



WÄRTSILÄ
CORPORATION
ANNUAL REPORT 2012



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Message to the shareholders

Dear shareholders,

2012 was a year of big events. During 2012, we closed our largest ever acquisition with the purchase of Hamworthy. This acquisition supports our growth strategy in the marine gas, offshore and environmental solutions markets, and Hamworthy has performed well while being integrated to our Ship Power business. In 2012, the Power Plants business received two of its largest orders ever; a 384 MW power plant to be built in Azerbaijan followed by a 573 MW order from Jordan. I am also very pleased that Services' net sales returned to growth and reached an all time high level. Supported by the positive development in all three businesses, as well as by the acquisition of Hamworthy, our net sales grew by 12%. At the same time we kept our profitability solid at 10.9%.

The Power Plants order intake remained resilient, decreasing by only 5% despite the total market having declined by an estimated 30-40%. Supported by their economic growth, the emerging markets continued to invest in new power generation capacity. However, the macroeconomic uncertainty continues to delay investment decisions in the overall power generation markets. Demand continued to be strong for our fuel flexible solutions in markets transitioning to natural gas. Today, 74% of orders are for gas or dual-fuel engines. With the growing number of larger orders, Wärtsilä is increasingly recognised as a serious contender in power plants of up to 500 MW capacity.

In Ship Power markets, the traditional merchant segment continued to struggle with overcapacity and, as a result the number of global vessel orders was 35% down from the previous year. Despite the weak overall markets, Wärtsilä Ship Power performed strongly and its order intake grew by 45%. Our position is good in the growing offshore markets, not least in Brazil where we secured several important orders. There was continued strong interest in marine gas solutions, and the orders received demonstrate our leading position in the dual-fuel markets. In line with the Ship Power strategy, Wärtsilä received several significant orders for the delivery of total solutions, including ship design, propulsion machinery, automation and other equipment. Strategically notable orders were also received for environmental solutions, such as the first orders for ballast water management systems and several orders for exhaust gas cleaning systems for SO_x removal.

Overcapacity and low freight rates in the marine industry have impacted our Services customer base, and utilisation of the global fleet has been at historically low levels. After three stable years, growing by 5% in this tough environment was a great achievement. This growth was fuelled by our wide services offering that is aimed at reducing our customers' operating expenses and increasing the availability of their equipment, as well as by the growth in the installed power plant engine base. During 2012, Wärtsilä signed major service agreements for power plants in Jordan, Kenya, Timor-Leste, South Africa, Brazil and the USA. Wärtsilä was also awarded service agreements by Princess Cruise Lines Ltd and Prestige Cruise Holdings, Inc.

During 2012, Wärtsilä invested more than ever in technological development, spending EUR 188 million on R&D activities. These activities were focused on developing technologies and products that meet the tightened environmental legislation and on products and solutions which can secure profitable operations for our customers. We are well positioned to reduce emissions and the use of natural resources, thanks to our various technologies, specialised services, and our continuous R&D efforts. Power production on land and at sea is a big responsibility, and thus efficiency, reliability and sustainable business practices are vital to us. We remain committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment and anti-corruption.

Today, 35% of ships are built in China. In order to secure a strong presence in the important Chinese shipbuilding market, Wärtsilä signed an agreement with Yuchai Marine Power Co. Ltd. to establish a joint venture for manufacturing medium-speed marine engines. Furthermore, the existing Chinese joint venture factory manufacturing auxiliary engines is planning to expand its production capacity.

Our strategic goal is to be the leader in complete lifecycle power solutions for the global marine markets and selected energy markets worldwide. We continue to see growth opportunities in gas and dual fuel based power generation in the power plant and marine markets. Supported by recent developments in the regional and global environmental regulations, we also seek growth in environmental solutions, including exhaust gas cleaning systems for SO_x removal and ballast water management systems. The acquisition of Hamworthy supports our growth strategy and our target is to double the net sales for Flow and Gas solutions and Environmental solutions over the next five years. The integration of Hamworthy has proceeded well and the strength of their performance has been a positive surprise.

Our strengths are our technological leadership, especially in gas and dual-fuel engine technology and environmental solutions, as well as our integrated product and service offering. We maintain close and long-standing customer relationships, while our unparalleled global presence helps us in serving our customers, many of whom face a very challenging operating environment today. To further strengthen our competitiveness and to serve our customers more effectively, we have changed our organisational set up within Ship Power and Wärtsilä Industrial Operations. The aim is to highlight entrepreneurial drive by including activities, from R&D and manufacturing to sales, within one organisation. This change will further increase the flexibility of our operations and ensure faster decision making; factors that are needed for meeting both customer demands and intensified competition.

Despite the continued uncertainty in the economy, our outlook for 2013 remains stable. We expect the overall gas and liquid fuel based power generation markets to be similar to that of 2012, and that activity will remain focused on the emerging markets. We remain cautious about the outlook for the overall shipbuilding markets, but we expect continued activity in the offshore and specialised vessel markets. The service market outlook remains stable with good development in the installed power plants base offsetting less favorable overall outlook for marine services. We are determined to capture growth opportunities within our end markets, while maintaining a solid profitability.

A big thank you goes to our customers who have entrusted their business to us during these challenging times. I would also like thank our personnel for their continuous efforts in serving our customers globally and for the support in the internal integration and reorganisation work. I am very thankful to our shareholders for all the interest expressed, and for the trust placed in our future potential.



Björn Rosengren

President & CEO

Key figures

MEUR	2012	Q4 / 2012	Q3 / 2012	Q2 / 2012	Q1 / 2012	2011	2010
Net sales	4 725	1 533	1 087	1 099	1 005	4 209	4 553
Power Plants	1 498	568	304	353	272	1 365	1 525
Ship Power	1 301	426	339	298	238	1 022	1 201
Services	1 908	531	435	449	492	1 816	1 823
Depreciation and amortisations	-139	-38	-33	-35	-33	-113	-116
Operating result ¹	515	186	113	113	109	469	487
Operating result ¹ , %	11.6	12.8	10.4	10.3	10.9	11.1	10.7
Profit before taxes	452	161	99	98	93	429	548
Earnings per share, EUR	1.72	0.62	0.38	0.38	0.33	1.44	1.96
Balance sheet total	5 038	5 038	4 920	4 860	4 807	4 600	4 696
Interest-bearing liabilities, gross	794	794	899	942	859	652	628
Cash and cash equivalents	225	225	199	148	242	592	776
ROI, %	20.1	-	-	-	-	20.4	26.0
Gearing	0.31	0.31	0.41	0.49	0.40	0.04	-0.09
Order book, end of period	4 492	4 492	4 724	4 515	4 409	4 007	3 795
Order intake	4 940	1 357	1 275	1 198	1 109	4 516	4 005
Year-end market capitalisation	6 454	-	-	-	-	4 402	5 631
Personnel, number at end of period	18 887	18 887	18 961	19 161	17 862	17 913	17 528

¹ Figures exclude non-recurring items.

Wärtsilä in brief

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

In 2012, Wärtsilä's net sales totalled EUR 4.7 billion with approximately 18,900 employees. The company has operations in nearly 170 locations in 70 countries around the world. Wärtsilä is listed on the NASDAQ OMX Helsinki, Finland.

Ship Power

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

Power Plants

Wärtsilä is a leading supplier of modern, environmentally advanced, highly efficient, and dynamic power plants that allow the maximum integration of intermittent renewable power generation. We offer multi-fuel power plants, from base load generation to peaking and load following operation, as well as dynamic system balancing and ultra-fast grid reserve, for current and future capacity markets. In addition to the technical advantages, our fast track deliveries of complete power plants, together with long-term operation and maintenance agreements, provide our customers with complete solutions - in urban areas as well as in the most demanding remote environments.

Services

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

Wärtsilä's operating environment

During 2012, uncertainty over the global economic development continued. Compared to 2011, global GDP growth decreased from 3.8% to 3.3%. GDP growth was highest in Asia, the Middle East and Africa. Wärtsilä's net sales in 2012 grew by 12%, with Asia representing 43% of net sales and approximately 80% of the net sales growth. The majority of Wärtsilä Power Plants' orders came from the higher growth emerging markets and the largest single region was the Middle East and Africa. Shipbuilding continues to be concentrated in Asia, and Wärtsilä's two largest countries in terms of net sales were South Korea and China. South Korea's position was strong due to the high share of offshore vessel contracting. The lower GDP growth had a negative impact on certain Ship Power and Services marine customer groups, especially in the merchant markets and in Europe. Stronger global GDP growth would be required for the merchant market to absorb the current overcapacity and for activity in vessel contracting to increase. Due to the overcapacity and low freight rates in the marine markets, there is less spending on discretionary maintenance and investments.

Strategy

Wärtsilä aims to be the leader in complete lifecycle power solutions for the global marine markets and selected energy markets worldwide. We see growth opportunities in gas power plants as part of our Smart Power Generation concept, as well as in gas-fuelled engines and related systems for the marine market. We also seek growth in environmental solutions, including exhaust gas cleaning systems for SO_x removal and ballast water management systems. Our strengths are our technological leadership, an integrated product and service offering, our close and long-standing customer relationships, and our unparalleled global presence. With our production and supply chain management we constantly seek ways to maintain cost efficiency and high quality – often in co-operation with leading industrial partners in our key growth markets. Our strong focus on R&D allows us to stay at the forefront of technology and innovation in our industry.

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

Values

<h1 style="margin: 0;">VALUES</h1> <p>ENERGY Capture opportunities and make things happen.</p> <p>EXCELLENCE Do things better than anyone else in our industry.</p> <p>EXCITEMENT Foster openness, respect and trust to create excitement.</p>	<h2 style="margin: 0;">MISSION</h2> <p>We provide lifecycle power solutions to enhance our customers' business, whilst creating better technologies that benefit both the customer and the environment.</p> <h2 style="margin: 20px 0 0 0;">VISION</h2> <p>We will be each of our customers' most valued business partner.</p>
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Sustainability

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

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

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

Financial targets

Target	Development	Graph
Net sales		
Our target is to grow faster than global GDP.	In 2012, Wäertsilä's net sales increased 12% to EUR 4,725 million. Wäertsilä's CAGR 2002-2012 was 7.4%.	<p>Growth over the cycle</p> <p>Note: World nominal GDP growth 2002-2012 averages 7.9% USD denominated (source: IMF).</p>
Profitability		
Our operating profit margin (EBIT%) target is 14% at the peak of the cycle. At the trough of the cycle, our target is to keep the operating profit margin above 10%.	In 2012, our operating profit was EUR 515 million, 10.9% of net sales.	<p>Profitability</p> <p>Figures are shown before non-recurring items.</p>

<p>Capital structure</p>																										
<p>Our target is to maintain gearing below 0.50.</p>	<p>In 2012, our gearing was 0.31.</p>	<p>Gearing</p> <p>The increase in gearing during 2012 relates to the acquisition of Hamworthy.</p>  <table border="1"> <caption>Gearing Data</caption> <thead> <tr> <th>Year</th> <th>Gearing</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>0.38</td> </tr> <tr> <td>2009</td> <td>0.28</td> </tr> <tr> <td>2010</td> <td>-0.08</td> </tr> <tr> <td>2011</td> <td>0.04</td> </tr> <tr> <td>2012</td> <td>0.31</td> </tr> </tbody> </table>	Year	Gearing	2008	0.38	2009	0.28	2010	-0.08	2011	0.04	2012	0.31												
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<p>Dividend</p>																										
<p>Our target is to pay a dividend equivalent to 50% of earnings.</p>	<p>The Board of Directors proposes that a dividend of 1.00 euro per share be paid for the financial year 2012.</p>	<p>Earnings/share, dividend/share</p>  <table border="1"> <caption>Earnings/share, dividend/share Data</caption> <thead> <tr> <th>Year</th> <th>Dividend (EUR)</th> <th>Extra dividend (EUR)</th> <th>Earnings/share (EUR)</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>0.75</td> <td>0.00</td> <td>1.95</td> </tr> <tr> <td>2009</td> <td>0.90</td> <td>0.00</td> <td>2.00</td> </tr> <tr> <td>2010</td> <td>0.90</td> <td>0.50</td> <td>2.00</td> </tr> <tr> <td>2011</td> <td>0.90</td> <td>0.00</td> <td>1.45</td> </tr> <tr> <td>2012¹</td> <td>1.00</td> <td>0.00</td> <td>1.75</td> </tr> </tbody> </table> <p>¹ Proposal by the Board 2012.</p>	Year	Dividend (EUR)	Extra dividend (EUR)	Earnings/share (EUR)	2008	0.75	0.00	1.95	2009	0.90	0.00	2.00	2010	0.90	0.50	2.00	2011	0.90	0.00	1.45	2012 ¹	1.00	0.00	1.75
Year	Dividend (EUR)	Extra dividend (EUR)	Earnings/share (EUR)																							
2008	0.75	0.00	1.95																							
2009	0.90	0.00	2.00																							
2010	0.90	0.50	2.00																							
2011	0.90	0.00	1.45																							
2012 ¹	1.00	0.00	1.75																							

Power Plants review

Wärtsilä Power Plants provides superior value to its customers by offering decentralised, flexible, efficient, and environmentally advanced energy solutions.

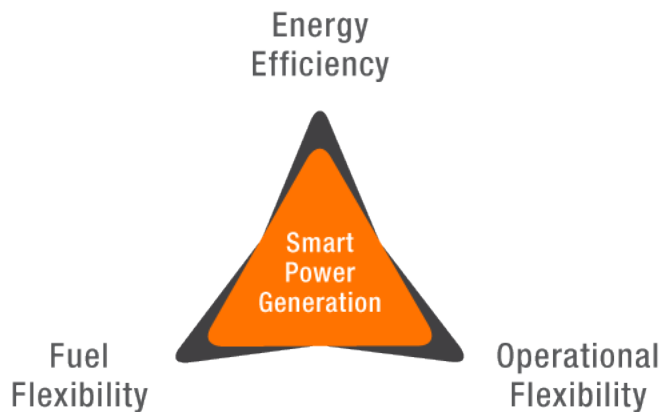
We provide dependable power plants that can be constructed in multiple parallel generation units, and on a fast track basis. Our tried and tested power plants are modularised so as to enable them to be located close to the end-user customers. This also allows construction to be carried out in phases according to the customer's needs. The fuel flexibility of our solutions supports the transition from oil to gas as the markets increasingly embrace natural gas. Through operation and maintenance agreements we support our customers throughout the lifecycle of their installations.

Smart Power Generation

Smart Power Generation enables the transition to a modern, sustainable power system. Its main cornerstones are very high energy efficiency, outstanding operational flexibility, and multi-fuel operation. For today's and future low-carbon power systems, it balances large input fluctuations of wind and solar power. It also provides high efficiency base load, peaking, and load-following power, as well as super-fast grid reserves on a national power system level.

Further information on Smart Power Generation can be found at the address www.smartpowergeneration.com/.

Smart Power Generation



Product segments

Wärtsilä has four main product segments: Flexible baseload, Grid stability and peaking, Industrial self-generation and the Oil & gas industry. We operate mainly in emerging markets; however, there is demand for our power plant projects also in the developed markets. We offer our customers solutions ranging from engine only deliveries to full turnkey power plants. Our power plants can run on both liquid fuels and natural gas.

	Flexible baseload	Grid stability and peaking	Industrial self-generation	Oil & gas industry
Markets	Mainly developing markets, islands, and remote locations	Developed and emerging markets	All markets	All markets producing, transporting, processing and storing oil & gas
Demand drivers	Population growth, increasing industrialisation, rising standards of living and capacity replacements increase the demand for electricity	Demand for renewable fuels, grid stability, capacity replacements	Industry specific drivers, such as local GDP growth, construction, and mineral price development	Oil & gas price development, energy consumption growth, capacity replacement
Offering	Power plants optimised for baseload operation and suitable for CHP	Power plants optimised for peaking and load following solutions	Power plants optimised for baseload operation and suitable for CHP	Fuel flexible and efficient energy solutions for electricity production, pumping, compression and gas processing
Fuel	Liquid fuels and natural gas	Mainly natural gas, some liquid fuels	Liquid fuels and natural gas	Natural gas, associated gas, crude oil and heavy fuel oil
Customers	Privatised or state owned utilities and IPPs	Utilities, IPPs, transmission system operators	Cement, textile and mining industries etc.	The oil & gas industry, contractors, and suppliers to the oil and gas industry
Customer requirements	Competitive lifecycle costs, reliability, world-class product quality, fuel and operational flexibility, operations & management services	Rapid start and ramp up, ability to operate at varying loads, competitive electricity generation and capacity costs, 24/7 support service	Reliability, reduced energy costs, and independence from the grid	Reliability, fuel flexibility and efficiency

Competition	Coal and gas fired steam plants, CCGTs, other combustion engines	SCGTs, flexible CCGTs, other combustion (gas) engines, high speed combustion engines	Small SCGTs, other combustion engines, power from grid	GTs, small GTs, other combustion engines, high speed combustion engines, power from grid
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Power Plants operating environment

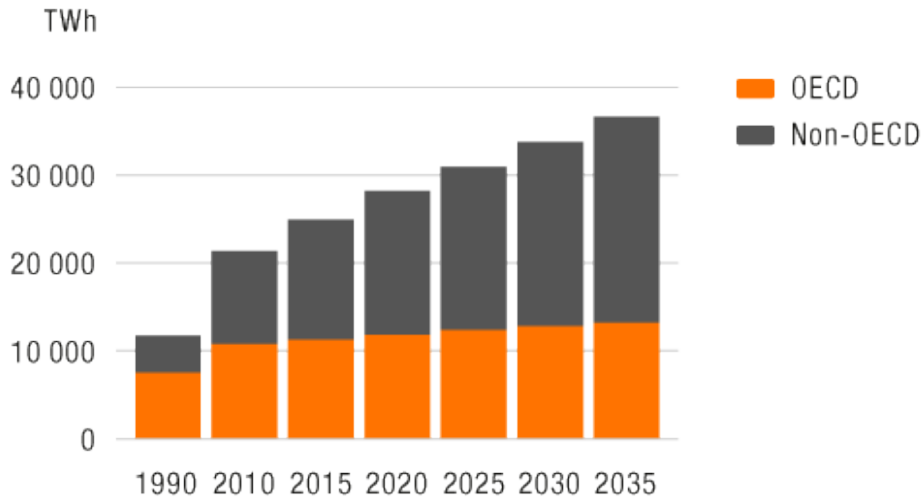
The main market segments covered by Power Plants are Flexible baseload, Grid stability and peaking, Industrial self-generation and the Oil & Gas industry. The main customer groups within these markets are utilities, Independent Power Producers (IPP's), industrial manufacturers in industries such as the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

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

General market drivers in Power Plants

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

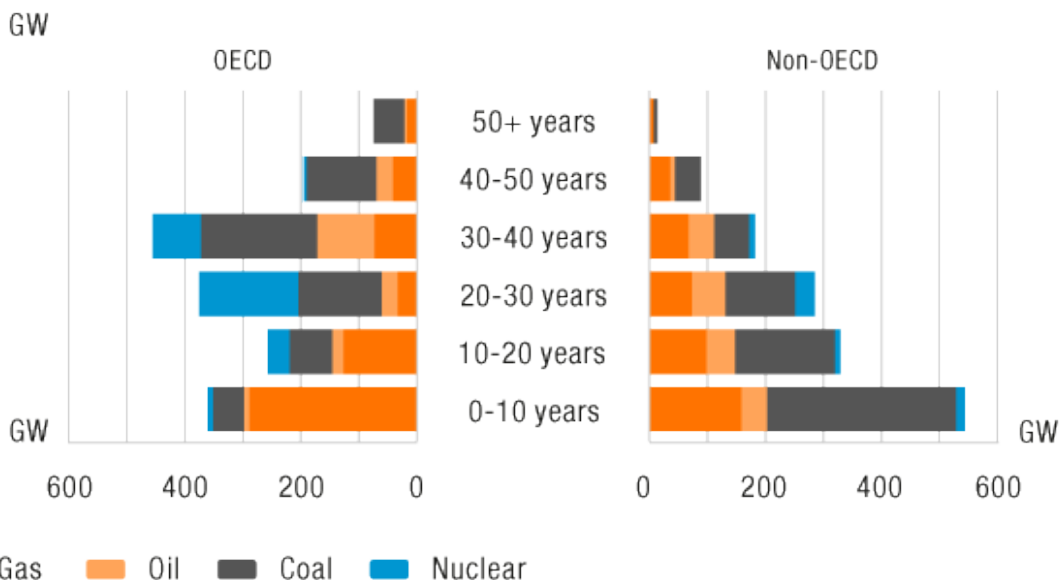
Final electricity generation by region



Source: New Policies Scenario in the IEA World Energy Outlook 2012.

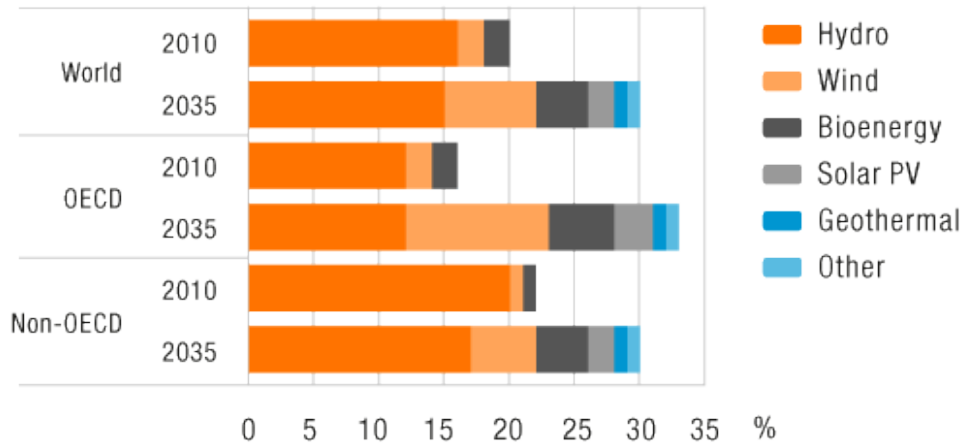
While the economic development is a less important driver in the OECD countries the ageing installed capacity will drive demand for new investments. Important drivers include stricter environmental regulations and the aim for low carbon power systems, which are spurring investments in renewable energy.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

Age profile of installed thermal and nuclear capacity by region



Source: Platts World Electric Power Plants Database, December 2009 version, IAEA (2010).

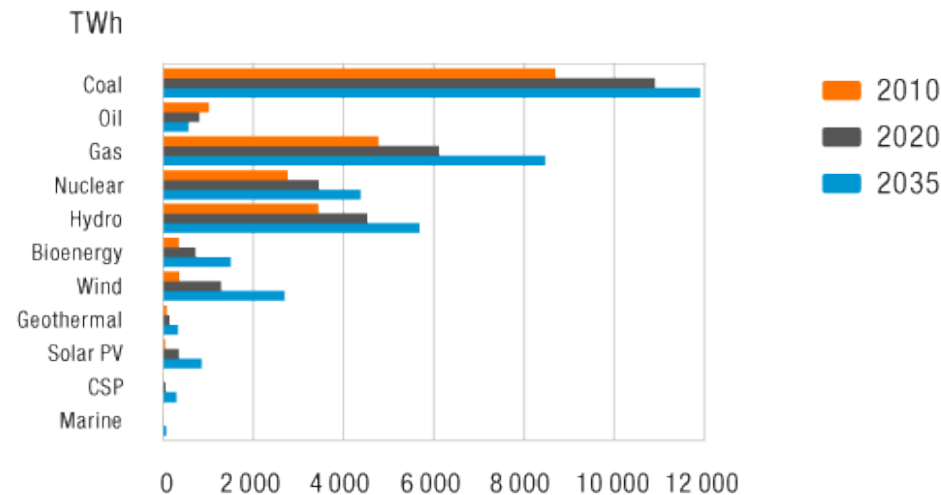
Share of renewables in electricity generation by region



Source: New Policies Scenario in the IEA World Energy Outlook 2012.

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

World electricity generation by type



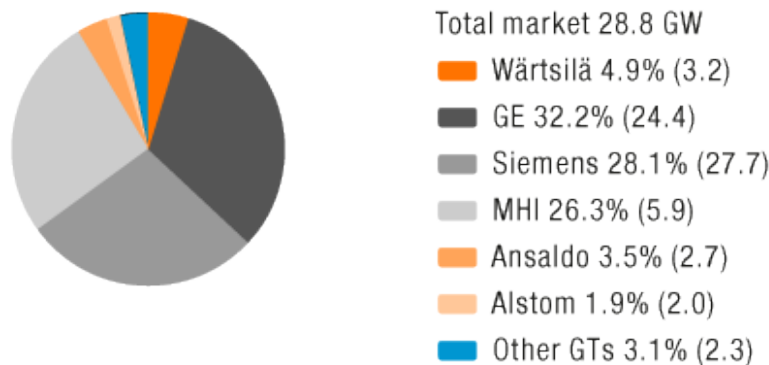
Source: New Policies Scenario in the IEA World Energy Outlook 2012.

Power Plants competition

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

Gas turbine and engine manufacturers

Wärtsilä is increasingly competing against gas turbines in larger gas-fired power plant projects. Wärtsilä's market share of the engine based power plant market is over 60%.



Main drivers for Wärtsilä's Power Plants business

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

Power Plants strategy

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

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

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

Our strategic goal is to grow in the large gas power plant market for utilities by influencing and actively developing selected target markets. We will demonstrate the superiority of our value proposition, which is based on the highest single-cycle efficiency and on unbeatable operational flexibility. Our goal is to maintain our leading position in heavy fuel oil fired power plants. This will be done by further enhancing our value proposition through guaranteed performance, high efficiency and unique operational and fuel flexibility. We will also seek growth in field power, pumping and compression applications in the oil & gas markets, as well as in emergency power applications for nuclear power plants. The capability of our engines to run on a wide range of fuels makes it possible for us to further grow in the market for power plants using renewable fuels. Our focus is on products and projects that provide unquestionable environmental benefits and that make economic sense.

Power Plants strengths

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

Power Plants and sustainability

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

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

As a part of its commitment to sustainability and responsible business conduct, Wärtsilä has taken an active role in market and solution development, advising national decision makers on changes in the power markets, and on relevant technical and commercial norms. In this way, Wärtsilä is helping to speed the transition to more sustainable power systems. Wärtsilä strives to maintain a deep understanding of the market requirements, and to develop its solutions in a way that enables them to contribute effectively to improved energy system performance in various regions of the world.

Wärtsilä's energy solutions offer a unique combination of flexibility, high efficiency, and low emissions. Many different fuels, including bio-fuels, can be used efficiently, which helps reduce greenhouse gas emissions. Wärtsilä's Smart Power Generation technology enables the development of a reliable energy infrastructure, wherein most of the sustainable characteristics are already known.

Towards sustainable power systems

The effects of climate change require a dramatic decrease in coal based power generation, and a major increase in low carbon power generation including wind, solar and natural gas fired plants. In modern power systems, the majority of electricity will be generated by wind and solar power, while thermal power generation will be increasingly used for system balancing and back-up.

The variability of renewable energy generation requires balancing and back-up power to be flexible and dynamic. Current and earlier power systems were not designed for this purpose. In order to meet the required capacity, new flexible power generation assets need to be added to the system. Such flexible capacity is based on three elements: operational flexibility, energy efficiency and fuel flexibility.

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

- frequent and fast plant starts and stops without negative wear and tear consequences
- cyclic operation with high up and down ramp rates
- high full and part load efficiency
- a broad load range
- minimal CO₂ emissions

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

Fuel flexibility enables the transition to more sustainable fuels when they become available. This feature becomes increasingly important when investing in new power capacity, because the plant is not fixed to a certain fuel where more sustainable fuels may be available in the future.

Smart Power Generation meets all of these requirements, thus allowing the maximal utilisation of valuable renewable power, and the smooth operation of inelastic baseload thermal power plants. According to the results of future power system modelling, Smart Power Generation, together with increased wind and solar capacity, enables dramatic reductions in system level CO₂ emissions.

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

- Enables extremely low carbon levels from the total system
 - Enables the highest penetration of wind and solar power capacity without balancing problems
 - Enables baseload plants to operate on high output and efficiency, thereby enabling the lowest CO₂ levels
 - Minimises wind curtailment and helps to avoid negative prices
 - Reduces the amount of spinning reserve
 - Enables the efficient use of bio gas- and liquid bio-fuel resources
- Allows the entire system to operate in the most cost effective way
 - Removes the abusive cyclic load from plants that are not designed for it, enabling them to operate in their most cost-effective way
 - High efficiency over a wide load range enables flexible power plants to operate in the most cost-effective way

- Ensures system reliability, even during extreme conditions, such as
 - Wind variations
 - Contingency situations
- Enables decentralisation of the intermediate and peak load capacity
 - Flexible plant sizing facilitates later expansion to match local needs
 - Installing generation capacity in load pockets reduces grid losses and helps to avoid investments in new high voltage grid expansions
 - Fast track delivery enables local capacity deficits to be rapidly overcome.

Towards low-carbon energy systems

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

Market	Wärtsilä's role	Milestone in 2012
Developed countries	Enable the development of low carbon power systems.	First gas-fired power plant in South Africa 180 MW.
Emerging economies	Enable fast development of the power system, thus providing reliable power to boost economic development.	A gas-fired power plant (over 160 MW) sold to Mauritania. A gas-fired power plant (386 MW) sold to Azerbaijan.

Development in 2012

Power plant market activity was at a good level during 2012 with a strong focus on natural gas based generation. Supported by their economic growth, the emerging markets continued to invest in new power generation capacity. However, the uncertainty of economic development continued to delay investment decisions in the power generation markets overall. Wärtsilä's share of global orders for natural gas and liquid fuel based power generation (including all prime mover units of over five MW) increased from 3.3% during 2011 to 4.9% during the first half of 2012. The total market was 28.8 GW during the same time period.

In 2012, Power Plants order intake decreased by 5% EUR 1,515 million, while the overall market is estimated to have decreased by 30-40%. Around 74% of the orders received, in terms of MW, were from gas based markets. During the year, Wärtsilä received its largest ever power plant order for a 573 MW tri-fuel project in Jordan. Another major order was received from Azerbaijan, for a 384 MW plant operating on gas. Other important orders were received from the African continent as well as from Indonesia, Australia and the USA. Net sales for Power Plants increased by 10% to EUR 1,498 million (1,365) during 2012, which represents 32% of Wärtsilä's total net sales.

Wärtsilä Ship Power

Wärtsilä Ship Power's position is strong in all the main marine segments, as well as in the offshore industry.

We provide optimised, environmentally sustainable and economically sound solutions, which are developed based on our customers' needs. Our in-depth understanding of our customers' businesses, combined with our extensive network, broad product portfolio, and ability to be involved as early in the vessel lifecycle as in the design process, enables us to support our customers throughout the lifecycle of their installations.

Shifting towards entrepreneurial drive

During the year, changes were made to the Ship Power organisation as part of creating a new entrepreneurially driven organisation within Wärtsilä. Ship Power is today organised by product lines, namely 4-stroke, 2-stroke, Propulsion, Flow & Gas, Environmental, and Solutions, which includes both the Electrical & Automation and Ship Design product lines. One shared Sales organisation is responsible for customer relationships, uncovering customer needs, and for the sales network globally. With this new organisation, Ship Power will have better end-to-end control of its activities. This includes R&D, engineering and manufacturing, which, with the exception of 4-stroke, have been transferred to their respective product lines. Because of the transportation limitations related to the large size of low-speed engines, 2-stroke remains a licensing business and has no own manufacturing.

Our customer structure is two-fold

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

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

Our extensive offering covers all main customer segments

Ship Power is active in all main vessel segments, and understands the particular needs and requirements related to each of them – from the initial vessel design choices to the every-day operation throughout the lifecycle.

Wärtsilä's integrated ship power solutions are efficient, economically sound, and environmentally sustainable. Our design capabilities, long heritage, and technological leadership form the basis of our reputation. The acquisition of Hamworthy has strengthened our position in both environmental solutions and gas markets by bringing a broader set of complementing products to our offering, which today consists of:



Together with our in-house experience and expertise, this extensive product offering enables us to interface throughout all lifecycle stages. Our ability to combine the products we offer into larger systems and solutions supports our strategy of being the sole Ship Power supplier to our customers. Our in-depth expertise in optimising vessels makes it possible for our customers to achieve both cost efficiencies and improved environmental performance. This strategy provides added value to both our yard and ship owner customers 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.

Segment	Vessel type	Main offering*
Merchant	Tankers	2-st engines, auxiliary engines, fixed pitch propellers (FPP), tunnel thrusters, 4-st engines for smaller vessels
	Containers	2-st engines, auxiliary engines, FPP, tunnel thrusters, ship design, 4-st engines for smaller vessels
	LNG carriers	4-stroke main dual-fuel engines, controllable pitch propellers (CPP), gearboxes, tunnel thrusters
	Bulkers	2-st engines, auxiliary engines, FPP, tunnel thrusters, 4-st engines for smaller vessels
	Other: cargo, RoRo, car carriers, LPG carriers	All of the above
Offshore	Floating exploration: drillships, semisubmersibles, etc	4-st engines, steerable thrusters, tunnel thrusters, vessel automation, electric power distribution, gearboxes
	Floating production units: FPSO's, FSO, floating LNG, etc	4-st engines, steerable thrusters, tunnel thrusters, CPP, vessel automation, electric power distribution, gearboxes
	Service/Supply vessels: OSV's, PSV's, AHTS, AHS	4-st engines, steerable thrusters, tunnel thrusters, CPP, electrical propulsion, ship design, automation, gearboxes
	Other: crane vessels, pipelayers, accommodation vessels	All of the above
Cruise and Ferry	Cruise vessels	4-st engines, FPP, tunnel thrusters
	Ferries	4-st engines, CPP, FPP, steerable thrusters, tunnel thrusters
	Other: ro-pax, yachts	All of the above
Special vessels	Tugs	4-st engines, FPP, steerable thrusters, tunnel thrusters, vessel automation, ship design
	Dredgers	4-st engines, CPP, FPP, steerable thrusters, tunnel thrusters, vessel automation
	Other: fishing vessels, ice breakers, research vessels, work boats, inland waterway vessels	All of the above
Navy	Frigates, corvettes, patrol vessels, aircraft carriers, destroyers, support vessels	Waterjets, seals and bearings, tunnel thrusters, 4-stroke engines

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

Growth through gas and environmental solutions

Tightening environmental regulations are driving interest in gas as a marine fuel and in other vessel related technologies to mitigate emissions, such as exhaust gas scrubbers and ballast water treatment systems. Ship Power offers our customers alternative solutions for meeting these requirements in a way that best meet the needs of their business and operating model, both as part of new build projects, but also as retrofits to vessels in operation.

In order to comply with the upcoming IMO sulphur regulations, ship owners have the choice of either operating on lower sulphur fuels, such as light fuel oil or gas, or using exhaust gas scrubbing technology. Our offering for the gas markets consists of gas fuelled engines, gas conversions, and gas handling systems. We have strong references in these markets with dual-fuel engines supplied over one hundred LNG carriers. The interest in dual-fuel engines is increasing in all segments of the shipping industry. We have received order from all segments in which we are active, most notably from Offshore where we have received altogether 15 dual-fuel orders for platform supply vessels and an order for one FPSO operating on over 100 MWe of installed gas engine power. Today, our portfolio of scrubbing systems is the broadest in the industry, consisting of closed loop scrubbers for fresh water use, open loop scrubbers for sea water use, and a combination of the two, i.e. the hybrid system. Wärtsilä has to date a total of 47 exhaust gas cleaning scrubbers delivered or on order, for a total of 24 vessels. The ballast water regulations proposed by the IMO will necessitate the installation of a ballast water management system to stop the spread of non-indigenous invasive species. We offer our customers systems based on the two most common technologies for ballast water treatment; ultra-violet treatment and electro-chlorination. The first orders for the ultraviolet based systems have been received and were delivered in 2012.

Further information on environmental solutions can be found in the [IR library](#).

Ship Power operating environment

The marine industry

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

General shipbuilding and shipping market drivers

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

Main drivers for Wärtsilä's Ship Power business

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

Competitors and market position

Wärtsilä Ship Power has continuously broadened its portfolio, which today ranges from engines and propulsion equipment to electrical equipment, automation and ship design. Furthermore, the acquisition of Hamworthy positions us well to grow in environmental solutions and gas systems for vessels. This is backed by the capability to build environmentally sound solutions, and by the best service support throughout the lifecycle of the product. Our competitive advantage lies in having the industry's broadest marine focused offering of leading products, as well as insightful integrated systems and engineering, supported by a unique global sales and service network. We have a strong position in the medium-speed engines markets in which our largest competitors are MAN Diesel & Turbo and Caterpillar (MAK). In the dual-fuel engines market we are the leading player with the widest references in the industry. In the market for low-speed engines, MAN Diesel & Turbo is the leading player followed by Wärtsilä and Mitsubishi Heavy Industries.

Wärtsilä's offering	Main application*	Main competition**	Wärtsilä's market position
4-stroke medium-speed main engines	Small merchant vessels, offshore, special vessels	MAN D&T, MAK (CAT), Rolls-Royce, HiMSEN	Approximately half of the market (in MW) is controlled by Wärtsilä.
4-stroke auxiliary generating sets	All vessel types	Market is highly fragmented, price sensitive and with heavy competition. Main competitors are MAN D&T and its local license manufacturers, Yanmar, and HiMSEN. High-speed engines also compete in the auxiliary engine market.	Wärtsilä is a market challenger, having around 3% of the total market.
2-stroke engines (license-built)	Large and medium size merchant vessels	MAN D&T, Mitsubishi Heavy Industries	Market challenger, approximately 18% of the market (in MW) is controlled by Wärtsilä.

<p>Propulsion</p> <ul style="list-style-type: none"> • Controllable Pitch Propellers (CPP) • Fixed Pitch Propellers (FPP) • Steerable thrusters • Tunnel thrusters 	All vessel types	Rolls-Royce, Schottel, Hyundai Heavy Industries, Mitsubishi Heavy Industries, Mecklenburger Metallguss, Thrustmaster, Brunvoll, Kawasaki	CP & FP propellers: Market is fragmented with several players competing, Wärtsilä amongst top players. Steerable thrusters: Wärtsilä amongst top players. Tunnel thrusters: Market is highly fragmented, Wärtsilä is a market challenger.
<p>Electricity & Automation</p> <ul style="list-style-type: none"> • Low Loss concept (LLC) • LV & MV switchboards • Variable speed drive • Flowline heating • Ship automation systems • Power management systems 	Offshore, special vessels	ABB, Siemens, Kongsberg, Rolls-Royce, General Electric	Established position in offshore, otherwise market challenger.
Ship design	OSVs, merchant vessels, specialised vessels, fishing vessels	Skipsteknik, Marinteknik, MMC, Rolls-Royce, Ulstein, STX OSV	Amongst the leading independent ship design houses.
<p>Oil & Gas systems</p> <ul style="list-style-type: none"> • Regasification systems • Gas Reliquefaction systems • Onshore gas liquefaction systems • Gas recovery systems • Separation systems • Fuel gas systems 	Offshore gas processing & storage vessels, LNG/LEG/LPG carriers, floating production systems, industrial applications, fuel gas to all vessel types	TGE Marine, Cryostar, Linde GAS - AGA, Kobelco, Moss Maritime, Daewoo Shipbuilding & Marine Engineering, Weir LGE, Cryonorm, John Zink, Black & Veatch, Air Liquid, Aker Solutions, FMC / CDS, Cameron / Concept	Wärtsilä Hamworthy amongst top players.
<p>Flow systems</p> <ul style="list-style-type: none"> • Deepwell cargo pumps • Pump room systems • Engine room pumps • Valves 	All vessel types	Niigata, Marflex, Framo, Hyundai Heavy Industries, Shinko, Colfax, Ellehammer	Wärtsilä Hamworthy amongst top players.

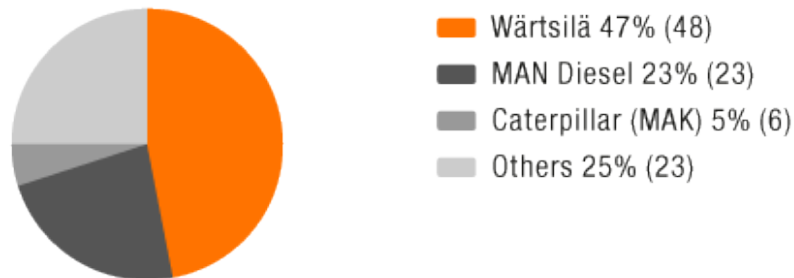
<p>Environmental solutions</p> <ul style="list-style-type: none"> • Exhaust gas cleaning • Ballast water management systems • Inert gas systems • Water production systems • Water cleaning systems 	<p>All vessel types</p>	<p>Alfa Laval, Hyundai Heavy Industries, Couple Systems, DuPont (Belco), GEA Westfalia, Siemens, Ecospec</p>	<p>Wärtsilä Hamworthy amongst top players.</p>
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* Only main applications mentioned.

** Only main competitors mentioned.

Market position of medium-speed main engines

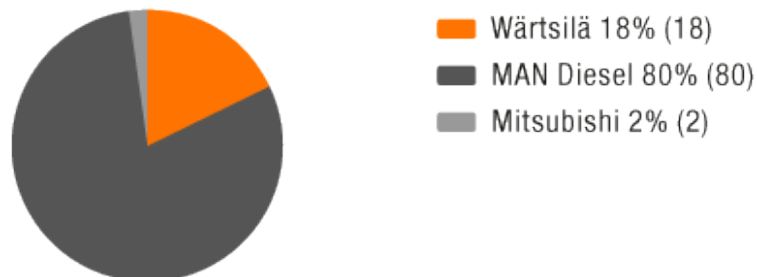
Medium-speed engines are Wärtsilä's core product and are used mainly in Offshore and specialised vessel segments, such as cruise ships and LNG carriers.



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

Market position of low-speed main engines

Low-speed main engines are built under license close to the shipyards and are mainly used in the merchant vessel segment.



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

Market position of auxiliary engines

The auxiliary engine market is highly fragmented with many competitors.



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

Ship Power strategy

Wärtsilä Ship Power's strategic goal is to be the leading solutions provider to the marine and offshore industries through building on our deep customer understanding and broad, competitive product offering.

This will be achieved by:

- establishing a clear leading position in solutions for gas fuelled vessels, environmental compliance and efficiency optimisation
- further developing our position as the shipbuilding industry's leading systems integrator
- providing a competitive offering of products
- seeking further growth through the ability to offer lifecycle solutions for ship owners and operators

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

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

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

Ship Power strengths

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

Ship Power and sustainability

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

Wärtsilä is highly committed to helping its customers in the shipping industry resolve these challenges. We have invested significant effort in the development of new technologies, and in understanding our customers' needs and options. These actions form the basis of our success in offering our customers the best solution for their needs.

Wärtsilä's toolbox spans a unique range of technologies and solutions. Our environmental solutions reduce the impact of harmful emissions, our gas solutions enable the use of gas as a fuel for vessels, and we have the capabilities required to significantly increase the efficiency of the entire vessel.

