January 2008	-32		-146		-178
Changes in exchange rates			4		4
Amortisation during the financial year	-6		-37		-42
Accumulated amortisation at 31 December 2008	-37		-179		-216
<b>Book value at 31 December 2008</b>	<b>37</b>	<b>19</b>	<b>188</b>	<b>549</b>	<b>793</b>

### 13. Property, plant & equipment

Wärtsilä has centralised its warehousing and logistics of spare parts by investing in a new distribution centre in the Netherlands. The investments to the new distribution centre amounted to EUR 22 million during the review period and commitments related to the investment were EUR 41 million at the end of the review period.

#### 2009

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Investment properties	Total
Acquisition cost at 1 January 2009	23	225	600	59	62	11	980
Changes in exchange rates		2	6	1			9
Acquisitions							1
Additions	2	17	55	33	6		112
Disposals		-1	-5	-1	-1	-2	-10
Reclassification		8	26	-31	-3		
Acquisition cost at 31 December 2009	25	251	682	60	63	9	1 092
Accumulated depreciation at 1 January 2009		-108	-378		-46		-533
Changes in exchange rates		-1	-5				-6
Accumulated depreciation on disposals		1	5				7
Depreciation during the financial year		-10	-54		-3		-67
Reclassification			-3		3		
Impairments			-36				-36
Accumulated depreciation at 31 December 2009		-117	-471		-46		-634
<b>Book value at 31 December 2009</b>	<b>25</b>	<b>134</b>	<b>211</b>	<b>60</b>	<b>18</b>	<b>9</b>	<b>457</b>
Value of finance-leased assets included in book value		2	8				11

Investment properties include land areas not used by the Group. Their estimated market value is around EUR 31 million. During the period, investment properties were sold totalling EUR 3 million (4) generating a profit of EUR 2 million (2).

2008

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Investment properties	Total
Acquisition cost at 1 January 2008	14	203	529	64	60	13	884
Changes in exchange rates			-6	-2	-2		-9
Acquisitions	1	3	5				9
Additions	8	18	72	36	5		139
Disposals		-4	-25	-4	-1	-2	-35
Joint ventures		-3	-1	-3			-6
Reclassification		10	25	-33	-1		
Acquisition cost at 31 December 2008	23	225	600	59	62	11	980
Accumulated depreciation at 1 January 2008		-103	-355		-47		-506
Changes in exchange rates			5				6
Accumulated depreciation on disposals		3	18				22
Depreciation during the financial year		-9	-45		-2		-57
Reclassification			-2		3		
Accumulated depreciation at 31 December 2008		-108	-378		-46		-533
<b>Book value at 31 December 2008</b>	23	117	221	59	15	11	446
Value of finance-leased assets included in book value		2	11		1		14

14. Investments in associated companies and joint ventures

MEUR	2009	2008
Book value at 1 January	41	16
Acquired shares*	11	1
Share of results	6	
Dividends	-2	-1
Change in exchange rates		2
Joint ventures**		22
<b>Book value at 31 December</b>	<b>56</b>	<b>41</b>

\* Includes business arrangement Wärtsilä Biopower/MW Power.

\*\* Due to the change in accounting principles for joint ventures.

Summary of financial information on associates (100%):

2009

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co Ltd.	China	27.0	180	142	39	22	-9
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		1	-1		-1
AWEK Industrial Patents Ltd. Oy	Finland	25.0	1			3	
Repropel Sociedad de reparacao de helices	Portugal	50.0	1	1	1	1	
WD Power Investment Ky	Finland	21.7	1		1		
Neptun Maritime AS	Norway	40.0	1		1	2	
EI-Design AS	Norway	37.0	1			1	
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	3	2	1	4	1
MW Power Oy	Finland	40.0	101	65	36	168	10
IHB Design AD	Bulgaria	50.0				1	

2008

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co Ltd.	China	27.0	143	94	49		-3
Wärtsilä Navim Diesel S.r.l.	Italy	40.0	23	14	9	46	4
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		1	-1		
AWEK Industrial Patents Ltd. Oy	Finland	25.0	1			2	
Repropel Sociedad de reparacao de helices	Portugal	50.0	2	1	1	2	
WD Power Investment Ky	Finland	21.7	4		4		
Neptun Maritime AS	Norway	40.0	1			1	
EI-Design AS	Norway	37.0					
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	3	2	1	5	

**Summary of financial information on joint ventures (100%):**

The group has a 50 per cent interest in the joint venture company Wärtsilä Qiyao Diesel Company Ltd. in China. The other owner is China Shanghai Marine Diesel Research Institute, a subsidiary of China Shipbuilding Industry Corporation (CSIC).

Wärtsilä and Hyundai Heavy Industries Co Ltd. set up a joint venture in Korea, Wärtsilä Hyundai Engine Co Ltd., which manufactures dual-fuel engines for LNG carriers. Wärtsilä's ownership of the company is 50%.

**2009**

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	25	15	10	31	-1
Wärtsilä Hyundai Engine Co Ltd.	Korea	50.0	143	96	48	85	8

**2008**

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	31	22	9	37	
Wärtsilä Hyundai Engine Co Ltd.	Korea	50.0	86	51	35	18	-2

15. Investments available for sale

Investments available for sale include listed and unlisted shares. Listed shares are measured at fair value. For unlisted shares the fair value cannot be measured reliably, in which case the investment is carried at cost.

MEUR	2009	2008
Book value at January 1	106	155
Changes in exchange rates	1	1
Additions	2	6
Disposals	-3	-5
Fair value adjustment	46	-50
<b>Book value at December 31</b>	<b>151</b>	<b>106</b>

MEUR	2009		2008	
	Acquisition cost	Market value	Acquisition cost	Market value
<b>Listed shares (level 1)</b>				
Sampo plc	4	32	4	25
Assa Abloy AB	18	98	18	59
Listed shares	22	130	22	84
<b>Unlisted shares (level 3)</b>				
Other shares*	21	21	21	21
Unlisted shares	21	21	21	21
<b>Total shares</b>	<b>43</b>	<b>151</b>	<b>43</b>	<b>106</b>

\* In 2009 EUR 2 million loss has been recognized in the consolidated income statement and in 2008 EUR 2 million gain.