Environmental solutions

To ensure environmental compliance, Wärtsilä has developed both primary and secondary emission reduction technologies. Wärtsilä's exhaust gas cleaning systems enable an optimal integration with the ship's power train. To lower NO_x emissions, a range of selective catalytic reduction (SCR) systems are available under the Wärtsilä NO_x Reducer (NOR) product name, while Wärtsilä SO_x exhaust gas cleaning systems are available for the reduction of sulphur oxides and particulate matter. Following its acquisition of Hamworthy Ltd., Wärtsilä now has the broadest portfolio of SO_x exhaust gas cleaning systems on the market with a range that includes closed-loop, open-loop, and hybrid exhaust gas cleaning systems.

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

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

To reduce emissions to water, our propulsion shaft line sealing systems offer environmentally sound alternatives that prevent the leakage of oil from ships. For bilge water treatment, Wärtsilä offers efficient oily water separation (OWS) systems. As a result of the Hamworthy acquisition, Wärtsilä can now also offer an extensive portfolio of conventional sewage treatment plants, as well as advanced wastewater treatment systems for black and grey water. These systems require no addition or generation of chemicals hazardous to the maritime or shipboard environment, and the quality of the subsequent discharge is excellent.

The Hamworthy acquisition has also enabled Wärtsilä to expand its portfolio of ballast water management (BWM) systems. Today, Wärtsilä offers BWM systems based on both ultraviolet (UV) and electro-chlorination (EC) technologies that allow ship owners to efficiently meet the requirements of the IMO's Global Ballast Water Convention, regardless of the type or size of ship.

Wärtsilä's solutions also enable other industries to reduce their environmental impacts. The wind power industry is one example. In this field, Wärtsilä has co-operated with partners in the development of a High Performance Turbine Installation Vessel, and a new and environmentally sound concept for offshore wind farm installation and maintenance vessels. Another example related to the offshore industry is Wärtsilä's Direct Electric Heating solution for subsea flowlines. This system lessens the probability of pollution, and reduces the handling of toxic disposals resulting from traditional chemical flow assurance methods.

Gas as an enabler

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

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

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

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

Wärtsilä is the world's leading ship design company in the field of gas-fuelled special vessels. For LNG applications, Wärtsilä has the broadest engine range in the industry. To date, more than 520 Wärtsilä dual-fuel engines capable of running on gas have been sold for use in some 150 vessels, consisting primarily of LNG carriers. Wärtsilä's gas technology provides high efficiency, even at part-load, and with very low emission levels. By using gas to power vessels, the industry is taking a major step towards more sustainable shipping.

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

Wärtsilä's dual-fuel medium-speed engines have now accumulated more than 7 million running hours in both land-based and marine applications. This milestone represents a dual-fuel technology track record that cannot be matched by any other engine manufacturer. The solid and unique track record that Wärtsilä's dual-fuel technology has established, especially with LNG carriers, has created confidence in the reliability of this technology for other vessel segments as well. The opportunities for using gas to fuel ships are growing rapidly, and several types of vessel are now gas fuelled.

Efficiency improvement

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

The propulsion options for vessels designed by Wärtsilä Ship Design are based on the results and experience from over 150 model tested hull shapes. The hull lines, bow and bulb, and aft ship are computational fluid dynamics (CFD) calculation optimised for maximum propulsion efficiency according to the vessels' operational profile. This results in lower fuel consumption.

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

In order to meet greater efficiency requirements, Wärtsilä has strengthened its low-speed engine offering with the development of the new Generation-X series of engines. During 2012, the first X35 and X40 engines were shop tested and delivered into service. The experience gained from the introduction of the X35 and X40 engines has been applied to all Generation-X family engines to provide the highest fuel efficiency on the market today. The new, fuel-efficient X62 and X72 engines were contracted for delivery in late 2013. The latest addition to the portfolio of Generation-X engines is the new super long stroke 92 cm bore X92 engine. The traditional RT-flex portfolio engines continue to be developed, and improvements to achieve lower fuel consumption and increased power have been introduced on the already successful RT-flex58T-D and RT-flex82T-D engines. New fuel injector design changes are now available for all portfolio engines. These modifications enable ships to achieve further reductions in fuel consumption and an improved EEDI.

Environmental advances for low-speed engines include the first Wärtsilä Integrated Fresh Water Scrubber, installed on a series of vessels equipped with five RT-flex50D engines sailing the Great Lakes of North America. The vessels will go into operation in early 2013. Testing on gas mode dual fuel operation in low speed engines has continued throughout 2012 with good results. Optimisation will continue into 2013, and the first onboard installation is planned for 2014. Selective Catalytic Reduction testing during 2012 and early 2013 will provide a product launching platform for additional Tier III solutions needed in the market for low-speed engines.

Milestones reached during 2012

Technology	Milestone
Gas	During 2012, the gas technology expanded to both new markets and to new vessel types. Wärtsilä signed a contract to supply dual-fuel engines for China's first LNG powered tugs.
Gas	Wärtsilä was contracted to supply the complete dual-fuel propulsion package for two new Liquefied Ethylene Gas (LEG)/Liquefied Petroleum Gas (LPG) tankers for Anthony Veder.
Gas	In 2012, 2 X 20 DF engines for PSV Eidesvik entered into service.
Gas	During 2012 Wärtsilä was contracted to supply 50DF dual-fuel propulsion engines to 100 Liquefied Natural Gas (LNG) Carrier vessels in a South Korean shipyard.
SO _x Exhaust gas cleaning systems	Expansion of portfolio as a result of Hamworthy acquisition. Today Wärtsilä provides a portfolio consisting of Closed-loop, Open-loop and Hybrid systems. During 2012, contracts were signed for 14 shipsets.

NO _x Reducer (NOR)	During 2012, contracts were signed for 27 NOR units and 9 shipsets including first contracts that contains both Wärtsilä NOR and SO _x Scrubber Systems.
Ballast Water Management Systems (BWMS)	Expansion of portfolio as a result of Hamworthy acquisition. Today Wärtsilä provides both ultraviolet (UV) and electro-chemical (EC) based BWM systems. During 2012, AQUARIUS UV received IMO type approval during and first two BWMS contracts were signed for five shipsets.
Wastewater Treatment Systems	Wärtsilä's Environmental technology portfolio was expanded as a result of Hamworthy acquisition and includes today both conventional sewage treatment plants as well as advanced wastewater treatment systems based on Membrane Bioreactor (MBR) technology.
Compact Silencer System (CSS)	During 2012, contracts were signed for 8 CSS units.
Low Loss Concept (LLC)	15 LLC units were sold by the end of 2012.

Development in 2012

The total number of new registered vessel contracts decreased by 35% to 1,090 during 2012. While the traditional merchant segment continued to struggle with overcapacity, ordering was active in offshore, special vessels and in the LNG and LPG carrier markets. China and South Korea continued to be the dominant countries in shipbuilding. Wärtsilä's share of the medium-speed main engine market remained high at 47% (48% at the end of the previous quarter). The market share in low-speed engines remained stable at 18% (18). In the auxiliary engine market, Wärtsilä's share was 4% (5).

Ship Power orders increased by 45% to EUR 1,453 million during 2012. Wärtsilä received several significant offshore orders as well as many orders for dual-fuel engines, underlining the company's frontrunner position in gas applications. Supported by recent developments in environmental regulation, Wärtsilä also received strategically noteworthy orders for exhaust gas cleaning systems for SO_x removal and the first ballast water management system orders. Net sales for Ship Power increased by 27% to EUR 1,301 million (1,022) during 2012, which represents 28% of Wärtsilä's total net sales.

Wärtsilä Services

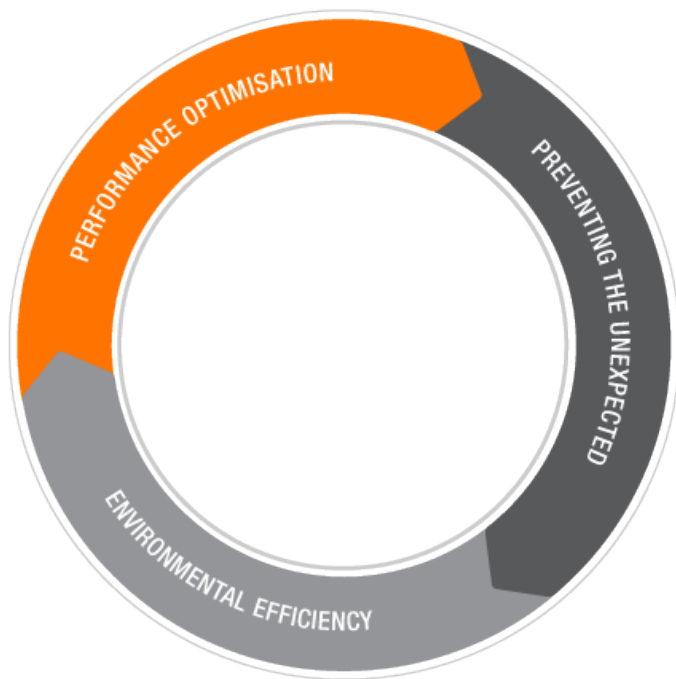
Wärtsilä Services supports its customers by offering the most comprehensive portfolio of services in the industry, thereby optimising their operations and the lifecycle performance of their installations.

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

We focus on three key elements for optimal lifecycle efficiency:

- **Performance optimisation**
Longer term strategies are aimed at improving the efficiency of our customers' businesses. Our wide service offering facilitates the performance optimisation of our customers' systems, thereby enabling a reduction in both fuel costs and emissions, while also extending maintenance intervals.
- **Preventing the unexpected**
Reliable, continuous performance is essential for our customers. We strive, therefore, to secure the operational reliability of our customers' installations and offer them access to the highest quality of services. Our flexible solutions minimise downtime and optimise availability in a cost-efficient way.
- **Environmental efficiency**
Environmental legislation and energy efficiency are currently major concerns for our customers. We offer several sustainable solution options that enable a reduced environmental impact and improved operational efficiency.

Lifecycle efficiency



Our services offering

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

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

Our areas of expertise include:

Engine services

We provide a full range of services for medium- and low-speed gas and diesel engines and other related systems. We offer these services for both Wärtsilä and other engine brands, and they comprise everything from standard engine overhauls to optimisation retrofits that improve the performance of older engine designs.

Propulsion services

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

Electrical & automation services

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

Boiler services

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

Environmental services

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

Service agreements

We tailor our service agreements to the customers' needs, letting them choose from different levels of partnership. Supply agreements ensure the global logistical delivery of spares parts and guarantee the availability of service professionals. Technical management agreements include regular inspections, monthly reporting, and exchange programmes for spare parts. In our maintenance agreements, we provide fixed prices for inspections, technical support, spare parts, training and maintenance work, while operations and maintenance agreements can cover full operational, management and maintenance services, as well as installation performance guarantees.

Service projects

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

Training services

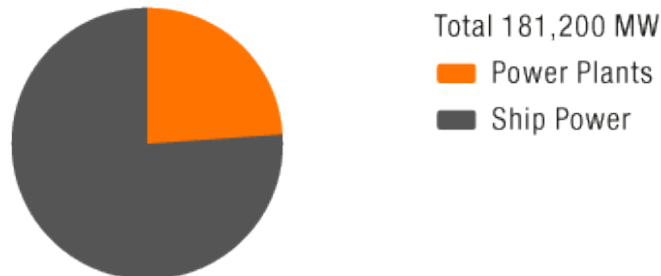
Our training services cover all aspects of management, operational, maintenance and safety issues, and range from traditional hands-on training to advanced remote training systems and e-learning opportunities.

Services operating environment

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

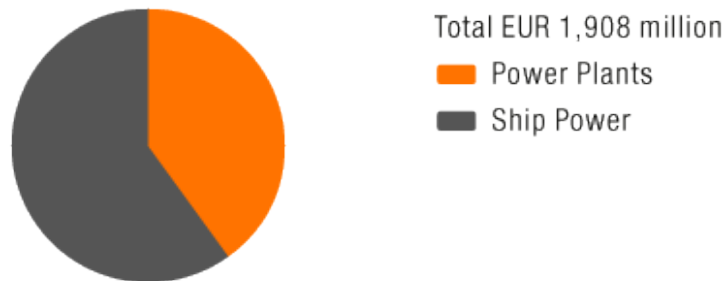
Installed base by business

Wärtsilä's installed engine base consists of thousands of installations distributed throughout the world.



Services net sales by business

Services is Wärtsilä's largest business areas, representing 40% of group net sales.



General market drivers for Services

The main market driver in the service business is the size and development of the active fleet, which is determined by new equipment deliveries and by the pace at which older installations are taken out of use. The market conditions faced by end customers have a direct impact on the utilisation rate, and the estimated lifetime of installations in operation. In the marine service business, the activity level of the vessel fleet is impacted by the number of anchored and idled vessels, and by the speed at which vessels operate.

Lifecycle efficiency drives the Services business in both end markets. The need for lifecycle efficiency solutions comes as a result of changes in, for instance, the cost or availability of different fuels, the cost or availability of crew, and/or the level of technical expertise needed to operate the vessels or power plants. Changes in environmental regulations, as well as improved safety aspects, also influence the need for lifecycle solutions. Lifecycle solutions are offered through long-term service agreements and retrofit projects.

The outsourcing of operations and management is today an important trend in the power plants service market. In the future, we believe this will also become a more important driver for the marine markets.

Competition and market position

Wärtsilä has a strong position in the service market. There is no single competitor with the ability to provide such a broad service offering globally. Only a few smaller global players provide a similar scope of service, and thus competition is mainly local. Wärtsilä Services competes with parts traders, repair yards, local workshops, and component suppliers for spare parts and the field service business. The number of local players is quite large and each product has its own set of competitors.

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

Services strategy

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

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

In Services, our objective is to maximise our market share in the marine and power plant service markets. We will develop our service offering and delivery process to cost-efficiently provide better value to our customers. Together with our customers, we create lifecycle-optimising solutions that improve the customers' operational efficiency and profitability. We use our advanced expertise to offer them global 24/7 support in the fields of logistics, maintenance, plant-operating services and technical support. This offering includes an advanced portfolio of long-term agreements. Moreover, we are able to deliver service projects that match the changing needs of our customers' businesses. We combine our service solutions with new equipment sales to create value-adding lifecycle solutions. Being the only player on the market able to provide such a wide range of solutions for a broad product portfolio, our competitive position is notably strengthened.

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

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

Services' strengths

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

Services and sustainability

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

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

Solutions for the marine and power industry

Wärtsilä Services' key role in sustainability is to provide a range of services that ensure reliable and optimised operational, environmental, and safety performance. Climate change, the availability of liquid fuels and gas, and stricter environmental requirements, all create opportunities for the Services business.

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

Energy efficiency and maintenance

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

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

Solutions for reducing emissions

We provide products and solutions for new and existing installations that range from reducing air emissions (NO_x, SO_x, CO, VOC) and adapting to different fuels, to ballast water treatment and other water solutions.

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

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

For new and existing installations, secondary methods that integrate additional equipment and which contribute to emissions abatement are available. Our portfolio includes a range of products, solutions and services aimed at both land-based power plants and ship installations, such as:

- Exhaust gas scrubbers for removing sulphur oxides (SO_x). These systems are suitable for both new buildings and the retrofitting of existing vessels having either 2-stroke or 4-stroke engines, as well as oil-fired boilers. To comply with all types of installation and operating profiles, and thanks to the integration of Hamworthy, the Wärtsilä exhaust gas scrubber portfolio now includes open loop, closed loop, and hybrid technologies.
- The Wärtsilä NO_x Reducer (NOR) to reduce NO_x emissions by 85-95% based on Selective Catalytic Reduction (SCR) technology. The new SCR product range caters to the needs of all four-stroke engines in Wärtsilä's portfolio and can be used for both newbuild and retrofits.
- We can also offer complete oily water treatment systems for power plants and marine applications that meet the most stringent standards, as well as ballast water treatment systems which are vital to prevent organisms from one ecosystem upsetting the ecological balance in another.

Our offerings cover total service packages, including start-ups, installations, engineering work, and maintenance and repairs.

Development in 2012

The stable services market development continued in during 2012. Development in the power plants and offshore markets continued to be strong. From a regional perspective, the market was still the most active in the Middle East and Asia. At the end of the year, Wärtsilä's installed base was 181,200 MW, representing an increase of 1% compared to the previous year. The installed power plants base continued to increase during 2012, while the marine installed base showed a slight decline due to the scrapping of older merchant vessels with large 2-stroke engines.

In 2012, Services' net sales grew by 5% and reached an all time high level of EUR 1,908 million, which represents 40% of Wärtsilä's total net sales. This increase relates to the growth in the installed engine base, as well as the wide services offering aimed at reducing our customers' operating expenses and increasing the availability of their equipment. The Services order intake totalled EUR 1,961 million (1,909). Interest in service agreements was high during the year. Wärtsilä Services signed major service agreements for power plants in Kenya, Timor-Leste, South Africa, Brazil, the USA and Jordan. Within the marine industry, Wärtsilä was also awarded service agreements by Princess Cruise Lines Ltd and Prestige Cruise Holdings, Inc.

PowerTech

Wärtsilä's manufacturing focuses mainly on assembly, test running, and finishing of products.

PowerTech serves both the Ship Power and Power Plants market areas, and comprises R&D for medium-speed engines, the Product Center 4-stroke, Central Operations, including Supply Management and Quality, as well as Centres of Excellence. Our business model, which is strongly connected to a broad network of suppliers, guarantees flexibility in capacity. Being close to the customer is important, as is our focus on quality and the continuous emphasis we place on technology

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

Wärtsilä's global supplier network supports flexibility in manufacturing

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

PowerTech footprint

Wärtsilä's manufacturing model follows market demand to ensure flexible global capacity. The manufacturing of our medium-speed main engines is concentrated at the delivery centres in Vaasa, Finland and Trieste, Italy. As structural changes continue in our end markets, we continue to strengthen our presence in key markets. This enables us to be better positioned in these emerging markets and allows savings to be achieved in both production and transportation costs.

We currently have six joint ventures globally. In China, our joint ventures produce propulsion machinery, medium-speed engines and low-speed engines. In December 2012 Wärtsilä and Yuchai Marine Power Co. Ltd. signed an agreement to establish joint venture for manufacturing medium-speed marine engines for the Chinese markets. In Korea, we manufacture dual-fuel engines for the LNG carrier markets. Our joint venture with Transmashholding has begun construction of a modern factory located in Penza, Russia, where the manufacture of new and multi-purpose diesel engines is expected to begin in summer 2013.

PowerTech strategy

Wärtsilä PowerTech's strategic goal is to provide a broad portfolio of market leading products. In order to serve a wide range of customer needs, our products are suitable for integration into larger solutions or for use as 'stand-alone' items.

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

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

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

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

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

PowerTech strengths

- Innovation in products and processes
- A competitive medium-speed 4-stroke engine portfolio with best practice design
- Manufacturing and selected engineering activities close to the main markets
- Continuous improvement of the product development and product delivery processes

In the new entrepreneurial drive focused organisation within Wärtsilä, the PowerTech product portfolio consists of medium-speed engines, catalytic systems, and emission monitoring products. They are reliable, cost-efficient, functional, environmentally compatible, technologically leading, and able to be integrated into solutions or delivered as stand-alone equipment.

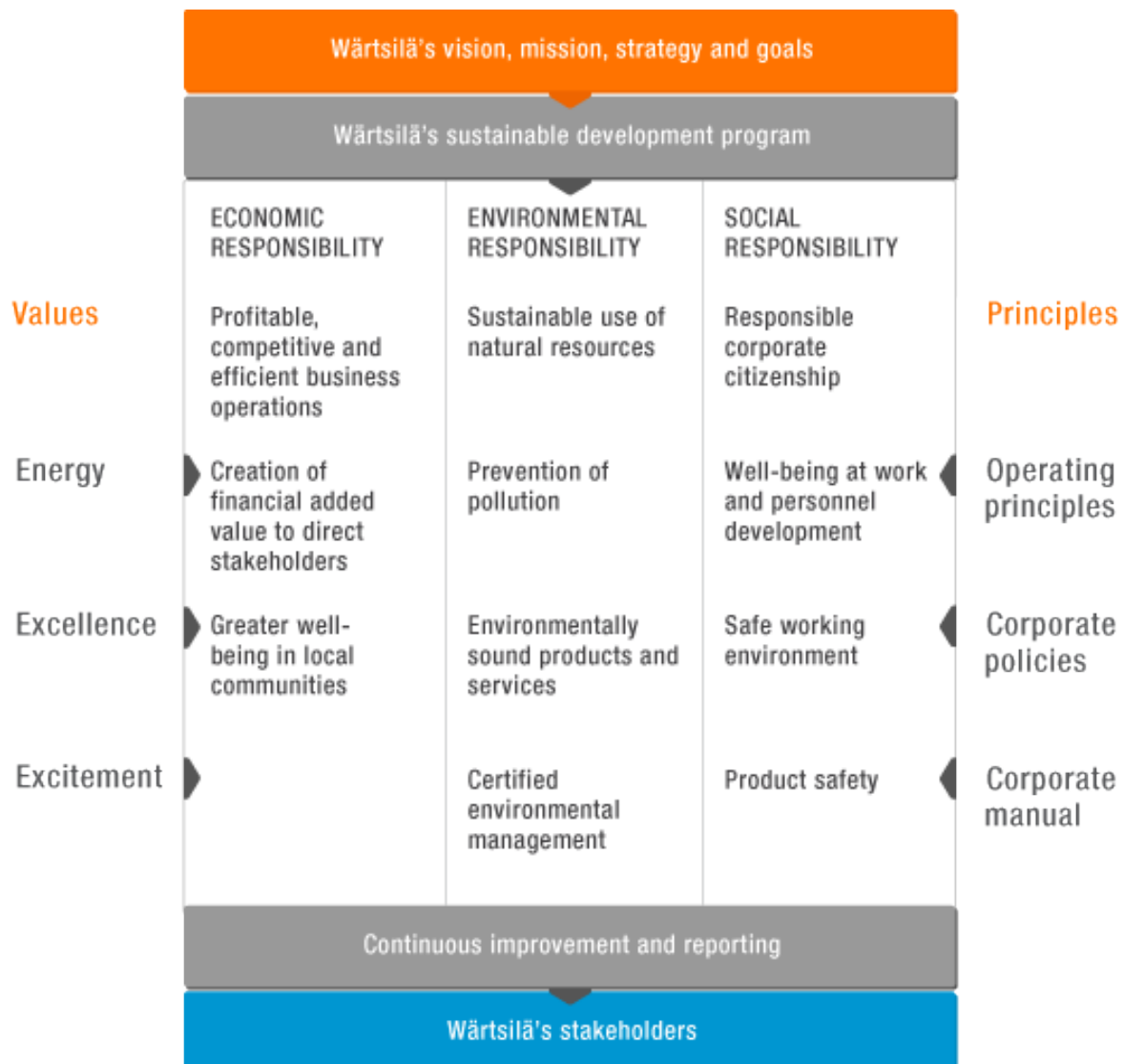
Wärtsilä and sustainability

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

Our commitment to sustainability and responsible business is based on our mission, vision and strategy, which along with our sustainable development objectives create the framework for developing the company's activities and products. Wärtsilä's management system and other sustainability tools provide us the means to assess our performance and to improve our operations and products continuously.

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

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:

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

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

key operational sustainability targets are currently related to the improvement of energy efficiency and zero injuries.

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

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

Economic responsibility

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

Environmental responsibility

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

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

Social responsibility

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

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

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

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

Summary of key figures

Performance indicators

Economic (EUR million)	2012 ⁵	2011 ⁴	2010 ³	2009 ²	2008 ¹
Net sales	4 725	4 209	4 553	5 260	4 612
Cost of goods, materials and services purchased	-3 007	-2 694	-2 927	-3 593	-3 134
Value added distributed to stakeholders	1 717	1 514	1 626	1 667	1 479
Wages and salaries	887	770	773	735	693
Taxes and social dues	317	322	326	337	288
Net financial items	-30	-16	-13	-34	-9
Dividends	197	178	271	173	148
Retained earnings for business development	285	228	242	388	340
R&D expenses	188	162	141	141	121
Environmental					
Total energy consumption (TJ)	1 691	1 735	1 916	2 194	2 383
Electricity consumption (MWh)	143 810	145 078	149 047	164 022	151 169
Heat consumption (MWh)	27 910	31 805	41 401	37 060	50 193
Light fuel oil (t)	5 096	3 409	3 623	5 662	5 432
Heavy fuel oils (t)	5 920	7 652	9 020	15 652	22 145
Natural gas (t)	9 767	10 486	12 347	11 792	11 160
Other fuels (t)	4 025	4 173	3 729	3 326	1 711
Total water consumption (1 000 m ³)	9 546	9 775	10 292	8 128	11 712
Consumption of domestic water (1 000 m ³)	799	830	840	808	622
Consumption of cooling water (1 000 m ³)	8 747	8 945	9 452	7 320	11 090
Emissions of nitrogen oxides (t)	697	765	826	1 290	1 633
Emissions of carbon dioxide (t)	63 762	68 897	80 234	96 749	122 669
Emissions of sulphur oxides (t)	145	265	277	595	840
Particulates (t)	13	20	19	28	65
VOC (t)	51	58	61	170	152
Non-hazardous waste (t)	39 512	42 865	38 392	49 946	35 055
Hazardous waste (t)	23 005	42 288	5 175	5 857	5 154

Social

Training days (days/employee)	3.4	3.0	3.1	3.7	3.3
Number of lost-time injuries, total	238	267	333	470	548
Lost-time injuries (number/million working hours)	5.5	6.3	7.8	12.9	16.3
Absence rate (% of total working hours)	2.2	2.2	2.4	2.6	2.4

¹ The data includes all Wärtsilä companies except those mentioned in the Sustainability Report 2008 Report Scope section.

² The data includes all Wärtsilä companies except those mentioned in the Sustainability Report 2009 Report Scope section.

³ The data includes all Wärtsilä companies except those mentioned in the Sustainability Report 2010 Report Scope section.

⁴ The data includes all Wärtsilä companies except those mentioned in the Sustainability Report 2011 Report Scope section.

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

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

Sustainability Performance Management

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

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

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

Voluntary commitments



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

Wärtsilä tools for Sustainability

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

Wärtsilä Code of Conduct

Introduction

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

Compliance with laws

All business and other activities of Wärtsilä shall be carried out strictly in compliance with all applicable laws and under the principles of good corporate citizenship in each country where such activities take place.

Each employee is expected to comply with the requirements of those laws and regulations that apply to Wärtsilä's operations and to his/her job and with the Wärtsilä principles of good corporate citizenship.

Openness

Wärtsilä promotes openness and transparency as well as continuous dialogue with its stakeholders, including customers and other business partners, shareholders, personnel, authorities, local communities and the media. Stock exchange rules and competitive considerations may, however, in some cases restrict such openness and transparency.

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

Respect for human and labour rights

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

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

Fair employment practices

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

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

Occupational health and safety

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

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

Conflicts of interest

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

Anti-corruption

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

Environment

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

Relationship with authorities and local communities

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

Innovation and protection of proprietary information

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

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

Accuracy of accounting records

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

Competition and fair dealing

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

Anti-fraud

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

Implementation

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

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

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

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

Reporting violations

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

Sanctions

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

Wärtsilä's management system

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

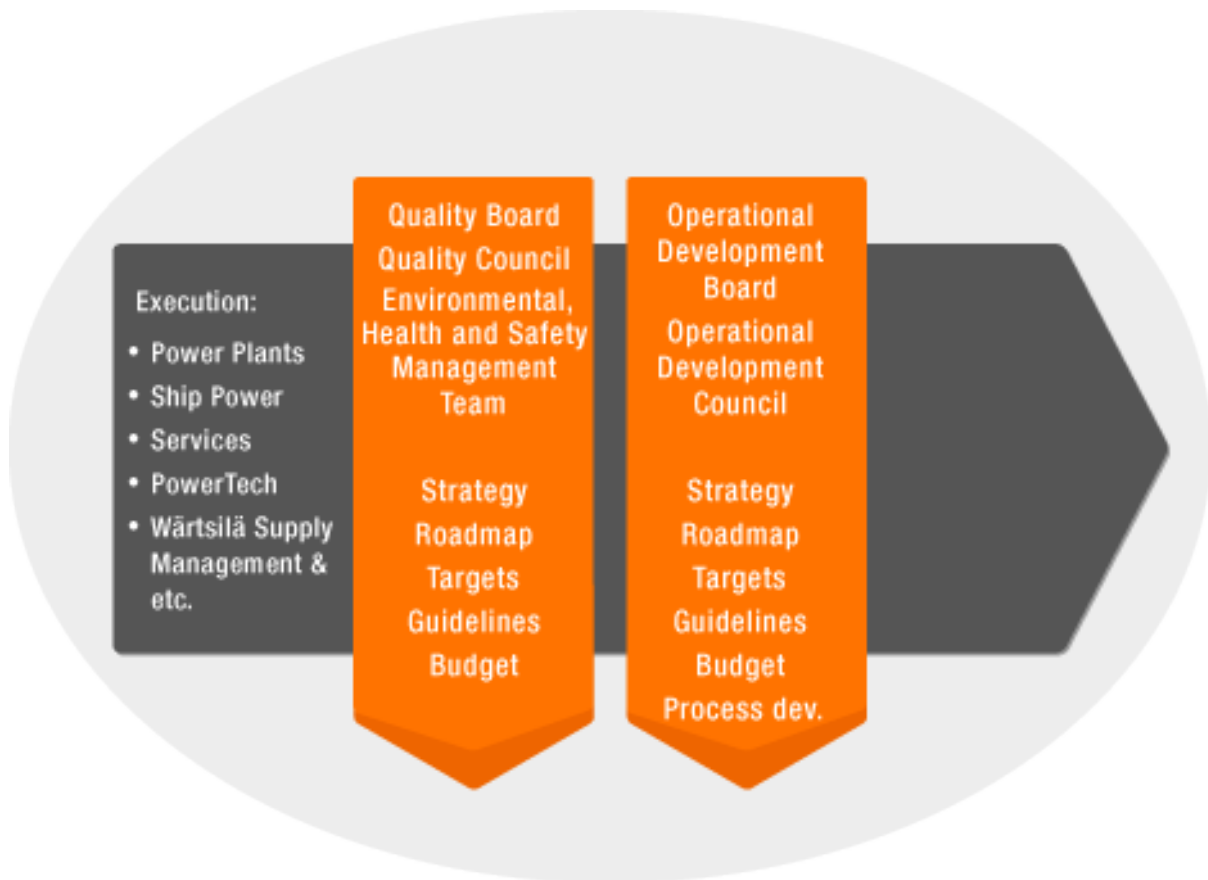
Wärtsilä's Board of Management is responsible for defining the company's main strategies, principles and policies and for the management system itself. The Board of Management regularly monitors the effectiveness and performance of the management system. Responsibilities are distributed to the line organisation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

Work group	Focus	Main tasks
Wärtsilä Quality Board	Quality, environmental, health and safety issues	Overall responsibility for Wärtsilä's Quality and Environmental, Health and Safety management, development plans and expenditure of the covered areas.
Wärtsilä Operational Development Board	Operational development issues	Overall responsibility for Wärtsilä's operational development and owner of Wärtsilä processes, governing the work of IM, Process, Quality and Environmental, Health and Safety management and the operational development plans and budget of the covered area.
Wärtsilä Quality Council	Quality	Quality road map, targets and guidelines based on business strategies and targets and overall quality development for the approval of the Wärtsilä Quality Board. Cross-divisional quality alignment and harmonisation.
Wärtsilä Operational Development Council	Operational development	Operational development road map, targets and guidelines based on business strategies and targets and overall operational development process responsibility for the approval of the Wärtsilä Operational Development Board. Cross-divisional operational development alignment and harmonisation.
Wärtsilä EHS Management Team	Environmental, health and safety (EHS)	EHS management system development, corporate level measuring and target setting and monitoring of legislation developments.

Management systems

Proportion of Wärtsilä companies with certification	
ISO 14001	62%
ISO 9001	74%
OHSAS 18001	56%

Group quality and operational development (QOD) planning and execution



Product liability

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

Wärtsilä's engines are designed to meet the requirements of the European Commission's Machinery Directive, the SOLAS Convention and other relevant safety directives, while Wärtsilä's propulsion systems are designed to comply with the SOLAS and the safety requirements of 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.

Wärtsilä's Ship Design follows class society and flag state rules in the design process to secure safe and compliant designs for its clients. Class approval is required for drawings and calculations to be delivered to the client before construction of the vessel starts.

Supply Chain Management

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

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

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

Stakeholder relations

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

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



Channels of dialogue

Stakeholder	Channel of dialogue	Assessments
Customers	Regular contact with customers, lifecycle support for products, customer events and seminars, customer days, customer magazines, the internet, conferences and exhibitions, product documentation, customer feedback system	System for measuring customer satisfaction and quality.
Employees	Open and continuous communication between management and employees, annual development discussions, information meetings and internal communications (intranet), employee magazines, training events, national statutory employee bodies and European Works Council, occupational health and safety committees, suggestion system, continuous improvement process (CIP), Technology and Innovation Award, Customer Care Award	Employee satisfaction surveys (MyVoice).
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 Award	Supplier assessments.
Society	Reporting to, and co-operation with, public officials on issues such as the environment and occupational health & safety, meetings with decision makers, position papers, Open Doors days, sustainability report, corporate presentations, local communications, the internet	Stakeholder feedback, corporate image surveys.
Organisations	Membership, regular contact, participation in activities of local trade and industrial organisations, active role in working groups, contact with various public bodies, e.g. through ministries, reports	
Universities	Opportunities for practical training and degrees, R&D projects, participation in recruitment fairs and seminars, sponsorship of student activities, lectures	Preferred employer surveys.
Media	National and international business media and journals, trade publications, interviews and press releases, main annual publications, meetings, visits, factory tours	Surveys conducted among business journalists, media surveys, reporting comparisons.

Activities in organisations

In 2012, Wärtsilä participated in several relevant activities organised by various national and international organisations and associations. The key organisations for Wärtsilä and the nature of Wärtsilä's activities are shown in the table below.

Stakeholder	Organisation	Nature of activity
Interest groups	Confederation of Finnish Industries (EK), Finland Chamber of Commerce (ICC Finland), The Federation of Finnish Technology Industries	Membership and participation in activities.
Industrial and trade organisations	European Association of Engine Manufacturers (Euromot), International Council on Combustion engines (CIMAC), Engine Manufacturers Association (EMA), World Alliance for Decentralized Energy (WADE), EURELECTRIC, Cogen Europe, Verband Deutscher Maschinen- und Anlagenbau (VDMA), Exhaust Gas Cleaning System Association (EGCSA), Cruise Line International Association (CLIA), European Cruise Council (ECC)	Board membership and participation in activities of specific working groups (CIMAC, WADE, Euromot, VDMA, Cogen Europe, Italcogen, Cogen Turkey). Membership and participation in activities (EURELECTRIC, EMA, EGSA, CLIA, ECC).
Standardisation organisations	European Committee for Standardisation (CEN), International Organisation for Standardisation (ISO)	Participation in activities.
International organisations	International Maritime Organisation (IMO), United Nations Economic Commission for Europe (UNECE)	Participation in activities.
Other	European Federation for Quality Management (EFQM), European Energy Forum (EEF), Global Reporting Initiative (GRI), UN Global Compact Nordic Network	Participation in activities (EFQM, EEF), Organisational stakeholder (GRI).

Wärtsilä in sustainable development indices

Wärtsilä is included in the following sustainability indices:

- FTSE4Good Index
- ASPI Eurozone[®] Index
- OMX GES Sustainability Nordic Index and OMX GES Sustainability Finland Index

Wärtsilä has also been rated a Prime company by oekom research.



FTSE4Good Index Series is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. The inclusion criteria are designed to help investors minimise social, environmental and governance risks, meeting stringent criteria on themes such as supply chain management, human rights, environmental management, climate change, and countering bribery.



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



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

sustainability status, which can reduce investment risk. The Nordic sustainability index comprises the 50 best rated companies on the Nordic stock exchanges. The Finnish index comprises the 40 best rated companies on the Helsinki stock exchange.



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

Recognitions

During 2012, Wärtsilä received the following external recognitions:

In the European Travel Buyer Awards 2012, Wärtsilä Travel was the winner in the category of Best Travel Policy Compliance Programme.

Wärtsilä's internal safety training video, "Safety starts with you", won the 2012 intermedia-globe Gold Award and the intermedia-globe Grand Award at the World Media Festival.

Wärtsilä Seals & Bearings Product Company UK was awarded an SC21 Bronze Award (Supply Chains for the 21st Century). The award was assessed on Manufacturing Excellence, Business Excellence, Customer Relationship Management, Certification, and Quality & Delivery.

A Wärtsilä built power plant, the LCEC Generation Plant in Lovington, New Mexico, USA, was listed as the Gas-Fired Top Plant Award Winner by POWER Magazine. Each year, POWER Magazine selects the most noteworthy gas-fired power plants worldwide to be designated Top Plants.

The Smart Power Generation web site was awarded a Lovie Awards silver medal in the Corporate Communications category. The web site was setup by Wärtsilä Power Plants to share information and offer a platform for discussions about the future of power systems and energy production, especially with regard to maximising the use of renewable energy.

Wärtsilä's stakeholder magazine Twentyfour7, won a silver prize for excellence in magazine design at the magazine publishing industry's Folio Awards competition.

Creating economic added value

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

Despite the difficult conditions in the global economy, Wärtsilä has performed well. Supported by growth in Asia and good development in all the Businesses, Wärtsilä's full year net sales grew by 12% to EUR 4,725 million with profitability at 10.9%. Europe's share of net sales was 25%, Asia's 43%, the

Americas' 21% and others' 11%. Our long-term target is to grow faster than global GDP, and our operating profit margin (EBIT%) target is 14% at the peak of the cycle. Even at the trough of the cycle, our target is to keep the operating profit margin above 10%.

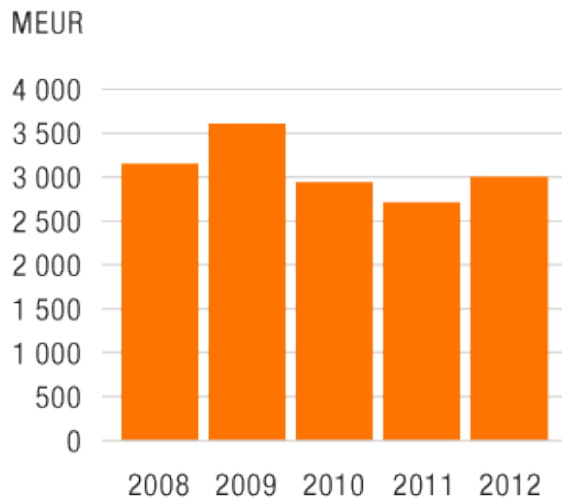
Added value to Wärtsilä's stakeholders

MEUR		2012	2011	2010	2009	2008
Customers	Net sales	4 725	4 209	4 553	5 260	4 612
Suppliers	Cost of goods, materials and services purchased	-3 007	-2 694	-2 927	-3 593	-3 134
	Value added	1 717	1 514	1 626	1 667	1 479
Distribution of value added	Distributed to stakeholders					
Employees	Wages and salaries	887	770	773	735	693
Public sector	Taxes and social dues	317	322	326	337	288
Creditors	Net financial items	30	16	13	34	9
Shareholder	Dividends	197	178	271	173	148
Communities	Donations given	1	1	1	1	1
For business development		285	228	242	388	340

Suppliers

Suppliers play a significant role in our delivery process. We aim to have close and excellent relationships with our key suppliers in order to ensure that both parties have a mutual understanding of and are able to respond to our strict process and product requirements. Apart from financial benefits, close relationships create added value for suppliers through the knowledge and development support we offer them, and at the same time Wärtsilä gains from the supplier competence. Successful relationships can also help a local supplier to expand internationally by becoming a part of our global supply chain. In 2012, the value of goods, materials and services purchased by Wärtsilä was EUR 3,007 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 2012, Wärtsilä had 18,887 employees worldwide. We also employed thousands of people indirectly through our supply chain. In order to be able to recruit competent and motivated people, we endeavour to offer employees competitive salaries, opportunities for continuous personal development and a good working environment. Developing employee skills and competences is of critical importance both for our business performance and for the development of our employees. Wages and salaries totalled EUR 887 million in 2012. This figure includes basic salaries as well as payments based on various profit sharing and incentive schemes, which cover some 60% of the total workforce.

Pension cover

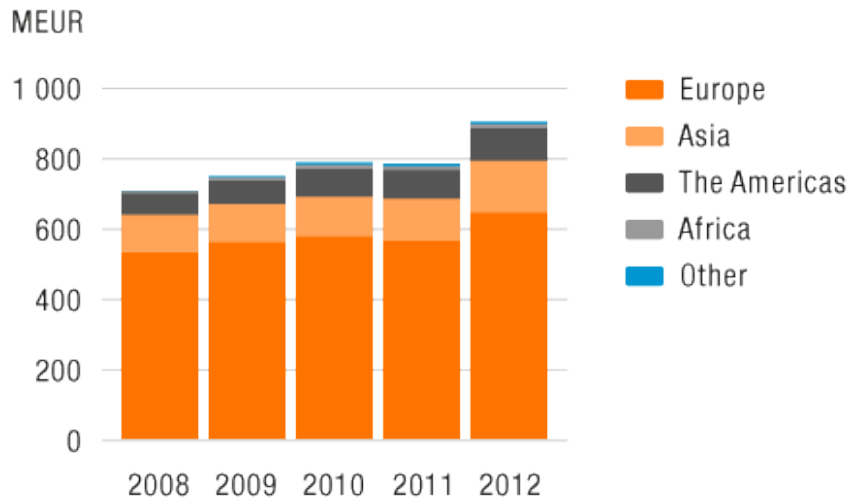
The pension cover is based on the legislation and agreements in force in each country. In Finland, most of the pension obligations are covered by the Employee Pensions system (TyEL). The largest defined benefit plans are used in the Netherlands, Switzerland and the United Kingdom. Most of these defined benefit pension plans are managed by pension funds, and their assets are not included in the Group's assets. Wärtsilä's subsidiaries make their payments to pension funds in accordance with the local legislation and practices in each country. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans. More information on the Group's pension obligations can be found in the Financial Review, [Note 21. Pension obligations](#).

Wage levels

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

local market practices. The base salary is set to meet market conditions, the demands of the job and individual competence and performance.

Salaries and wages by market area



Hiring principles

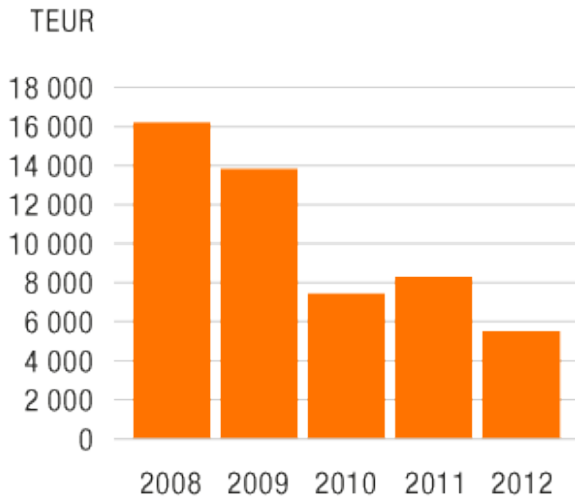
In principle, all open vacancies are published both externally and internally ensuring equal opportunity to apply to Wäertsilä positions. If there is no specific reason like a competence transfer need from other countries to hire expatriates to the position, local residents are hired. This principle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

Public sector

Wäertsilä pays various social dues and taxes to the governments of different countries. Income taxes and social dues in the financial period 2012 were EUR 317 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.

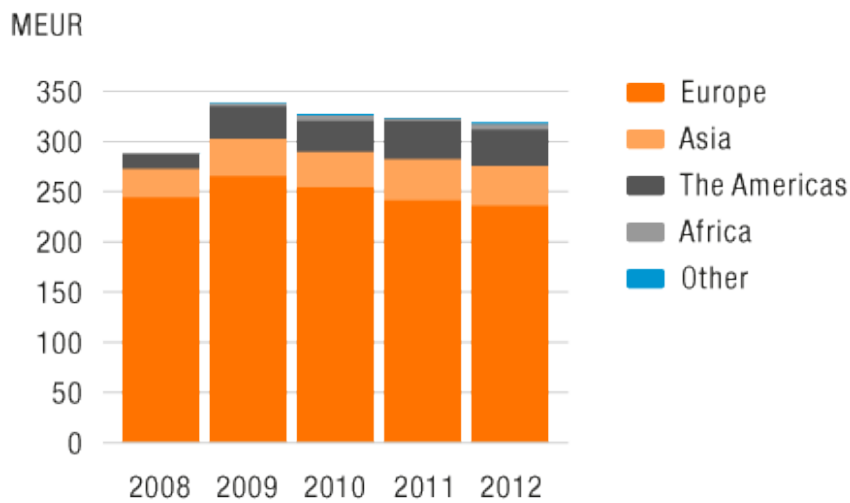
Wäertsilä companies also receive subsidies from the public sector. The value of the subsidies received in 2012 was EUR 6 million, and they were among others related to R&D projects.

Subsidies received from the public sector



The 2008 figure from 14 major Wärtsilä companies. The 2009-2012 figures from 15 major Wärtsilä companies and the parent company.

Taxes and social costs by market area



Creditors and shareholders

Creditors

In 2012, Wärtsilä's net financial items totalled EUR -30 million. At the end of the year, Wärtsilä's net interest bearing debt amounted to EUR 567 million, the solvency ratio was 42.0% and gearing was 0.31.

Shareholder value

Dividends totalling EUR 197 million are proposed to be paid to the company's shareholders. Our dividend policy is to pay a dividend equivalent to 50% of the operational earnings per share. The dividends paid per share are presented in the notes to the financial statements. At the end of 2012 earnings per share (EPS) was EUR 1.72 and Wärtsilä's market capitalisation was EUR 6,454 million.

Community support

At the national level, we provide financial support for a number of national, cultural and social activities. The Board of Directors has supported activities focused on children and youth, nature conservation, national defence, disabled war veterans and medical and technical research. Wärtsilä's Board of Directors contributed altogether EUR 103,600 to these activities in 2012. Additionally, many Wärtsilä companies provide support to local organisations for similar activities in their countries of operation.

Donations to good causes by the Board of Directors

TEUR	2012	2011	2010	2009	2008
Total	104	60	670	70	70

Donations to local organisations¹

TEUR	2012	2011	2010	2009	2008
Total	456	940	421	527	463

¹ The 2008 figures include the data from 14 major Wärtsilä companies. The 2009-2012 figures include the data from 15 major Wärtsilä companies and the parent company.

Wärtsilä and emission trading

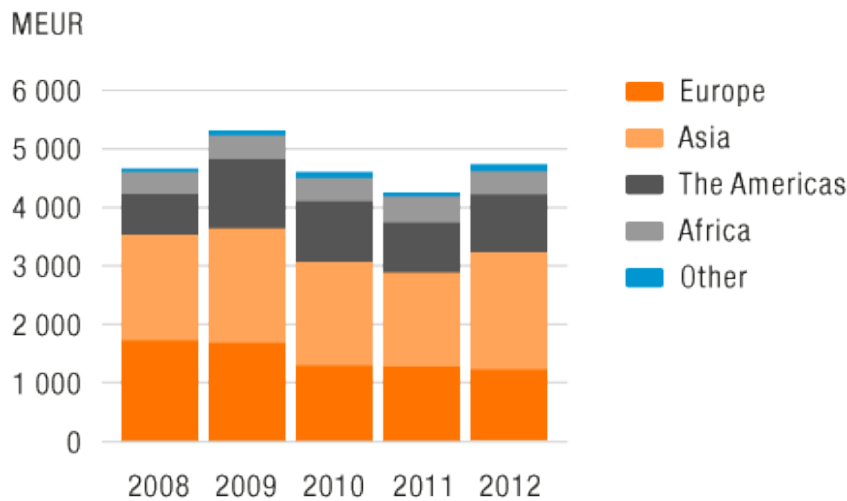
Wärtsilä Italia S.p.A is the only subsidiary that falls into the scope of the EU Emission Trading Scheme (ETS) because of the heating plant of the factory. The EU ETS has not had any impact on the company's profitability. Wärtsilä's response to climate change is to develop and provide products, solutions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

change and Wärtsilä's products are presented under the sustainability and climate change risks in the Risk Management chapter of the Governance review.

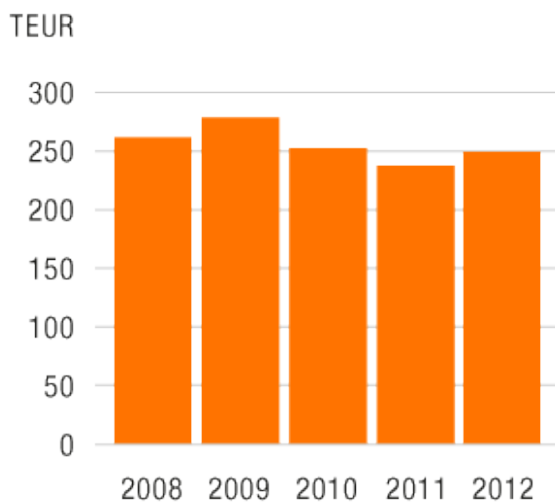
Customers

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

Net sales by market area



Net sales/employee



Environmental performance

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

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

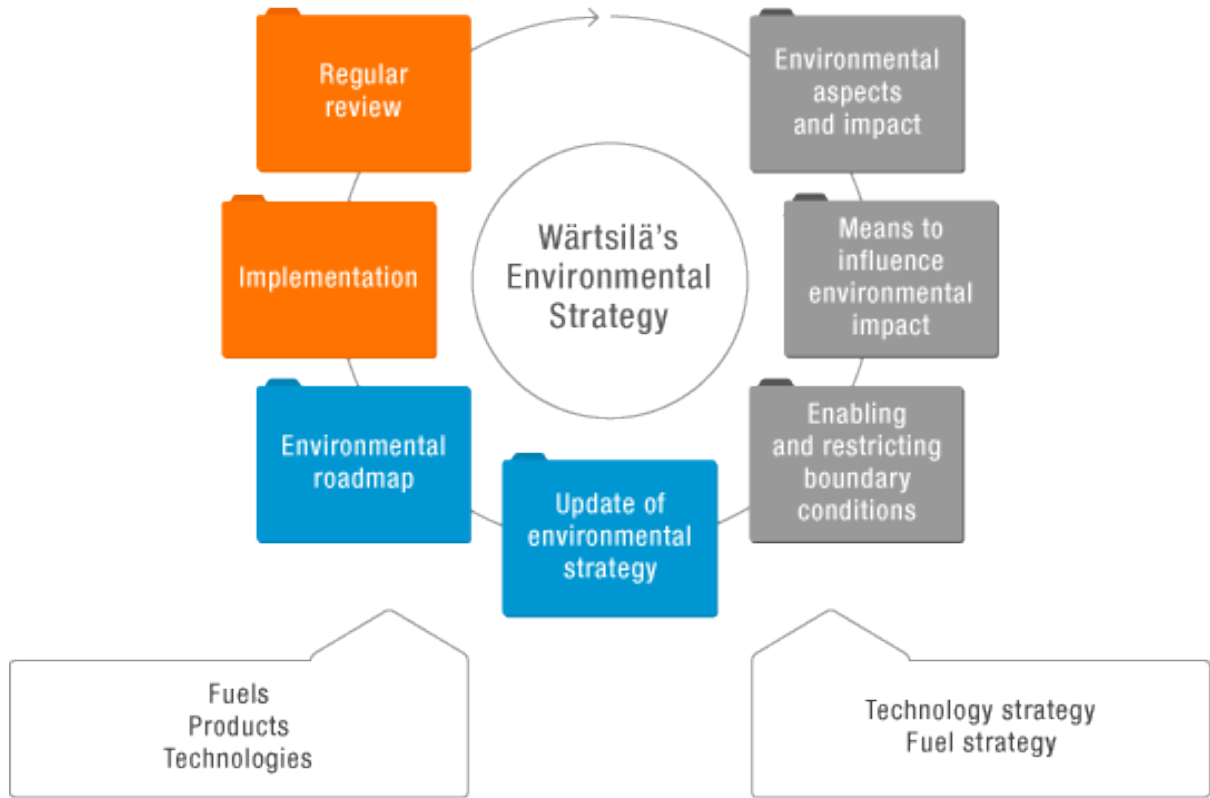
Wärtsilä has defined a process for the development of a product environmental strategy and its targets. The process includes the identification of aspects and impacts of the products, the means to influence these impacts, the identification of enabling and restricting boundary conditions and the analyses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

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

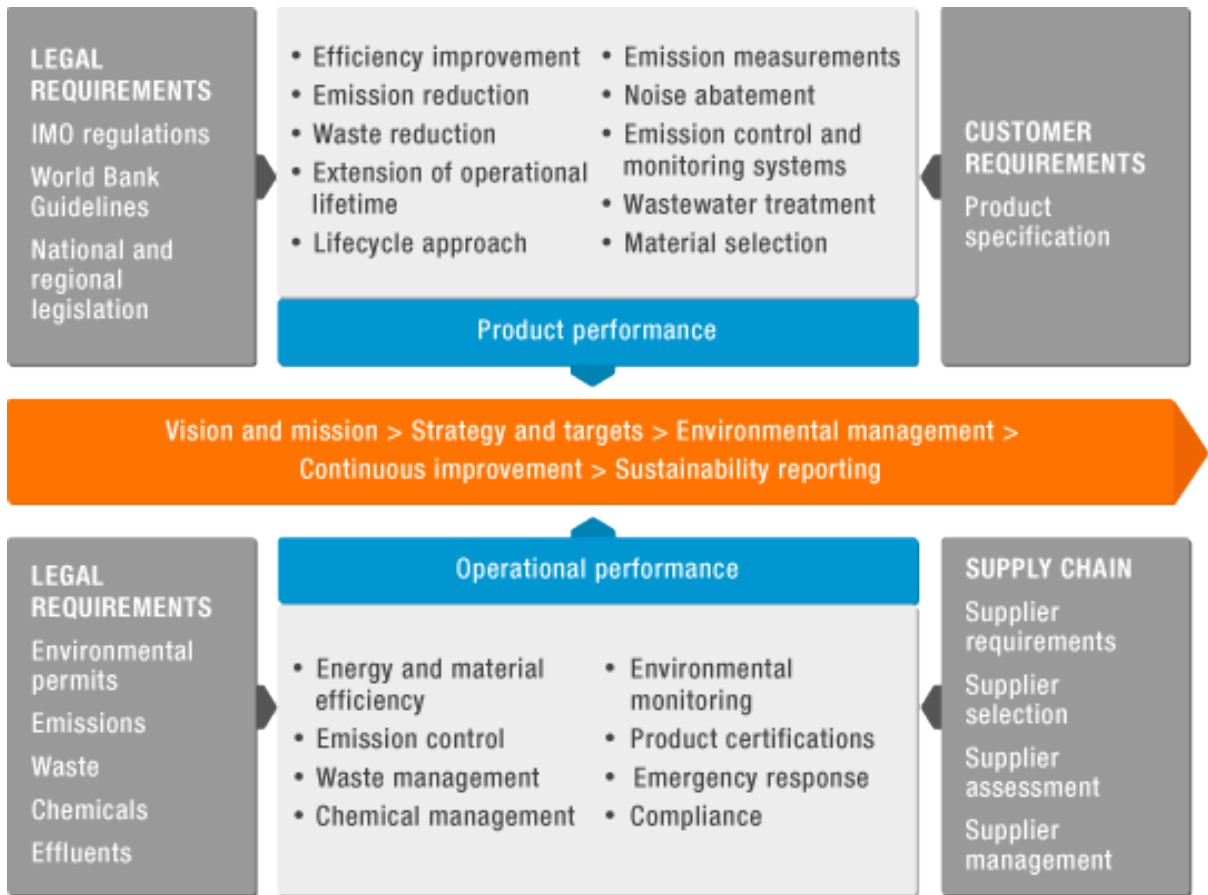
The company's EHS management system focuses especially on complying with legal requirements, identifying and reducing environmental aspects, impacts and risks, training personnel and clearly defining their responsibilities, full documentation of activities and procedures, action in emergencies and continuous improvement of environmental performance. The company's subsidiaries set their own targets covering significant environmental aspects of their operations and monitor the overall performance of the management systems. At the end of 2012, 41 Wärtsilä companies operated with a certified environmental management system. These certified environmental management systems cover roughly 90% of Wärtsilä's total workforce.

Wärtsilä's environmental strategy – a continuous process

- Identification phase
- Planning phase
- Execution and monitoring



Environmental management in Wärtsilä



Wärtsilä's targets for reducing GHG and other emissions

Target	Schedule	Status
To reduce energy consumption by at least 10% in terms of absolute consumption (GWh) by 2016 compared to mean energy consumption in 2005.	2016	The second phase of the Wärtsilä energy audit scheme continued in 2012. Energy audits were conducted in France, Norway, Singapore, the Netherlands and the UK. The energy audits identify the savings potential and measures to improve energy efficiency. During 2012, Wärtsilä started to conduct energy reviews for identifying energy saving potential for companies outside the audit scope. The timeframe for the rollout of energy reviews is 2012-2014. Energy saving actions are monitored on an annual basis. By 2012, energy savings of 19.9 GWh have been reached, which represents about 42% of the final target.

<p>To create solutions for enabling small-scale LNG to replace liquid fuel infrastructure.</p>	<p>2015</p>	<p>Wärtsilä Oil and Gas (Hamworthy Asker) delivered several regasification units to land and floating import terminals, FSRUs. By combining the technology of Wärtsilä Oil and Gas and the company's CHP know-how, we are now able to offer a fully integrated LNG receiving terminal and power plant solution. The integration of regasification, boil-off gas handling, and power and heat generation creates a unique combination offering superior economy and high efficiency.</p> <p>Examples of Hamworthy's competence areas are the following delivered plants; the small scale liquefaction plant delivered to Sköldvik (Gasum) in 2010 and the medium scale LNG plant delivered to Kollnes (Gasnor) in 2007.</p> <p>An ongoing project is a biogas liquefaction plant to produce biofuel for busses in Oslo. The plant can replace diesel in up to 135 busses, and reduce CO₂ emissions by 10,000 tonnes a year.</p>
<p>To enable emission reductions through gas conversion projects.</p>	<p>2015</p>	<p>Since 2004, Wärtsilä has performed gas conversions for more than 20 power plants and one marine installation, totaling 780 MW.</p> <p>During 2012 Wärtsilä has handed over one power plant gas conversion for 110 MW and has two power plant gas conversions under work, totaling 75 MW.</p>
<p>To increase total net electrical efficiency in simple and combined cycle power plants in cyclic operations.</p>	<p>2015</p>	<p>Wärtsilä has continued developing fast starting and stopping capabilities of engines. Significant improvements in both starting and stopping times have been reached, thus also increasing the cyclic efficiency of the power plants, both in simple and combined cycle mode.</p> <p>Wärtsilä has also developed concepts for minimising the environmental impact depending on the amount of operating cycles per year. This has been achieved by minimising the stand by energy consumption through the utilisation of new technologies and improved engine control systems.</p> <p>Furthermore, major developments have been achieved in ramp up and ramp down rates, enabling optimal fuel economy at transient loads and maximum revenues from reserve markets.</p>
<p>To influence in developing dynamic power markets in order to enable wide scale renewable integration.</p>	<p>2015</p>	<p>Wärtsilä has participated in many studies which have assessed the value of flexibility for the power systems. Wärtsilä has also assessed various power market models and their ability to secure adequate flexibility in the power systems. Wärtsilä has conducted an active dialogue with various stakeholders concerning dynamic power markets.</p>

To enable the reduction of power losses by 3-5% in electrical propulsion using medium voltage system.	2015	The development of a solution is on track. The solution is targeted to be available for customer deliveries in early 2014.
To develop performance management solutions for different vessel types enabling better efficiency of the plant.	2012	Wärtsilä 3C is available for customers. An optimiser platform is also available and in the pilot phase. Optimiser platforms enable vessel data availability onshore. Propulsion efficiency measurement is available. Econometer is available. The system gives guidance for the optimum use of power plant over the voyage. Trim optimisation is available in connection with 3C.
To develop 10 new Wärtsilä Optimiser solutions enabling customer to optimise the life-cycle performance.	2015	Phase I development was completed Q3/2012 and commercial roll-out starts in the first quarter of 2013. There are several solutions developed already that enable OPEX savings, as well as solutions that enhance Wärtsilä's CBM capabilities and usability enhancements for the operators.
To reduce GHG emissions by 3% through improving the engine efficiency.	2015	Technology under development and first concept studies show positive trends.
To expand the gas portfolio.	2015	First deliveries of LNGPac to newbuilding (Viking Grace). Design available for LNGPac using containers. LNGPac sold to 6 installations.
To stimulate growth for LNG-fuelled OSV's.	2015	Wärtsilä was awarded a contract to supply liquefied natural gas (LNG) propulsion equipment for three advanced offshore supply vessels. These vessels will operate in the Gulf of Mexico. Wärtsilä was contracted to supply ship design and integrated machinery solutions for two advanced offshore supply vessels operating on LNG in the North Sea. In all of these five orders for LNG powered OSVs, Wärtsilä will supply the LNG storage tank and gas handling system. Through the acquisition of Hamworthy, Wärtsilä significantly strengthened its capabilities in this area.
To expand the field of LNG applications beyond present vessel types and to facilitate LNG re-engining.	2015	Solutions sold to 5 new gas fuelled vessel types. Wärtsilä was awarded the following contracts - DF engine for a 200 gross tonnage Guideship to Korea - A complete propulsion package for LNG carrier, which will mainly operate in North Sea and Baltic Sea - The first LNG powered tugs to operate coastline of China - DF engines for OPV (Navy), the vessel will operate in Baltic Sea. DF engines to an inland waterway vessel, which will operate on inland waterways in Netherlands, Germany, Switzerland, Belgium and France

To deliver environmental and energy efficiency consultancy projects: 10 projects.	2015	<p>During 2012 Wärtsilä has focused mostly on consultancy projects related to reduction of air and water pollution. In practice Wärtsilä has delivered around 7 consultancy projects.</p> <p>Typically the consultancy activity consists of the following: a ship onboard inspection; proposal of technologies and specific configurations to achieve the desired emission reduction; economical calculations; drawings and schematics illustrating the necessary ship modifications and the principles of installations of the equipment onboard the vessel.</p>
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In addition to the targets presented above, Wärtsilä has set internal sales targets for its environmental products.

Wärtsilä's targets for reducing the emissions to the water

Target	Schedule	Status
To develop further the dry concepts for high-efficiency combined cycle solutions.	2015	The dry concepts for high efficiency combined cycle solutions have been developed with promising results. As a consequence of the extensive development work also a patent application has been filed. The main drivers for the solution are to minimise the environmental impact, both in terms of fuel and water savings. The new solution is, due to its common cooling system for the entire plant, extremely flexible and highly efficient, especially at part loads, and has minimum impact from varying ambient conditions.

Wärtsilä's targets for improving the overall performance

Target	Schedule	Status
To provide a Green Passport for all Ship Power products.	2012	The target has been reached in 2011. Wärtsilä is capable of delivering a Green Passport for all of its portfolio products.
To conduct 3 life-cycle assessments.	2015	The potential product categories for the life-cycle assessment were reviewed. First life cycle assessment starts in 2013.

Wärtsilä Quality, Environmental and Health & Safety Policy

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

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

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

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

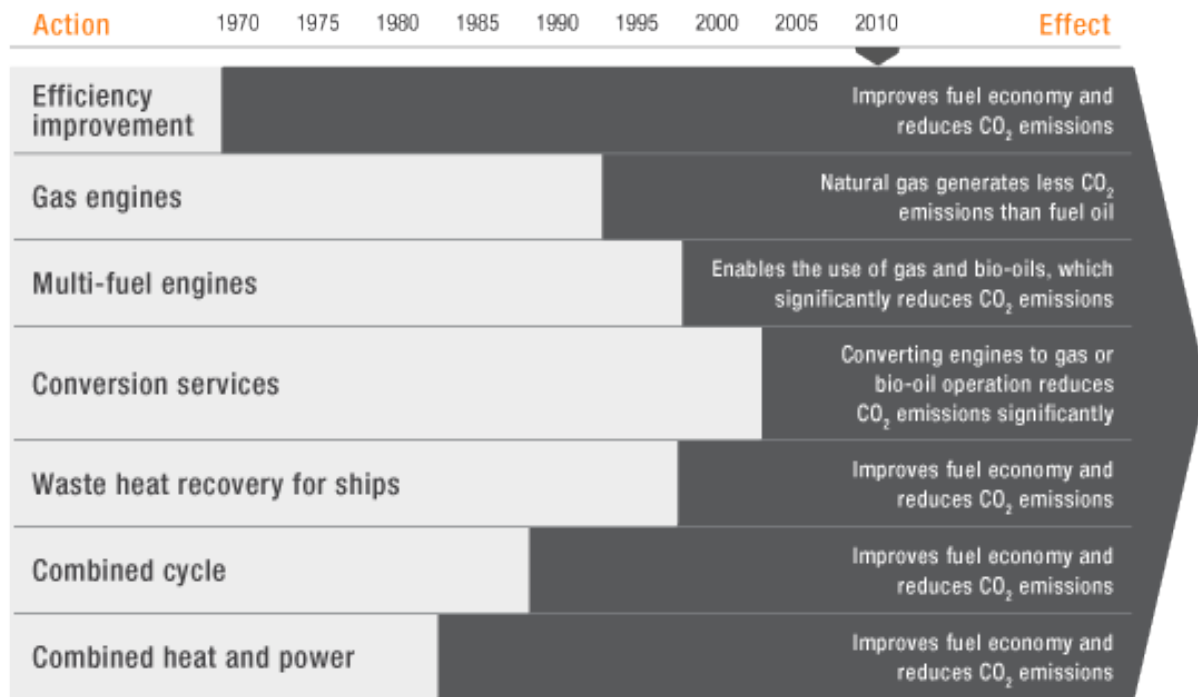
Our skilled organisation acts as a responsible global citizen.

Approved by Wärtsilä Board of Management 15.3.2012.

Solutions for greenhouse gas emissions reduction

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

Wärtsilä's actions to reduce greenhouse gas emissions



Engine efficiency improvement

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

Gas and multifuel engines

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

DF engines are used in power plants and for powering a wide range of different kind of vessels. This single solution means that the total CO₂ emissions from all our current customers' LNG-carrier applications will be reduced by several millions of tons, when compared to traditional gas transportation. At the same time, the availability of gas will be improved and the environmental impacts of gas transportation will be reduced. For other applications an efficient way to reduce CO₂ emissions are the use of biofuels. Wärtsilä engines adapted for biofuel are today in operation both in land based power plants and as main engines in marine applications.

Modernisations and conversion services

Wärtsilä applies new technologies also to its existing products, which makes it possible to further reduce their environmental impact. With the help of our service products, we can improve the efficiency of older engines and reduce their emissions to the same level as those of our newer products. Slow steaming packages for vessels are available to meet the new power demand originating from reduced service speeds. We also convert oil-fuelled engines for gas or biofuel use.

Waste heat recovery for ships

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

Environmentally advanced vessel solutions

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

Innovative design solutions for flare gas utilisation

Wärtsilä delivers innovative flare gas ignition and flare gas recovery systems for the oil and gas industry enabling flares to be completely put out saving the environment for emissions of greenhouse gases and other pollutants related to flaring.

Wärtsilä has developed an integrated solution for flare gas utilisation, based on our proven flare gas ignition and recovery systems and the new GasReformer. This solution transforms flare gas into a composition that enables its use for fuel gas in gas engines and feed gas to LNG plants.

With current installations, Wärtsilä's flare gas recovery solutions reduce the global CO₂ emissions of about 1 million ton per annum which is equivalent to approximately 250,000 cars. As of today, the total reduction in the emissions of greenhouse gases from our flare gas recovery systems is about 5 million tons.

Innovative design solutions to enable reductions of atmospheric emissions of volatile organic compounds from offshore oil installations

Wärtsilä delivers systems that eliminate the release of hydrocarbon vapors to the atmosphere by an innovative solution replacing the tank vapor atmosphere with a recycled hydrocarbon atmosphere. While normally tank vapor atmosphere is a mixture of hydrocarbons and flue gases, removing flue gases enables recycling of the atmosphere and thus the tanks are venting to a closed system. With current installations, Wärtsilä's hydrocarbon blanketing solutions are annually eliminating a loss of 500,000 barrels of oil equivalents being released to the atmosphere.

Combined cycle

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

Combined heat and power

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

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

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

Towards more sustainable solutions

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

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

Wärtsilä gives strong priority to developing and applying technologies that reduce the environmental impacts of its products. In order to meet the needs of our customers, to be prepared for future requirements and to remain an industrial frontrunner, Wärtsilä's product development must be at all times innovative, determined and willing to explore new technologies. We strive to develop environmentally sound products and solutions across a wide front, including technologies related to

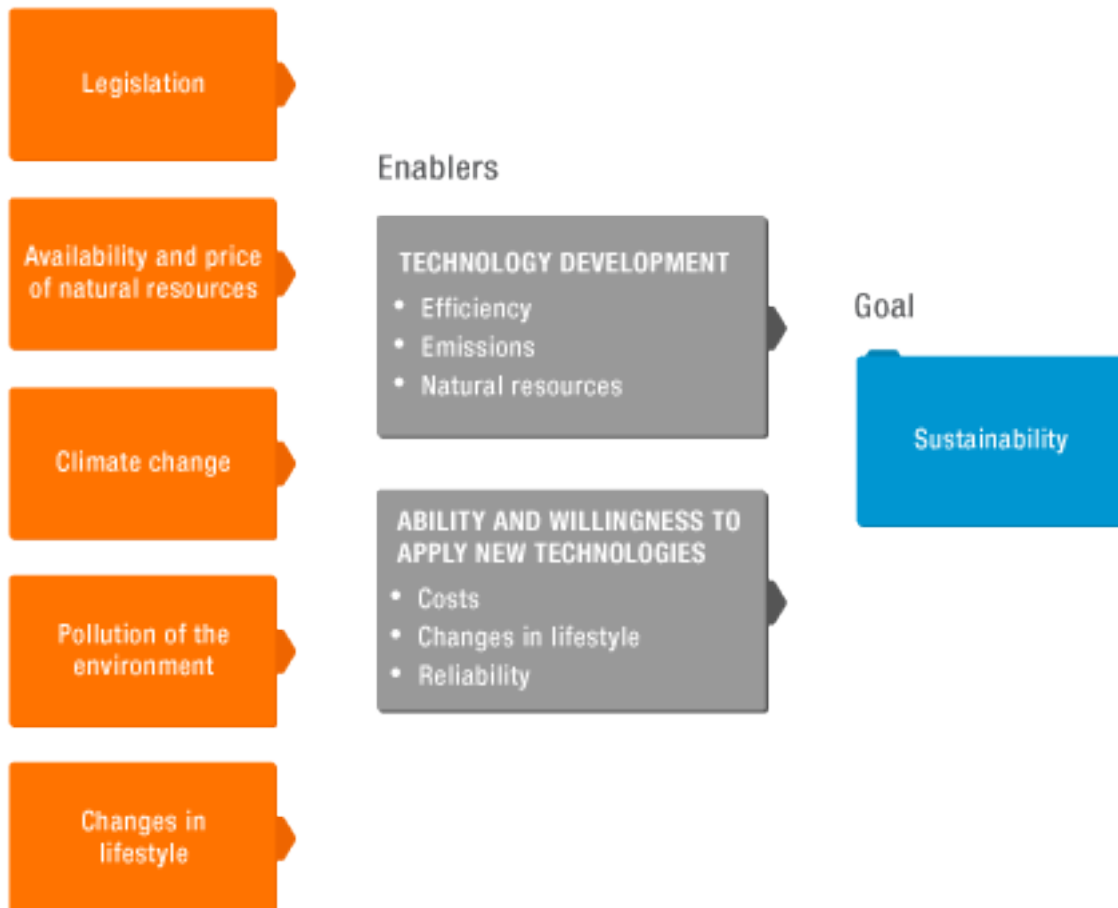
efficiency improvement, the reduction of gaseous and liquid emissions, waste reduction, noise abatement as well as effluent and ballast water treatment. With a proactive approach to meeting future demands, Wärtsilä has developed both primary and secondary abatement technologies and broadened the range of usable fuels.

Key features of Wärtsilä's environmentally sound solutions include:

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

The drivers of sustainable development

Drivers for change



Legislation and initiatives

The environmental requirements concerning Wärtsilä's products are set at the international level mainly by the International Maritime Organization (IMO), the UNECE (United Nations Economic Commission for Europe) and the World Bank. In the stationary field of national and regional regulations, such as those of the U.S. EPA, the European Union, Germany, Japan and India are considered important for our products.

The IMO regulates emissions of nitrogen oxides from ship engines and the sulphur content of the fuel, as well as ballast water treatment, with continuously tightening requirements entering into force when member states ratifies the regulations. The World Bank/International Finance Corporation (IFC) has published the Thermal Power Plants' EHS (Environmental Health and Safety) Guidelines, which are technical reference documents with general and industry-specific examples of Good International Industry Practices based on the IFC's environmental and social standards. The EHS Guidelines are today the minimum environmental standard in global power plant projects, and are adhered to in most finance activities for projects in emerging markets. The EU Industrial Emissions Directive has been approved by the European Parliament and entered into force at the beginning of 2011.

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

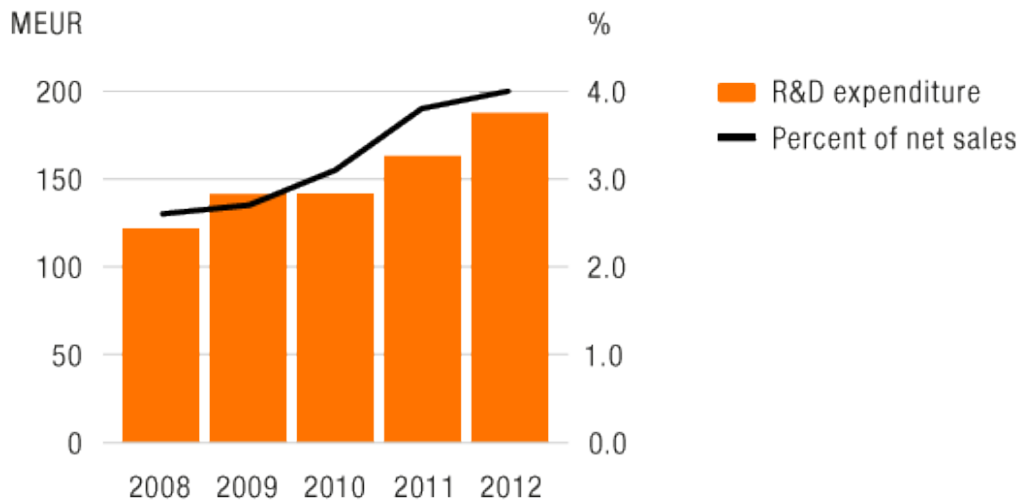
Wärtsilä's R&D focus

Wärtsilä continuously strives for technology leadership. This is achieved by developing reliable, efficient, and cost-competitive technologies and products based on customer needs and combined with innovative technologies. Wärtsilä's R&D activities are focused on technologies, products, and solutions that are fuel-efficient, reliable, safe, self-diagnostic, cost-efficient to operate, and that produce minimal environmental impacts throughout their lifecycles. At Wärtsilä, we protect innovation through close attention to Intellectual Asset Management, while key competences are maintained in-house to ensure that they are competitive. We build networks and clusters to acquire key competences and capacity by committing to long-term relationships with suppliers, engineering companies, university partners, and licensees and other OEMs (Original Engine Manufacturers). Resources are dedicated and invested into simulation and virtual validation, as well as testing and validation, and we actively develop product platform concepts and design products that are easy to manufacture and service. A substantial proportion of the company's investments in product development are targeted at reducing environmental impacts.

R&D Costs

MEUR	2012	2011	2010	2009	2008
	188	162	141	141	121

Research and development expenditure

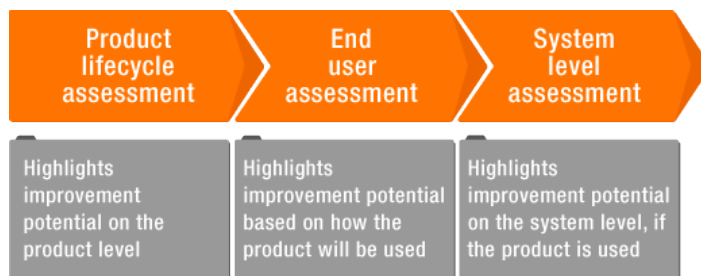


Lifecycle approach

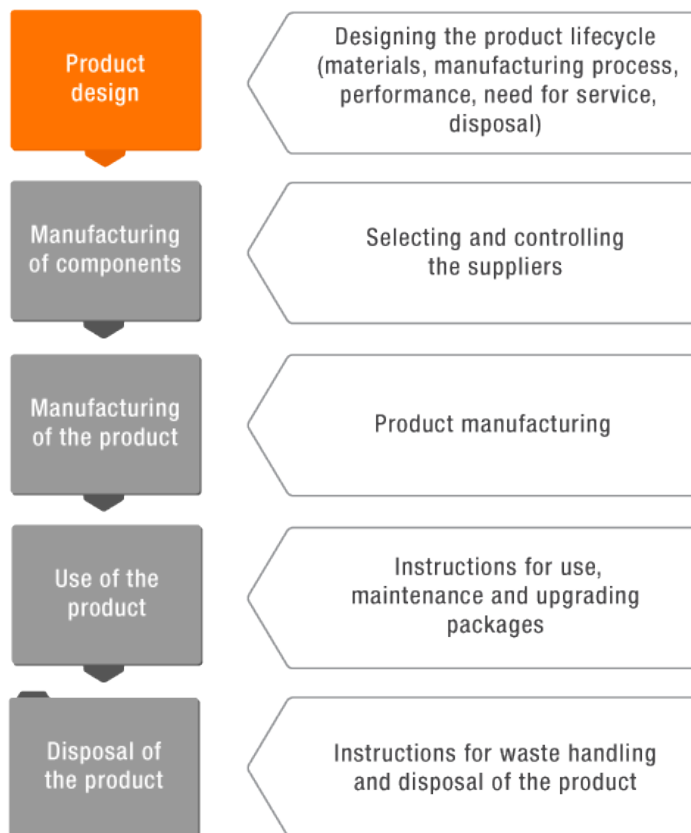
Since Wärtsilä's products have such a long operational life, identifying their lifecycle impacts is essential for understanding their total environmental impact. Based on the results of these lifecycle assessments, the majority of the environmental impacts of a diesel engine arise during the operation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

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

Multilevel assessment approach



Environmental impacts – product lifecycle



Ensuring reliability and safety

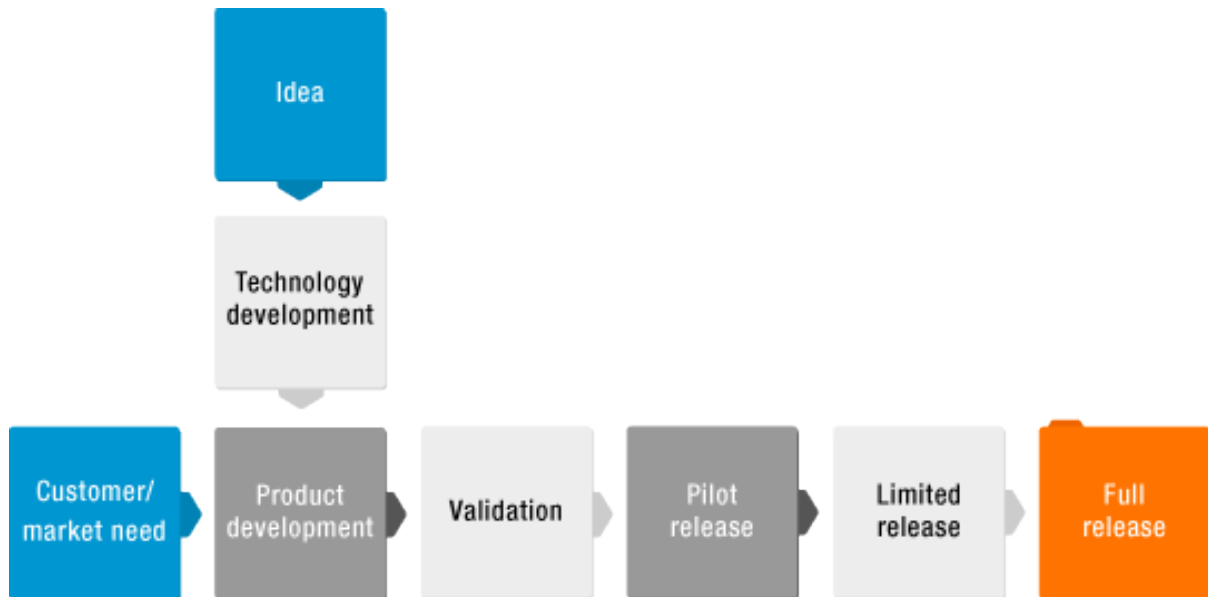
The long operational lifetime and the application of Wärtsilä products highlight the importance of reliability and safety. Wärtsilä's development process is geared to ensuring the reliability and safety features of the end product, and extensive validation and testing programmes are undertaken before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

By focusing on the initial stages of the development process, the development time for new solutions can be reduced without compromising the emphasis on reliability and safety. Individual components are validated during their design by using advanced calculations and simulation tools. This method enables Wärtsilä to identify areas of improvement at an early stage in the process, thereby reducing the amount of component testing needed. The actual component and technology testing allows a speedy validation of the systems, which results in faster development and market introduction for new products.

In always seeking newer and better solutions, Wärtsilä is able to perform validation testing on existing installations in co-operation with its customers. The customer benefits by getting the first insight into new technologies, while Wärtsilä gains long-term experience under controlled conditions. A typical field installation operates for 6,000 hours per year.

When the product has successfully passed all the process steps and its performance meets Wärtsilä's high standards, it can be brought to the market.

Product development process



Improving efficiency

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

Total ship efficiency

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

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

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

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

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

Engine efficiency

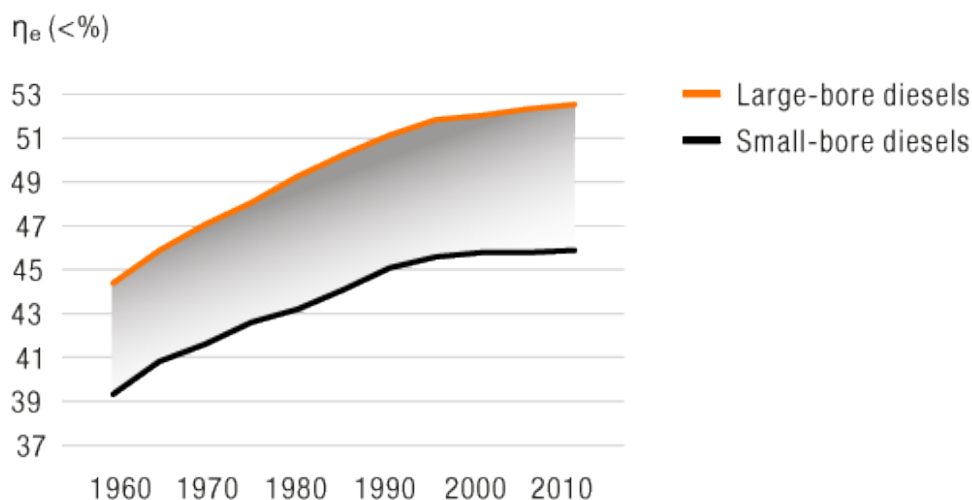
Engine efficiency has always been high on our agenda. However, the improvement of efficiency is becoming more challenging by the day as the emissions requirements become increasingly stringent. Amongst the reasons for our success in this field, integrated engine functionalities that enable low emissions and high engine efficiency have been a major factor. Air and fuel admissions are controlled by an automated system that provides optimal combustion under all operative conditions.

Wärtsilä's extensive experience in component design has led to the development of combustion chambers capable of withstanding higher cylinder pressures and temperatures. This contributes to engine efficiency directly and positively.

Wärtsilä has several ongoing programmes aimed at ensuring the high efficiency of its engines, at the same time significantly reducing their emissions. Development of innovative technologies, for example two-stage turbocharging, is an important part of achieving our goals.

Wärtsilä engine fuel efficiency development

The amount of fuel energy content, which an engine is able to turn into useful power.



Wärtsilä marine diesel engines 1960-2010 -η_e for production engines, 5% tolerance.