16. Inventories

MEUR	2009	2008
Materials and consumables	625	741
Work in progress	753	684
Finished products	59	56
Advances paid	140	175
<b>Total</b>	<b>1 577</b>	<b>1 656</b>

17. Financial assets and liabilities by measurement category

2009

MEUR	Cash flow and net invest- ment hedges	Finan- cial assets/ liabili- ties at fair value through income state- ment	Loans and recei- vables	Invest- ments available for sale	Finan- cial liabili- ties mea- sured at amorti- sed cost	Carrying amounts by balance sheet item	Fair value
<b>Non-current financial assets</b>							
Investments available for sale				151		151	151
Interest-bearing investments			2			2	2
Trade receivables			2			2	2
Other receivables			5			5	5
<b>Current financial assets</b>							
Interest-bearing receivables			4			4	4
Trade receivables			1 028			1 028	1 028
Derivatives	6	1				7	7
Other receivables		16	2			18	18
Cash and cash equivalents		244				244	244
<b>Carrying amount by category</b>	<b>6</b>	<b>261</b>	<b>1 043</b>	<b>151</b>		<b>1 461</b>	<b>1 461</b>
<b>Non-current financial liabilities</b>							
Interest-bearing debt					591	591	593
Other liabilities					1	1	1
<b>Current financial liabilities</b>							
Interest-bearing debt					73	73	73
Trade payables					299	299	299
Derivatives	15	9				24	24
Other liabilities					12	12	12
<b>Carrying amount by category</b>	<b>15</b>	<b>9</b>			<b>976</b>	<b>1 000</b>	<b>1 002</b>



2008

MEUR	Cash flow and net investment hedges	Financial assets/liabilities at fair value through income statement	Loans and receivables	Investments available for sale	Financial liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair value
<b>Non-current financial assets</b>							
				106		106	106
			11			11	11
			3			3	3
			4			4	4
<b>Current financial assets</b>							
			1			1	1
			891			891	891
	56	13				69	69
		90				90	90
		197				197	197
<b>Carrying amount by category</b>	56	300	910	106		1 372	1 372
<b>Non-current financial liabilities</b>							
					448	448	447
					1	1	1
<b>Current financial liabilities</b>							
					216	216	216
					444	444	444
	40	22				62	62
					85	85	85
<b>Carrying amount by category</b>	40	22			1 194	1 256	1 255

18. Other receivables

MEUR	2009	2008
Interest receivables	1	1
Derivatives	7	69
Other financial items	16	20
Insurance receivables	5	4
Rental receivables	6	6
Project accruals	14	18
Other accruals	31	50
Loan receivables	6	4
VAT receivables	62	90
Defined benefit plan	8	7
Accruals from long-term contracts	54	160
Other receivables	46	68
<b>Total</b>	<b>256</b>	<b>498</b>
<b>Non-current</b>	<b>12</b>	<b>12</b>
<b>Current</b>	<b>244</b>	<b>486</b>

19. Cash and cash equivalents

MEUR	2009	2008
Cash and bank balances	221	183
Financial assets	23	14
<b>Total</b>	<b>244</b>	<b>197</b>

20. Deferred taxes

Change in deferred taxes during 2009

MEUR	1 January 2009	Recognised in the income statement	Other comprehensive income	Translation differences	Acquisitions	31 December 2009
<b>Deferred tax assets</b>						
Tax loss carry-forwards	23					23
Pension obligations	3					4
Provisions	10	-1		2		10
Fair value reserve	11		-11			
Eliminating the intra group profit in stock	14	-4				10
Other temporary differences	24	16		1		41
<b>Total</b>	<b>85</b>	<b>12</b>	<b>-11</b>	<b>2</b>		<b>88</b>

**Deferred tax liabilities**

Intangible assets and property, plant and equipment	34	-12		4		26
Fair value reserve	23		8			31
Other temporary differences	29	3		2	1	35
<b>Total</b>	<b>86</b>	<b>-8</b>	<b>8</b>	<b>6</b>	<b>1</b>	<b>93</b>

<b>Net deferred tax assets/liabilities</b>		<b>20</b>	<b>-19</b>	<b>-3</b>	<b>-1</b>	<b>-4</b>
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At 31 December 2009 the Group had unrecognized deferred tax receivables totalling EUR 38 million (52), as it is uncertain if they will be realised. Most of them were related to cumulative losses.

**Change in deferred taxes during 2008**

MEUR	1 January 2008	Recognised in the income statement	Other comprehensive income	Translation differences	Acquisitions	31 December 2008
<b>Deferred tax assets</b>						
Tax loss carry-forwards	24	-1				23
Pension obligations	3					3
Provisions	15	-6				10
Fair value reserve			11	1		11
Eliminating the intra group profit in stock	14	1				14
Other temporary differences	15	10				24
<b>Total</b>	<b>70</b>	<b>3</b>	<b>11</b>	<b>1</b>		<b>85</b>
<b>Deferred tax liabilities</b>						
Intangible assets and property, plant and equipment	16	5		-1	13	34
Fair value reserve	42		-18			23
Other temporary differences	23			-1	7	29
<b>Total</b>	<b>81</b>	<b>5</b>	<b>-18</b>	<b>-3</b>	<b>20</b>	<b>86</b>
<b>Net deferred tax assets/liabilities</b>	<b>-11</b>	<b>-2</b>	<b>29</b>	<b>3</b>	<b>-20</b>	

21. Pension obligations

MEUR	2009	2008
<b>Recognised asset for defined benefit plan at 31 December</b>	<b>8</b>	<b>7</b>
Recognised liability for defined benefit obligations	20	17
Long-service leave and other past service obligations	26	23
<b>Total past service obligations at 31 December</b>	<b>46</b>	<b>40</b>

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 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 practice in each country. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans.