Heat recovery and energy conversion improvements

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

Propeller efficiency upgrades

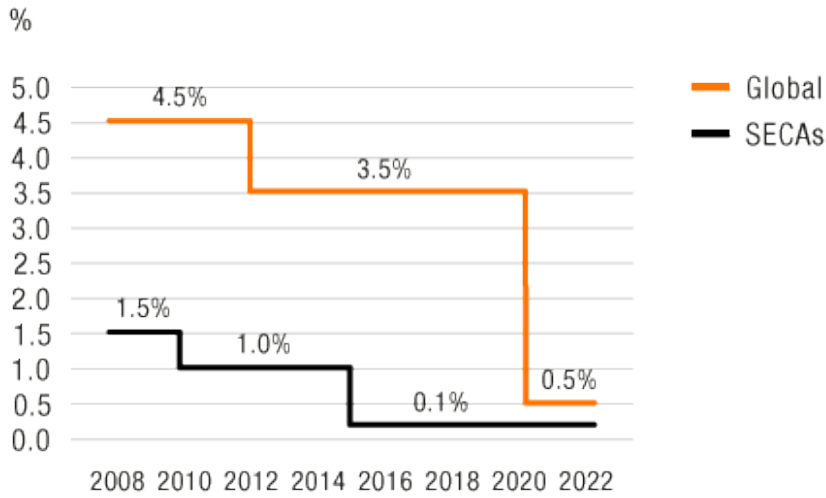
The propeller's efficiency, amongst other parameters, is an important consideration for achieving economic sailing. Fouling, surface roughening and leading edge damage to the propeller, when in service, can result in efficiency losses of 3-7%. Also, by replacing outdated existing propellers with new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

Reducing sulphur dioxide emissions

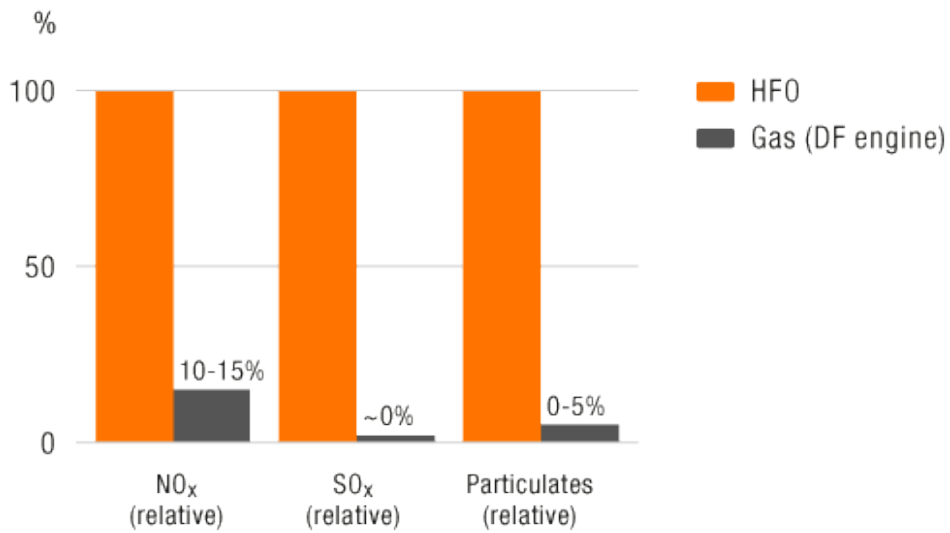
Marine sulphur emissions can be reduced in three different ways: by decreasing the sulphur content of the fuel used, by removing sulphur from the exhaust gas or by changing fuel, for example by starting to use natural gas.

Several methods can be used for de-sulphurizing exhaust gases. Wet scrubbing is an obvious alternative for ships, as the scrubbing medium is readily available. With the acquisition of Hamworthy, Wärtsilä has broadened the product portfolio to also include open-loop and hybrid systems. Hamworthy brings 50 years of experience in scrubbing applications for Inert Gas Systems, and the most extensive reference list on Exhaust Gas Cleaning Systems. As the only maker with a full-scale test facility, Wärtsilä is committed to refining the current designs, as well as developing new solutions. Current work is focused on validating the hybrid designs and development of a new generation scrubber aimed mainly at the Cruise & Ferry market where space is at a premium.

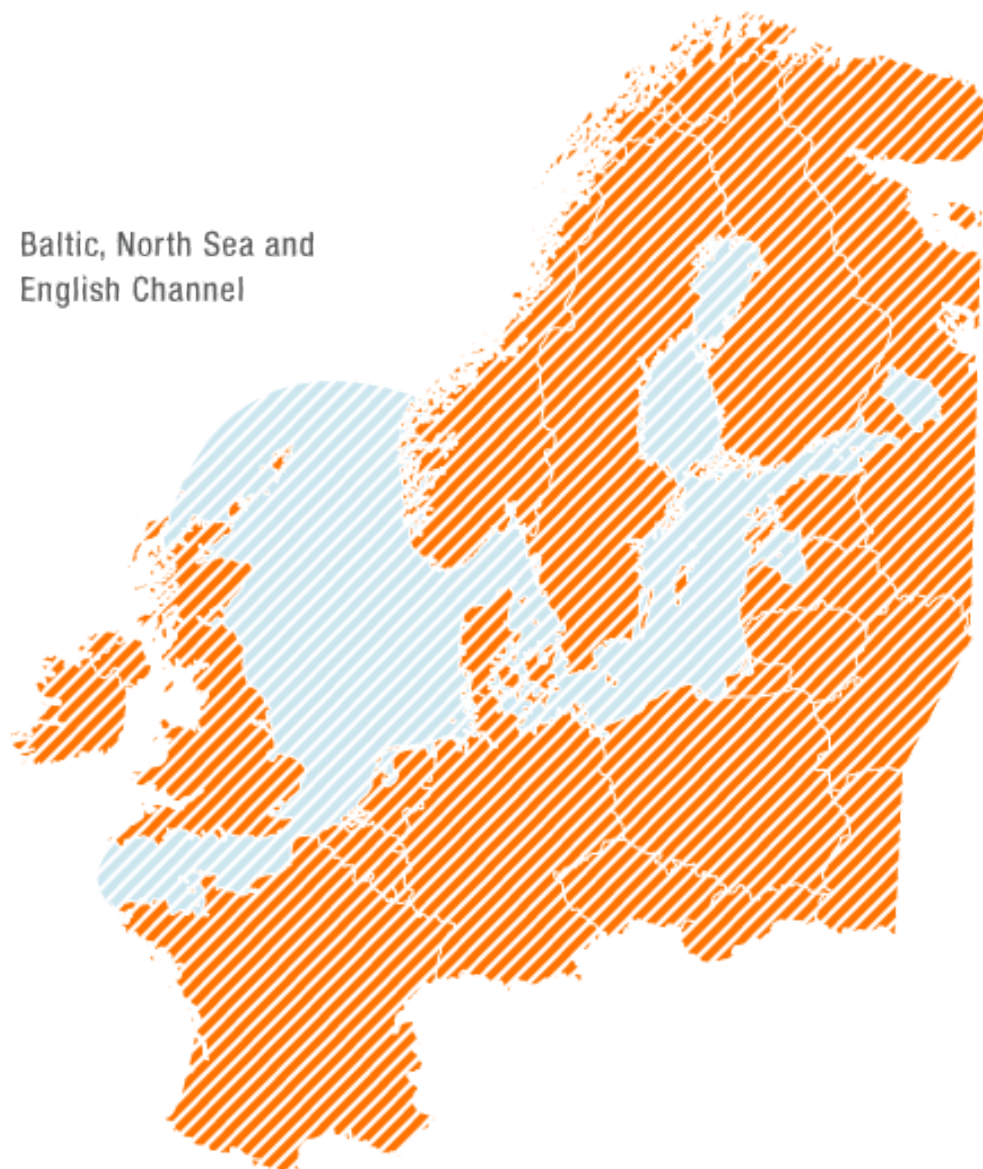
Emission legislation – IMO fuel sulphur cap



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



Sulphur emission control areas (SECA)



Sulphur and nitrogen emission control areas (SECA and NECA)



Reducing nitrogen oxide emissions

The IMO NO_x Tier II rules have been in force as of 2011. The Tier II NO_x limit is 20% below the 2010 emissions levels. All Wärtsilä portfolio products are IMO NO_x Tier II compliant. The next NO_x emissions level, IMO Tier III, will be valid from 2016 onwards. This is expected to demand a reduction of 80% in NO_x levels from Tier I levels in the NO_x Emission Control Areas. An 80% NO_x reduction requires a step change in terms of engine technology and product offerings. Wärtsilä is looking into different solutions involving:

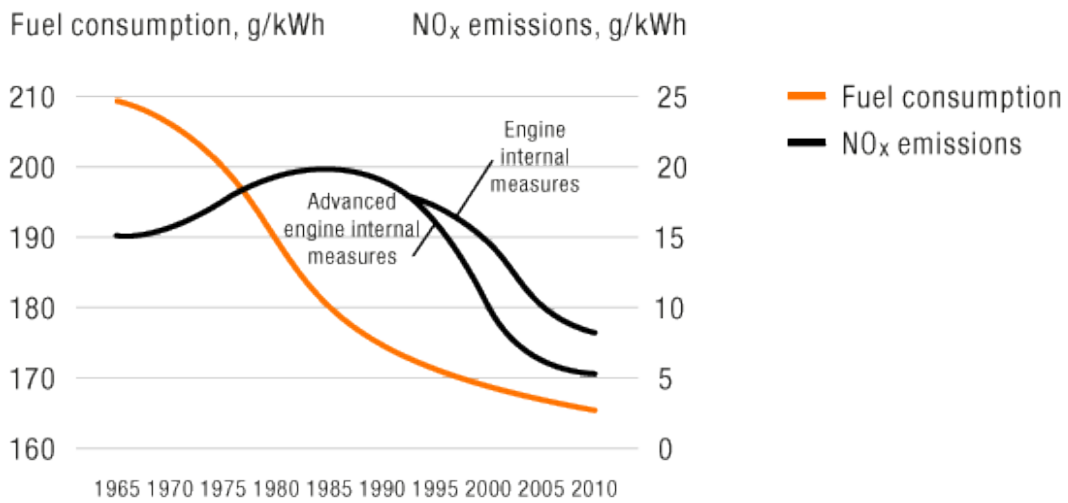
- Engine internal technologies
- Aftertreatment technologies
- Fuel (gas) related technologies

Gas engines already comply with IMO NO_x Tier III, but development of other technologies will be needed, as will the integration between them. A driving factor in this work is the lifecycle cost of the

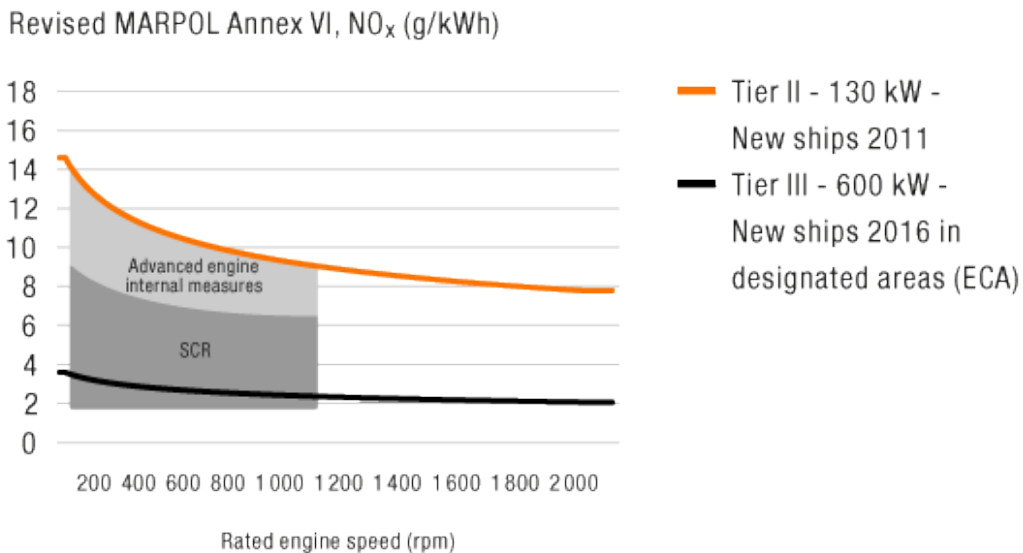
solution. There will be two basic engine technologies that enable diesel engines to reach Tier III NO_x emissions requirements: Selective Catalytic Reduction (SCR) and Exhaust Gas Recirculation (EGR).

Selective Catalytic Reduction will play an important role in the future, and it is essential to ensure that combinations of SCR and scrubbers are applicable. Wärtsilä has experience in SCR systems with a wide range of fuels. Wärtsilä is able to deliver also SCR solutions for high sulphur applications, thus ensuring the compatibility of SCR solutions with scrubbers. However, further development and commercialisation work will be carried out to optimise the system for a wider scope of applications and will take into consideration various side effects and boundary conditions.

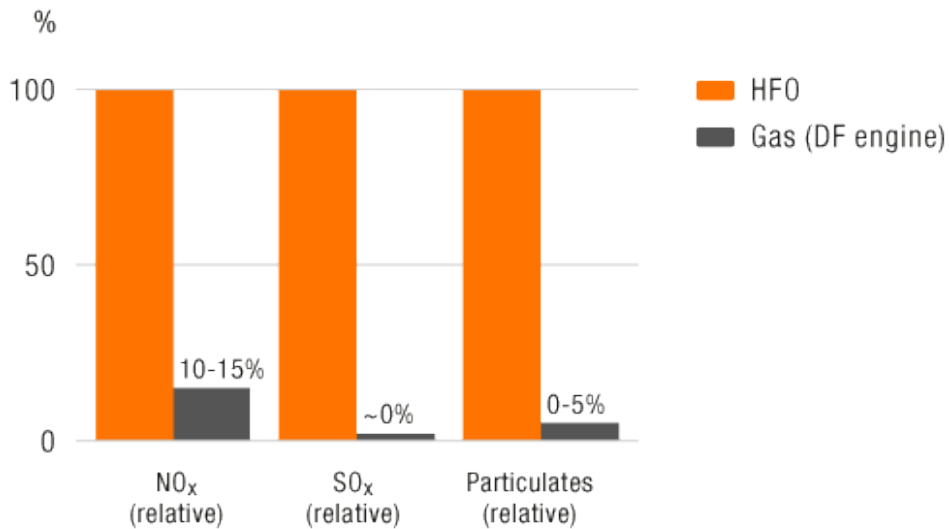
Development of diesel engine specific fuel consumption and NO_x emissions



Emission legislation – marine application (IMO)



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



Reducing greenhouse gas emissions

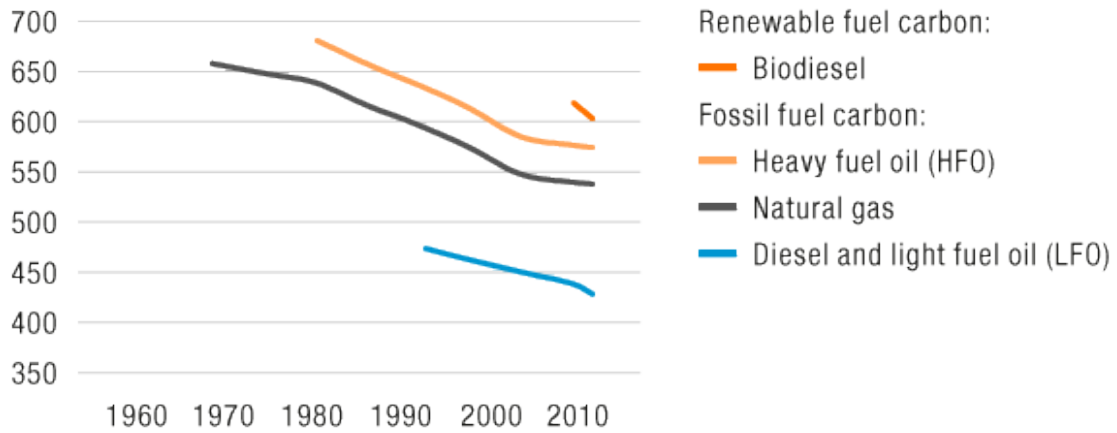
In addition to improving the efficiency of its solutions, Wärtsilä continuously develops technologies for reducing greenhouse gas linked emissions from both diesel and gas engines. The most important of such emissions are carbon dioxide (CO₂) and methane (CH₄). Wärtsilä has put significant emphasis on the research and development of gas engine technology and as a result is a world leader in this field. For gas engines, Wärtsilä is developing technologies such as Ultra Low THC (Total Hydro Carbons) emission reduction, which reduces the THC levels by 30-90% by utilising both primary and secondary technologies.

By the end of 2012 many benefits have materialised and especially at low load the methane slip is reduced by as much as 75%.

Many of the engine optimisations can also be retrofitted on existing older engines. These measures can include optimising combustion space, updating the software that is controlling the combustion, and a general optimisation of the machinery power management.

Development of specific carbon dioxide emissions of Wärtsilä engines

Specific carbon dioxide (CO₂) emissions



Water solutions

In 2004, the International Maritime Organization (IMO) adopted the Global Ballast Water Convention, which mandates the management of ballast water and sediments on both new builds and existing vessels to protect local biodiversity from non-indigenous invasive species. These may cause a negative economic impact on society, reduce output from fisheries and adding substantial costs associated with control and clean up measures. It is estimated that around USD 1.4 trillion per year is spent on clean-ups, economic losses and environmental damage related to ballast water transportation from one ecological zone to another. The convention is expected to come into force during 2013. In addition, the US Coast Guard announced its own regulatory guidelines in June 2012, which mirror the performance requirements set out in the IMO Convention, but require equipment to be assessed on more stringent test protocols based on U.S. EPA (US Environmental Protection Agency) guidelines.

A choice of three ballast water management systems (BWMS) are available from Wärtsilä, two AQUARIUS[®] models obtained through the acquisition of Hamworthy in 2012 and Marinex UV from an ongoing joint development with Trojan Technologies. The Wärtsilä AQUARIUS[®] UV BWMS was granted IMO Type Approval in December 2012 and both AQUARIUS[®]EC and Marinex UV type approvals are expected mid 2013.

The type approval of Wärtsilä's AQUARIUS[®]UV endorses BWMS market entry and provides ship owners with greater cost effective BWMS technology choice and installation flexibility through its modular design approach and further reaffirms the company's commitment to develop environmental solutions for the marine industry.

	IMO	US Coast Guard	
Organisms > 50 µm	< 10	< 10	/ m ³
Organisms 10-50 µm	< 10	< 10	/ ml

Escherichia coli	< 250	< 250	cfu* / 100 ml
Intestinal enterococci	< 100	< 100	cfu* / 100 ml
Toxicogenic vibro cholera	< 1	< 1	cfu* / 100 ml
<i>Implementation year</i>	<i>2012</i>	<i>2012</i>	
* cfu = colony-forming units			

Creating new solutions

Developing groundbreaking technology to cut emissions

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

In this programme, Wärtsilä is focusing on developing an advanced engine technology, which with the turbocharger, is able to reach the highest possible performance, thus creating a cost-effective commercial solution for its customers. ABB Turbo Systems is delivering the turbocharging technology with defined performance parameters in terms of airflow, pressure ratios and efficiency.

The technology will be implemented in specific market segments where lifecycle costs are of the highest importance. The first industrialized engine has been delivered from the Vaasa factory where the engine's performance, as well as the manufacturing process, has been validated.

Enabling gas operations in ships

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

Wärtsilä is developing a complete portfolio of medium-speed gas engines and related fuel handling systems for LNG tankers and gas-fuelled ships. Wärtsilä is also developing 2-stroke gas engine technology.

Enabling ship power production from captured emissions of Volatile Organic Compounds

Wärtsilä continues to improve the efficiency of power production by utilizing ship based VOC recovery systems. This is achieved by closely integrating the VOC capture plant with a dedicated combustion and power unit. The overall system efficiency is thereby improved by 20-40%. The invention is patent pending and due to be tested in 2013.

Enabling more efficient utilization of auxiliary engines on Very Large Gas Carriers

During recent years, Wärtsilä has developed a next generation system for the liquefaction of vapor from the Liquefied Petroleum Gas stored onboard VLGCs. By an inventive combination of larger liquefaction units, variable speed drive, and an integrated condensation unit for the less volatile cargo carried by the VLGC, the power out-take can be tuned for optimal loading of the auxiliary engine. The resulting emission reductions average between 1-1.5 tons/day/ship. The first vessel with this design will be commissioned during 2013.

Enabling liquefied biogas to be available for public transportation

Wärtsilä has increased its product portfolio of gas liquefiers with the development of a new liquefier process featuring improved efficiency compared to current competing technologies. The process has been developed with scalability in mind, and is equally well suited for both smaller farmland bio digesters and larger industrial bio digesters. The first commercial plant is under development and is scheduled to be commissioned during the second quarter 2013. The estimated emission reductions that this plant offers is some 12,000 tons per annum. In parallel to the commercial plant, a test facility is under development to ensure that the focus on efficiency and system improvements can be maintained.

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

Wärtsilä is developing a combined LNG fuel and cargo handling system for Liquefied Petroleum Gas carriers. The system utilizes the cold energy from the LNG fuel to liquefy the cargo boil off vapor during the voyage. The expected emission reductions from the auxiliary engines alone are in the region of 3.5-4.5 tons/day/ship.

Expanding fuel flexibility

Wärtsilä's power plant solutions are fuel flexible. The plants can be designed as dual fuel plants or can be converted from one fuel to another during the plant's lifecycle. Wärtsilä sees an increasing demand for large scale dual fuel power plant projects, especially in those markets where a natural gas infrastructure is under development. Wärtsilä dual fuel power plants can provide electricity from day one with liquid fuels, and then switch to natural gas when it becomes available. This approach maximizes the plants' availability and efficiency over the lifecycle.

Wärtsilä is devoting more resources to the use of alternative fuels as part of its pro-active approach to providing cost-effective, flexible, and environmentally sound solutions for its customers. Wärtsilä is studying different fuel sources, such as vegetable oils, animal fats and emulsions, in its fuel laboratory. During recent years, we have tested engines running on tyre based pyrolysis oil, oil from a rock burning refinery process, different kinds of condensates coming from oil and gas wells, jatropha oil, fish oil, chicken oil, traditional animal fats, and different kinds of synthetic oils. Wärtsilä has also tested and developed solutions for operating engines on condensates, which enables them to operate on locally available fuels in oil fields and to utilise flare gases, thereby reducing greenhouse gas emissions.

Enabling a global transition to a more sustainable electricity infrastructure

Wärtsilä develops its products and market approach to offer high value solutions for a more modern and sustainable energy infrastructure. Wärtsilä's flexible power solutions make it possible to install much larger quantities of variable, non-dispatchable wind and solar power capacity to the electrical

systems without jeopardizing system stability. The same flexible power plant solutions offer unique value in grid contingency situations where dynamic features, such as extremely fast starting (5 minutes to full load), loading and stopping, are of paramount importance. Additional benefits include a high energy efficiency level over a wide load range, multifuel operation, no water usage, and the ability to locate the power generation facility within the load pockets, i.e. in cities, even in California where they have the most stringent emission requirements. The combination of wind power and Wärtsilä dynamic power plants offers high potential for dramatically reducing CO₂ emissions worldwide.

Enabling efficient performance without water consumption

Standard Wärtsilä power plants are equipped with closed loop cooling systems. The system enables efficient performance without water consumption. This feature is available for the Wärtsilä Flexicycle plants, where waste heat is used for additional power generation. Continuous work is ongoing in order to increase the power plant output and efficiency without the need to use water in the plant.

Long-term research activities

The HERCULES programme

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

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

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

CLEEN – Cluster for Energy and the Environment

CLEEN Ltd. maintains and develops a world-class open innovation platform for market-driven joint research between industry and academia, and is part of SHOK (Strategic Centres for Science, Technology and Innovation). Wärtsilä is participating in the Future Combustion Engine Power Plant (FCEP) research programme under CLEEN, which was started on 1 January 2010. The programme focuses on research topics and development efforts in the areas of reciprocating engine technologies and related power plant technologies. The key areas of research include improvements in the combustion process, energy efficiency, emission reduction methods, heat recovery systems, and power conversion technologies. Other central research areas include automation & control, fuel

flexibility, and the use of renewable fuels in combustion engines. The programme objectives and scope have been set jointly by the industry and research institutions, thereby enabling deep co-operation in executing the programme, and promoting breakthrough innovations across broad interfaces.

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

Co-operation with stakeholders

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

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

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

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

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

Summary of environmental aspects of Wärtsilä's products and solutions

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

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

Environmental aspect and product	Environmental impact and component	Wärtsilä's solution	Customers' options
Consumption of fuel & lubricating oils	Depletion of natural resources		
Engines and power plants	Liquid oil-based fuels (e.g. LFO, HFO, refinery residues), gas fuels (e.g. LNG, NG, CNG) and biofuels (e.g. rapeseed and palm oil, biomass), lubricating oil	Improving energy efficiency, reducing the consumption of lubricating oil, multifuel engines, utilising biofuels and alternative fuels in power production	<ul style="list-style-type: none"> Planned or optimised maintenance and correct operation Personnel training Using environmentally favourable fuels Using environmentally favourable lubricating oils Using environmentally favourable seals
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	
Pump systems	Diesel fuel, lubricating oil, hydraulic oil	Focus on choosing the most environmentally sound solutions by having strategic suppliers with the proper environmental focus	
Oil & Gas systems	Lubricating oil, hydraulic oil, chemicals	Focus on choosing the most environmentally sound solutions by having strategic suppliers with the proper environmental focus	
Solid and liquid waste	Increased waste and landfill sites		
Engines	Lubricating oil used, filters and components, waste oil	Using recyclable materials and optimising the use of material, automated filters, long service intervals, overhauling components, reducing the consumption of fuel	<ul style="list-style-type: none"> Planned or optimised maintenance and correct operation Personnel training Recycling and proper waste disposal Evaluation of the potential uses of end products Optimising process parameters
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	
Pump systems	Lubricating oil, used components	Using recyclable materials and optimising the use of material	
Oil & Gas systems	Filters, waste oil, waste water (sea water cooling)	Using flushable waste water filters and recyclable materials	

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

Environmental performance indicators

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

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

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

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

Monitoring environmental impacts

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

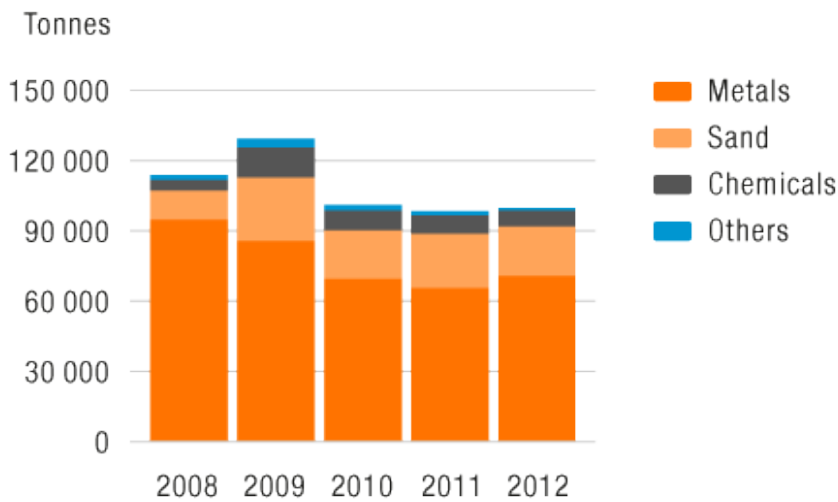
- participation in the monitoring of air quality with other local stakeholders
- measurement of air emissions
- charting of noise levels
- periodical effluent analysis
- soil analysis
- dispersion analyses and bio-indicator surveys.

Materials, energy and water

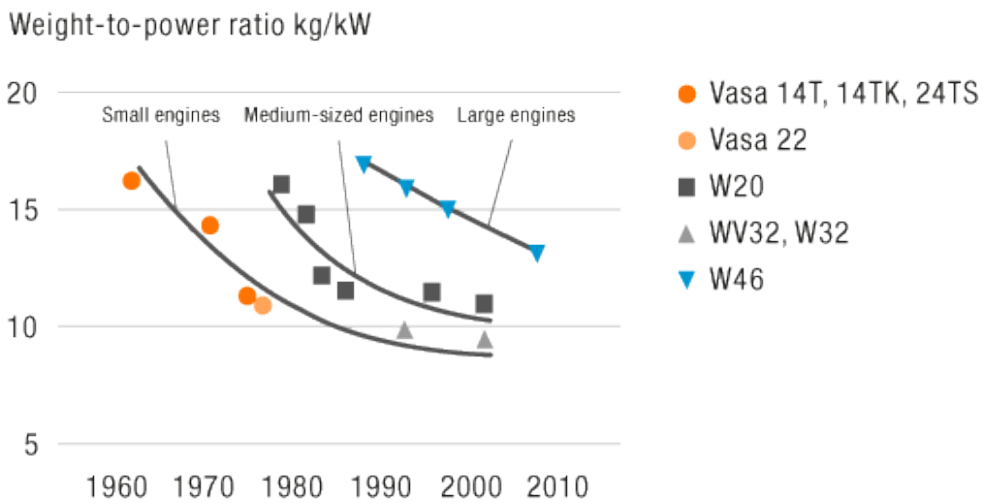
Materials

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys and bronze. Recycled material content of these metals vary depending on the material and supplier in question. Recycled material, such as end-of-life coins and bronze propellers, is used for example in the casting of new propellers. In 2012, the total material usage was 99,570 tons (98,142). The major material groups were various metals 71% (66), sand 21% (24) and various chemicals 7% (8).

Materials



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

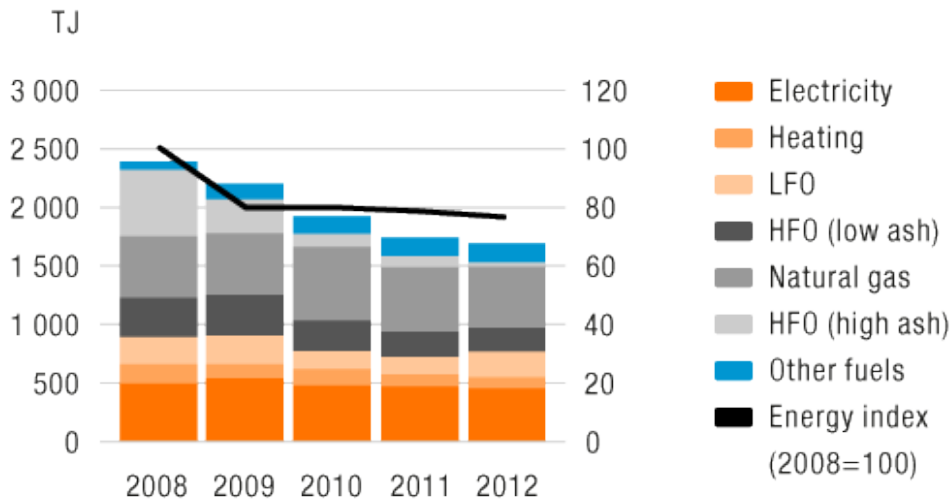


Energy

Total energy consumption

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

Annual energy consumption

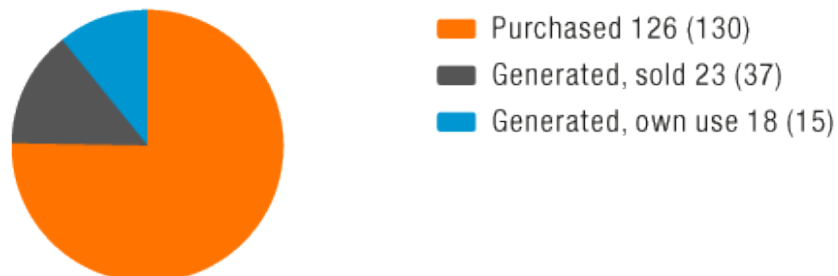


Electricity

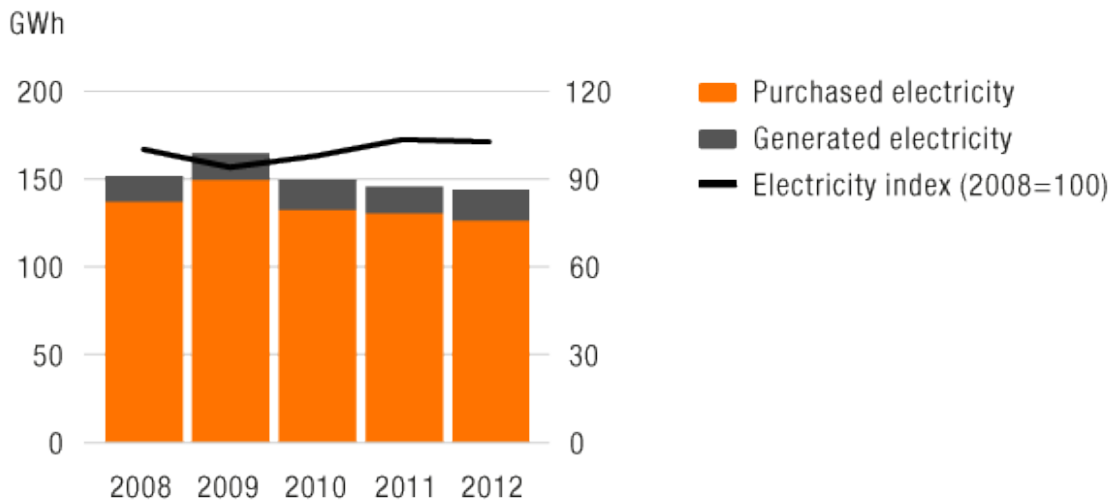
Wärtsilä uses electricity in its manufacturing operations - for example in machining components - and in service workshops and offices. Both the electrical and the heat energy generated during engine test runs can be utilised. Wärtsilä's aim is to use the electrical energy for its own purposes while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

Electricity balance 2012

GWh



Annual electricity consumption



Heat

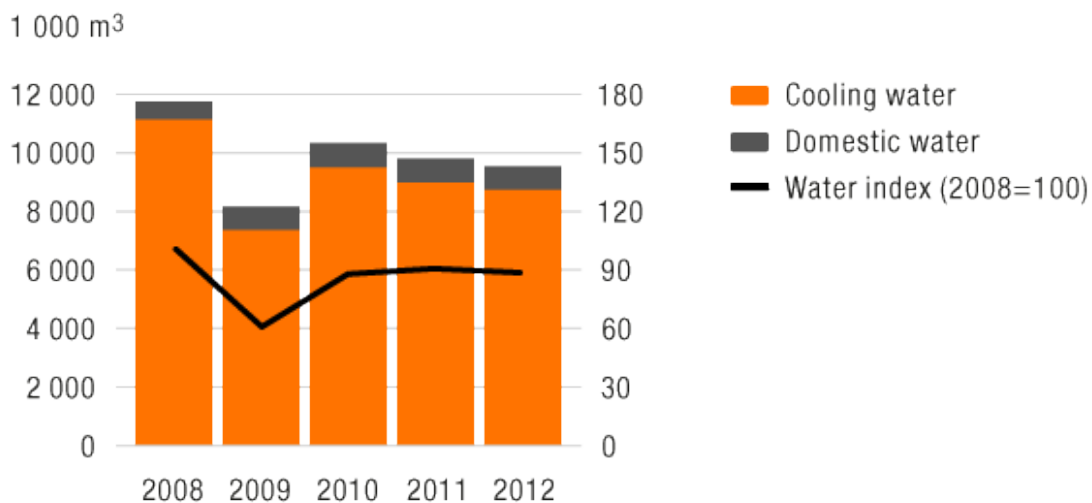
Heating for factories and offices accounts for most of Wärtsilä's consumption of heat energy. In several factories, the heat generated in engine test runs is used for heating. Some factories and offices are connected to a local district heating network, some have their own heating plant and some use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

Water

Wärtsilä's water consumption can be divided into two categories: domestic use and cooling use. Domestic water from municipal waterworks 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 or treated on site before being discharged. If the effluent is not suitable for sewage treatment, it is taken away for appropriate processing, for example to a special treatment plant for hazardous wastes.

Annual water consumption

Total annual water consumption split by the purpose of use. Out of cooling water about 99% comes from local surface watercourses where only heat is released along with clean water, and about 1% of cooling water comes from municipal water utilities.



Emissions and wastes

Emissions to the air

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

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

In addition to direct CO₂ emissions, Wärtsilä's operations generate indirect CO₂ emissions. In 2012, the calculated secondary CO₂ emissions were 54,011 tons (56,610) (from purchased electricity and heat) and the CO₂ emissions from flights totalled 39,033 tons (37,459).

Wärtsilä has taken several measures to reduce its indirect CO₂ emissions. The energy efficiency commitment aims to reduce energy consumption and emissions. In addition, Wärtsilä's focus lies on reducing travelling by implementing a strict travel policy and by using three main virtual meeting concepts: Office Communicator, which enables live chats between two people or more; Live meetings allowing multi-person meetings from personal computers, in which presentation material can be

shared and the Telepresence videoconferencing system. Wärtsilä Live and Telepresence are in everyday use. Approximately 400 Live-meetings are arranged daily, and there are 32 Telepresence rooms established in Wärtsilä premises in 18 countries.

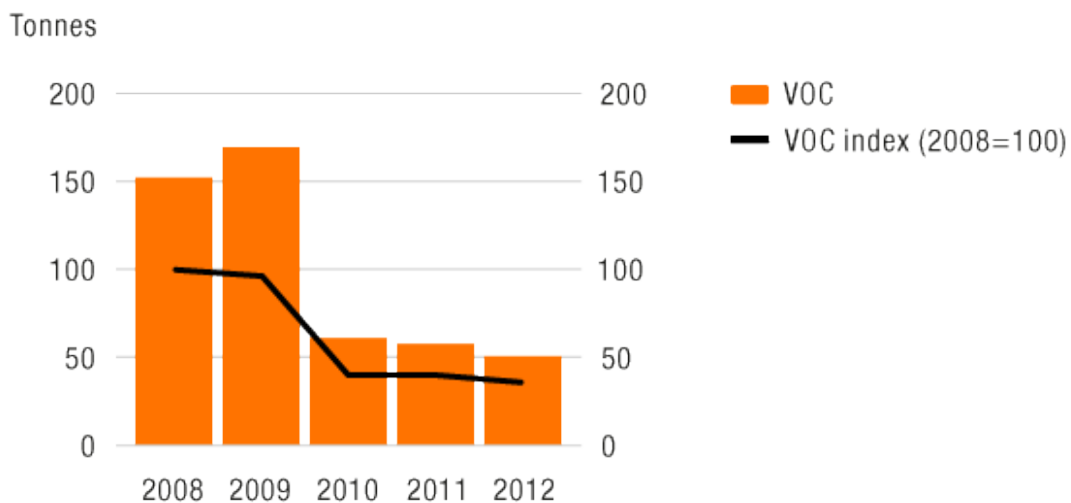
Waste management

Manufacturing activities cause various wastes. These are divided into two main categories: hazardous and non-hazardous wastes. Hazardous wastes include cutting fluids, various types of waste oil, paints and solvents, oily wastes, solid wastes etc. 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.

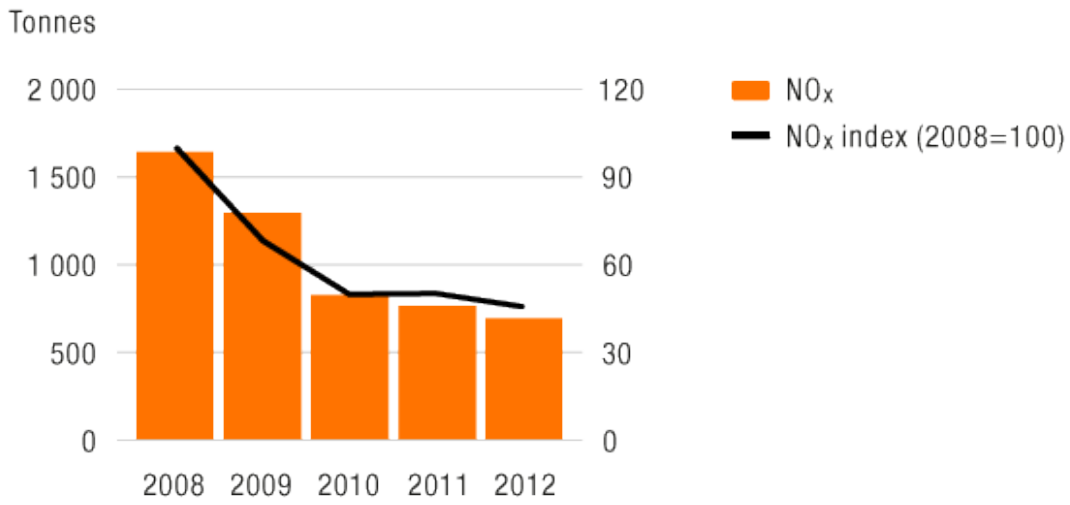
Waste management in Wärtsilä has four aims:

- 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.

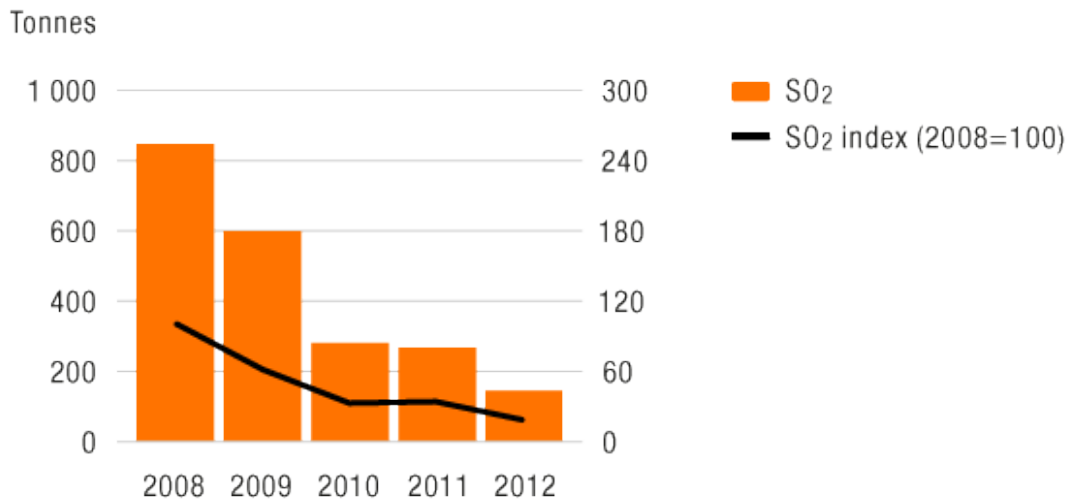
Annual VOC emissions



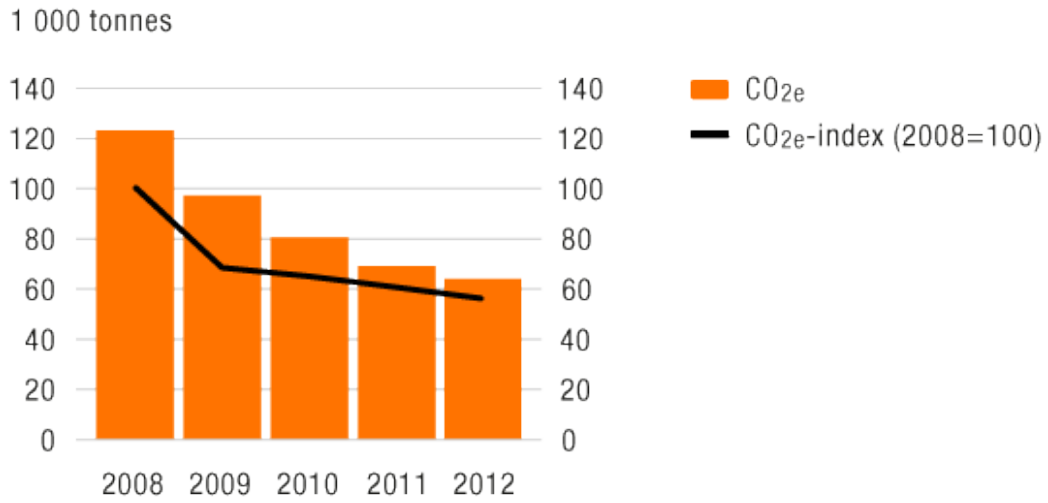
Annual NO_x emissions



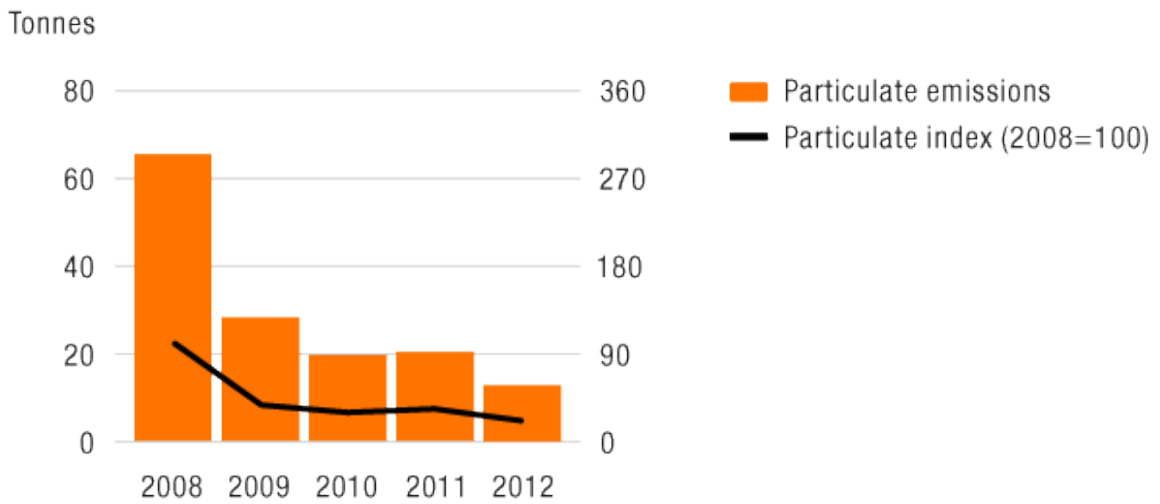
Annual SO₂ emissions



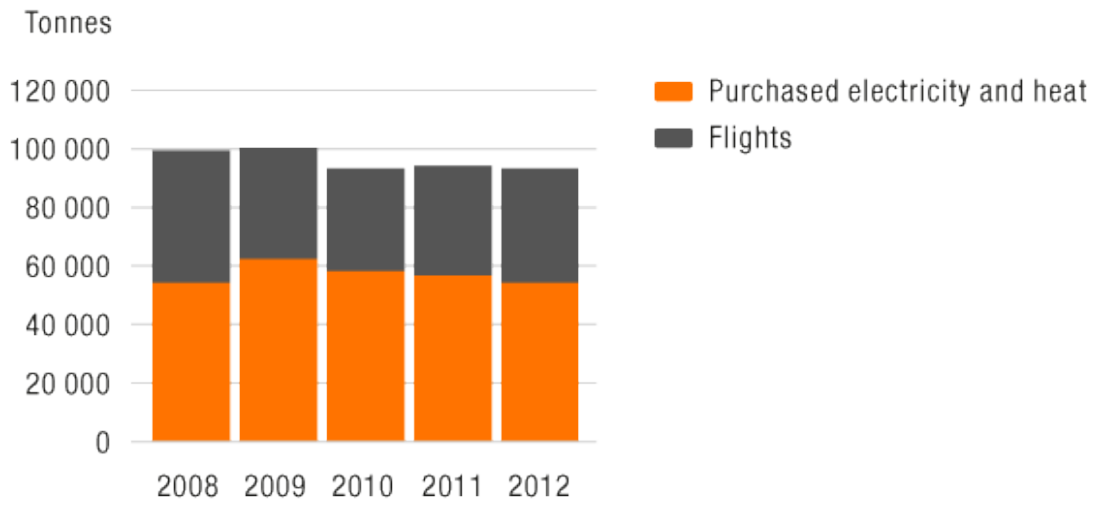
Annual CO_{2e} emissions



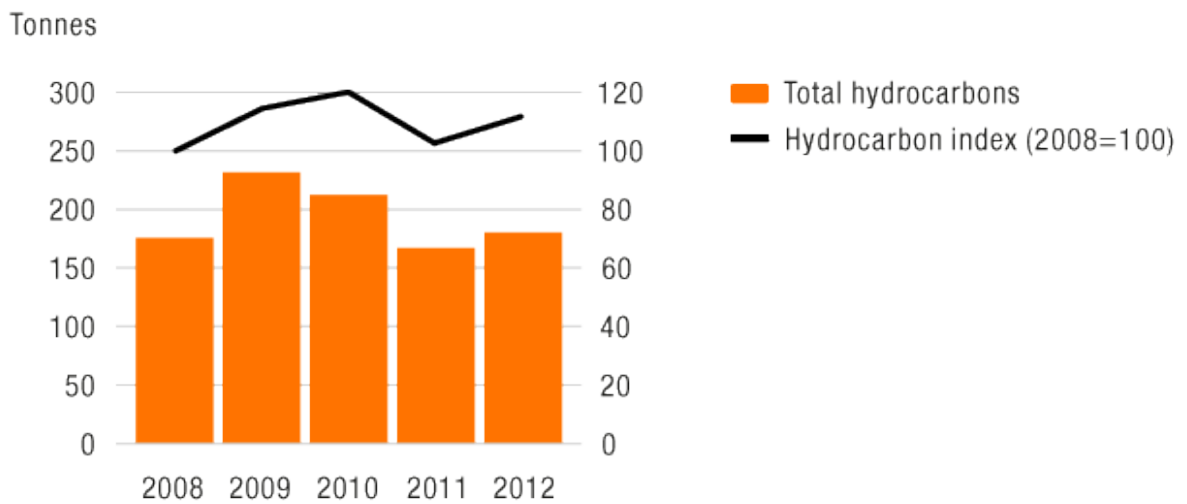
Annual particulate emissions



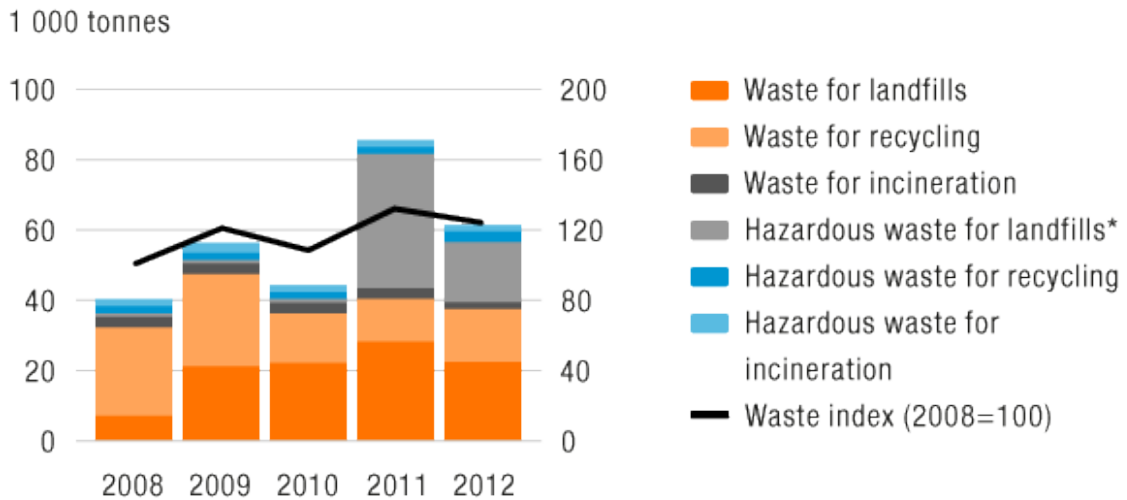
Indirect CO₂ emissions



Total hydrocarbons



Annual waste



* The hazardous waste for landfills include 36,269 t of contaminated soil in 2011, and 16,541 t of contaminated soil in 2012, which are not considered as operational waste.

Compliance with legislation

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

Environmental disturbances and complaints

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

Reported disturbances cover incidents in which the Wärtsilä company concerned has usually been obliged to report the disturbance to the authorities. The following main environmental disturbances occurred in Wärtsilä's business locations in 2012:

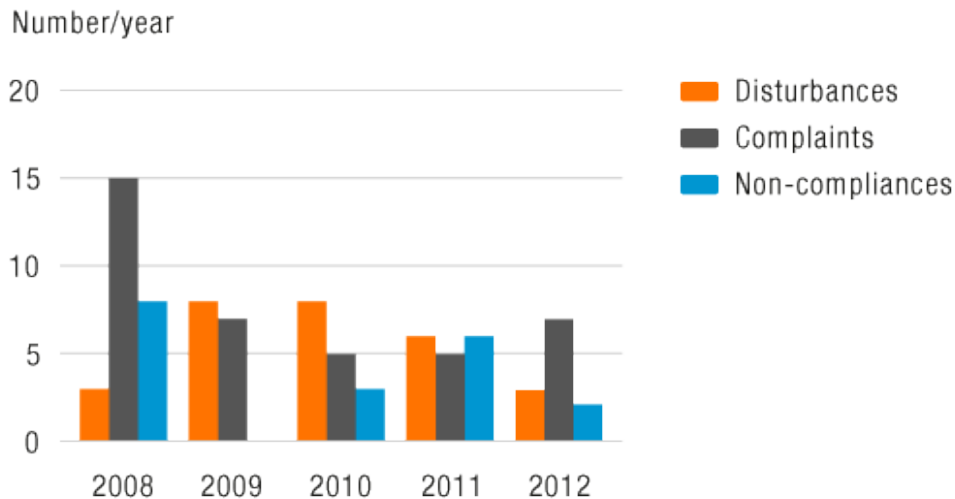
- 1 soil contamination
- 1 oily water discharge
- 1 washing chemical discharge

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

Cases of non-compliance

Wärtsilä Netherlands B.V. had one non-compliance case related to having started building demolition activities without a prior remediation plan. A remediation plan has been submitted to the authorities. The water consumption of Wärtsilä India Ltd. continued to exceed permit limits. Additional water saving measures will be taken and a re-examination of the permit conditions on water consumption will be requested in spring 2013.

Disturbances, complaints and non-compliances



Non-compliance cases presented in previous reports

Wärtsilä Azerbaijan LLC arranged the required environmental permits. Wärtsilä UK Ltd. corrected the piping installations to align with water regulations. Wärtsilä Danmark A/S has implemented a permanent solution to the waste water treatment. The status of earlier non-compliance cases of Wärtsilä India Ltd is the following: A chimney with sufficient height was built. The water consumption has been reduced and additional measures are planned for 2013.

Environmental costs and liabilities

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

Wärtsilä real estate and environmental responsibilities

The real estate that Wärtsilä owns or leases is mainly located in urban areas. The company is not aware of any properties that are situated in areas where biodiversity could be endangered. Environmental risks and liabilities are identified and reviewed as part of the overall risk management. In Wärtsilä's operations, potential liabilities are primarily related to the company's real estate. Environmental liabilities are systematically scrutinised in conjunction with every acquisition or sale of

real estate. Wärtsilä has recognised certain cases where potential environmental liabilities may exist, but these are not expected to have a significant financial impact on Wärtsilä.

Environmental capital expenditures and operating expenses

MEUR	2012	2011	2010	2009	2008
Environmental capital expenditures	0.8	0.9	2.9	1.1	2.6
Environmental operating expenditures	6.3	6.1	5.5	4.2	5.4

Personnel and social performance

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

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

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

Wärtsilä's social targets

Target	Schedule	Status
<p>To make Wärtsilä a workplace where all employees have the opportunity to show their best and develop their career – To build a company of equal opportunities.</p> <p>- Target 2012: More than 50% of the open vacancies* filled from internal applicant pool including promotions and lateral moves.</p> <p>- Target 2012: An average 5 training days/employee per year.</p>	Continuous	<p>Open vacancies filled: 51% internal selections and 49% external selections.</p> <p>3.4 trainings days/employee during 2012.</p>

<p>To develop a new way of working in supplier relations, safeguarding Wäertsilä's sustainability commitment.</p> <p>- Target 2012: Implementation of revised model for supplier assessment and development.</p>	2015	<p>The model for supplier assessment and development was reviewed in 2012, and will be applied in 2013.</p> <p>In 2012, a Supplier Handbook was developed to address better Wäertsilä's requirements to suppliers. A great part of this handbook is describing sustainability related requirements for suppliers.</p>
<p>Development discussion coverage 100%.</p>	Continuous	<p>84% of All personnel have completed development discussions in 2012.</p>
<p>To implement certified EHS management systems in all subsidiaries (excluding purely sales offices).</p>	Continuous	<p>3 new OHSAS 18001 certified companies and one new ISO 14001 certified company during 2012. The management system coverage is presented in the management system section.</p>
<p>To reach the long-term goal for zero lost time injuries.</p>	Continuous	<p>In 2012, Wäertsilä continued improving, consolidating and spreading the safety culture. Over 3,200 employees completed the 4-hour e-learning focusing on Wäertsilä's Zero Injury approach. The positive trend continued, the lost-time injury frequency rate was 5.5 compared to the previous year's 6.3.</p>
<p>To ensure Code of Conduct commitment throughout the organisation.</p> <p>- Target 2012-2013: 95% coverage of participation in Code of Conduct learning module.</p>	2013	<p>E-learning module was published in 11 languages in spring 2012. At the end of 2012 12,392 employees covering 66% of total employees has successfully participated in the training.</p>
<p>To reinforce the Anti-corruption/broker training of key employee groups and obtaining anti-corruption commitments from all key employees trained.</p> <p>- Target 2012: To identify the key employees (all sales personnel, company presidents and controllers) to be included in the training by each business.</p> <p>- Target 2013: Training of key employees to achieve 85% completion rate.</p> <p>- Target 2014: Training of key employees to achieve 95% completion rate.</p>	2014	<p>A new Anti-Corruption Policy was launched in September 2012. The implementation of the Policy is to be done via a tailored e-learning course from 2013 onwards. All key employees and also other English literate personnel with computer access will be trained. Additional nine language versions of the e-learning course will be prepared in 2013.</p> <p>Broker Directive was updated in December 2012. New target is to identify and train the key employees (all sales personnel, company presidents and controllers of each business) in addition to the Anti-corruption training.</p>

To conduct three community support projects by 2015.	2015	First project started in 2012. Wärtsilä supports the building of 2 schools in Southern Sudan.
To improve well-being at work and increase productivity by reducing the sickness day cost. - Target 2012: To conduct analysis and action plans for improvement in Germany, Finland, Spain, Norway and Italy.	2015	Targeted countries informed. Current status analysis and action planning pending - postponed to 2013.
* Open vacancies in job levels 3-6		

Personnel

Structural changes in 2012

In 2011 the management announced the Hamworthy acquisition, which was then closed on 31 January 2012. Hamworthy was divided into two business units, Flow and gas solutions and Environmental solutions. Integration to Wärtsilä Ship Power business started immediately and was led by global integration team. The acquisition brought important growth synergies to Wärtsilä in the offshore, marine gas applications and environmental solutions markets. Wärtsilä Hamworthy employs in total 1,200 people globally.

In May 2012 Wärtsilä signed a contract to acquire the assets and business of MMI Boiler Management Pte Ltd., the Singapore-based company specialising in the service and maintenance of boilers for marine and industrial applications. MMI Boiler Management has its main operations in Singapore and coverage throughout Southeast Asia and the Pacific region. The acquisition further strengthens Wärtsilä's boiler services offering and enhances our leading position in the global marine services market. Furthermore, it supports our Services' strategy of constantly developing the offering with value-enhancing services within existing customer segments. MMI Boiler Management has a strong market position in Southeast Asia and the Pacific region, particularly within the offshore segment. The company's activities include the service, maintenance, repair and installation of boilers, for both marine and land-based customers. MMI and the company employed 138 employees.

In July 2012 it was announced that Wärtsilä and Metso Corporation had received the relevant regulatory approvals from the European Commission for the transaction whereby Wärtsilä sells its share in MW Power Oy to Metso. According to the agreement published on 31 May 2012, Wärtsilä sold its 40 per cent share in the joint venture MW Power, to the other joint venture party Metso. Metso thus acquired full ownership of MW Power. Wärtsilä and Metso signed a contract in September 2008 to form the MW Power joint venture, which combined Metso's Heat & Power business and Wärtsilä's Biopower business.

On 20 December 2012 Wärtsilä and Yuchai Marine Power Co. Ltd. (YCMP), a subsidiary of Guangxi Yuchai Group, signed an agreement in Zhuhai, China to establish a 50/50 joint venture for manufacturing medium-speed marine engines in Zhuhai City, Guangdong Province. The joint venture will serve the increasingly dominant Chinese shipbuilding industry, with the focus being on the assembly and testing of Wärtsilä 20, Wärtsilä 26 and Wärtsilä 32 engines. Operations are planned to

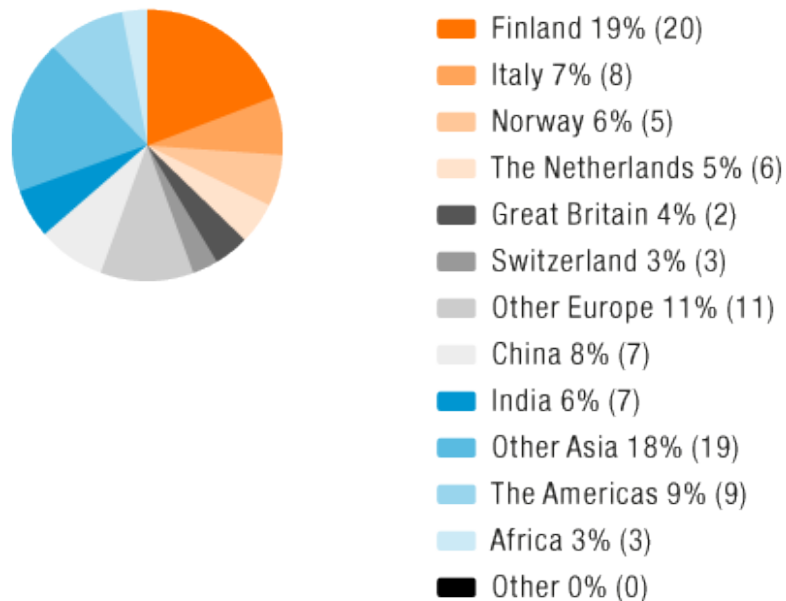
start in 2014. The joint venture is subject to approval by the relevant authorities. The joint venture with YCMP is a further step in Wärtsilä's strategy to continuously strengthen its competitiveness, to capitalize on significant growth opportunities, and increase its focus on the offshore and special segments in China, the world's largest shipbuilding country.

During the spring 2012 a global project concerning organizational realignment and redesign was started. The change in structures and responsibilities were mostly done in Ship Power and in Industrial Operations divisions. Through the change 961 people were transferred from Industrial Operations into Ship Power business lines. The main goal of the change is on the one hand to redesign the organisation to better support more entrepreneurial way of working and leading business, and on the other hand, build in more transparency and more clear business accountability by establishing global business lines with end to end responsibility into Ship Power global division. The Industrial Operations division was also renamed PowerTech. A detailed transition plan was finalised in September and the new organisation became effective as of 1 October 2012.

Personnel

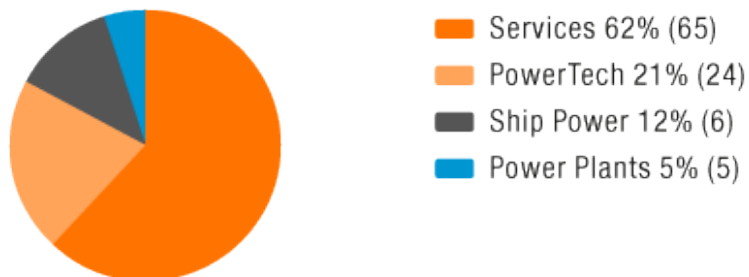
In addition to direct employment, Wärtsilä employed also indirectly an external workforce totalling 2,878 man-years in subcontracting at its factories and units. The units located in Finland had a total personnel of 3,640 employees.

Personnel by country

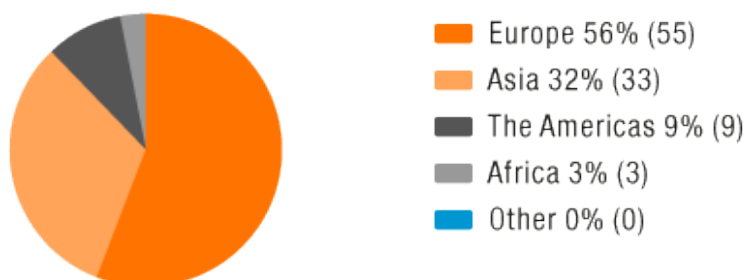


Personnel by business

The increase in Ship Power personnel relates mainly to the Hamworthy acquisition.



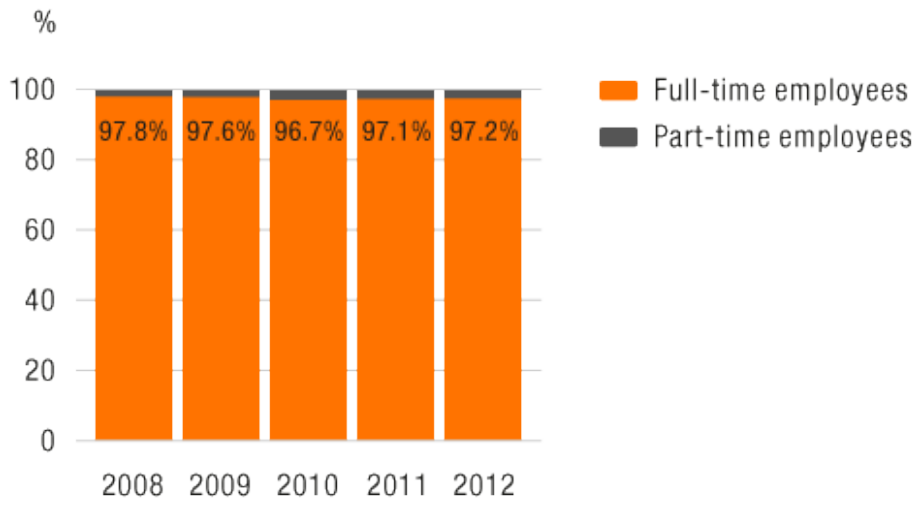
Personnel by market area



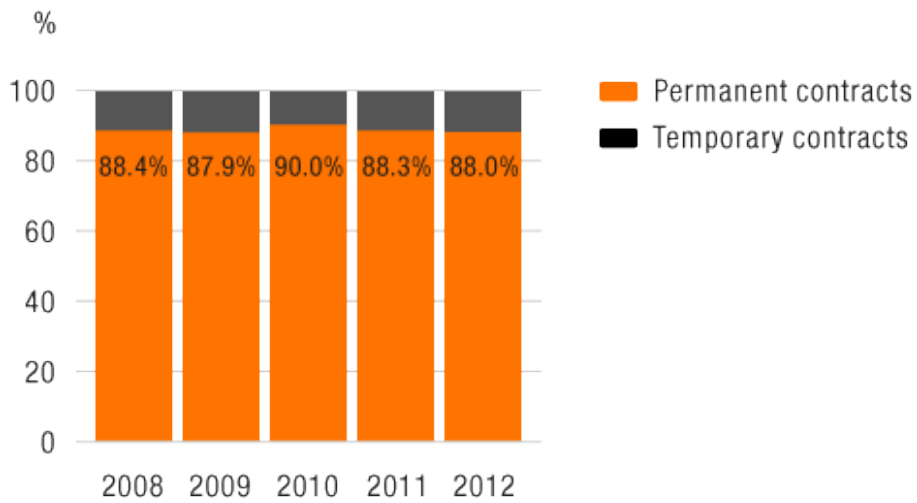
Number of employees per business

	No. of employees	Change
Power Plants	932	77
Ship Power	2 139	1 140
Services	11 163	-5
PowerTech	3 811	-280
Other	842	42

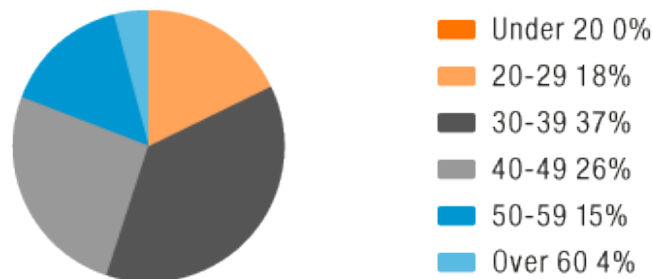
Full-time/part-time employees



Permanent/temporary employees



Age structure



All in all, 336 employees were reduced globally during 2012 based on the different local and global redundancy programs started in 2011.

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

On 20 August Wärtsilä Finland Oy announced the start of the consultation process regarding the reorganisation of the Fuel Cell function. The negotiations regarding the adjustments started due to Wärtsilä's renewed product development strategy, where the development of fuel cells is not seen as a contributing activity to company operations in a mid-term perspective. The consultation process originally affected 30 persons. In spring 2012 Wärtsilä started to evaluate possibilities together with an external cooperation partner with the aim of securing continuation of the activities. The establishment agreement of a new company, where Wärtsilä has a minority of ownership, was signed in December 2012. Nine employees from former Fuel Cell function will be employed by the new company.

On 1 November Wärtsilä announced its plans to align the manufacturing footprint and increase flexibility to adjust to the challenging market situation and ensure our competitiveness. The plan involved the moving of assembly and testing of Controllable Pitch Propellers and Gear boxes to China and Italy respectively. A group consisting of members from the local propulsion manufacturing management proposed to Wärtsilä a management buyout (MBO) for the current machine park and to become a supplier to Wärtsilä of machining activities.

On 23 November the two parties reached an agreement to proceed with the MBO proposal, and that a new company was to be started up at the premises of Wärtsilä in Rubbestadneset from January 2013 onwards. The new company was registered on 6 December with the name Olvondo Industries AS. The agreement comes into force on 1 January 2013 and from this date 88 Wärtsilä employees within the gear and propeller manufacturing will have a new employer.

In Finland temporary lay-offs at Wärtsilä's Delivery Centre Vaasa realised starting 17 December with a four week temporary lay-off period and through shortened work weeks until end of June 2013. During spring 2013 there will also be two more temporary lay-off weeks. The temporary lay-offs concern more than 700 persons. The temporary lay-offs will be around 40 days on an individual level.

Wärtsilä had 18,887 employees at the end of 2012 (17,913).

People management in 2012

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

In 2012 both Hamworthy integration and change to more entrepreneurial organisation have been major projects and strong focus for human resources as well. In addition to these global changes, many local change initiatives have been concluded.

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

Performance management

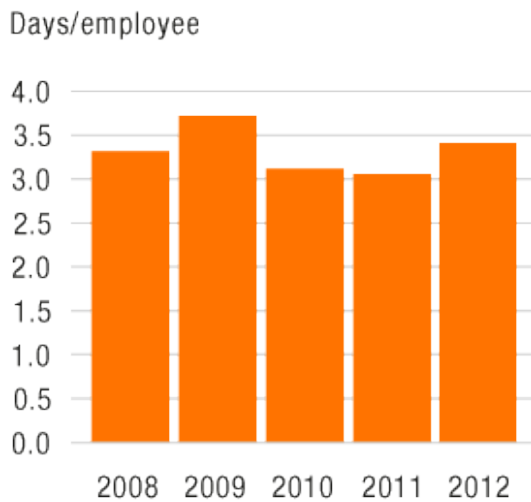
The performance management process supports Wärtsilä in reaching its business targets by translating business strategies to team and individual objectives. Each Wärtsilä employee needs to know and understand Wärtsilä's business strategy and its goals. More importantly, they need to know the targets set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

Learning and development

Wärtsilä continued its leadership development activities in many areas. New learning solutions for line managers have been developed to support the managers in their people management and leadership roles. An annual executive development programme was held in November, and six other global leadership development programmes for senior managers were carried out during 2012. The number of managerial training days is also followed regularly as one of the HR KPIs. Continuous development of new training programs for core competence areas in sales, project management and technology have been developed and delivered during 2012 and they will be part of the learning offering in 2013 as well.

Learning at work, self-learning, mentoring, coaching, job rotation and assignments designed to enable the competence development and the transfer of competence and skills from experienced to younger employees are integral parts of the development of learning and competence within the company. Employees are given formal classroom training at all organisational levels: from induction training for new employees to training courses for the company's top executives. Wärtsilä employees attend a total of 62,040 training days a year, averaging 3.4 days per employee. This indicates the broad scope of this function. Many of the training programs are tailored to the specific strategic competence development needs of the businesses.

Training days



Training days

Days/employee	2012	2011	2010	2009	2008
Managers and superiors	3.3	3.4	3.2	3.9	2.7
Other white-collar employees	3.9	2.5	2.9	3.8	3.3
Blue-collar employees	3.0	3.4	3.3	3.5	3.5

Engagement

The positive trend in development discussion compliance has continued. In 2012 compliance target has included also the blue collar employees. The global, average coverage of annual development discussions was 84%. Strengthening engagement through active strategy communication has been a main target for all Wärtsilä entities. Positive impact of the different communication initiatives was also visible in the sixth global employee satisfaction survey, MyVoice, which was conducted in March 2012.

Employee Practices

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

Equal opportunities

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

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

Employee benefits and remuneration

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

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

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

Minimum notice period

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

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

Competency management

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

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

Consultation and information procedures in Group companies

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

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

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

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

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

Recognition of excellent performance

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

Personnel in figures 2012

Number of employees at 31 Dec. 2012		18 887
Number of nationalities		107
Change in number of employees (net employment creation)		-416
Average age of employees	years	39.4
Male/female ratio	%	84/16
Executive positions globally: male/female ratio	%	91/9
Employee turnover (resigned)	%	6.9
Total payroll costs	MEUR	887
Aggregate coverage of different bonus schemes	%	60
Development discussions held annually	%	84

Occupational health and safety

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

The coverage of OHSAS 18001 certifications in Wärtsilä subsidiaries increased during 2012. At the end of 2012, 37 Wärtsilä companies operated with a certified occupational health and safety management system. These certified occupational health and safety management systems cover roughly 80% of Wärtsilä's total workforce.

In addition to the management system, Wärtsilä companies apply occupational health and safety programmes as required by local legislation, which are normally developed by occupational health and safety committees consisting of representatives of the companies' management and personnel. Altogether 71% of Wärtsilä companies have an occupational health and safety committee.

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

In 2012, Wärtsilä launched a global Zero Injury training program comprising a 4-hour e-learning and 4-hour practical training session. The target group for the training consists of Wärtsilä's front-line personnel working in factories, workshops and customer premises. The e-learning has been translated into nine major languages in order to ensure effective training in various countries. Over 3,200 employees had completed the e-learning by the end of 2012, and this training will continue during 2013.

Wärtsilä's Safety handbook, issued in 2011, was translated into 13 different languages during 2012, and hard copies were distributed to the Wärtsilä companies in which those languages are in use.

An internal safety training video published by Wärtsilä a year ago won the 2012 intermedia-globe Gold Award and intermedia-globe Grand Award at the World Media Festival. The award ceremony took place on the 9 May 2012, in Hamburg, Germany.

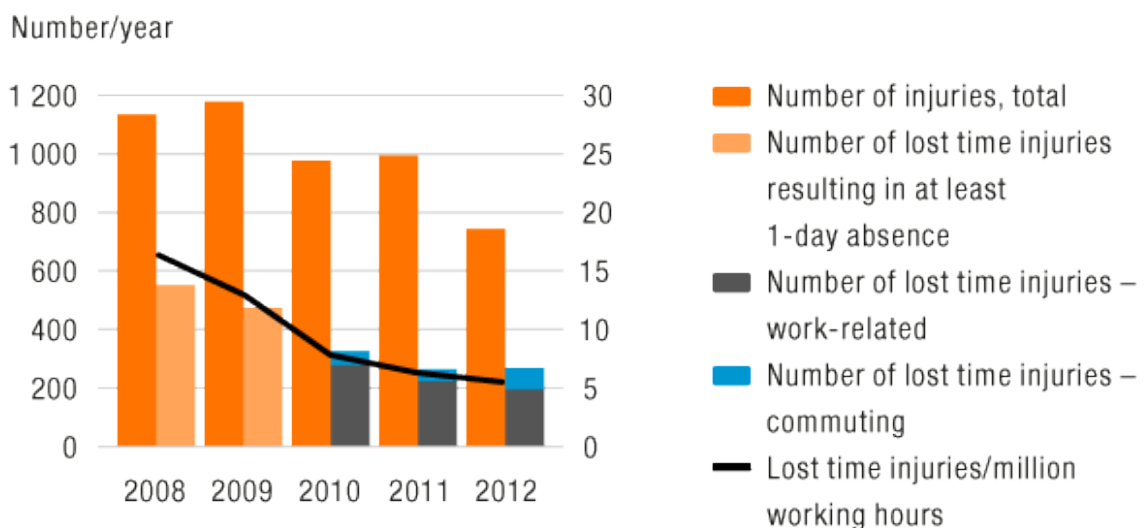
To strengthen Wärtsilä's safety culture, the Board of Management decided to start a safety walk practice, which requires members of the Board of Management and division management teams to conduct regular visits to Wärtsilä's subsidiaries and discuss with employees about safety related topics. This practice has started in the fourth quarter 2012, and full implementation has been scheduled for the year 2013.

The positive trend in reducing lost time injuries continued, and Wärtsilä achieved a good result in 2012 with a lost time frequency index of 12.7%, below that of the previous year. There were no work related fatalities during year 2012.

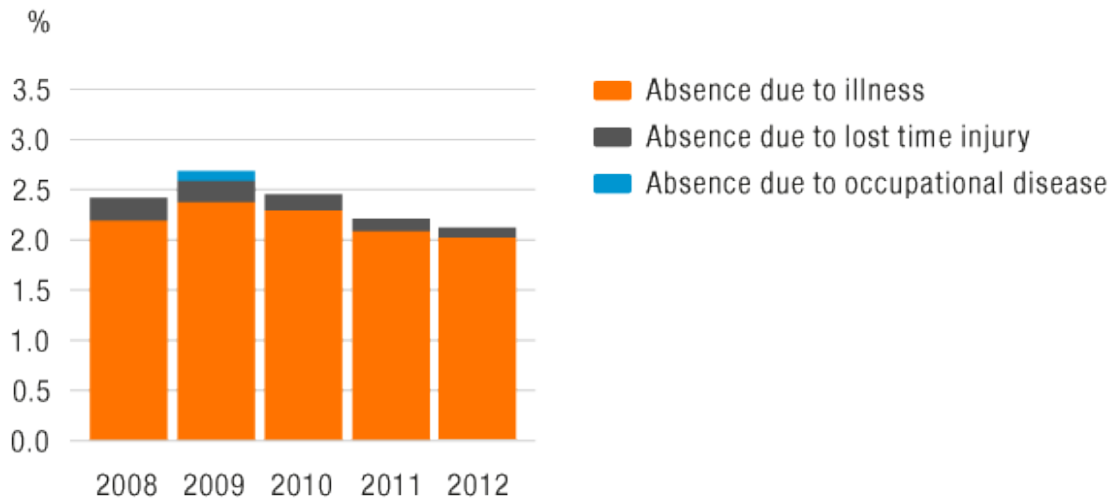
During the report period there were two violations discovered in Wärtsilä subsidiaries. Wärtsilä Finland was imposed a fine of EUR 30,000 due to a personal injury which took place in 2009. The employee gashed his arm when conducting manual lifting, and the court of justice stated that Wärtsilä Finland had not provided adequate lifting tools for this specific operation. Several corrective actions have been taken after this case, and the court also found that safety management in Wärtsilä Finland is on a good level.

Wärtsilä Japan received a notification from a local authority which stated that the company did not provide appropriate instructions for a contracted employee who was handling an organic solvent. Wärtsilä Japan has submitted a report of corrective actions to the respective authority.

Injuries



Absence rate



Human rights

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

Wärtsilä's employees represent 107 nationalities. The company supports fair and equal treatment of all its employees. Wärtsilä supports the work-related rights defined by the International Labour Organization (ILO). Therefore the company works to ensure that there is freedom of association and right to collective bargaining in the company. In those countries where local legislation does not recognise these rights, Wärtsilä endeavours to give employees other channels for expressing their opinions.

Wärtsilä does not accept the use of forced labour or child labour in any form. Wärtsilä is unaware of any cases of breach of human rights, discrimination, infringements of rights at work or the use of forced or child labour. During the reporting period the following misconducts was realized. Wärtsilä Korea Ltd. was charged a penalty fee of EUR 15,079 for not fulfilling its legal obligation to hire disabled persons covering a minimum of 5% of the total headcount. The company has mainly hired blue collar employees, which limits the suitable job offerings to disabled persons.

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

Conducting business in weak governance zones

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

Security practices

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

Impact on communities

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

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

Wärtsilä's impact on employment, the public sector and the company's activities for charitable purposes are described in the Economic Performance section of this report.

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

Suppliers

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

Based on this rating, the suppliers can be approved, approved with limitations or remarks, or banned. During 2012, 194 suppliers were rated for the first time, and 273 suppliers received a renewal of their rating. By the end of 2012, Wärtsilä has rated 665 of its key suppliers, and this covers 93% of the total spent on Wärtsilä Supply Management supplies.

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

In 2012, three suppliers were banned because of non-compliance with Wärtsilä's requirements for environmental, health and occupational safety management, or through non-compliance with legislation.

Wärtsilä Supplier Development activities are implemented continuously on a global basis. One global action item in 2012 has been the production of a Supplier Handbook, which clarifies Wärtsilä's expectations of its suppliers. There is a major emphasis on introducing sustainability related supplier requirements. As a new requirement, Wärtsilä is introducing a list of substances that are either prohibited or restricted in Wärtsilä's products, materials and processes. This list is named as Wärtsilä's Black and Grey list, and is based on international regulations, conventions and European REACH legislation.

On 20 and 22 March 2012, Suppliers' Days were successfully held in Shanghai, China and Busan, South Korea respectively. Altogether, 150 Chinese supplier representatives and 70 internal Wärtsilä representatives participated in the China event. In South Korea, there were 50 supplier representatives and 25 internal participants. In these events, the importance of Wärtsilä's supplier requirements was emphasised, including the commitment to conduct business in a sustainable fashion.

Preventing corruption and bribery

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

The company had one case of alleged bribery during the review period related to a 2001 project in Kenya. In May 2009, the public prosecutor in Finland brought charges against a former senior manager of Wärtsilä Finland Oy for aggravated bribery before the Pohjanmaa District Court (previously known as the Mustasaari District Court). In October 2009, the public prosecutor further filed a demand

for a corporate fine from Wärtsilä Finland Oy as a result of the charges against the former senior manager. It is to be noted that the demand for a corporate fine was only ancillary to the charges brought against the former senior manager. Both the senior manager and Wärtsilä Finland Oy regarded the charges as unfounded. The charges related to a consulting agreement which was made in conjunction with the project in Kenya. By its decision of 18 December 2009, the District Court dismissed all the charges against the individual and the demands against Wärtsilä Finland Oy. In February 2010, the public prosecutor filed an appeal with the Vaasa Court of Appeal. By its decision of 21 September 2010, the Vaasa Court of Appeal referred the case back to the District Court for reasons of procedural law as no evaluation of the evidence had been conducted by the District Court for purposes of its decision. Subsequently, the former senior manager and Wärtsilä Finland Oy submitted a petition for leave to appeal the Court of Appeal decision to the Supreme Court of Finland which granted the leave. On 29 March 2012, the Supreme Court rendered its decision upholding the Court of Appeal decision. Hence, the case is currently pending before the Pohjanmaa District Court, with the main hearing in the case starting on 29 January 2013 in relation to the originally issued charges.

Political lobbying

Wärtsilä's policy is to engage in an open dialogue and discussion with both local and international public authorities and officials. The aim of the dialogue is to share information and improve the quality of regulation. Wärtsilä participates in public consultations in the areas of importance to the company. During 2012, Wärtsilä did not make any contributions to political parties.

Competition regulation

Wärtsilä has a compliance programme for managing risks relating to competition law in place, and the company's corporate management is strongly committed to implementing this programme. The cornerstone of the programme is a competition law manual, which is kept up-to-date, providing information on competition rules and instructions for Wärtsilä's internal procedures. As before, Wärtsilä arranged a number of competition law training seminars in 2012 for the relevant personnel in order to further promote knowledge of competition laws and thus ascertain full compliance with them.

Product liability

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

Customer satisfaction

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

Wärtsilä arranges Customer Days for existing and potential customers at locations in various parts of the world. These events are used to review subjects of topical interest from both local and global perspectives, and to discuss existing and future needs and challenges. In 2012, the Ship Power and Power Plants businesses arranged or participated in some 300 industry-related events globally, including international and national seminars, exhibitions, and conferences. These events were visited by thousands of customers, potential customers, and other stakeholders such as investors, consultants, suppliers, students, and other interested parties.

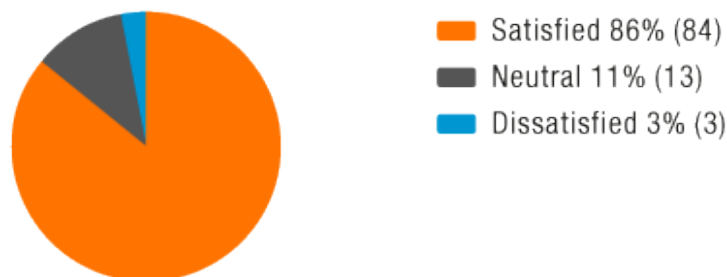
In order to strengthen our customer-focused mindset, we at Wärtsilä use an integrated customer feedback process (CROL). The aim is to achieve excellent long-term relationships by listening to customers and acting upon their feedback. Challenges may arise in our kind of business – but if we are there, listening to our customer, taking a pro-active approach and solving the challenges, relationships will develop.

Our customers provide us with important feedback during project deliveries as well as during the operation period of the installations. This feedback is continuously reviewed and acted upon, both on the operative and management level, to ensure that we meet our customers' expectations.

During 2012 we received over 3,000 feedback forms from our customers, from different interactions and activities we have with them. Over 300 of these customer feedback forms triggered a corrective action, which our front-line personnel started to work on directly.