Since 1 January 2008, IFRIC 14 has been applied which lead to EUR 5 million increase in shareholders' equity.

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

<b>Movement in defined benefit obligations</b>	<b>2009</b>	<b>2008</b>
Defined benefit obligations at 1 January	229	212
Exchange rate differences	6	5
Current service costs	11	9
Interest cost	9	8
Benefits paid	-13	-10
Changes in actuarial gains and losses	3	
Impact of acquired and disposed companies and other changes	8	6
<b>Defined benefit obligations at 31 December</b>	<b>254</b>	<b>229</b>

<b>Movement in plan assets</b>		
Fair value of plan assets at 1 January	198	202
Exchange rate differences	4	9
Contribution paid to the fund	14	13
Benefits paid by the plan	-12	-9
Expected return on plan assets	9	10
Actuarial gains and losses	13	-28
Impact of acquired and disposed companies and other changes		2
<b>Total</b>	<b>227</b>	<b>198</b>
Unrecognised assets	-2	
<b>Recognised fair value of plan assets at 31 December</b>	<b>225</b>	<b>198</b>

<b>Unrecognised actuarial gains and losses</b>		
Unrecognised actuarial gains and losses at beginning of year	-21	5
Exchange rate differences	-2	2
Actuarial gains and losses for year -obligations	-7	-1
Actuarial gains and losses for year -plan assets	13	-28
Impact of acquired/disposed companies and other changes	-1	1
<b>Unrecognised actuarial gains and losses at the year end</b>	<b>-18</b>	<b>-21</b>
<b>Recognised net liability for defined benefit obligations</b>	<b>12</b>	<b>10</b>

**Expenses recognised in income statement**

Current service costs	11	9
Interest on obligation	9	8
Expected return on plan assets	-9	-10
Actuarial gains and losses	1	1
<b>Defined benefit expenses</b>	<b>12</b>	<b>8</b>

<b>Actual return on plan assets</b>	<b>19</b>	<b>-17</b>
-------------------------------------	-----------	------------

<b>Historical information</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Present value of the defined benefit obligation	254	229	212	307	293
Fair value of plan assets	-227	-198	-202	-295	-292
<b>Deficit in the plan</b>	<b>28</b>	<b>31</b>	<b>9</b>	<b>12</b>	<b>1</b>

<b>Plan assets invested in:</b>	<b>2009</b>	<b>2008</b>
Equity instruments (%)	24	22
Bonds and other financial instruments (%)	49	51
Properties (%)	14	14
Other assets (%)	14	13

<b>Actuarial assumptions 2009</b>	<b>Europe</b>	<b>Other</b>
Discount rate (%)	3.25-5.4	1.5-12.0
Expected return on plan assets (%)	3.5-6.3	1.5-16.0
Future salary increases (%)	1.0-4.5	1.2-10.0

<b>Actuarial assumptions 2008</b>	<b>Europe</b>	<b>Other</b>
Discount rate (%)	3.25-6.5	1.5-16.0
Expected return on plan assets (%)	4.0-7.5	1.5-10.0
Future salary increases (%)	1.5-4.5	1.2-14.0

**22. Share capital of the parent company**

<b>Share capital</b>	<b>Number of A shares</b>	<b>Number of B shares</b>	<b>Number of shares</b>	<b>Share capital</b>	<b>Share issue premium</b>	<b>Total</b>
1 January 2008	23 579 587	72 389 974	95 969 561	336	61	397
Options exercised		31 050	31 050			
Combination of share series and free share issue	-23 579 587	26 199 541	2 619 954			
31 December 2008			98 620 565	336	61	397
<b>31 December 2009</b>			<b>98 620 565</b>	<b>336</b>	<b>61</b>	<b>397</b>

23. Fair value reserve

MEUR	Cash flow hedges	Investments available for sale	Total
Difference between fair value and book value at 1 January 2008	56	113	169
Deferred tax liabilities	-12	-29	-42
Fair value reserve at 1 January 2008	44	84	127
Transferred to income statement, net of taxes	-22		-22
Fair value adjustments	-28	-50	-78
Deferred tax liabilities/assets	10	13	23
Fair value reserve at 31 December 2008	4	47	50
Transferred to income statement, net of taxes	12		12
Fair value adjustments	3	46	49
Deferred tax liabilities/assets		-12	-12
<b>Fair value reserve at 31 December 2009</b>	<b>19</b>	<b>80</b>	<b>99</b>

24. Provisions

2009

	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total
Provisions at 1 January 2009	8	138	16	5	23	189
Changes in exchange rates		1	1			2
Additions	3	66	4	3	18	94
Used provisions	-1	-54	-8		-8	-71
Released provisions			-1	-1	-7	-9
<b>Provisions at 31 December 2009</b>	<b>10</b>	<b>151</b>	<b>11</b>	<b>7</b>	<b>26</b>	<b>205</b>
Non-current						24
Current						181

2008

	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total
Provisions at 1 January 2008	7	107	12	6	31	164
Changes in exchange rates		1				
Additions	1	70	10		7	88
Used provisions		-40	-5		-12	-58
Released provisions			-2	-1	-5	-8
<b>Provisions at 31 December 2008</b>	<b>8</b>	<b>138</b>	<b>16</b>	<b>5</b>	<b>23</b>	<b>189</b>
Non-current						24
Current						165

The Group is a defendant in a number of lawsuits 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

2009

MEUR	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Loans from pension insurance companies*		185	114	299
Loans from other financial institutions*	66	79	201	346
Finance lease liabilities	3	8	1	12
Other interest-bearing loans	4	3		7
Non-interest-bearing loans	1			1
Trade payables	299			299
Derivatives	24			24
Other liabilities	12			12
<b>Total</b>	<b>409</b>	<b>274</b>	<b>316</b>	<b>1 000</b>
* Estimated interest expenses, total	14	52	24	90

2008

	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Loans from other financial institutions*	61	235	199	495
Finance lease liabilities	4	9	2	14
Other interest-bearing loans	152	3		155
Non-interest-bearing loans	1			1
Trade payables	444			444
Derivatives	62			62
Other liabilities	85			85
<b>Total</b>	<b>808</b>	<b>246</b>	<b>201</b>	<b>1 255</b>
* Estimated interest expenses, total	26	50	16	91

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

26. Other liabilities

MEUR	2009	2008
Project costs	572	451
Personnel costs	113	115
Derivatives	24	62
Interest and other financial items	12	23
Other accruals	82	85
Other liabilities	80	84
<b>Total</b>	<b>883</b>	<b>820</b>
Non-current	1	1
Current	883	819

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	2009	of which closed	2008	of which closed
<b>Nominal values of derivative financial instruments (level 2)</b>				
Interest rate swaps	90		140	
Currency forwards				
Transaction risk	1 042	433	1 553	471
Translation risk	339		341	
Currency options, written	5			
Currency options, purchased	72		50	
<b>Total</b>	<b>1 548</b>	<b>433</b>	<b>2 084</b>	<b>471</b>
<b>Fair values of derivative financial instruments (level 2)</b>				
Interest rate swaps	-2		-2	
Currency forwards				
Transaction risk	-9		13	
Translation risk	-5			
Currency options, purchased	-1			
<b>Total</b>	<b>-17</b>		<b>11</b>	

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 13 months.



Currency distribution of currency forwards and currency options

MEUR	Outstanding offers	Order book	Net loans	Translation risk
Currency forwards				
USD		325	42	83
NOK		83	67	71
CHF		10	101	
SGD			8	50
JPY		96	7	20
GBP		2	33	19
Other*		42	36	99
	-	557	294	342
Currency options				
USD	35	42		
<b>Total</b>	<b>35</b>	<b>599</b>	<b>294</b>	<b>342</b>

\* Other does not include any material single currencies.

Commodity derivatives

2009

	Amount in metric tons	of which closed	Fair value MEUR
Oil swaps (level 2)	-	-	-
Copper futures (level 1)	-	-	-

2008

	Amount in metric tons	of which closed	Fair value MEUR
Oil swaps (level 2)	17 700	12 000	-1
Copper futures (level 1)	1 250		-3

28. Collateral, contingent liabilities and other commitments

MEUR	2009		2008	
	Debt in balance sheet	Collateral	Debt in balance sheet	Collateral
<b>Mortgages given as collateral for liabilities and commitments</b>				
Loans from credit institutions	1	2	2	2
Loans from pension institutions	34	44	34	49
Other commitments	5	10		10
<b>Total</b>	<b>40</b>	<b>56</b>	<b>36</b>	<b>61</b>
<b>Chattel mortgages given as collateral for liabilities and commitments</b>				
Other commitments		10		10
<b>Total</b>		<b>10</b>		<b>10</b>

MEUR	2009	2008
Guarantees and contingent liabilities		
on behalf of Group companies	678	664
on behalf of associated companies	8	
<b>Total</b>	<b>686</b>	<b>664</b>

**Nominal amounts of rents according to leasing contracts**

Payable within one year	21	21
Payable later	68	66
<b>Total</b>	<b>89</b>	<b>87</b>

**29. Related party disclosures**

Related parties comprise the Board of Directors, the President and CEO, the Board of Management as well as the associates and the joint ventures.

**Salaries and bonuses paid to management**

In thousands of euros	2009	2008
President and CEO and his deputy		
Salaries and other short-term benefits	922	884
Bonuses*	246	252
	<b>1 169</b>	<b>1 136</b>
Other members of the Board of Management		
Salaries and other short-term benefits	1 678	1 277
Bonuses*	376	391
	<b>2 054</b>	<b>1 668</b>
Board of Directors 31 December 2009		
Antti Lagerroos, chairman	125	121
Matti Vuoria, deputy chairman	89	88
Maarit Aarni-Sirviö, member	61	59
Kaj-Gustaf Bergh, member	60	56
Kari Kauniskangas, member	59	56
Bertel Langenskiöld, member	60	57
Board of Directors, until 19 March 2008		
Göran J. Ehrnrooth, deputy chairman		3
Heikki Allonen, member		2
	<b>455</b>	<b>442</b>
<b>Salaries and bonuses paid to management, total</b>	<b>3 677</b>	<b>3 246</b>

\* In addition a cost reserve of EUR 1,780 thousand, for the expenses arising from the bonus schemes tied to the price development of the company's share, has been made.

The holdings of Wärtsilä 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 70 428 shares (56 479).

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 associates and joint ventures**

MEUR	2009	2008
Sales to the associates and joint ventures in the income statement	16	34
Receivables from the associates and joint ventures in the balance sheet	23	22
Advances paid to the associates and joint ventures in the balance sheet	54	29
Payables to the associates and joint ventures in the balance sheet	11	12

Detailed financial information of 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 2009 the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditors.