Customer satisfaction results

Overall satisfaction key performance indicator



The average results of the customer satisfaction survey

	2012	2011	2010	2009	2008
Power Plants	8.5	8.4	8.3	8.1	8.3
Ship Power	8.1	8.1	7.6	7.4	7.4
Services	8.4	8.3	7.9	7.9	7.8
Sample	3 022	2 188	1 933	1 859	2 204

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

Our figures

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

Economic data

	2012	2011	2010	2009	2008
Customers					
Net sales (MEUR)	4 725	4 209	4 553	5 260	4 612
Net sales by market area (MEUR)					
Europe	1 202	1 249	1 266	1 654	1 695
Asia	2 009	1 594	1 754	1 937	1 792
Americas	994	845	1 034	1 176	689
Africa	398	443	390	399	379
Other	122	77	109	94	57
Suppliers					
Cost of goods, materials and services purchased (MEUR)	3 007	2 694	2 927	3 593	3 134
Employees					
Salaries and wages (MEUR)	887	770	773	735	693
Salaries and wages by market area (MEUR)					
Europe	631	552	565	549	520
Asia	145	119	111	106	106
Americas	91	80	78	66	60
Africa	12	11	12	9	6
Other	8	7	6	4	1
Net sales / employee (TEUR)	250	238	253	279	262
Public sector					
Taxes and social dues (MEUR)	317	322	326	337	288
Taxes and social costs by market area (MEUR)					
Europe	234	240	253	264	243
Asia	39	41	35	37	28
Americas	36	38	31	32	15
Africa	6	2	5	3	1
Other	2	1	2	1	0
Subsidies received (TEUR)	5 543	8 263	7 406	13 725	16 095
Net financial items (MEUR)	-30	-16	-13	-34	-9
Community					
Donations given, Board of Directors (TEUR)	104	60	670	70	70
Donations given, Wärtsilä companies (TEUR)	456	940	421	527	463
Expenditure					
R&D costs (MEUR)	188	162	141	141	121
Environmental costs					
Environmental capital expenditures (MEUR)	0.8	0.9	2.9	1.1	2.6
Environmental operating expenditures (MEUR)	6.3	6.1	5.5	4.2	5.4

Environmental data

	2012	2011	2010	2009	2008
Materials					
Total material usage (t)	99 570	98 142	100 896	129 320	113 772
Metals (t)	70 323	65 263	69 194	85 351	94 431
Sand (t)	21 279	23 072	20 739	27 157	12 515
Chemicals (t)	6 730	7 963	8 500	12 932	4 551
Others (t)	1 238	1 844	2 462	3 880	2 275
Energy					
Total energy consumption (TJ)	1 691	1 735	1 916	2 194	2 383
Electricity consumption (MWh)	143 810	145 078	149 047	164 022	151 169
Purchased electricity (MWh)	125 761	129 885	131 562	148 780	136 491
Generated electricity (MWh)	18 007	15 109	17 485	15 242	14 678
Sold electricity (MWh)	22 568	36 893	39 958	60 881	91 025
Heat consumption (MWh)	27 910	31 805	41 401	37 060	50 193
Light fuel oil (t)	5 096	3 409	3 623	5 662	5 432
Heavy fuel oils (t)	5 920	7 652	9 020	15 652	22 145
Natural gas (t)	9 767	10 486	12 347	11 792	11 160
Other fuels (t)	4 025	4 173	3 729	3 326	1 711
Water					
Total water consumption (1 000 m ³)	9 546	9 775	10 292	8 128	11 712
Consumption of domestic water (1 000 m ³)	799	830	840	808	622
Consumption of cooling water (1 000 m ³)	8 747	8 945	9 452	7 320	11 090
Emissions					
Emissions of nitrogen oxides (t)	697	765	826	1 290	1 633
Emissions of carbon dioxide (t) (direct)	63 762	68 897	80 234	96 749	122 669
Emissions of carbon dioxide (t) (indirect)	54 011	56 610	58 002	62 211	54 112
Emissions of carbon dioxide (t) (indirect - flights)	39 033	37 459	35 060	37 882	45 014
Emissions of sulphur oxides (t)	145	265	277	595	840
Emissions of total hydrocarbons (t)	180	166	211	230	174
Particulates (t)	13	20	19	28	65
Emissions of VOC (t)	51	58	61	170	152
Waste					
Total waste (t)	62 517	85 153	43 566	55 803	40 209
Non-hazardous waste (t)	39 512	42 865	38 391	49 946	35 055
Hazardous waste (t)	23 005	42 288	5 175	5 857	5 154
Waste for landfills (t)	21 988	27 808	21 682	20 752	6 807
Waste for recycling (t)	15 423	12 444	14 221	26 332	25 133
Waste for incineration (t)	2 101	2 614	2 542	2 862	3 115
Hazardous waste for landfills (t)	17 376	38 054	1 127	852	694
Hazardous waste for recycling (t)	3 200	2 082	2 161	2 305	2 220
Hazardous waste for incineration (t)	2 429	2 152	1 887	2 699	2 240

Compliance with legislation

Disturbances	3	6	8	8	3
Non-compliance	2	6	3	0	8
Complaints	7	5	5	7	15

Social data

	2012	2011	2010	2009	2008
Personnel					
Number of employees at the end of the year	18 887	17 913	17 528	18 541	18 812
Personnel by business					
Services	11 163	11 168	11 150	11 219	11 011
Ship Power	2 139	999	969	1 140	1 601
Power Plants	932	855	835	835	904
PowerTech	3 811	4 091	4 210	4 911	4 883
Other	842	800	364	436	413
Personnel by market area					
Europe	10 490	9 813	9 790	10 889	11 048
Asia	6 084	5 830	5 503	5 610	5 692
Americas	1 693	1 700	1 700	1 610	1 577
Africa	533	484	443	410	416
Other	87	86	92	78	79
Average age of employees	39.4	38.8	38.9	38.8	38.0
Permanent employees (%)	88	88	90	88	88
Temporary employees (%)	12	12	10	12	12
Full-time employees (%)	97	97	97	98	98
Part-time employees (%)	3	3	3	2	2
Employee turnover (resigned) (%)	6.9	8.6	9.8	10.5	10.2
Net employment creation	-416	-191	-814	-310	2 044
Training days (days/employee)	3.4	3.0	3.1	3.7	3.3
Managers and superiors	3.3	3.4	3.2	3.9	2.7
Other white-collar employees	3.9	2.5	2.9	3.8	3.3
Blue-collar employees	3.0	3.4	3.3	3.5	3.5
Development discussions held annually (%)	84	89	72	78	67
Gender diversity					
Male/female ratio (%)	84/16	86/14	86/14	86/14	86/14
Executive positions globally: male/female ratio (%)	91/9	90/10	90/10	87/13	
Regional diversity					
Number of nationalities	107	114	109	110	111
Injuries					
Total number of injuries	742	987	971	1 169	1 127
Number of lost time injuries resulting in at least 1 day absence, total	238	267	333	470	548

Number of lost time injuries - work-related	194	221	274		
Number of lost time injuries - commuting	44	46	59		
Lost time injuries / million working hours	5.5	6.3	7.8	12.9	16.3
Absence rate					
Absence due to illness (% of total working hours)	2.0	2.1	2.3	2.4	2.2
Absence due to lost time injury (% of total working hours)	0.1	0.1	0.2	0.2	0.2
Absence due to occupational diseases (% of total working hours)	0.0	0.0	0.0	0.0	0.0
Fatalties					
Number of fatalities, total	0	1	1	2	0
Employees	0	1	0	1	0
Contractors	0	0	1	1	0
Non-compliances					
Number of non-compliance cases	3	4	2	4	3
Fines of non-compliance cases (EUR)	45 079	7 869	26 157	17 659	2 352
Customer satisfaction					
Ship Power	8.1	8.1	7.6	7.4	7.4
Services	8.4	8.3	7.9	7.9	7.8
Power Plants	8.5	8.4	8.3	8.1	8.3
Sample	3 022	2 188	1 933	1 859	2 204

Report scope

Wärtsilä's Sustainability Reporting 2012 is prepared according to the GRI (Global Reporting Initiative) sustainability Reporting Guidelines (G3).

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

Coverage of the report

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

Wärtsilä's businesses comprise of the Ship Power, Power Plants and Services businesses and PowerTech (ex-Wärtsilä Industrial Operations). The first three of these generate external net sales while the fourth is an internal function.

The economic performance data covers all Wärtsilä companies. The data on environmental and social performance covers all Wärtsilä companies except the following:

Wärtsilä Ship Design Russia CJSC
Wärtsilä Tanzania Ltd.
Cedervall Söner AB
Cedervall Zhangjiagang Marine Products Co. Ltd.
Cedervall Singapore Pte.

All the former Hamworthy plc subsidiaries:

Wärtsilä Hamworthy Ltd
Wartsila Water Systems Ltd
Wärtsilä Valves Limited
Wärtsilä Hamworthy Inc.
Wärtsilä Serck Como GmbH
Wärtsilä Moss AS
Wärtsilä Suzhou Ltd.
Wärtsilä Hamworthy Middle East FZC
Wärtsilä Svanehøj A/S
Wartsila Pumps Pte. Ltd.
Wärtsilä Oil and Gas Systems AS
Wartsila Baltic Design Centre Sp.Z.o.o.
Wärtsilä Hamworthy Korea 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. The most important change is the acquisition of Hamworthy plc. Certain rearrangements were also made between the Wärtsilä businesses.

Coverage of operational data

Operational data, % of Wärtsilä companies

	2012	2011	2010	2009	2008
Economic	100	100	100	100	100
Environmental	79	92	93	84	85
Social	79	92	93	84	85

Operational data, % of personnel

	2012	2011	2010	2009	2008
Economic	100	100	100	100	100
Environmental	94	98	98	98	95
Social	94	98	98	98	95

Operational data, % of product manufacturing

	2012	2011	2010	2009	2008
Economic	100	100	100	100	100
Environmental	93	100	100	100	100
Social	93	100	100	100	100

Reporting profile

Data collection

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

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

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

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

KPMG Oy Ab has independently assessed the report against GRI principles for defining content and quality. As part of the assurance process, KPMG assesses local level data management and processes, evaluates the relevance and reliability of the data reported to headquarters and assesses whether the reporting guidelines of Wärtsilä are well understood and applied. This is achieved through conducting site visits and video conferencing. Site assurances were carried out in Mumbai and Khopoli, India and Wärtsilä Switzerland, Wärtsilä Netherlands and Wärtsilä Japan were assessed through video conferencing.

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

Additional sources of information

Wärtsilä has previously published the following reports:

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

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

Sustainability Report Project Team

Marko Vainikka Director, Corporate Relations and Sustainability (contact person:
marko.vainikka@wartsila.com)
Harri Mäkelä Sustainability Officer
Pauliina Tennilä Director, Investor Relations
Natalia Valtasaari IR Officer



Reporting principles

Economic performance data

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

Donations: The data of this indicator included 15 major Wärtsilä subsidiaries and the parent company in 2012.

Subsidies: The data of this indicator included 15 major Wärtsilä subsidiaries and the parent company in 2012.

Environmental performance data

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

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

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

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

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

Social performance data

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

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

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

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

Independent Assurance Report

To the Board of Management of Wärtsilä 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.-31.12.2012 presented in connection with the electronic Wärtsilä Annual Report 2012.

The sustainability information subject to the limited assurance engagement (hereafter: the Sustainability Information) includes the data and assertions presented in the "Sustainability" -section and its sub-sections in the Report, as well as the following sub-sections of the "Business" section: "Ship Power and Sustainability", "Power Plants and Sustainability", and "Services and Sustainability". The Sustainability Information also includes data and assertions in the Inside Stories specifically marked with "Sustainability assured 2012", as well as on product sustainability performance presented on selected and marked pages at www.wartsila.com.

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

Our responsibility is to carry out a limited assurance engagement and to express a conclusion on the Sustainability Information subject to the assurance based on the work performed. We have conducted the engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000): Assurance engagements other than audits or review of historical financial information, issued by the International Auditing and Assurance Standards Board. Amongst others, this standard requires that the assuring party complies with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence. Our assurance report is made in accordance with the terms of our engagement with Wärtsilä. We do not accept or assume responsibility to anyone other than Wärtsilä for our work, for this assurance report, or for the conclusions we have reached.

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

Limitations of the engagement

Sustainability related data and information are subject to inherent limitations applying to data accuracy and completeness, which are to be taken into account when reading our assurance report. The presented Sustainability Information is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by Wärtsilä. Our assurance report is not intended for use in evaluating Wärtsilä's performance in executing the sustainability principles Wärtsilä has defined. To assess the financial state and performance of Wärtsilä, the Wärtsilä audited Financial Statements for the year ended 31 December 2012 is to be consulted.

The work performed in the engagement

Our assurance procedures are designed to obtain limited assurance on whether the information subject to the assurance engagement is presented in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative 3.0 in all material respects. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the sustainability information presented, and applying analytical and other evidence gathering procedures,

as appropriate. The evidence gathering procedures mentioned above are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

In our engagement we have performed the following procedures:

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

Conclusions

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

Helsinki, 8 February 2013

KPMG OY AB

Virpi Halonen
Authorized Public Accountant

Nathalie Clément
Senior Manager, Advisory

GRI and UNGC index

1 Strategy and analysis

GRI content	Links	Remarks	GRI / UNGC	
1.1 CEO's statement	Message to the Shareholders		●	●
1.2 Key impacts, risks and opportunities	Risk and risk management Strategy Power Plants and sustainability Ship Power and sustainability Services and sustainability Wärtsilä and sustainability Towards more sustainable solutions Environmental targets Social targets		●	●

2 Organisational profile

2.1 Name of the organisation	This is Wärtsilä		●	
2.2 Primary brands, products and services	Operating environment Power Plants review Ship Power review Services review PowerTech review		●	
2.3 Operational structure	This is Wärtsilä Operating environment Notes to the Consolidated Financial Statements		●	
2.4 Location of organisation's headquarters	Shares and shareholders	Helsinki, Finland	●	

2.5 Number of countries and location of operations	This is Wärtsilä Operating environment Notes to the Consolidated Financial Statements	www.wartsila.com	●	
2.6 Nature of ownership and legal form	Shares and shareholders		●	
2.7 Markets served	This is Wärtsilä Operating environment		●	
2.8 Scale of reporting organisation	This is Wärtsilä Shareholders Operating environment		●	
2.9 Significant changes	2012 in brief Board of Directors' report		●	
2.10 Awards received in the reporting period	Recognitions		●	

3 Report parameters

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

3.13 Assurance policy and practice	Our reporting		●	
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4 Governance, Commitments and Engagement

4.1 Governance structure	Governance		●	
4.2 Position of the Chairman of the Board	Board of Directors		●	
4.3 Independence of the Board members	Board of Directors		●	
4.4 Mechanism for shareholder and employee consultation	Annual General Meeting		●	
4.5 Executive compensation and linkage to organisation's performance	Salary and remuneration report 2011		●	
4.6 Processes for avoiding conflicts of interest	Governance		●	
4.7 Processes for determining expertise	Governance		●	
4.8 Implementation of mission and values statements; code of conduct	Strategy Wärtsilä and sustainability Code of Conduct		●	●
4.9 Procedures of the Board for overseeing risk management	Governance Board of Directors' report		●	
4.10 Processes for evaluating the Board's performance	Governance Board of Directors' report		●	
4.11 Precautionary principle	Risks and risk management Wärtsilä and sustainability Environmental performance		●	●
4.12 Voluntary charters and other initiatives	Strategy Sustainability performance management		●	●
4.13 Memberships in associations	Activities in organisations		●	●
4.14 List of stakeholder groups	Stakeholder relations		●	
4.15 Identification and selection of stakeholders	Stakeholder relations		●	●

4.16 Approaches to stakeholder engagement	<u>Channels of dialogue</u>		●	●
4.17 Key topics raised through stakeholder engagement	<u>Stakeholder relations</u> <u>Wärtsilä and sustainability</u>		●	●

5 Management Approach and Performance Indicators

Economic Performance Indicators				
Disclosure on management approach	<u>Economic performance</u> <u>Financial targets</u>			●
EC1 Direct economic value generated and distributed	<u>Economic performance</u>		●	
EC2 Risks and opportunities due to climate change	<u>Risks and risk management</u> <u>Wärtsilä and emission trading</u>		●	●
EC3 Coverage of defined benefit plan obligations	<u>Employees</u>		●	
EC4 Significant subsidies received from government	<u>Public sector</u>		●	
EC5 Entry level wage compared to minimum wage	<u>Employees</u>		●	●
EC6 Spending on local suppliers	<u>Suppliers</u>		●	
EC7 Local hiring	<u>Employees</u>		●	●
EC8 Infrastructure investments provided for public benefit	<u>Community support</u>		●	
EC9 Significant indirect impacts	<u>Economic performance</u> <u>Impact on communities</u>		●	
Environmental				
Disclosure on management approach	<u>Environmental performance</u> <u>Summary of environmental aspects</u> <u>Environmental targets</u>			●
EN1 Materials used by weight or volume	<u>Materials, energy and water</u>		●	●

EN2 Recycled materials used	<u>Materials, energy and water</u>	Reporting system under development		
EN3 Direct energy consumption	<u>Materials, energy and water</u>			
EN4 Indirect energy consumption	<u>Materials, energy and water</u>			
EN5 Energy saved due to conservation and efficiency improvements	<u>Environmental targets</u>			
EN6 Initiatives to provide energy efficient or renewable energy based products and services	<u>Towards more sustainable solutions</u>	www.wartsila.com/sustainability		
EN7 Initiatives to reduce indirect energy consumption	<u>Environmental targets</u> <u>Emissions and wastes</u>			
EN8 Total water withdrawal	<u>Materials, energy and water</u>			
EN9 Water sources significantly affected	<u>Materials, energy and water</u>			
EN10 Percentage and total volume of water recycled and reused			-	
EN11 Location and size of land holdings in biodiversity-rich habitats	<u>Environmental costs and liabilities</u>			
EN12 Description of significant impact of activities, products and services on biodiversity	<u>Environmental costs and liabilities</u>	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	<u>Emissions and wastes</u>			
EN17 Other relevant indirect greenhouse gas emissions	<u>Emissions and wastes</u>	Reporting system under development		
EN18 Initiatives to reduce greenhouse gas emission	<u>Emissions and wastes</u>	www.wartsila.com/sustainability		
EN19 Emissions of ozone-depleting substances		Not applicable	-	

EN20 NO _x , SO _x , and other significant air emissions	<u>Emissions and wastes</u>		●	●
EN21 Total water discharge	<u>Materials, energy and water</u>		●	●
EN22 Total amount of waste	<u>Emissions and wastes</u>		●	●
EN23 Significant spills	<u>Compliance with legislation</u>		●	●
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	<u>Power Plants review</u> <u>Ship Power review</u> <u>Services review</u> <u>Environmental performance</u>	www.wartsila.com/sustainability	●	●
EN27 Reclaimable products and reuse		www.wartsila.com/sustainability	●	●
EN28 Significant fines and sanctions for non-compliance with environmental regulations	<u>Compliance with legislation</u>		●	●
EN29 Environmental impacts of transportation			-	
EN30 Total environmental protection expenditures and investments	<u>Environmental costs and liabilities</u>		●	●
Social				
Disclosure on management approach	<u>Personnel and social performance</u> <u>Social targets</u>			●
LA1 Breakdown of workforce	<u>Personnel</u>		●	
LA2 Breakdown of employee turnover	<u>Employee practices</u>		●	●
LA3 Employee benefits	<u>Employee practices</u>		●	
LA4 Coverage of collective bargaining agreements	<u>Employee practices</u>	www.wartsila.com/sustainability	●	●

LA5 Minimum notice period regarding operational changes	<u>Employee practices</u>		●	●
LA6 Representation in joint health and safety committees	<u>Occupational health and safety</u>		●	●
LA7 Injury, lost time injury, fatalitites, absence rates	<u>Occupational health and safety</u>		●	●
LA8 Education and prevention programmes regarding serious diseases	<u>Occupational health and safety</u>	Part of the OHS management systems which cover Wärtsilä employees	●	●
LA9 Health and safety topics covered in formal agreements with trade unions			-	
LA10 Average training hours per year	<u>Personnel</u>		●	
LA11 Programmes for skills management	<u>Personnel</u>		●	
LA12 Employees receiving regular performance and career development reviews	<u>Employee practices</u>		●	
LA13 Composition of governance bodies and breakdown of employees	<u>Governance</u> <u>Personnel</u> <u>Employee practices</u>		●	●
LA14 Ratio of basic salary of men to women by employee category	<u>Employees</u> <u>Employee practices</u>		●	●
Human rights				
Disclosure on management approach	<u>Personnel and social performance</u> <u>Social targets</u>			●
HR1 Investment agreements that include human rights clauses	<u>Human and labour rights</u>		●	●
HR2 Suppliers and contractors that have undergone human rights screening	<u>Suppliers</u>		●	●
HR3 Human rights related training for employees	<u>Sustainability performance management</u>	Part of Code of Conduct training	-	●
HR4 Incidents of discrimination and actions taken	<u>Human and labour rights</u>		●	●

HR5 Supporting right to freedom of association and collective bargaining in risk areas	<u>Human and labour rights</u>		●	●
HR6 Measures taken to eliminate child labour in risk areas	<u>Wärtsilä and sustainability</u> <u>Human and labour rights</u>		●	●
HR7 Measures taken to eliminate forced labour in risk areas	<u>Wärtsilä and sustainability</u> <u>Human and labour rights</u>		●	●
HR8 Human rights related training for security personnel	<u>Security practices</u>		●	●
HR9 Incidents involving rights of indigenous people and actions taken	<u>Human and labour rights</u>		●	●
Society performance				
Disclosure on management approach	<u>Personnel and social performance</u> <u>Social targets</u>			●
SO1 Managing impacts of operations on communities	<u>Impact on communities</u>		●	
SO2 Business units analysed for corruption risks	<u>Preventing corruption and bribery</u> <u>Risks and risk management</u>		●	●
SO3 Anti-corruption training	<u>Preventing corruption and bribery</u>		●	●
SO4 Actions taken in response to incidents of corruption	<u>Preventing corruption and bribery</u>		●	●
SO5 Public policy positions and participation in public policy development and lobbying	<u>Political lobbying</u>		●	●
SO6 Contributions to politicians and related institutions	<u>Political lobbying</u>		●	●
SO7 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	<u>Competition regulation</u>		●	

SO8 Fines and sanctions for non-compliance with laws and regulations	<u>Social data</u>		●	
Product responsibility				
Disclosure on management approach	<u>Personnel and social performance</u> <u>Product liability</u>			●
PR1 Assessment of health and safety impacts of products	<u>Product liability</u>		●	●
PR2 Non-compliance with regulations concerning health and safety impacts of products	<u>Product liability</u>		●	●
PR3 Product information required by procedures	<u>Product liability</u>		●	●
PR4 Non-compliance with regulations concerning product information and labelling	<u>Product liability</u>		●	●
PR5 Customer satisfaction	<u>Customer satisfaction</u>		●	
PR6 Adherence to marketing communications laws, standards and voluntary codes	<u>Product liability</u>		●	
PR7 Non-compliance with marketing communications regulations and voluntary codes	<u>Product liability</u>		●	
PR8 Complaints regarding breaches of customer privacy	<u>Product liability</u>		●	●
PR9 Fines for non-compliance concerning the provision and use of products and services	<u>Product liability</u>		●	

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

Corporate governance

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

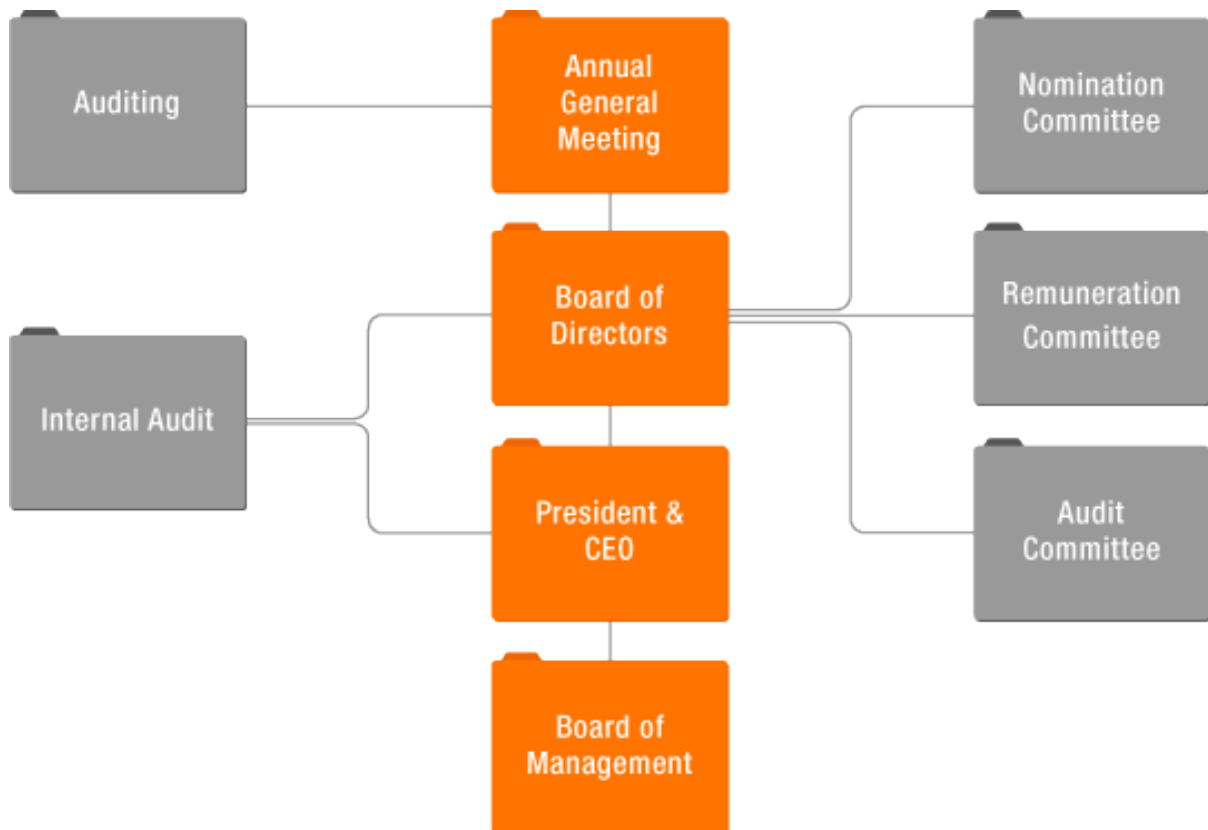
Wärtsilä's Corporate Governance Statement, prepared in accordance with recommendation 54 of the Finnish Corporate Governance Code, is also published as a separate statement on Wärtsilä's website as well as in this Annual Report. The content of this Corporate Governance section corresponds fully to Wärtsilä's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

Governing bodies

Wärtsilä implements a single-tier governance model, in which the management of the Wärtsilä Group is the responsibility of the General Meeting of shareholders, the Board of Directors, and the President and CEO. Their duties are for the most part defined by the Finnish Companies Act.

The General Meeting of shareholders elects the Board of Directors and auditors. The Board of Directors is responsible for the strategic management of the company. The Board appoints the President and CEO, who is in charge of the operative, day-to-day management of the company. He is assisted in his work by the Board of Management.

Governing bodies



Annual General Meeting

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

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

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

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

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

Annual General Meeting 2012

Wärtsilä's Annual General Meeting was held on 8 March 2012. A total of 1,306 shareholders representing 89,207,008 votes participated in person or by proxy. The Annual General Meeting approved the financial statements and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year 2011. The Annual General Meeting authorised the Board of Directors to repurchase and distribute a maximum of 19,000,000 shares.

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

The Board of Directors

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

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

The Board elects a chairman and a deputy chairman from among its members. The Board steers and supervises the company's operations and decides on policies, goals and strategies of major importance. The principles applied by the Board to its regular work are set out in the Rules of

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

In addition to matters requiring its decision, the Board is also given updates in its meetings on the Group's operations, financial position and risks.

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

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

Board of Directors in 2012

As of 8 March 2012, the Board consisted of the following nine members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Lars Josefsson, Mr Mikael Lilius (chairman), Ms Gunilla Nordström, Mr Markus Rauramo and Mr Matti Vuoria (deputy chairman).

Until 8 March 2012, the Board consisted of the following nine members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Lars Josefsson, Mr Bertel Langenskiöld, Mr Mikael Lilius (chairman), Mr Markus Rauramo and Mr Matti Vuoria (deputy chairman).

During 2012, the strategic development of Wärtsilä was a major item on the Board's agenda. A central theme has been the acquisition of Hamworthy and the overseeing of the resultant integration process. Other matters on the agenda have been the monitoring of developments related to Wärtsilä's operational environment and financial position, in addition to all other Board responsibilities.

Independence of the Board of Directors

All nine Board members were determined to be independent of the company and six members were determined to be independent of significant shareholders. The three members determined to be dependent of significant shareholders are Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth and Mr Paul Ehrnrooth, due to their positions on the Board of Directors of Fiskars Corporation. Fiskars is a significant shareholder, owning directly or indirectly approximately 13% of Wärtsilä's shares.

Attendance of the Board of Directors

During 2012, Wärtsilä's Board of Directors held 9 meetings. The average attendance of all directors was 95%.

Board member meeting participation in 2012

	Number of meetings	% of meetings
Mikael Lilius, Chairman	9/9	100
Matti Vuoria, Deputy Chairman	9/9	100
Maarit Aarni-Sirviö	9/9	100
Kaj-Gustaf Bergh	6/9	67
Alexander Ehrnrooth	9/9	100
Paul Ehrnrooth	9/9	100
Lars Josefsson	9/9	100
Gunilla Nordström	6/7	86
Markus Rauramo	9/9	100
Until 8 March 2012		
Bertel Langenskiöld	2/2	100

Responsibilities of the Board of Directors

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

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

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

- approval of the Group's strategic plan and long-term goals
- approval of the Group's annual business plan and budget
- decisions concerning investments, acquisitions or divestments that are significant or that deviate from the Group's strategy
- approval of product development projects and development programmes with strategic importance
- decisions to raise loans and the granting of security or similar collateral commitments when their size is significant
- approval of risk management principles
- the Group's organisational structure
- appointment of the company's Board of Management and approval of their remuneration and pension benefits
- monitoring and assessing the performance of the President and CEO
- approval of the company's management principles and steering systems
- appointment of the Board of Director's committees
- the granting of donations to good causes

Board of Directors CVs



Mikael Lilius

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

Primary working experience

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

Other positions of trust

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



Matti Vuoria

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

Primary working experience

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

Other positions of trust

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

Relevant prior positions of trust

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



Maarit Aarni-Sirviö

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

Primary working experience

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

Other positions of trust

Member of the Board of Directors' Institute of Finland – Hallitusammattilaiset ry.

Relevant prior positions of trust

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



Kaj-Gustaf Bergh

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

Primary working experience

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

Other positions of trust

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

Relevant prior positions of trust

Board chairmanships: Aktia Abp 2005-2009. Board membership: Sponda Oyj 2004-2006.



Alexander Ehrnrooth

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

Primary working experience

President & CEO of Virala Oy Ab 1995-.

Other positions of trust

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

Relevant prior positions of trust

Board chairmanship: Oral Hammaslääkärit Oyj, 2006-2007; Tiimari Oyj Abp, 2006; Turvatiimi Oyj, 2008-2010.



Paul Ehrnrooth

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

Primary working experience

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

Other positions of trust

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



Lars Josefsson

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

Primary working experience

Asea Brown Boveri AB, Senior Vice President 1998-1999; ALSTOM Power Sweden AB, President 1999-2003; Siemens Industrial Turbines AB, President 2003-2004; Sandvik Mining and Construction, President 2004-2012.

Other positions of trust

Vestas Wind Systems A/S, Vice Chairman of the Board.



Gunilla Nordström

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

Primary working experience

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

Other positions of trust

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

Relevant prior positions of trust

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



Markus Rauramo

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

Primary working experience

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

Other positions of trust

Oy Proselektum AB, Member of the Board. Varma Mutual Pension Insurance Company, Member of the Supervisory Board.

The Board's committees

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

The Audit Committee

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

The Board defines the duties of the Audit Committee in the charter confirmed for the committee. The Audit Committee monitors the reporting process of financial statements, supervises the financial reporting process, and monitors the efficiency of the internal control, internal audit and risk management systems. Furthermore, the Committee reviews the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, monitors the statutory audit of the financial statements and consolidated financial statements, evaluates the independence of the statutory audit firm, and prepares the proposal for resolution on the election of the auditor.

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

Audit Committee in 2012

Chairman Markus Rauramo, members Maarit Aarni-Sirviö, Alexander Ehrnrooth and Lars Josefsson. All members are independent of the company and three members are independent of significant shareholders. The Audit Committee met 5 times in 2012. The average attendance of all committee members was 100%.

The Nomination Committee

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

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

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

Nomination Committee in 2012

Chairman Mikael Lilius, members Kaj-Gustaf Bergh and Matti Vuoria. All members are independent of the company and two are independent of significant shareholders. The Nomination Committee met 2 times in 2012. 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 of management members to be put before the Board. The Committee prepares proposals to be put before the Board of Directors concerning the incentive schemes and remuneration that apply to the President and CEO and the company's other senior executives.

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

Remuneration Committee in 2012

Chairman Mikael Lilius, members Paul Ehrnrooth and Matti Vuoria. All members are independent of the company and two are independent of significant shareholders. The Remuneration Committee met 4 times in 2012. The average attendance of all committee members was 92%.

Board member committee meeting participation in 2012

	Audit Committee	Nomination Committee	Remuneration Committee
Mikael Lilius, Chairman	-	2/2	4/4
Matti Vuoria, Deputy Chairman	-	2/2	3/4
Maarit Aarni-Sirviö	5/5	-	-
Kaj-Gustaf Bergh	-	2/2	-
Alexander Ehrnrooth	5/5	-	-
Paul Ehrnrooth	-	-	4/4
Lars Josefsson	4/4	1/1	-
Gunilla Nordström	-	-	-
Markus Rauramo	5/5	-	-
Until 8 March 2012			
Bertel Langenskiöld	1/1	-	-

Board of Management

The company's Board of Management comprises 9 members: the President and CEO, the Executive Vice Presidents heading the Ship Power, Power Plants and Services businesses and PowerTech, the Chief Financial Officer, and the Executive Vice Presidents heading the Communications & Branding, the Corporate Relations & Legal Affairs and Human Resources functions. Board of Management members are appointed by the company's Board of Directors, which also approves their remuneration and other terms of employment.

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

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

Information on the members of the Board of Management, their areas of responsibility and holdings can be found in the section [Board of Management CVs](#) and in the full [Governance statement](#).

The Board of Management in 2012

In 2012, the Board of Management met 13 times. The main issues addressed by the Board of Management included market development and business strategy, the growth and profitability of the company, as well as issues relating to developments regarding competitiveness and costs. Another focus area has been the development of Wärtsilä's organisational structure. The development of markets, the regulatory operating environment, order intake and production capacity, as well as supplier and other stakeholder relationships were also important matters addressed by the Board of Management. Other important considerations for the Board of Management included the development of the company's personnel and management resources worldwide, as well as the development of internal global processes and working practices. The Board of Management gave a considerable amount of attention to the acquisition of Hamworthy plc. and its integration.

The President & CEO and the Executive Vice President

The Board of Directors appoints a President for the Group who is also its Chief Executive Officer. The President & CEO is in charge of the day-to-day management of the company and its administration, in accordance with the company's Articles of Association, the Finnish Companies Act, and the instructions of the Board of Directors. He is assisted in this work by the Board of Management. The President & CEO's service terms and conditions are specified in writing in his service contract. The

President & CEO of the company is Mr Björn Rosengren. The deputy to the President & CEO is the company's chief financial officer Mr Raimo Lind.

Board of Management CVs



Björn Rosengren

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

Primary working experience

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

Positions of trust

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



Raimo Lind

Deputy to the CEO since 2005. CFO and Senior Executive Vice President since 1998. Born 1953, M.Sc. (Econ.). Employed by the company 1976-1989 and rejoined in 1998.

Primary working experience

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

Positions of trust

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

Prior positions of trust

Member of the Board: Polar Kiinteistöt.



Päivi Castrén

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

Primary working experience

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

Positions of trust

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



Jaakko Eskola

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

Primary working experience

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

Prior positions of trust

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



Lars Hellberg

President, PowerTech & Executive Vice President since 2004. Born 1959, B.Sc. (Eng.). Joined the company in 2004.

Primary working experience

Volvo Cars AB, Research Engine Engineer and Project Manager in Vehicle development programmes; Volvo Car Operations BV, Vice President, Industrial Operations, Vice President of Global Business & Volume Optimization, General Manager 1979-2001; Saab Automotive AB, Executive Director for the Customer Satisfaction and Quality division and a Member of the Board of Management 2001-2004.

Positions of trust

Fortaco Group Oy and Lunab AB, Member of the Boards.



Kari Hietanen

Executive Vice President, Corporate Relations & Legal Affairs. Secretary of the Board of Directors. Born 1963, LL.M. Joined the company in 1989.

Primary working experience

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

Positions of trust

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



Atte Palomäki

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

Primary working experience

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

Positions of trust

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



Vesa Riihimäki

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

Primary working experience

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



Christoph Vitzthum

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

Primary working experience

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

Positions of trust

NCC Ab, Member of the Board.

Prior positions of trust

Board chairmanship: WADE (World Alliance for Decentralized Energy) 2008-2009.

Board membership: Tamfelt Oyj Abp 2009.

Corporate Management

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

Yngve Bårgård

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

Riitta Hovi

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

Anu Hämäläinen

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

Osmo Härkönen

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

Johan Jägerroos

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

Esa Kivineva

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

Markus Pietikäinen

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

Business Management teams

Each business head is supported by a Business Management team.

Power Plants

Vesa Riihimäki

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

Tore Björkman

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

Minna Blomqvist

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

Frank Donnelly

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

Jussi Heikkinen

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

Thomas Hägglund

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

Antti Kämi

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

Caj Malmsten

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

Markus Pietikäinen

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

Rakesh Sarin

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

Laura Susi-Gamba

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

Niklas Åberg

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

Ship Power**Jaakko Eskola**

President, Ship Power & Executive Vice President, Wärtsilä Corporation
Born 1958, M.Sc. (Eng.)

Lars Anderson

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

Arjen Berends

Vice President, Finance & Control
Born 1968, MBA

Aaron Bresnahan

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

Per Hansson

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

Sinikka Ilveskoski

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

Timo Koponen

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

Juha Kytölä

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

Arto Lehtinen

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

Magnus Miemois

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

Helena Räihälä

Vice President, Human Resources
Born 1973, M.Sc. (Econ.)

Mikael Simelius

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

Martin Wernli

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

Services**Christoph Vitzthum**

President, Services & Executive Vice President, Wärtsilä Corporation
Born 1969, M.Sc. (Econ.)

Pierpaolo Barbone

Vice President, Area Middle East & Asia until 1 January 2013

Vice President, Area South Europe & Africa as of 1 January 2013

Born 1957, M.Sc. (Min. Eng.)

Fred van Beers

Vice President, Area North Europe

Born 1962, B.Sc. (Merchant Eng.), B.Sc./BBA (BtB Marketing)

Peter Bjurs

Vice President, Finance

Born 1965, MSc (Econ)

Stefan Fant

Vice President, Area South Europe & Africa until 1 January 2013

Vice President, Contract and Project Management as of 1 January 2013

Born 1955, B.Sc. (Mech.)

Tomas Hakala

Vice President, Area Americas

Born 1968, B.Sc. (Mech.)

Roger Holm

Vice President, Seals & Bearings

Born 1972, M.Sc. (Econ.)

Christer Kantola

Vice President, Solutions Management

Born 1952, B.Sc. (Mech.)

Michel Kubbinga

Vice President, Area Middle East & Asia as of 1.1.2013

Born 1960, M.Sc (Eng.)

Ralf Lindbäck

Vice President, Legal Affairs

Born 1958, LL.M.

Stefan Nysjö

Vice President, Delivery Management

Born 1970, B.Sc. (Mech.)

Nelli Paasikivi

Vice President, Quality & Operational Development

Born 1968, M.Sc. (Energy)

Sini Spets

Vice President, Human Resources

Born 1974, M.Sc. (Psychology)

PowerTech

Lars Hellberg

President, PowerTech & Executive Vice President, Wärtsilä Corporation
Born 1959, B.Sc. (Eng.)

Osmo Härkönen

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

Yngve Bårgård

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

Hannu Mäntymaa

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

Paolo Tonon

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

Sergio Razeto

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

Stefan Damlin

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

Kai Kamila

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

Managing Directors of the subsidiaries

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

Insider management

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

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

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

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

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

Audit

Internal

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

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

External

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

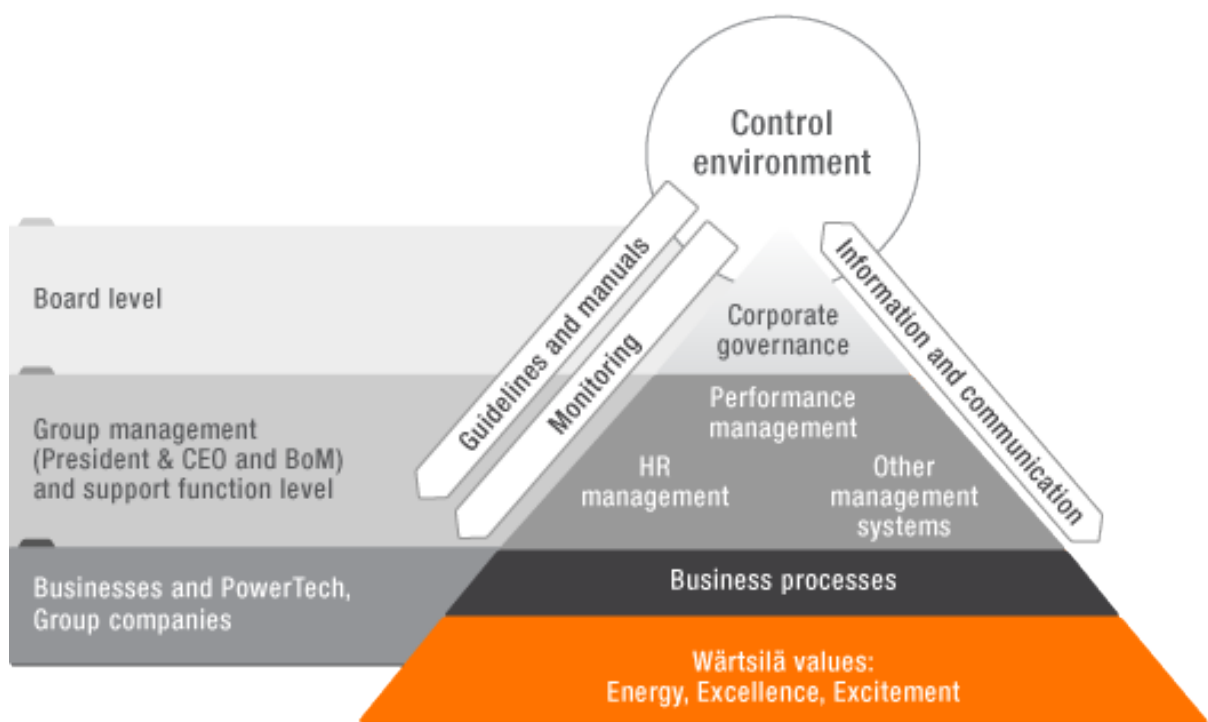
Following the closing of the annual accounts, the external auditor submits the statutory auditor's report to the company's shareholders and reports regularly also its findings to the Board of Directors' Audit Committee. An auditor, in addition to fulfilling general competency requirements, must also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

Auditor in 2012

The Annual General Meeting appointed the firm of public auditors, KPMG Oy Ab, as Wärtsilä Corporation's auditor for the year 2012. The lead partner during 2012 was Virpi Halonen. Auditing fees paid to all the auditors of the Group companies amounted to EUR 2.4 million in 2012. Consultancy fees unrelated to auditing duties paid to the auditors totalled EUR 1.6 million. These latter fees mainly concerned consultation on taxation matters.

Internal control

Main components of Wärtsilä's internal control



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

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

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

Performance management

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

The achievement of the annual targets is followed up through monthly management reporting. The performance of the Businesses and PowerTech, 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 PowerTech are reviewed on a monthly basis by the Board of Management. The respective Management Teams and the Board of Management also address the reliability of Wärtsilä's financial reporting.

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

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

Legal and compliance management

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

Legal and compliance management acts predominantly in a proactive manner. Legal Affairs supports the President & CEO and the divisions in analysing and making decisions on matters involving contract policy, risk management and regulatory considerations. Another key activity is to lead compliance management and strengthen and ensure the culture of appropriate conduct and behaviour, both

internally and in external business transactions. Company-wide control mechanisms and processes are a part of the overall internal control system.

Wärtsilä's compliance management is based on the Code of Conduct and relevant group level policies and directives. In 2012, compliance was strengthened to become a dedicated function in order to support the compliance objectives.

HR management

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

Other management systems

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

Quality

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

Sustainability

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

Risk management

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

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

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

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

Information Management

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

Values and the control environment

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

Business processes

The controls embedded in Wärtsilä's business processes have a key role in ensuring effective internal control in the company. Controls in the business processes help ensure the achievement of all the objectives of internal control within Wärtsilä, especially those related to the efficiency of operations and safeguarding the company's profitability and reputation. Business and PowerTech 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 PowerTech management is responsible for ensuring that efficient Business and PowerTech level processes with adequate controls have been described and implemented.

Guidelines and communication

Guidelines and manuals

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

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

Information and communication

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

Monitoring

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

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

Salary and remuneration report 2012

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 2012:

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

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

The nine members of Wartsilä's Board of Directors were paid altogether EUR 728,900.00 for the financial period that ended on 31 December 2012. The Board's members were not covered by the company's incentive schemes.

Fees paid to the Board of Directors in 2012 (thousands of euros)

Board of Directors	Attendance fees		Yearly fees		Total	
	2012	2011	2012	2011	2012	2011
Mikael Lilius, Chairman	18	15	120	120	138	135
Matti Vuoria, Deputy Chairman	8	10	90	90	98	100
Maarit Aarni-Sirviö	11	8	60	60	71	68
Kaj-Gustaf Bergh	8	10	60	60	68	70
Alexander Ehrnrooth	11	8	60	60	71	68
Paul Ehrnrooth	8	7	60	60	68	67
Lars Josefsson	10	5	60	60	70	65
Gunilla Nordström	2	0	60	0	62	0
Markus Rauramo	17	8	60	60	77	68
Until 8 March 2012						
Bertel Langenskiöld	4	7	0	60	4	67

Fees paid in Wärtsilä shares in 2012

Board of Directors	No. of shares
Mikael Lilius, Chairman	1 607
Matti Vuoria, Deputy Chairman	1 205
Maarit Aarni-Sirviö	803
Kaj-Gustaf Bergh	803
Alexander Ehrnrooth	803
Paul Ehrnrooth	803
Lars Josefsson	803
Gunilla Nordström	803
Markus Rauramo	803

Board of Directors' share ownership in Wärtsilä on 31 December 2012

Board of Directors	No. of shares
Mikael Lilius, Chairman	13 170
Change in 2012	1 607
Matti Vuoria, Deputy Chairman	11 386
Change in 2012	1 205
Maarit Aarni-Sirviö	7 190
Change in 2012	803
Kaj-Gustaf Bergh	5 782
Change in 2012	803
Alexander Ehrnrooth	3 214
Change in 2012	803
Paul Ehrnrooth	3 188
Change in 2012	803
Paul Ehrnrooth, through controlled corporations	730 000
Change in 2012	-
Lars Josefsson	2 000
Change in 2012	889
Gunilla Nordström	803
Change in 2012	803
Markus Rauramo	1 914
Change in 2012	803

Remuneration of the President & CEO and the Board of Management

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

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

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

Financial benefits of President & CEO Björn Rosengren:

- Salary 2012: EUR 614 thousand
- Bonuses 2012: EUR 75 thousand
- Bonus schemes based on share price development: -*
- Optional retirement age: 60
- Period of notice: 6 months
- Compensation paid if dismissed by the company: 18 months' salary + 6 months' period of notice salary.

* EUR 424 thousand has been reserved for long-term bonus schemes based on the share price development.

Further information on Board of Management remuneration can be found in the Consolidated Financial Statements, [Note 28 Related party disclosures](#)

Board of Management's share ownership in Wärtsilä on 31 December 2012

Board of Management	No. of shares
Björn Rosengren	6 000
Change in 2012	2 000
Raimo Lind	6 766
Change in 2012	0
Päivi Castrén	0
Change in 2012	0
Jaakko Eskola	0
Change in 2012	-10
Lars Hellberg	0
Change in 2012	0
Kari Hietanen	144
Change in 2012	0
Atte Palomäki	600
Change in 2012	0
Vesa Riihimäki	0
Change in 2012	0
Christoph Vitzthum	932
Change in 2012	0

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

Incentive schemes

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

Short-term management incentive schemes

The Group operates a bonus scheme, which is implemented globally in all businesses. The bonus is based on the Group's profitability and agreed personal targets. Close to 1,800 directors and managers are covered by this bonus scheme.

The Group's white- and blue-collar employees are covered by various bonus or profit-based incentive schemes. These are applied in each country according to that country's legislation, or to agreements concerning profit-sharing schemes. All in all, some 60% of the company's employees are covered by the Group's bonus schemes and various other profit-related incentive schemes.

Long-term incentive scheme

The Board of Directors has decided on a long-term bonus scheme for senior management tied to the development of the company's share. The yearly bonus scheme applies to approximately 100 directors. The size of the bonus is based on the share price development during a pre-determined

timeframe, and an upper limit is set for the bonus. The bonus scheme takes into account 50% of the dividends paid.

The 2009 bonus scheme came to a close at the end of 2011 and was paid in April 2012.

The 2010 bonus scheme comprises 1,606,000 bonus rights. The bonus payment is based on the share price development during a two-year period on the basis of a share price of EUR 30.01. The bonus cannot exceed EUR 7.50 per bonus right and takes into account 50% of dividends paid. The 2010 bonus scheme will be due for payment in April 2013.

The 2011 bonus scheme comprises 1,967,000 bonus rights. The bonus payment is based on the share price development during a three-year period on the basis of a share price of EUR 23.34. The bonus cannot exceed EUR 10.00 per bonus right and takes into account 50% of dividends paid. The 2011 bonus scheme will be due for payment in February 2015. Members of the Board of Management are obliged to use one third of the possible bonus payment to acquire Wäertsilä shares.

Risks and risk management

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

The purpose of risk management is to ensure that Wäertsilä is able to effectively execute its strategy so as to reach both short and long term targets. The key is to identify those risks having the potential to keep us from reaching our goals, and to determine whether such risks are within the limits of our risk acceptance. Actions need to be taken to avoid, mitigate, transfer, or to purely monitor the risk. For this purpose our structured risk management process offers a set of reactive, proactive, protective and preventive tools, which are used not only to protect us against threats, but to also turn certain risks into opportunities.

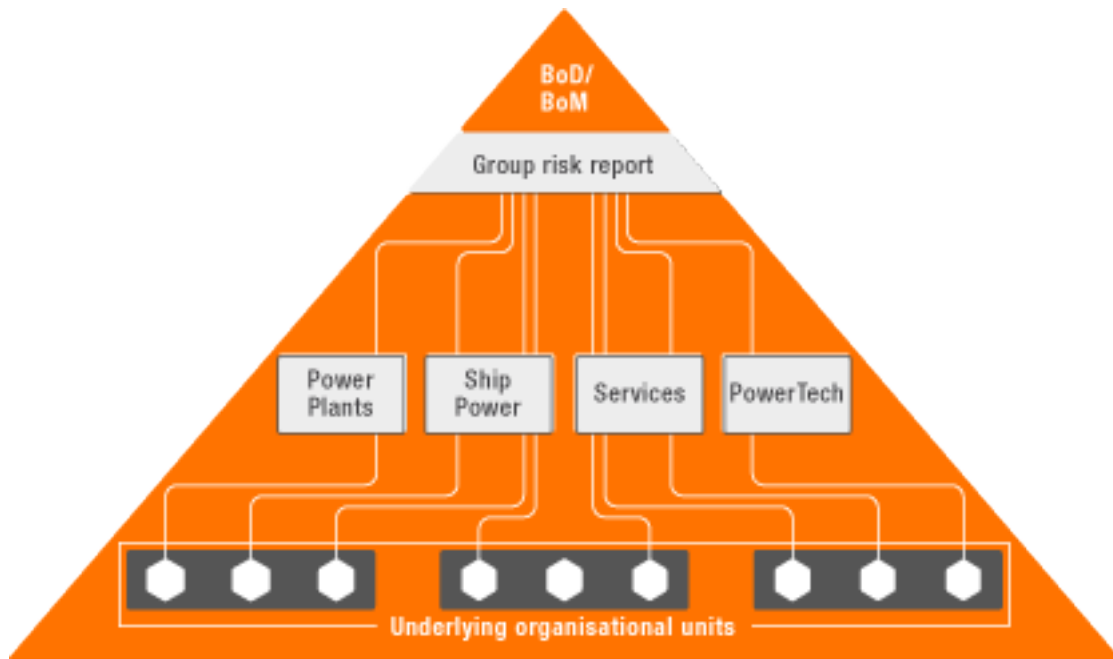
Risks can only be managed if they are identified and understood in advance, and plans have been made to manage the risks. Therefore, risk management is a central part of both Wäertsilä's strategic and operational management.

Risk management principles

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

The Board of Directors and the Board of Management decide and provide guidelines on strategic matters. The Businesses are responsible for achieving their set strategic goals and for mitigating and managing their risks. The risk management function is part of Group Treasury, which reports to the CFO. It reviews the risk profile of the businesses, 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 the risk management.

Risk reporting



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

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

Risk management is one of the Businesses' management processes and risk management has been integrated into the Business Management Teams' agenda. The Businesses are accountable for organising and reporting on risk management from their underlying geographical business areas, product lines and product centres. The Businesses are also responsible for all follow-up actions.

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

Risk categories

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

A risk radar is used to map our primary risks within the risk categories. Through annual risk assessment workshops between the Businesses and the Corporate Risk Management, Business specific risk radars are generated for the use and evaluation of the Business Management teams. The

Business specific radars are then consolidated into a single Group Risk Radar, which is presented to the Board of Directors. The purpose is to facilitate the discussion on risk and to give a quick overview of where our priorities should lie in terms of risk management.

Risk radar



Strategic risks

Strategic risk assessment is part of the strategic planning process within the Group. At Wärtsilä, strategic risks are defined as potentially having a long-term impact on the business.

Business environment risks

The business cycles in the global economy and in our customer's industries influence the demand for our products, as well as our financial position and operating result. The flexible multi-product manufacturing model based on capacity outsourcing, together with a stable business mix with a large share of sales deriving from Services, brings Wärtsilä certain stability in a cyclical market. Important economic matters that indirectly affect Wärtsilä, its clients, and suppliers include inter alia, the liquidity and solvency of the financial institutions - and thus not only their capability but also their willingness to

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

The implementation of environmental regulations is important for the future growth potential in specific business segments. In 2012 it had still a limited effect on Wärtsilä. However, the acquisition of Hamworthy in early 2012 has expanded Wärtsilä's offering of environmental solutions. This supports Wärtsilä's growth objectives. Wärtsilä actively monitors possible changes in the legislation timeline and scope.

Market and customer risks

In the Power Plants business, there was positive development in large power plant orders, and we received orders for our two largest projects ever during the year. In general, the non-OECD markets remained very active, but in the OECD countries slow growth has delayed investments in power generation. Wärtsilä's installed base is evenly spread geographically with power plants delivered to 169 different countries. This mitigates both the market and customer risk faced by the power plant business.

The business environment for the shipping and shipbuilding industry is challenging, and concerns over the global economy continue to cause uncertainty. The uneven development between various Ship Power customer segments continued throughout the year 2012. The merchant shipping sector in general still suffers from overcapacity, whereas various areas of specialised tonnage, and especially the offshore industry, continue to make investments. The shipbuilding market is dominated by Asian yards in South Korea, China and Japan. Wärtsilä is well represented in all the major shipbuilding areas and is active in all the main vessel segments. This mitigates both single customer related and geography related risks.

The Services business increased by 5% during 2012, and its long-term business is expected to grow in line with the development of the existing installed base, as well as with general economic development. However, the prevailing conditions of the marine merchant market segment impose a challenge for the Service business. Wärtsilä has more than ten thousand individual customers engaging in service and spare part sales annually, and the current active engine base is approximately 181,000 MW. Due to this the dependency on any single customer or customer segment is minor.

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

Competitive situation and price risk

In the liquid fuels based power plant market, Wärtsilä's main competitors are MAN Diesel, Caterpillar (MAK), and Rolls-Royce. In natural gas based power generation, the main competitors are gas turbine manufacturers, such as GE and Siemens. In the first half of 2012, the overall market size for natural gas and liquid fuel based power plants was significantly reduced. In this challenging market environment, Wärtsilä's overall market size is expected to increase. Wärtsilä's success in the market can be attributed to the flexible power generation solution, which can be used in a wide range of different applications and sizes of power plant.

For Ship Power, price competition has continued to be intense. For main engines, the most significant competitors are MAN Diesel, Caterpillar (MAK), and Hyundai Heavy Industries (HIMSEN). The competitive situation and market shares remained largely unchanged during 2012. In propulsion equipment, the competition is more fragmented and varies by product category. One of the main competitors for these products is Rolls-Royce. In environmental solutions, as well as in flow and gas products, the markets are very fragmented. Alfa Laval is one of the competitors in these product areas. The concept of selling packaged solutions rather than only single products reduces price volatility. The strategic move to become a systems integrator with automation and ship design capability has proven to be very important in the competition for new projects with larger and more value-added scopes. However, larger projects may increase variations in business volume depending on the timing of the projects.

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

Political and legislative risks

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

Climate change and sustainability risks

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

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

fired plants. Wärtsilä offers several retrofit solutions for the after-sales market to reduce emissions and to increase fuel efficiency.

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

Risk of non-compliance, corruption and fraud

Wärtsilä is in compliance with the law and Wärtsilä's own internal regulations everywhere Wärtsilä does business. Wärtsilä's Code of Conduct is the key guideline for all Wärtsilä employees globally. Wärtsilä is committed to high ethical standards and integrity in its businesses, preventing corruption and violations of the principles set forth in the Code of Conduct, Wärtsilä's Anti-Corruption Policy, and Wärtsilä's Compliance Reporting Policy. Wärtsilä's compliance processes are embedded in all of the businesses, and the responsibility for compliance and awareness of ethics and integrity is that of all Wärtsilä employees.

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

In 2012, compliance was strengthened to become a dedicated function in order to support the compliance objectives. The Compliance function promotes group wide compliance and continuously strives to raise awareness of the risk of corruption and bribery. It is also primarily responsible for group level policies and procedures, training, compliance investigations, managing the consequences of non-compliance, and reporting. Further developing Wärtsilä's compliance programme and nurturing Wärtsilä's commendable ethical culture are integral parts of the Compliance function's task. Moreover, Compliance supports and co-operates with other corporate functions in their risk management efforts.

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

Technology risks

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

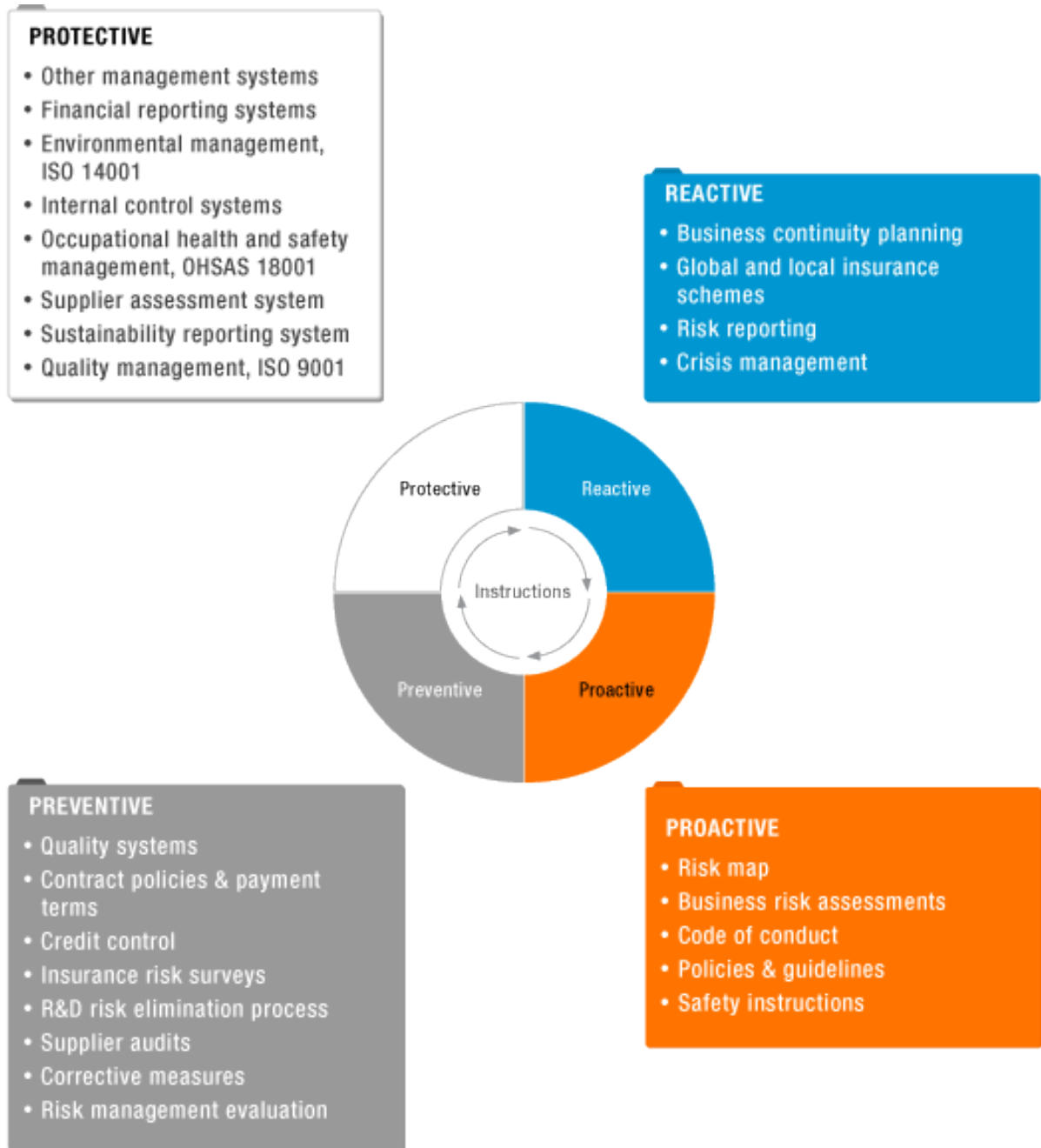
Operations, risks and opportunities



Operational risks

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

Risk management process



Manufacturing risk

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

Supplier and subcontractor risk

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

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

Lifecycle quality of products and product liability risk

Launching new products always involves risks. In the R&D process, several risk management techniques are applied, including FMEA (Failure Modes and Effects Analysis), a risk elimination tool, and in-house validation testing. Wärtsilä seeks to control quality risks by monitoring the incoming quality from the supply chain, and by designing and manufacturing products with all due care. Wärtsilä applies a GATE model in order to control the product development process. First, only a limited release of new products is allowed, and via the gate approach, only after testing and further validation has been completed, full release authority is given to the sales organisations. The 5S (meaning sort, shine, set, standardise and sustain) philosophy is implemented in all production sites to increase quality and to support lean operations. The Services business is responsible for all warranty issues, and offers a feedback loop from the field to production and R&D while taking care of customer installations throughout their lifecycle. The company makes warranty provisions to cover any warranty costs that may arise after product delivery. The product liability insurance covers unexpected damages.

Contractual risks

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

Commodity price risk

Oil

The direct effect of oil price changes on Wärtsilä's production is limited, with their impact being mainly demand related. Higher oil prices represent a risk for global economic growth and increase operating

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

Metals

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

Electricity

Electricity prices do not have a substantial impact on Wärtsilä's production costs. In the Power Plants business, high electricity prices support investments in new capacity from utility customers. Lower grid electricity prices do not favour industrial investments in their own generating capacity.

Hazard risks

Occupational health and safety systems, travel safety instructions, and crises management guidelines are aimed at protecting Wärtsilä employees. Appropriate insurances are in place for the personnel, and to emphasise the importance of employee safety, Wärtsilä's Board of Management has decided on a corporate level target of zero lost time injuries. A specific project has been established for this purpose, and the target is a part of the company's sustainability programme.

Environmental management systems are in place to mitigate environmental hazard risks.

Wärtsilä's Real Estate unit maintains a register of all properties used and gives guidelines for the purchase, sale, rental and security of premises, and uses external advisors for environmental audits.

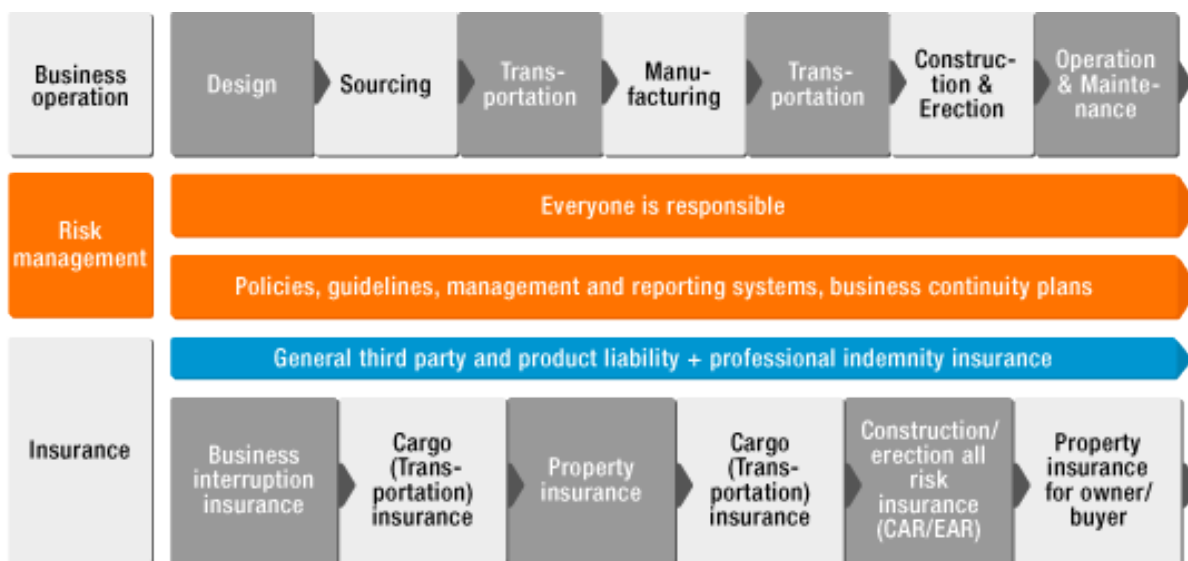
None of Wärtsilä's major production plants are situated in natural disaster areas. Catastrophic peril related scenarios are identified, and where necessary, exposures are mitigated by, for example, elevating sites above the flood risk level or by constructing flood dikes.

For Wärtsilä's main production sites, business impact analyses have been conducted and continuity plans created to cover both property and business interruption risks.

The risks that Wärtsilä is unable to influence through its own efforts are transferred when possible to insurance companies. Wärtsilä uses appropriate insurance policies to cover indemnity risks related to its personnel, assets, business interruption, and third-party and product liability.

Wärtsilä has established its own captive insurance company, Vulcan Insurance PCC Ltd, as a risk management tool.

Which insurances cover our business?



Both risk management work and property & casualty insurance cover Wärtsilä's products over their entire lifecycle.

Financial risks

Wärtsilä's financial risks are presented in the notes to the financial statements, [note 32](#).

Wärtsilä's risk profiles & responsibilities

Risks	Risk profile	Policy or other guideline	Responsible body
Strategic risks		Wärtsilä's strategy and business plan	Wärtsilä Board of Directors (BoD), Board of Management (BoM) and Wärtsilä's Businesses (Businesses)
Business environment risk	■ ■ ■ ■ ■	Wärtsilä's strategy and business plan	BoM and Businesses
Market and customer risk	■ ■ ■ ■ ■	Wärtsilä's strategy and business plan	BoM and Businesses
Competitive situation and price risk	■ ■ ■ ■ ■	Wärtsilä's strategy and business plan	BoM and Businesses
Political and legislative risk	■ ■ ■	Various guidelines and risk management policy	Businesses, R&D, Risk management (RM) and Legal functions
Climate change and sustainability risk	■ ■ ■	QHSE policy, Code of conduct, management systems (ISO 14001 & OHSAS 18001)	Businesses, R&D and Sustainability management function

Technology risk		Patents and industrial rights, product guarantees	Businesses and R&D function
Operational risks		Wärtsilä's strategy and business plans	BoM and Businesses
Manufacturing risk		Production systems, Business Continuity Plan (BCP)	PowerTech and Businesses
Supplier and subcontractor risk		Supplier requirement and supplier management system, Business Continuity Plan (BCP)	Businesses and Corporate Supply Management (CSM)
Lifecycle quality of products and product liability risk		Management systems (ISO 9001), safety instruction and manuals, risk management policy, R&D risk elimination instructions	PowerTech, R&D function, Businesses and RM and Legal functions
Contractual risks		Standard contracts	Legal function and Businesses
Commodity price risk		Production cost control	Businesses and Treasury function
Data security risk		Data security principles	Businesses and IM function
Hazard risks		Risk management policy and guidelines	Businesses and RM function
Personnel risk		Management system (OHSAS 18001), travel safety instructions, crises management guidelines and premises safety plans	Businesses, Human Resources (HR) 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		Wärtsilä's strategy and business plans	Businesses and Treasury function
Foreign exchange risk		Treasury policy	Businesses and Treasury function
Interest rate risk		Treasury policy	Businesses and Treasury function
Liquidity and refinancing risk		Treasury policy	Businesses and Treasury function
Credit risk		Credit and Treasury policy	Businesses and Treasury function

Low        High

Shares and shareholders

Wärtsilä Corporation's shares are listed on the NASDAQ OMX Large Cap list on the Helsinki Stock Exchange under the trading code WRT1V. At the end of the financial period 2012 Wärtsilä's total number of shares was 197,241,130 and the share capital entered in the trade register was EUR 336,002,138.50. Wärtsilä has one share series and each share entitles its holder to one vote at the General Meeting and to an equal dividend.

Key figures for the Wärtsilä share

		2012	2011	2010	2009	2008
Earnings per share (EPS)	EUR	1.72	1.44	1.96	1.97	1.94
Book value of equity per share	EUR	9.12	8.30	8.30	7.59	6.01
Dividend per share	EUR	1.00 ¹	0.90	1.38	0.88	0.75
Dividend per earnings	%	58.1	62.7	70.3	44.4	38.7
Dividend yield	%					
WRT1V ²		3.06	4.03	4.82	6.23	7.14
Price per earnings (P/E)						
WRT1V ²		19.0	15.5	14.6	7.1	5.4
Price to book-value (P/BV)						
WRT1V ²		3.6	2.7	3.4	1.9	1.7
Adjusted number of shares	x 1 000					
end of financial year		197 241	197 241	98 621	98 621	98 621
on average		197 241	197 241	98 621	98 621	97 944

¹ Proposal of the Board of Directors.

² Series B until 26 March 2008, thereafter WRT1V.

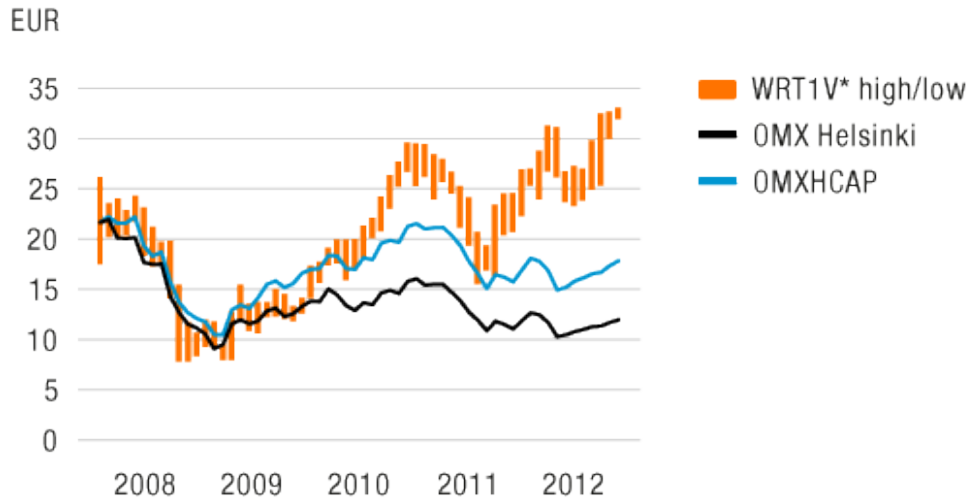
The Wärtsilä share on the Helsinki Stock Exchange

Wärtsilä's share price has increased by 41% during 2012, while the Nasdaq OMX Helsinki Cap index increased by 10%. The highest quoted price for Wärtsilä's share during the financial period was EUR 33.11 and the lowest EUR 22.30. The closing price on 31 December 2012 was EUR 32.72 and the volume weighted average price for the year was EUR 27.31. At year-end, Wärtsilä's market capitalisation was EUR 6,454 million. The volume of trades on the Nasdaq OMX exchange was 159,852,645 shares, equivalent to a turnover of EUR 4,380 million. Wärtsilä's shares are also traded on alternative exchanges, such as Chi-X, Turquoise and BATS. The total trading volume on these alternative exchanges was 84,900,518 shares.

Further information on share price development can be found on the Wärtsilä IR pages www.wartsila.com/investors.

WRT1V* quotations 2008-2012

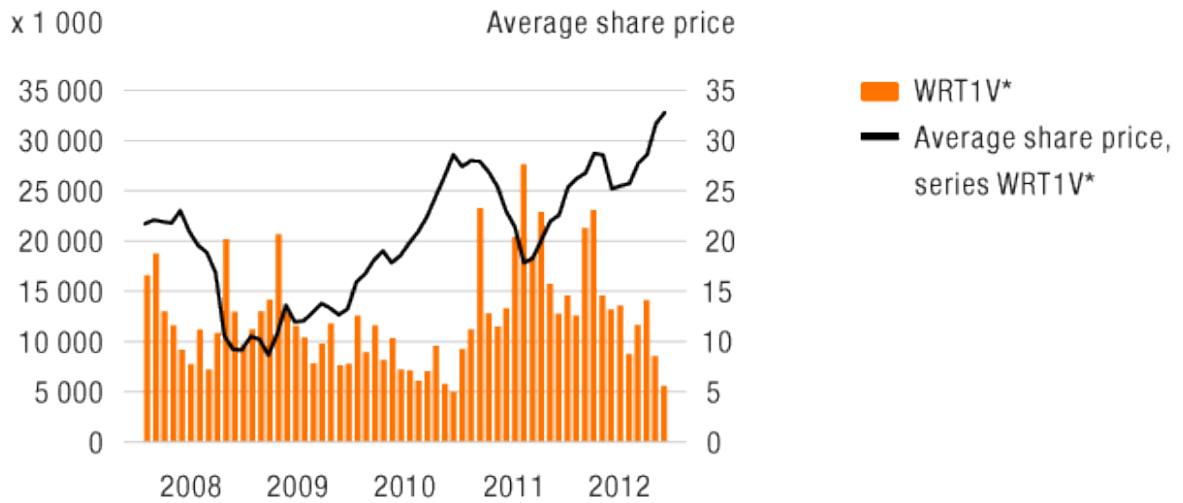
During 2012, the highest quoted price for Wäertsilä's share was EUR 33.11 and the lowest EUR 22.30.



* Series B until 26 March 2008, thereafter WRT1V.

Traded shares/month 2008-2012

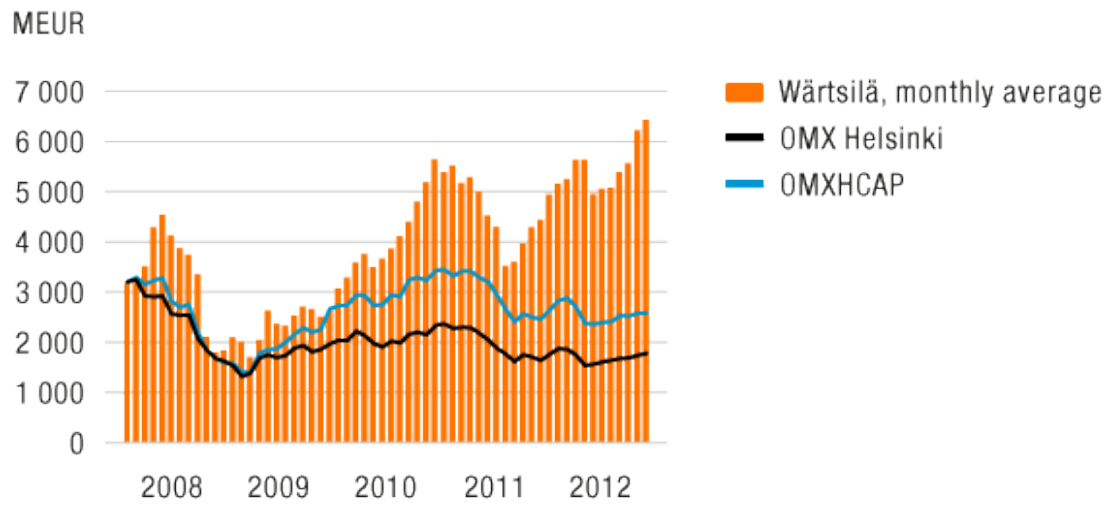
In 2012, the volume of trades on the Nasdaq OMX Helsinki exchange was 159,852,645 shares.



* Series B until 26 March 2008, thereafter WRT1V.

Market capitalisation 2008-2012

At year-end, Wärtsilä's market capitalisation was EUR 6,454 million.



The Wärtsilä share on the Nasdaq OMX Helsinki Stock Exchange

		2012	2011	2010	2009	2008
Trading volume	MEUR					
Series A ¹		-	-	-	-	13.5
WRT1V ²		4 380.1	5 016.5	3 912.5	3 215.8	5 220.5
Total		4 380.1	5 016.5	3 912.5	3 215.8	5 234.0
Number of traded	x 1 000					
Series A ¹		-	-	-	-	289
WRT1V ²		159 853	197 186	98 076	137 102	147 205
Total		159 853	197 186	98 076	137 102	147 595
Stock turnover	%					
Series A ¹		-	-	-	-	4.5
WRT1V ²		81.0	100.0	99.4	139.0	149.3
Total		81.0	100.0	99.4	139.0	149.3
Average share price	EUR					
Series A ¹		-	-	-	-	46.79
WRT1V ²		27.31	25.44	19.93	11.73	17.71
Trading low/high	EUR					
Series A ¹	low	-	-	-	-	33.05
	high	-	-	-	-	53.00
WRT1V ²	low	22.30	15.50	14.10	7.91	7.75
	high	33.11	29.55	29.63	15.46	26.60
Share price at the year-end	EUR					
Series A ¹		-	-	-	-	-
WRT1V ²		32.72	22.32	28.55	14.04	10.51
Year-end market capitalisation	MEUR	6 454	4 402	5 631	2 768	2 072

¹ Series A until 26 March 2008.

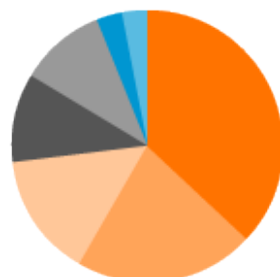
² Series B until 26 March 2008, thereafter WRT1V.

Shareholders

Wärtsilä had approximately 39,400 shareholders at the end of the financial period 2012. Foreign shareholding, including nominee-registered shares, represented 52% (47) at the end of the period, and Finnish retail investors held 21% of the share capital (23). The largest shareholders were Fiskars Corporation through its Swedish subsidiary Avlis AB with 25,641,347 shares, and Investor AB with 17,306,978 shares. Their combined holding on 31 December 2012 was 42,948,325 shares. The basis for cumulating the shareholdings is the announcement on 24 April 2012, in which Fiskars Group and Investor informed about an agreement to merge their respective Wärtsilä shareholdings through a joint venture, and to act in concert regarding their shareholdings.

Further information concerning Wärtsilä shareholder base developments can be found on the IR pages www.wartsila.com/investors.

Ownership structure on 31 December 2012



Ownership structure on 31 December 2012

Group	Number of shareholders	%	Number of shares	%
Private corporations	1 564	4.0	5 957 489	3.0
Banks and insurance companies	89	0.2	6 105 070	3.1
Public sector entities	50	0.1	20 760 196	10.5
Non-profit organisations	861	2.2	19 962 697	10.1
Households	36 533	92.7	42 158 738	21.4
Outside Finland	307	0.8	29 254 920	14.8
Nominee registered			73 042 020	37.0
Total	39 404	100.0	197 241 130	100.0

Division of shares on 31 December 2012

Number of shares	Number of shareholders	%	Number of shares	%
1-50	4 613	11.7	135 375	0.1
51-100	5 028	12.8	423 740	0.2
101-1 000	20 709	52.6	8 529 030	4.3
1 001-5 000	7 166	18.2	15 705 760	8.0
5 001-10 000	1 014	2.6	7 115 787	3.6
10 001-100 000	790	2.0	19 343 185	9.8
100 001-500 000	60	0.2	12 879 952	6.5
500 001-1 000 000	14	0.04	9 729 688	4.9
1 000 001-	10	0.03	50 338 593	25.5
Nominee registered			73 040 020	37.0
Total	39 420	100.0	197 241 130	100.0

Wärtsilä's 50 major shareholders on 31 December 2012, excluding nominee registered

Owner	Shares	%
1 Avlis AB	25 641 347	13.00
2 Varma Mutual Pension Insurance Company	10 260 174	5.20
3 Ilmarinen Mutual Pension Insurance Company	3 909 525	1.98
4 Svenska Litteratursällskapet i Finland	2 743 352	1.39
5 The Social Insurance Institution of Finland	1 935 910	0.98
6 Jenny and Antti Wihuri Foundation	1 263 216	0.64
7 Kuntien eläkevakuutus	1 211 204	0.61
8 The Finnish Cultural Foundation	1 161 865	0.59
9 State Pension Fund	1 147 000	0.58
10 Sigrid Jusélius Foundation	1 065 000	0.54
11 Keskinäinen Eläkevakuutusyhtiö Tapiola	1 000 000	0.51
12 Schweizerische Nationalbank	982 179	0.50
13 Inez och Julius Polins Fond	810 507	0.41
14 Mandatum Henkivakuutusyhtiö	789 255	0.40
15 Livsränteanstalten Hereditas	755 498	0.38
16 The Signe and Ane Gyllenberg foundation	745 888	0.38
17 Savox investments S.a.	730 000	0.37
18 Samfundet Folkhälsan i Svenska Finland rf	725 238	0.37
19 Mutual Insurance Company Eläke-Fennia	591 000	0.30
20 Ella and Georg Ehrnrooth Foundation	542 930	0.28
21 Ingman Finance Oy Ab	530 000	0.27
22 Sijoitusrahasto Nordea Suomi	520 000	0.26
23 Nordea Nordenfonden	504 527	0.26

24 Rantanen Tuula Anneli	502 666	0.25
25 Brita Maria Renlund Foundation	500 000	0.25
26 OP-Delta Equity Fund	470 000	0.24
27 Åbo Akademi Foundation	456 110	0.23
28 Sijoitusrahasto SEB Finlandia	446 032	0.23
29 Aktia Capital Sijoitusrahasto	400 000	0.20
30 Svenska Kulturfonden i Björneborg	394 010	0.20
31 William Thuring's Stiftelse	388 600	0.20
32 Folkhälsans Forskningsstiftelse - Kansanterveyden tutkimussäätiö	384 551	0.19
33 Louise och Göran Ehrnrooths Stiftelse	377 630	0.19
34 Blåberg Olli Edvard	320 000	0.16
35 Fromond Elsa	310 956	0.16
36 Von Fieandt Johan	308 492	0.16
37 Op-Focus Erikoissijoitusrahasto	305 000	0.15
38 Folketrygdfondet	302 042	0.15
39 Sijoitusrahasto Seligson & Co	295 563	0.15
40 Sr Danske Invest Suomi Yhteisöosake	289 354	0.15
41 Stockmann Marita	271 226	0.14
42 Tallberg Carl Johan	260 582	0.13
43 Relander Harald Bertel	255 000	0.13
44 Odin Finland	240 280	0.12
45 Evli Suomi Select Sijoitusrahasto	240 000	0.12
46 Sijoitusrahasto Nordea Pro Suomi	240 000	0.12
47 Sr Danske Invest Suomi Osake	224 225	0.11
48 Blomberg Anne-Sofie Marie	223 504	0.11
49 Keskinäinen Vakuutusyhtiö Kaleva	183 853	0.09
50 Riihimäen Konepajakoulun Säätiö	182 586	0.09
Total	68 337 877	34.65

Changes in ownership – flagging notifications

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

On 24 April 2012, Wärtsilä was informed of Fiskars Group's and Investor AB's agreement to merge their ownership interest through a joint venture. Fiskars Group had, through its subsidiary Avlis AB, sold Wärtsilä shares on 23 April 2012 and owned less than 3/20 (15%) of the company's votes. Following the transaction, Avlis AB owned 25,641,347 shares or 13% of Wärtsilä's share capital and total votes. Investor AB had, through its subsidiary Aktiebolaget Navigare, purchased Wärtsilä shares on 23 April 2012 and owned more than 1/20 (5%) of the company's votes. Following the transaction, Aktiebolaget Navigare owned 12,701,821 shares or 6.44% of Wärtsilä's share capital and total votes. The joint ownership of Fiskars Group and Investor AB exceeded 3/20 (15%), and totalled 38,343,168 shares or 19.44% of Wärtsilä's share capital and votes.