**Auditors' fees**

MEUR	2009	KPMG		Others
		2008	2009	
Audit fees	1.9	1.7	0.1	0.1
Statement fees	0.1	0.1		
Tax advisor fees	1.0	1.1	0.3	0.2
Other fees	0.6	1.0		0.3
<b>Total</b>	<b>3.5</b>	<b>4.0</b>	<b>0.4</b>	<b>0.6</b>

**31. Exchange rates**

	Closing rates 31.12.2009	Closing rates 31.12.2008	Average rates 2009	Average rates 2008
USD	1.44060	1.39170	1.39327	1.47059
GBP	0.88810	0.95250	0.89105	0.79654
SEK	10.25200	10.87004	10.61995	9.61688
NOK	8.30000	9.75001	8.72877	8.22484
DKK	7.44180	7.45062	7.44630	7.45595
CHF	1.48360	1.48500	1.50987	1.58708
JPY	133.16000	126.13522	130.23383	152.33000
SGD	2.01940	2.00400	2.02296	2.07614
INR	67.04000	67.94402	67.48022	64.07155

**32. Subsidiaries**

Company name	Location	Share %
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 AS	Norway	100.0
Wärtsilä Danmark A/S	Denmark	100.0
Wärtsilä Italia S.p.A.	Italy	100.0
Wärtsilä Navim Diesel S.r.l.	Italy	100.0
Wärtsilä France S.A.S.	France	100.0

Wärtsilä Defence S.A.	France	100.0
Whessoe 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
Whessoe Total Automation 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.oo.	Poland	100.0
Wärtsilä Ship Design Poland Sp.z.oo.	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
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
Wärtsilä Australia Pty Ltd.	Australia	100.0
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 Shanghai Services Ltd.	China	100.0
Wärtsilä Propulsion (Wuxi) Co. Ltd.	China	100.0
Wärtsilä Singapore Pte Ltd.	Singapore	100.0
Wärtsilä Automation Services Singapore Pte Ltd	Singapore	100.0
Wärtsilä Japan Company Ltd	Japan	99.7
Wärtsilä India Ltd.	India	98.9
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 Arab Mediterranean Power Ltd	Egypt	100.0
Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0
Wärtsilä Eastern Africa S.A.	Kenya	100.0
Wärtsilä West Africa S.A.	Senegal	100.0
Wärtsilä Central Africa Ltd.	Cameroon	100.0

A complete list of shares and securities in accordance with the Accounting Ordinance is included in the official financial statements of the 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, 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 balance sheet position, which includes receivables and payables denominated in foreign currencies. The Group does not expect significant losses from foreign exchange rate changes in 2010. The cancellation of orders could lead to ineffective currency hedge. Approximately 65% of sales and 70% of operating costs in 2009 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.

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 69 million.

Since Wärtsilä has subsidiaries outside the euro zone, the Group's shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2009 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 432 million, of which EUR 339 million was hedged. The ineffective portion of the equity hedges was not significant.

IFRS hedge accounting has been applied to EUR 918 million currency forwards. A 10% change in the exchange rates would cause from these currency forwards an approximately EUR 68 million after tax influence on the shareholders' equity. In 2009 EUR 3 million fair value adjustments related to cash flow hedges were booked in equity. EUR -12 million of the fair value adjustments were transferred from equity to the income statement as net sales or operating expenses during 2009. The result from the ineffective portion of the cash flow hedges, EUR -5 million, has been booked in financial items.

**Currency distribution 2009**

	Net sales	Operating costs	Trade receivables	Trade payables
EUR	65	70	75	78
USD	19	9	10	3
NOK	3	3	3	3
CHF	1	2	1	3
Other EU currencies	2	4	2	3
SGD	1	1	1	1
CNY	1	2		
JPY		1		2
Other currencies	7	9	7	7
%	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 roll-overs). 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 to the income statement. 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 2009 totalled EUR 664 (664) million. The average interest rate was 2.3% (4.1) and the average re-fixing time 23 (11) months. At the end of 2009 a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 13 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 2009 the floating rate portion of total loans was 39% after adjustment for interest rate derivatives. A one percentage point change in the interest level would cause a EUR 2 million change in the following year's interest expenses of the debt portfolio, including derivatives.

Additional information related to loans can be found in Notes 17 and 25.

**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 555 million.
- Finnish Commercial Paper programmes totalling EUR 700 million.

The average maturity of the long-term loans is 71 months and the average maturity of the confirmed credit lines is 31 months. Additional information in Note 25.

Wärtsilä Group's liquidity is strong. Wärtsilä had cash and cash equivalents totalling EUR 244 million at the year end as well as EUR 555 million non-utilised committed credit facilities and substantial Commercial Paper programmes. Wärtsilä minimises its refinancing risk by having a balanced and sufficiently long loan portfolio.

## Revolving credit facilities

### MEUR

Year	Maturing	Available (end of period)
2009		555
2010	120	435
2011	15	420
2012	175	245
2013	195	50
2014		50
2015	50	

### Credit risk

The responsibility for managing the credit risks associated with ordinary commercial activities lies with the Businesses and the Group companies. Major trade and project finance credit risks are minimised by transferring risks to banks, insurance companies and export credit organisations. The company did not have long-term suppliers' credits at the end of 2009. No losses were recorded on suppliers' credits.

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) as 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

	2009		2008	
MEUR	Trade receivables	of which impaired	Trade receivables	of which impaired
Not past due	613		543	
Past due 1-30 days	139		128	
Past due 31-180 days	180	2	157	1
Past due 181-360 days	78	3	43	2
Past due 1 year	58	33	53	27
<b>Total</b>	<b>1 068</b>	<b>38</b>	<b>924</b>	<b>30</b>

In 2009, EUR 12 million provisions for doubtful receivables has been recognised in the consolidated income statement.

### Equity price risk

Wärtsilä has investments in publicly quoted shares (Note 15). The market value of these shares at the end of 2009 was EUR 130 million. 10% strengthening or weakening in share price has EUR +/- 10 million impact on Group's shareholders' equity after taxes.

Wärtsilä also has equity investments totalling EUR 9 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 minority interest 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.

<b>MEUR</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Balance sheet total	<b>4 655</b>	4 743
Advances received	<b>-879</b>	-1 243
	<b>3 777</b>	3 500
Total shareholders' equity	<b>1 512</b>	1 199
Solvency ratio,%	<b>40.0</b>	34.3

In the capital management Wärtsilä also follows the gearing development:

Interest-bearing liabilities, non-current	<b>591</b>	448
Interest-bearing liabilities, current	<b>73</b>	216
Cash and cash equivalents	<b>-244</b>	-197
	<b>420</b>	467
Loan receivables	<b>-6</b>	-12
<b>Net interest-bearing loan capital</b>	<b>414</b>	455
Gearing	<b>0.28</b>	0.39



## Parent Company Financial Statements

### Parent Company Income Statement (FAS)

MEUR	Note	2009	2008
<b>Other operating income</b>	<u>1</u>	77	78
Personnel expenses	<u>2</u>	-40	-32
Depreciation and amortization	<u>3</u>	-12	-11
Other operating expenses		-87	-83
<b>Operating result</b>		-62	-48
Financial income and expenses	<u>4</u>		
Income from financial assets		84	49
Interest income and other financial income		32	58
Exchange gains and losses		-13	9
Interest expenses and other financial expenses		-30	-53
		74	64
<b>Result before extraordinary items</b>		11	16
Group contribution	<u>5</u>	393	301
<b>Result before appropriations and taxes</b>		405	317
Change in depreciation difference		-1	-1
<b>Result before taxes</b>		404	316
<b>Income taxes</b>	<u>6</u>	-84	-70
<b>Result for the financial period</b>		320	246

Parent Company Balance Sheet (FAS)

MEUR	Note	31.12.2009	31.12.2008
<b>ASSETS</b>			
<b>Fixed assets</b>	<u>7</u>		
<b>Intangible assets</b>			
Other long-term expenditure		31	33
Construction in progress		14	14
		<b>46</b>	<b>47</b>
<b>Tangible assets</b>			
Land and water		7	6
Buildings and structures		1	1
Machinery and equipment		2	2
Other tangible assets		1	1
Construction in progress		1	2
		<b>12</b>	<b>12</b>
<b>Financial assets</b>			
Shares in Group companies		450	450
Loan receivables from Group companies		1	2
Other shares and securities		19	19
		<b>470</b>	<b>471</b>
<b>Fixed assets and other non-current financial assets</b>		<b>527</b>	<b>531</b>
<b>Non-current receivables</b>	<u>8</u>		
Receivables from Group companies		166	97
Loan receivables		12	11
		<b>177</b>	<b>108</b>
<b>Current receivables</b>			
Receivables from Group companies	<u>9</u>	1 444	1 585
Loan receivables			1
Other receivables		3	4
Prepaid expenses and accrued income	<u>10</u>	19	87
		<b>1 467</b>	<b>1 677</b>
<b>Cash and bank balances</b>		<b>151</b>	<b>77</b>
<b>Total current assets</b>		<b>1 795</b>	<b>1 862</b>
<b>Assets</b>		<b>2 322</b>	<b>2 393</b>

Parent Company Balance Sheet (FAS)

MEUR	Note	31.12.2009	31.12.2008
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	<u>11</u>		
Share capital		336	336
Share premium reserve		61	61
Retained earnings		266	169
Result for the financial year		320	246
<b>Total shareholders' equity</b>		<b>983</b>	<b>812</b>
<b>Accumulated appropriations</b>			
Depreciation difference		8	7
<b>Liabilities</b>	<u>12</u>		
<b>Long-term</b>			
Loans from credit institutions		263	317
Loans from pension institutions		221	96
Liabilities to Group companies	<u>14</u>	77	
		<b>561</b>	<b>413</b>
<b>Current</b>			
Loans from credit institutions		64	43
Loans from pension institutions			4
Trade payables		4	4
Liabilities to Group companies	<u>14</u>	618	871
Other current liabilities		5	143
Accrued expenses and deferred income	<u>13</u>	79	96
		<b>770</b>	<b>1 161</b>
<b>Total liabilities</b>		<b>1 331</b>	<b>1 574</b>
<b>Shareholders' equity and liabilities</b>		<b>2 322</b>	<b>2 393</b>

Parent Company Cash Flow Statement (FAS)

MEUR	2009	2008
<b>Cash flow from operating activities:</b>		
Operating result	-62	-48
Adjustments for:		
Depreciation and amortization	12	11
Selling profit and loss of fixed assets	-3	-3
Cash flow before changes in working capital	-53	-40
Changes in working capital:		
Assets, non-interest-bearing, increase (-)/ decrease (+)	115	-74
Liabilities, non-interest-bearing, increase (+)/ decrease (-)	-60	79
	55	6
<b>Cash flow from operating activities before financial items and taxes</b>	<b>2</b>	<b>-34</b>
Interest and other financial expenses	-46	-78
Dividends received from operating activities	80	43
Interest and other financial income from operating activities	25	104
Income taxes	-65	-60
	-6	10
<b>Cash flow from operating activities</b>	<b>-4</b>	<b>-24</b>
<b>Cash flow from investing activities:</b>		
Investments in tangible and intangible assets	-12	-14
Proceeds from sale of investments		2
Proceeds from sale of tangible and intangible assets	3	4
Loan receivables, increase (-)/ decrease (+) and other changes	1	
Dividends received from investments	5	6
<b>Cash flow from investing activities</b>	<b>-3</b>	<b>-3</b>
<b>Cash flow after investing activities</b>	<b>-7</b>	<b>-27</b>
<b>Cash flow from financing activities:</b>		
Loans receivables, increase (-)/ decrease (+)	129	-269
Current loans, increase (+)/ decrease (-)	-367	201
New non-current loans	185	246
Amortization and other changes of non-current loans	-20	-16
Group contributions	301	169
Paid dividends	-148	-408
<b>Cash flow from financing activities</b>	<b>80</b>	<b>-76</b>

<b>Change in cash and bank balances, increase (+) / decrease (-)</b>	<b>74</b>	<b>-103</b>
Cash and bank at beginning of period	77	180
Cash and bank at end of period	151	77

## 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 Act (FAS).

The accounting principles are unchanged compared to the previous year.

The preparation of the financial statements requires management, in compliance with the regulations in force and good accounting practice, to make estimates and assumptions that affect the measurement and timing of the reported information. Actual results may differ from these estimates.

### ■ Transactions denominated in foreign currencies

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the exchange rates prevailing on that date. Open hedging instruments of foreign currency based items, including interest components, are valued at the balance sheet date. Exchange gains and losses related to business operations are treated as adjustments to net sales 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 realized. Changes to provisions are included in the income statement.

### ■ Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, as well as adjustments to taxes in prior years. Taxes allocated to extraordinary items are shown in the notes to the financial statements.

### ■ Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

## Notes to the Parent Company Financial Statements

### 1. Other operating income

MEUR	2009	2008
Rental income	2	2
Profit on sales of fixed assets	3	3
Services to Group companies	71	72
Other operating income	1	1
<b>Total</b>	<b>77</b>	<b>78</b>

### 2. Personnel expenses

MEUR	2009	2008
Wages and salaries	30	24
Pension costs	8	5
Other compulsory personnel costs	2	2
<b>Total</b>	<b>40</b>	<b>32</b>

Salaries and remunerations

The President and CEO and his deputy and members of the Board of Directors	2	2
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The President and CEO and some of the members of the Board of Management have the right to retire at the age of 60 years.

The Company's Board of Directors decides the remunerations of the President and CEO and his immediate subordinates.

Personnel on average	398	361
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### 3. Depreciation and amortization

MEUR	2009	2008
<b>Depreciation according to plan</b>		
Other long-term expenditure	12	11
Total depreciation according to plan	12	11
Total book depreciation	13	12
Depreciation difference	-1	-1
<b>Amortization of fixed assets</b>		
Depreciation difference on 1 January	7	7
Change in the depreciation difference	1	1
Depreciation difference on 31 December	8	7

### 4. Financial income and expenses

MEUR	2009	2008
<b>Dividend income</b>		
From Group companies	80	43
From other companies	5	6
<b>Total</b>	84	49
<b>Other interest income</b>		
From Group companies	30	54
From other companies	1	4
<b>Total</b>	30	58
<b>Other financial income</b>		
From Group companies	5	8
From other companies	11	19
<b>Total</b>	16	27
Exchange gains and losses	-13	9
<b>Interest expenses</b>		
To Group companies	-9	-32
To other companies	-17	-21
<b>Total</b>	-26	-53

Other financial expenses		
To Group companies	-3	-8
To other companies	-15	-19
<b>Total</b>	<b>-18</b>	<b>-27</b>
<b>Financial income and expenses, total</b>	<b>74</b>	<b>64</b>

#### 5. Extraordinary income and expenses

<b>MEUR</b>	<b>2009</b>	<b>2008</b>
Group contributions received	393	301

#### 6. Income taxes

<b>MEUR</b>	<b>2009</b>	<b>2008</b>
Income taxes for the financial year	-84	-70
for prior years	-1	
<b>Total</b>	<b>-84</b>	<b>-70</b>
Income taxes on extraordinary items	102	78



7. Fixed assets

Intangible assets

MEUR	Other long-term expenditures	Construction in progress	Total 2009	Total 2008
<b>Acquisition cost at January 1</b>	101	14	116	103
Additions	2	6	8	12
Reclassifications	8	-6	2	
<b>Acquisition cost at December 31</b>	110	14	126	116
Accumulated amortization at January 1	-67		-68	-57
Amortization during the financial year	-12		-12	-11
<b>Accumulated amortization at December 31</b>	-79		-80	-68
<b>Book value at 31 December 2009</b>	31	14	46	
<b>Book value at 31 December 2008</b>	33	14		47

**Tangible assets**

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress	Other tangible assets	Total 2009	Total 2008
<b>Acquisition cost at January 1</b>	6	11	11	2	2	32	35
Additions	2		1	1		3	2
Disposals	-1					-2	-3
Reclassifications				-2		-2	
<b>Acquisition cost at December 31</b>	7	11	12	1	2	32	34
Accumulated depreciation at January 1		-10	-10		-1	-20	-22
Accumulated depreciation on disposals and transfers							1
Depreciation during the financial year						-1	
<b>Accumulated depreciation at December 31</b>		-10	-10		-1	-21	-22
<b>Book value at 31 December 2009</b>	7	1	2	1	1	12	
<b>Book value at 31 December 2008</b>	6	1	2	2	1		12

**Shares and securities**

MEUR	Shares in Group companies	Receivables from Group companies	Shares in other companies	Total 2009	Total 2008
<b>Acquisition cost at January 1</b>		450	19	471	472
Additions					1
Disposals				-1	-2
<b>Acquisition cost at December 31</b>		450	19	470	471
<b>Book value at 31 December 2009</b>		450	19	470	
<b>Book value at 31 December 2008</b>		450	19		471

8. Non-current receivables

MEUR	2009	2008
<b>Receivables from Group companies</b>		
Non-current investments	1	2
Loan receivables	166	97
<b>Total</b>	<b>166</b>	<b>99</b>

9. Current receivables from Group companies

MEUR	2009	2008
Trade receivables	3	3
Loan receivables	1 428	1 523
Prepaid expenses and accrued income	13	59
<b>Total</b>	<b>1 444</b>	<b>1 585</b>

10. Main items in prepaid expenses and accrued income

MEUR	2009	2008
Interests		1
Derivatives	13	85
Other financial items	6	
<b>Total</b>	<b>19</b>	<b>87</b>

11. Shareholder's equity

MEUR	2009	2008
<b>Share capital</b>		
Share capital on 1 January	336	336
Share capital on 31 December	336	336
<b>Share premium reserve</b>		
Share premium reserve on 1 January	61	61
Share premium reserve on 31 December	61	61
<b>Retained earnings</b>		
Retained earnings on 1 January	415	577
Ordinary dividend distribution	-148	-216
Extra dividend distribution		-192
Reversal of revaluation	-1	-1
Result for the financial period	320	246
Retained earnings on 31 December	586	415
Total shareholders' equity	983	812
<b>Distributable equity</b>	<b>586</b>	<b>415</b>

12. Liabilities

MEUR	2009	2008
<b>Non-current</b>		
Interest-bearing	561	413
<b>Total</b>	<b>561</b>	<b>413</b>
<b>Current</b>		
Non-interest-bearing	114	157
Interest-bearing	656	1 004
<b>Total</b>	<b>770</b>	<b>1 161</b>

Debt with maturity profile

2009 MEUR	Current	Long-term		Total
	< 1 year	1-5 years	> 5 years	
Loans from financial institutions	64	71	192	327
Loans from pension institutions		151	70	221
<b>Total</b>	<b>64</b>	<b>222</b>	<b>286</b>	<b>508</b>

2008 MEUR	Current	Long-term		Total
	< 1 year	1-5 years	> 5 years	
Loans from financial institutions	43	185	132	360
Loans from pension institutions	4	65	32	100
<b>Total</b>	<b>47</b>	<b>249</b>	<b>164</b>	<b>460</b>

13. Main items in accrued expenses and deferred income

MEUR	2009	2008
Income and other taxes	31	12
Derivatives	27	63
Personnel costs	11	8
Interest and other financial items	4	7
Other	6	6
<b>Total</b>	<b>79</b>	<b>96</b>

14. Liabilities to Group companies

MEUR	2009	2008
Other long-term liabilities	77	
Trade payables	4	4
Other current liabilities	589	815
Accrued expenses and deferred income	25	52
<b>Total</b>	<b>695</b>	<b>871</b>

15. Collateral, contingent liabilities and other commitments

MEUR	2009	2008
<b>Guarantees and contingent liabilities</b>		
On behalf of Group companies	678	664
On behalf of Associated companies	8	
<b>Total</b>	<b>686</b>	<b>664</b>
<b>Nominal amounts of rents according to leasing contracts</b>		
Payable within one year	3	3
Payable after one year	12	15
<b>Total</b>	<b>15</b>	<b>17</b>

16. Inner circle 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.

17. Auditors' 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 2009 the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditors.

**Auditors' fees**

TEUR	2009	2008
Audit fees	155	143
Tax advisor fees	153	391
Other fees	242	574
<b>Total</b>	<b>550</b>	<b>1 108</b>

## Proposal of the Board

The parent company's distributable funds total 585,892,877.82 euros, which includes 319,816,166.25 euros in net profit for the year. There are 98,620,565 shares with dividend rights.

The Board of Directors proposes to the Annual General Meeting that the company's distributable earnings be disposed of in the following way:

EUR	
A dividend of EUR 1.75 per share be paid, making a total of	172 585 988.75
That the following sum be retained in shareholders' equity	413 306 889.07
<b>Totalling</b>	<b>585 892 877.82</b>

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, 27 January 2010

Antti Lagerroos	Matti Vuoria
Maarit Aarni-Sirviö	Kaj-Gustaf Bergh
Kari Kauniskangas	Bertel Langenskiöld
Ole Johansson, President and CEO	

## Auditors' 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 on December 31, 2009. The financial statements comprise the consolidated balance sheet, consolidated income statement, statement of comprehensive income, statement of changes in shareholder's equity, cash flow statement 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.

### The 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 the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with 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.

### Auditors' Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 and the President and CEO have complied with the Limited Liability Companies Act.

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 of the financial statements or of the report of the Board of Directors, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the report of the Board of Directors in order to design audit procedures that are appropriate in the circumstances.

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.

The audit was performed in accordance with good auditing practice in Finland. 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.

### **Opinion on the discharge from liability and disposal of distributable funds**

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Limited Liability Companies Act.

Helsinki, January 27, 2010  
KPMG OY AB

Pekka Pajamo  
Authorized Public Accountant



Quarterly Figures 2008–2009

Condensed Income Statement

MEUR	Q4/2009	Q3/2009	Q2/2009	Q1/2009	Q4/2008	Q3/2008	Q2/2008	Q1/2008
<b>Net sales</b>	1 519	1 167	1 333	1 241	1 530	1 140	1 092	850
Other income	11	20	13	5	10	6	5	5
Expenses	-1 280	-1 026	-1 167	-1 087	-1 313	-996	-953	-753
Depreciation and amortisations	-73	-31	-30	-30	-31	-26	-21	-21
Share of profit of associates and joint ventures	1	3	1	1	1	-1	1	
<b>Operating result</b>	179	133	149	130	197	123	124	81
Financial income and expenses	-9	-9	-9	-7	-14	5	7	-7
<b>Profit before taxes</b>	170	125	141	123	183	127	131	75
Income taxes	-51	-38	-39	-34	-36	-30	-36	-25
<b>Profit for the financial period</b>	119	87	102	89	147	97	96	49
<b>Earnings per share, EUR</b>	1.17	0.87	1.01	0.89	1.46	0.97	0.96	0.49
Order intake	823	725	785	958	823	1 382	1 432	1 936
Order book, at the end of period	4 491	5 351	5 829	6 477	6 883	7 762	7 479	7 219
Personnel, at the end of period	18 541	18 806	19 016	18 844	18 812	18 268	17 552	16 979