On 26 April 2012, Investor AB increased its holding in Wärtsilä. Following the transaction, the joint ownership of Fiskars Group and Investor AB was 40,317,168 shares or 20.44% of Wärtsilä's share capital and votes.

On 29 June 2012, BlackRock Inc. increased its holding in Wärtsilä. Following the transaction, BlackRock Inc. owned 9,945,554 shares or 5.04% of Wärtsilä's share capital and total votes.

On 13 December 2012 Investor AB's subsidiary Aktiebolaget Navigare transferred all of its Wärtsilä shares to Instoria Aktiebolaget, a total of 17,306,978 shares corresponding to 8.77% of the share capital and votes. Instoria Aktiebolaget is also a wholly owned subsidiary of Investor AB. The joint ownership of Fiskars Group and Investor AB in Wärtsilä Corporation has not changed or reached a flagging notification limit.

Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy, and the corporations under their control, own altogether 791,413 Wärtsilä Corporation shares, which represents 0.4% of the stock and voting rights.

The Board of Directors' share ownership in Wärtsilä on 31 December 2012

Authorisations granted to the Board of Directors

The Annual General Meeting, held on 8 March 2012, authorised the Board of Directors to resolve to repurchase a maximum of 19,000,000 of the Company's own shares. The authorisation to repurchase the Company's own shares shall be valid until the close of the next Annual General Meeting, however no longer than for 18 months from the authorisation.

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

The Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 1.00 euro per share be distributed for the financial period that ended on 31 December 2012.

Wärtsilä on the Capital Markets

Investor Relations activities in 2012

Investor interest in Wärtsilä was high in 2012. During the year, Wärtsilä participated in nearly 300 investor meetings, as compared to over 260 during the previous year. The IR team, consisting of Wärtsilä's CEO, CFO, IR Director and IR Officer, conducted meetings in the Scandinavian countries, the UK, France, Germany, the Netherlands, Italy, Switzerland, Austria, as well as in the US. In addition to one-on-one meetings and conference calls, several group meetings were hosted at Wärtsilä's offices in Helsinki and Vaasa as well as in Shanghai, Mumbai, Singapore and Rio de Janeiro during the year. The IR team also participated in several investor conferences targeting institutional investors, in Finland and abroad. During the year, Wärtsilä's foreign shareholder base represented 52% (47). The

biggest percentage of foreign shares was held by investors in Sweden and the UK. Other IR related events during 2012 included hosting the NASDAQ Opening Bell ceremony in New York, during which President and CEO Björn Rosengren, together with Frank Donnelly, President, Wärtsilä North America rang the Opening Bell.

Wärtsilä's Capital Markets Day was held in March in Helsinki. The theme of the event was Back to Growth and presentation topics covered the company's new strategic focus areas and growth opportunities for the coming years. The event was well-appreciated by over 70 institutional investors, equity analysts and bankers in attendance. A further 150 persons participated via webcast.

Wärtsilä participated in several Investment Evenings organised by the Finnish Foundation for Share Promotion. These events are aimed at domestic private investors and are held in various cities in Finland. Wärtsilä also hosted domestic private investor groups at its own premises. Of Wärtsilä's shareholders, approximately 21% (23) consisted of retail investors during 2012.

In 2012, Wärtsilä published Investor Relations mobile applications designed for iPad, iPhone and Android devices. The applications allow investors, analysts and other users to follow Wärtsilä's latest developments. Featured content includes share price information, releases, financial reports and presentations, video material and an IR events calendar.

Wärtsilä's Investor Relations policy

The ultimate objective of Wärtsilä's Investor Relations is to produce accurate, sufficient, and up-to-date information about the development of Wärtsilä's business operations, strategy, markets and financial position. This is to ensure that the capital markets have relevant information concerning Wärtsilä in order to determine the fair value of the company's shares. To achieve this objective, Wärtsilä publishes annually three interim reports, a financial statements bulletin, an annual report, and stock exchange releases. Furthermore, Wärtsilä's management conducts regular discussions with analysts and investors, both in Finland and abroad. Wärtsilä's web pages serve as an archive for all current and historical data on factors affecting the value of our shares.

Prospects

Guidance on Wärtsilä's prospects is published in the Financial Statements Bulletin for the financial year and in the interim reports. The most recently published prospects statement is repeated in the Annual Report. The published prospects consist of the net sales and profitability (EBIT%) forecasts and they are approved by the Board of Directors. Wärtsilä does not publish quarterly result forecasts.

Should there be a change in business circumstances that could affect the prospects, Wärtsilä will publish changes to the prospects in accordance with prevailing regulations.

Analyst reports

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

Silent period

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

Disclosure policy and financial communications

Wärtsilä discloses information on its goals, financial position, and business operations in an open, timely, truthful and systematic manner to enable stakeholders to form a true and fair view of the company. Wärtsilä publishes stock exchange releases, general press releases, and trade press releases. Our subsidiaries publish press releases with local relevance.

Stock exchange releases give information on news that could affect the share price. Press releases provide information on business-related news or other news of general interest to our stakeholders. Releases to the trade press provide more detailed information on our products and technologies. All stock exchange releases are published in Finnish, Swedish and English. Press releases are published in English and can also be published in Finnish and Swedish. Trade press releases are only published in English. The stock exchange releases and the press releases are available on Wärtsilä's website immediately following publication.

Contacts

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

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

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

Analysts

To our knowledge at least the following brokers and financial analysts have followed Wärtsilä's development during the last 12 months on their own initiative. They have analysed Wärtsilä and drawn up reports and comments and they are able to evaluate the company as an investment target. Wärtsilä takes no responsibility for the opinions expressed.

Company	Analyst	Contact
ABG Sundal Collier AB	Anders Idborg	anders.idborg@abgsc.se +46 8 566 286 74
CA Cheuvreux	-	+46 8 723 5100
Carnegie Investment Bank AB, Finland Branch	Timo Heinonen	timo.heinonen@carnegie.fi +358 9 6187 1234
Danske Bank A/S, Helsinki Branch	Antti Suttelin	antti.suttelin@danskebank.com +358 10 236 4708
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Goldman Sachs International	Daniela Costa	daniela.costa@gs.com +44 20 7774 8354
Handelsbanken Capital Markets	Tom Skogman	tom.skogman@handelsbanken.fi +358 10 444 2752
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Nordea Markets	Jan Kajjala	jan.kajjala@nordea.com +358 9 1655 9706
Pareto Öhman	Jari Harjunpää	jari.harjunpaa@ohmangroup.fi +358 9 8866 6021
Pohjola Bank plc	Pekka Spolander	pekka.spolander@pohjola.fi +358 10 252 4351
SEB Enskilda, Helsinki Branch	Tomi Railo	tomi.railo@enskilda.fi +358 9 6162 8727
Swedbank Markets	-	+47 2323 8000
UBS Deutschland AG	Sven Weier	sven.weier@ubs.com +49 69 1369 8278

Information for shareholders

Annual General Meeting

The Annual General Meeting of Wärtsilä Corporation will take place on Thursday, 7 March 2013, 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 25 February 2013 in the company's list of shareholders maintained by Euroclear Finland Ltd have the right to attend the Annual General Meeting.

Notification of attendees

Shareholders wishing to attend the Annual General Meeting are required to inform the Company thereof no later than 4 p.m. on 4 March 2013 either by letter, e-mail, fax or telephone.

Registration:

Wärtsilä Corporation
Share Register
P.O. Box 196
FI-00531 Helsinki
Finland
Telephone: +358 10 709 5282
Between 9 a.m. and 12 p.m. (noon) on weekdays
Fax: +358 10 709 5283
E-mail: yk@wartsila.com
Internet: www.wartsila.com/agm_register

Letters, e-mails and faxes informing of participation must reach the Company before the notification period expires at 4 p.m. on 4 March 2013. Letters authorising a proxy to exercise a shareholder's voting right at the Annual General Meeting should also reach the Company before the notification period expires.

Payment of dividend

The Board of Directors proposes that a dividend of 1.00 euro per share be paid for the financial year 2012. The dividend will be paid to the shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date, which is 12 March 2013. The dividend payment date proposed by the Board is 19 March 2013.

Stock exchange releases

Wärtsilä's Stock exchange releases are available in English, Finnish and Swedish on Wärtsilä's website.

Financial information 2013

Annual Report 2012

The electronic Annual Report 2012 is published in English, Finnish and Swedish and is also available on Wärtsilä's website, www.wartsila.com.

Interim Reports and Financial Statements Bulletin 2013

- January-March on Thursday, 18 April 2013
- January-June on Thursday, 18 July 2013
- January-September on Thursday, 24 October 2013
- Financial Statements Bulletin January-December on Wednesday, 29 January 2014

Interim Reports and the Financial Statements Bulletin are available in English, Finnish and Swedish at www.wartsilareports.com as well as on Wärtsilä's website, www.wartsila.com.

Annual summary of stock exchange releases

20 December 2012

Wärtsilä and Yuchai Marine Power establish joint venture for manufacturing medium-speed engines in China

13 December 2012

Notification in accordance with the Finnish Securities Market Act Chapter 2 § 9: Changes in Investor AB's ownership in Wärtsilä

Wärtsilä wins a EUR 138 million power plant contract from Mozambique

17 October 2012

Correction to Wärtsilä's Interim report January-September 2012

Interim Report January-September 2012

10 October 2012

Wärtsilä-led consortium to supply 573 MW power plant to Jordan - value of Wärtsilä's order USD 334 million

3 October 2012

Wärtsilä's Interim Report January-September 2012 to be published 17 October 2012 at 8.30 a.m. local time

25 September 2012

Wärtsilä affiliate signs long-term power purchase agreement with Jordan's NEPCO

18 July 2012

Wärtsilä Interim Report January-June 2012

3 July 2012

Wärtsilä's Interim Report January-June 2012 to be published 18 July 2012 at 8.30 a.m. local time

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

1 June 2012

Correction to Wärtsilä's earlier announcement regarding disclosure policy

Wärtsilä's disclosure policy updated

27 April 2012

Notification in accordance with the Finnish Securities Market Act Chapter 2 § 9: Investor AB increased holding in Wärtsilä Corporation

24 April 2012

Notification in accordance with the Finnish Securities Market Act Chapter 2 § 9: Changes in Wärtsilä's ownership due to Fiskars Group's and Investor AB's merge of ownership interest

20 April 2012

Wärtsilä Interim Report January-March 2012

10 April 2012

Wärtsilä's Interim Report January-March 2012 to be published 20 April 2012 at 8.30 a.m. local time

29 March 2012

Wärtsilä's Capital Markets Day: Impact of the Hamworthy acquisition

8 March 2012

Constitutive meeting of the Board of Directors of Wärtsilä Corporation

Decisions of Wärtsilä's Annual General Meeting 8 March 2012

14 February 2012

Wärtsilä Corporation's annual report 2011 published

31 January 2012

Wärtsilä likely to be awarded 600 MW power plant order in Jordan

Wärtsilä's acquisition of Hamworthy effective

27 January 2012

Correction to Wärtsilä Corporation's notice to convene the annual general meeting

Notice to convene the Annual General Meeting of Wärtsilä Corporation

Financial Statements Bulletin January-December 2011

26 January 2012

Court sanctions the Scheme of Arrangement related to Hamworthy acquisition

11 January 2012

Wärtsilä's Financial Statements Bulletin 2011 to be published 27 January 2012 at 8.30 a.m. local time

9 January 2012

Shareholders of Hamworthy voted in favour of acquisition by Wärtsilä Corporation

Net sales back to growth with stable profitability

2012 was a year marked by difficult conditions in the global economy. Supported by a very strong fourth quarter, Wärtsilä's full year net sales grew by 12% to EUR 4,725 million with profitability at 10.9%. This was well in line with the targets set for the year. Order intake grew by 9% to EUR 4,940 million, with strong development in Ship Power orders, especially in the offshore markets. The order book totalled EUR 4,492 million (4,007) at the end of the period, which represented an increase of 12%.

In 2012, Power Plants order intake totalled EUR 1,515 million, a decrease of 5%, while the total market is estimated to have decreased by 30-40%. Around 74% of the orders received, in terms of MW, were from gas based markets. Wärtsilä received its largest ever power plant order for a 573 MW tri-fuel project in Jordan. Another major order was received from Azerbaijan, for a 384 MW plant operating on gas. For Ship Power, it was an active year in offshore and specialised vessels and Ship Power orders increased by 45% to EUR 1,453 million. Wärtsilä received several significant offshore orders as well as many orders for dual-fuel engines, underlining the company's frontrunner position in gas applications. Supported by recent developments in environmental regulation, Wärtsilä also received strategically noteworthy orders for exhaust gas cleaning systems for SO_x removal and the first ballast water management system orders. Interest in service agreements was high during 2012. Wärtsilä Services signed major service agreements for power plants in Kenya, Timor-Leste, South Africa, Brazil, the USA and Jordan. Within the marine industry, Wärtsilä was also awarded service agreements by Princess Cruise Lines Ltd and Prestige Cruise Holdings, Inc. Services' net sales grew by 5% and reached an all time high level of EUR 1,908 million.

During 2012, Wärtsilä closed its largest ever acquisition with the purchase of Hamworthy. The acquisition supports Wärtsilä's strategy in the marine gas, offshore and environmental solutions markets. Wärtsilä also signed an agreement to establish a joint venture with Yuchai Marine Power Co. Ltd. in Zhuhai, China for the manufacture of medium-speed marine engines. Wärtsilä's continued to invest strongly in R&D activities with the focus being on the development of technologies and products to meet tightened environmental legislation, and on products and solutions that can secure profitable operations for our customers. Wärtsilä invested more than ever in technological development, spending EUR 188 million on R&D activities, which represented 4% of net sales.

Net sales

MEUR	2012	2011	Change %
Power Plants	1 498	1 365	10%
Ship Power	1 301	1 022	27%
Services	1 908	1 816	5%
Other	17	6	183%
Group	4 725	4 209	12%

Strategy

Wärtsilä aims to be the leader in complete lifecycle power solutions for the global marine markets and selected energy markets worldwide. We see growth opportunities in gas power plants as part of our Smart Power Generation concept, as well as in gas-fuelled engines and related systems for the marine market. We also seek growth in environmental solutions, including exhaust gas cleaning systems for SO_x removal and ballast water management systems. Our strengths are our technological leadership, an integrated product and service offering, our close and long-standing customer relationships, and our unparalleled global presence. With our production and supply chain management we constantly seek ways to maintain cost efficiency and high quality – often in co-operation with leading industrial partners in our key growth markets. Our strong focus on R&D allows us to stay at the forefront of technology and innovation in our industry.

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

Strategic projects, acquisitions and joint ventures

In the beginning of 2012, Wärtsilä finalised the acquisition of Hamworthy. The acquisition brings important growth synergies to Wärtsilä in the offshore, marine gas applications and environmental solutions markets. Hamworthy has been divided into two business lines; Flow & Gas solutions and Environmental solutions and the integration into Wärtsilä's Ship Power business is moving according to plan. Wärtsilä's target is to double the net sales for Flow & Gas solutions and Environmental solutions over the next five years. The total consideration for the company was EUR 456 million, while the cash flow from the acquisition was EUR 389 million due to Hamworthy's cash balance at closing.

In March 2012, Wärtsilä signed a contract to acquire the assets and business of MMI Boiler Management Pte Ltd., the Singapore-based company specialising in the service and maintenance of boilers for marine and industrial applications. The purchase price is approximately EUR 3 million.

In December 2012 Wärtsilä and Yuchai Marine Power Co. Ltd. signed an agreement in Zhuhai, China to establish a 50/50 joint venture for manufacturing medium-speed marine engines in Zhuhai City, Guangdong Province. The joint venture will serve the increasingly dominant Chinese shipbuilding industry, with the emphasis being on the assembly and testing of Wärtsilä 20, Wärtsilä 26 and Wärtsilä 32 engines. Operations are planned to start in 2014.

Wärtsilä Qiyao Diesel Company, a joint venture company manufacturing Wärtsilä 20 auxiliary engines, is planning to expand its production capacity. The planned joint venture between Wärtsilä and Jiangsu CuiXing Marine Offshore Engineering Co. Ltd. has been discontinued.

Wärtsilä TMH Diesel Engine Company LLC, a joint venture owned 50/50 by Wärtsilä and Transmashholding, has begun construction of a modern factory located in Penza, Russia. The new plant is expected to be ready to start production in the second half of 2013, and will provide world-class assembly and manufacturing facilities. The joint venture will give Wärtsilä a stronger industrial foothold in Russia.

Market development

Power Plants

Good activity in gas based power generation markets

Based on the level of quoted MWs, the power plant market activity was at a good level during 2012. Activity remains focused on natural gas based generation. Supported by their economic growth, the emerging markets continued to invest in new power generation capacity. However, the uncertainty of economic development continues to delay investment decisions in the power generation markets overall. Activity was strongest in the flexible baseload segment.

Power Plants market share

During the first half of 2012 global orders for natural gas and liquid fuel based power generation (including all prime mover units of over five MW) totalled 28.8 GW, a decrease of 39%. Wärtsilä's share represents 4.9% of the market (3.3% for the full year 2011).

Ship Power

An active year in offshore and specialised vessels

The total number of new registered vessel contracts in 2012 was 1,090, which is a decrease of 35% compared to the previous year. Overall, 2012 was a difficult year for the traditional merchant segment that continued to struggle with overcapacity. There was a diverse mix of orders in 2012 with a clear emphasis on the contracting of offshore and specialised vessels. The LNG and LPG carrier markets also had an active year with 35 LNG carrier contracts booked. During 2012, shipping started to be more affected by the challenges of emission reductions and other environmental responsibilities.

China and South Korea continued to be the dominant countries in shipbuilding, capturing 35% and 34% respectively of the contracts confirmed in 2012 in terms of compensated gross tonnage (CGT). Brazil, Norway and the USA stood out amongst the small shipbuilding nations that captured new building contracts during 2012.

Ship Power market shares

Wärtsilä's share of the medium-speed main engine market remained high at 47% (48% at the end of the previous quarter). The market share in low-speed engines remained stable at 18% (18). In the auxiliary engine market, Wärtsilä's share was 4% (5).

Services

Stable development supported by power plant and offshore markets

The stable services market development continued in all areas during 2012. Development in the power plants and offshore markets continued to be strong. From a regional perspective, the market was still the most active in the Middle East and Asia.

At the end of 2012, Wärtsilä's installed base was 181,200 MW, representing an increase of 1% compared to the previous year. The installed power plants base continued to increase during 2012,

while the marine installed base showed a slight decline. This decline is due to the scrapping of older merchant vessels with large 2-stroke engines.

Order intake and order book

Order intake

Wärtsilä's order intake for the financial period January-December 2012 totalled EUR 4,940 million (4,516), an increase of 9%. The book-to-bill ratio for the financial period was 1.05 (1.07).

For the financial period January-December 2012, the Power Plants order intake totalled EUR 1,515 million (1,602). Compared to the previous year, this represents a 5% decrease, while the total market is estimated to have decreased by 30-40%. Around 74% of the orders received, in terms of MW's, were from gas based markets. In 2012, Wärtsilä received its largest ever power plant order for a 573 MW tri-fuel project in Jordan. Another major order was received from Azerbaijan, for a 384 MW plant operating on gas. Other important orders were received from the African continent as well as from Indonesia, Australia and the USA during 2012.

Wärtsilä Ship Power's order intake for January-December 2012 was EUR 1,453 million (1,000), an increase of 45% over the corresponding period last year. Throughout 2012, there was good order activity in the Offshore and Special Vessels segments. In line with the Ship Power strategy, Wärtsilä received several significant orders for the delivery of total solutions, including ship design, propulsion machinery, automation and other equipment as well as several orders for environmental solutions, such as exhaust gas cleaning systems for SO_x removal and the first orders for ballast water management systems. In the Offshore segment, major orders included those for nine drillships and six pipe laying vessels related to the ongoing Brazilian offshore programme, and for several platform support vessels. Wärtsilä received many orders for dual-fuel engines, underlining the company's frontrunner position in gas applications. Dual-fuel equipment will be delivered among others for a Canadian passenger ferry, for two gas tankers to be built for a Dutch shipping company, for two Chinese tug boats, for a dry cargo inland waterway vessel to operate in Europe, for a guideship ordered by the Korean port authority, as well as for three offshore support vessels to operate in the Gulf of Mexico. The Offshore segment represented 46% of the total order intake, while the Merchant segment share was 28% and Special Vessels 12%. The Cruise & Ferry segment's share was 6% and Navy represented 7% of the order intake. Other orders accounted for 1%.

For the financial period January-December 2012, the Services order intake totalled EUR 1,961 million (1,909). During the financial period, Wärtsilä signed major Operations & Maintenance agreements for power plants in Kenya, Timor-Leste, South Africa and Brazil. Wärtsilä was also awarded service agreements by Princess Cruise Lines Ltd, and by Prestige Cruise Holdings, Inc.

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea, and the Wärtsilä Qiyao Diesel Company Ltd joint venture company in China, producing auxiliary engines, totalled EUR 242 million (394) during the financial period January-December 2012. Wärtsilä's share of ownership in these companies is 50%, and the results are reported as a share of result of associates and joint ventures.

Order book

At the end of the financial period, Wärtsilä's total order book stood at EUR 4,492 million (4,007), an increase of 12%. At the end of the financial period the Power Plants order book amounted to EUR 1,561 million (1,536), which is 2% higher than on the same date last year. The Ship Power order book stood at EUR 2,127 million (1,684), an increase of 26%. The Services order book totalled EUR 804 million (786) at the end of the financial period, an increase of 2%.

Net sales and profitability

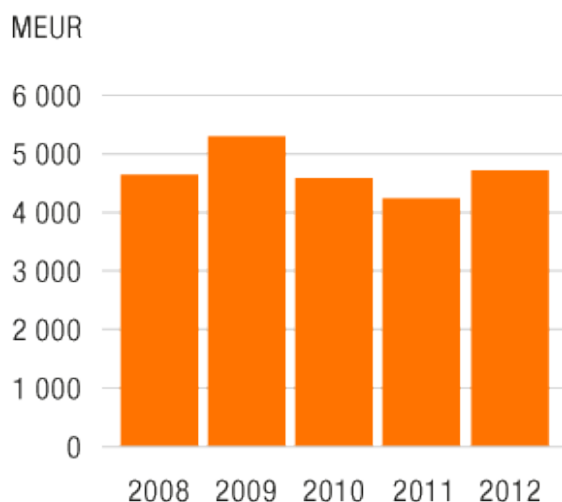
Net sales

Wärtsilä's net sales for January-December 2012 increased by 12% to EUR 4,725 million (4,209). Power Plants accounted for 32%, Ship Power for 28% and Services for 40% of the total net sales. Net sales for Power Plants totalled EUR 1,498 million (1,365), an increase of 10%. Ship Power's net sales increased by 27% and totalled EUR 1,301 million (1,022). During the financial period, net sales from the Services business amounted to EUR 1,908 million (1,816), reaching an all time high level. Compared to the previous year, this represents a growth of 5%. This increase relates to the growth in the installed engine base, as well as the wide services offering aimed at reducing our customers' operating expenses and increasing the availability of their equipment. Engine related services amounted to over three quarters of the Services net sales, the growth being mainly related to 4-stroke services.

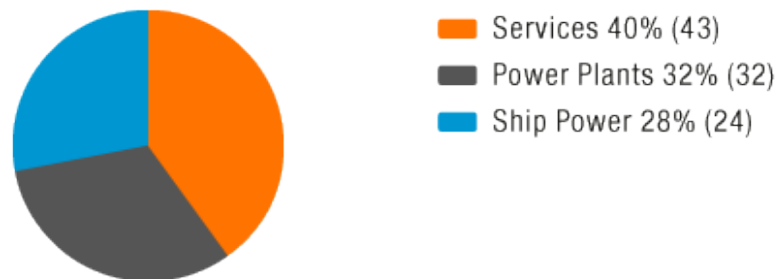
Of Wärtsilä's net sales for January-December 2012, approximately 59% was EUR denominated, 21% USD denominated, with the remainder being split between several currencies.

Development of Group net sales

In 2012, Wärtsilä's net sales was EUR 4,725 million.



Net sales by business area



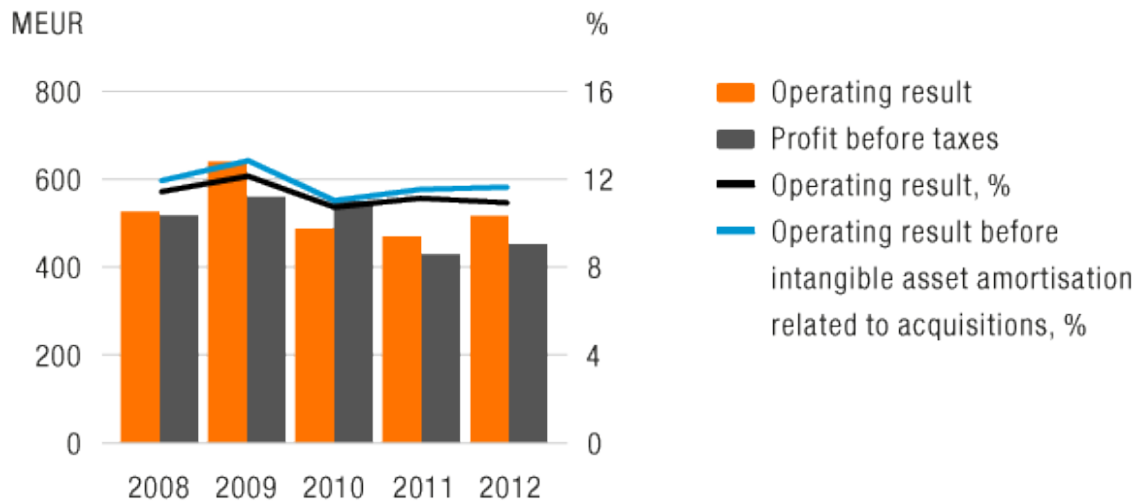
Operating result and profitability

For the financial period January-December 2012, the operating result (EBIT) before non-recurring items was EUR 515 million (469), which is 10.9% of net sales (11.1). Including non-recurring items, the operating result was EUR 481 million (445) or 10.2% of net sales (10.6). The operating result (EBITA), excluding non-recurring items and intangible asset amortisation related to acquisitions, was EUR 550 million (485), or 11.6% of net sales (11.5). Wärtsilä recognised EUR 34 million of non-recurring items (24) during the financial period January-December 2012. Non-recurring items consisted of restructuring measures, pension liabilities related to restructured and discontinued operations, and acquisition costs. Wärtsilä also recognised intangible asset amortisation related to acquisitions of EUR 35 million (16) during the financial period January-December 2012.

Financial items amounted to EUR -30 million (-16). Net interest totalled EUR -18 million (-5). Dividends received totalled EUR 2 million (3). Profit before taxes amounted to EUR 452 million (429). Taxes in the reporting period amounted to EUR 109 million (136), implying an effective tax rate of 24%. The profit for the financial period amounted to EUR 344 million (293). Earnings per share were 1.72 euro (1.44) and the equity per share was 9.12 euro (8.30). Return on investment (ROI) was 20.1% (20.4). Return on equity (ROE) was 19.7% (17.5).

Result

In 2012 our operating profit was EUR 515 million or 10.9% of net sales.



Operating result before non-recurring items

Balance sheet, financing and cash flow

For January-December 2012, the cash flow from operating activities was EUR 153 million (232). Net working capital at the end of the period totalled EUR 509 million (235). The increase in net working capital is mainly due to the timing of projects. Advances received at the end of the period totalled EUR 695 million (563). Cash and cash equivalents at the end of the period amounted to EUR 225 million (592).

Wärtsilä had interest-bearing debt totalling EUR 794 million (652) at the end of December 2012. The total amount of short-term debt maturing within the next 12 months was EUR 249 million, including EUR 141 million of Finnish Commercial Papers. Net interest-bearing loan capital totalled EUR 567 million (58).

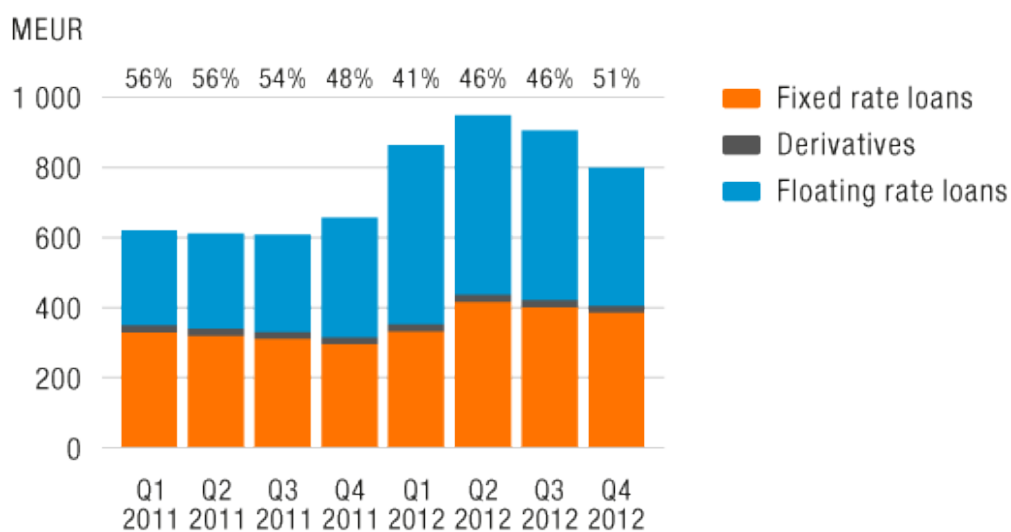
The funding programmes at the end of December 2012 included long-term loans of EUR 545 million and unutilised Committed Revolving Credit Facilities totalling EUR 554 million. The funding programmes also included Finnish Commercial Paper programmes totalling EUR 700 million.

The solvency ratio was 42.0% (41.3) and gearing was 0.31 (0.04). The increase in gearing relates mainly to the acquisition of Hamworthy.

Interest-bearing loan capital

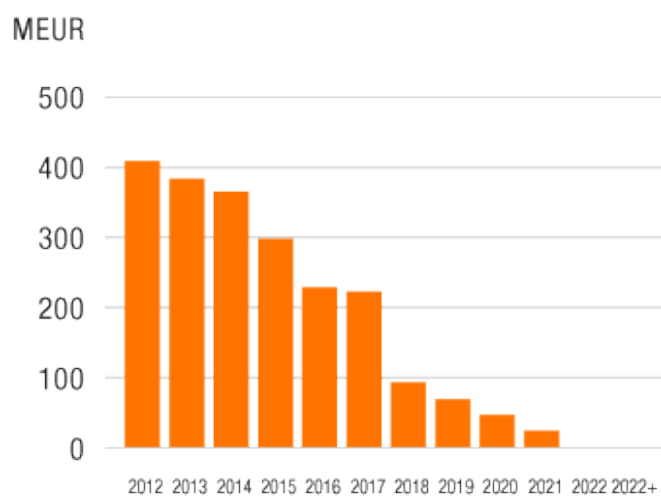
MEUR	2012	2011
Long-term liabilities	545	485
Current liabilities	249	167
Loan receivables	-2	-2
Cash and cash equivalents	-225	-592
Net	567	58

Loans

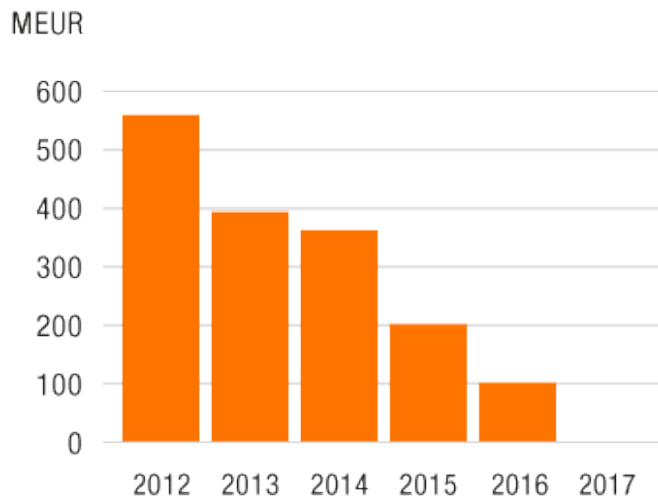


% = Fixed portion of loans (incl. derivatives).

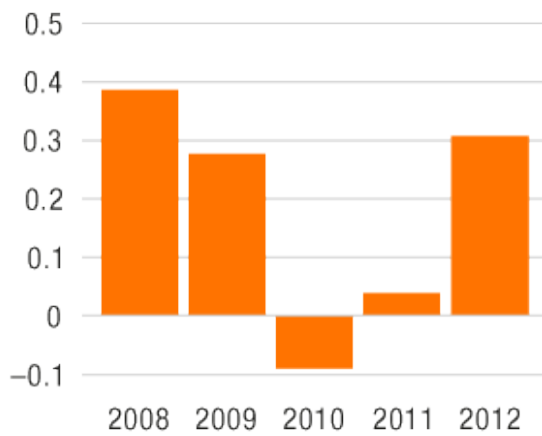
Maturity profiles of long-term loans (end of period)



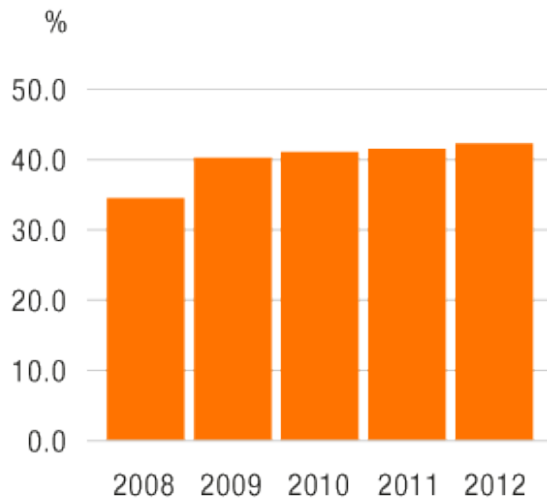
Committed revolving credit facilities (end of period)



Gearing



Solvency ratio



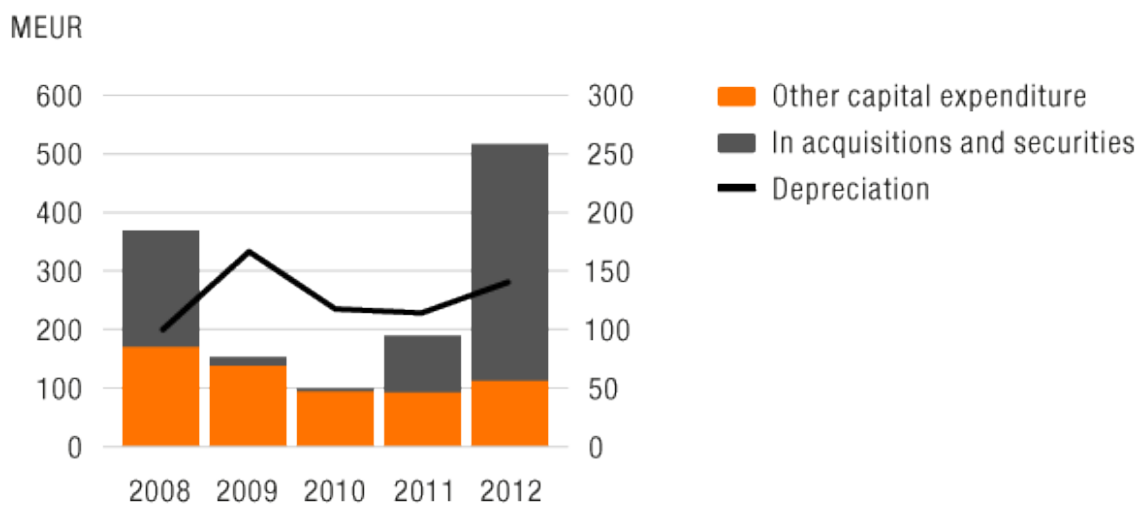
Capital expenditure

Gross capital expenditure in the financial period totalled EUR 513 million (187), which comprised EUR 402 million (97) in acquisitions and investments in securities, and EUR 111 million (90) in intangible assets and property, plant and equipment. Depreciation, amortisations and impairment for the financial period amounted to EUR 139 million (113).

Maintenance capital expenditure for 2012 was below depreciation. For 2013, maintenance capital expenditure will be in line with depreciation.

Gross capital expenditure

Gross capital expenditure in 2012 is on a higher level due to the acquisition of Hamworthy.



Research and development, product launches

During 2012, Wärtsilä's R&D activities continued strongly with the focus being on the development of technologies and products to meet tightened environmental legislation and also on products and solutions that can secure profitable operations for our customers. The R&D related expenditure was at a high level of EUR 188 million, which represents 4% of net sales.

Progress with regard to ballast water management systems continues. All testing of the AQUARIUS UV (ultraviolet) system has been completed, and type approval was received in December 2012. The first orders for the ultraviolet based systems have been received and were delivered in 2012. IMO Basic Approval was granted to the AQUARIUS EC (electro-chlorination) based system on 1 October 2012 and the type approval is expected during the second quarter of 2013.

Wärtsilä has today the widest portfolio of exhaust gas cleaning systems for the removal of SO_x, and the most extensive reference list on the market. The portfolio consists of open-loop, closed-loop and hybrid exhaust gas cleaning systems. Wärtsilä has to date a total of 47 exhaust gas cleaning scrubbers delivered or on order, for a total of 24 vessels.

Last autumn Wärtsilä Finland Oy announced that its product development strategy had been redefined and that consequently its fuel cell function would be reorganised. Key persons in Wärtsilä's fuel cell development have started up a new company that will focus on fuel cell technology development. Wärtsilä will have a minority interest of 19.9% in the new company, named Convion Oy, and nine former Wärtsilä employees will move to the new company.

Development of Wärtsilä's low-speed dual-fuel engine technology is progressing at its test laboratory in Italy. Testing during 2012 showed that this new technology will meet IMO Tier III emission requirements without exhaust gas treatment systems. The low-speed dual-fuel technology will undergo full engine testing during 2013. The first onboard installation is planned for 2014.

Manufacturing

Due to the production volume level dropping temporarily at Vaasa Delivery Centre, Wärtsilä started a consultation process regarding temporary lay-offs on 5 November. The drop in volume level is due to lower than expected order intake at the beginning of the year for some of the products manufactured in Vaasa, and changes in project timing. The consultation process has been completed and the temporary lay-offs will concern more than 700 persons. The temporary lay-offs will be around 40 days on an individual level.

On 1 November Wärtsilä announced its plans to move the assembly and testing of controllable pitch propellers and gear boxes from Norway to China and Italy respectively. A group consisting of members from the local management and Wärtsilä have reached an agreement for a management buyout with regards to component manufacturing. Wärtsilä and Olvondo Industries, the newly formed company, have now completed the detailed negotiations and signed the sale agreement of machinery and equipment, a long-term lease agreement for the premises, and a long-term supply frame agreement. The arrangement involves 88 Wärtsilä Norway employees within the gear and propeller manufacturing and the costs related to the transaction have been included in the fourth quarter non-recurring items.

Megawatts delivered

	2012	2011	Change, %
Power Plants engines	3 078	2 990	3%
Ship Power, own engines	1 701	1 673	2%
Wärtsilä total	4 778	4 653	3%
By licensees	2 826	2 940	-4%
Engine delivery total	7 604	7 593	0%

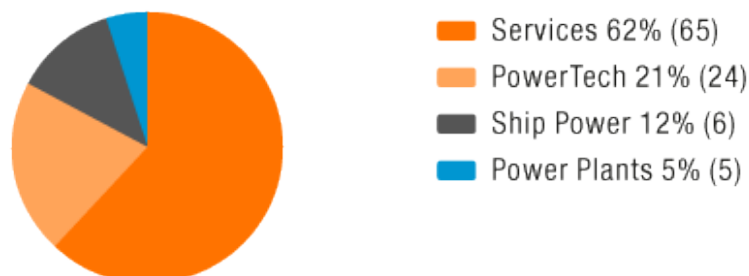
Personnel

Wärtsilä had 18,887 (17,913) employees at the end of December 2012. On average, the number of personnel for January-December 2012 totalled 18,930 (17,708). Power Plants employed 932 (855) people. Ship Power employed 2,139 (999) people, Services 11,163 (11,168) and PowerTech 3,811 (4,091) people. The increase in Ship Power personnel relates mainly to the acquisition of Hamworthy.

Of Wärtsilä's total number of employees, 19% (20) were located in Finland and 36% (35) elsewhere in Europe. Personnel employed in Asia represented 32% (33).

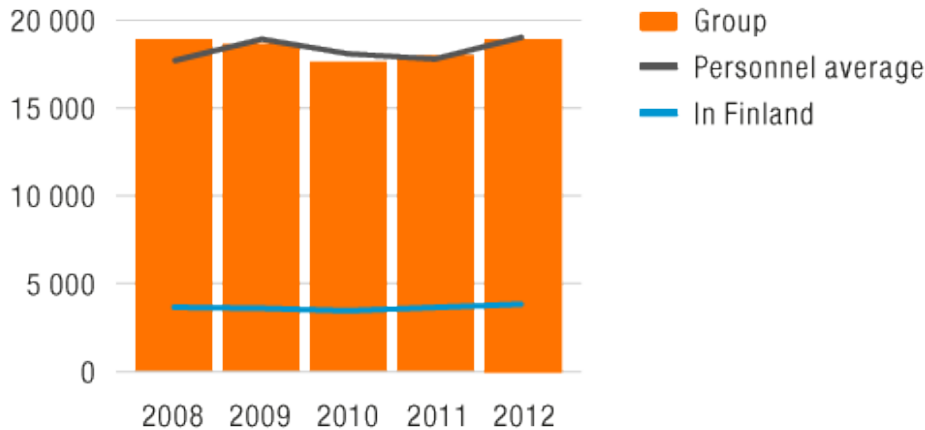
Personnel by business area

The increase in Ship Power personnel relates mainly to the Hamworthy acquisition.



Personnel

Wärtsilä's approximately 18,900 employees are located all around the world in 70 countries.



Changes in the organisational structure

To further strengthen competitiveness and to serve customers more effectively, Wärtsilä has changed its organisational set up within Ship Power and Wärtsilä Industrial Operations. With this change, Wärtsilä aims to further increase the flexibility of its operations and ensure faster decision making. All product development and manufacturing related to other than 4-stroke engines has been transferred to Ship Power from WIO, which has been renamed PowerTech. No job reductions are planned as a result of the changes in the organisational structure. The new set up became effective as of 1 October 2012.

Changes in management

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

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

Sustainable development

Wärtsilä is well positioned to reduce emissions and the use of natural resources, thanks to its various technologies and specialised services. Wärtsilä's R&D efforts continue to focus on the development of advanced environmental technologies and solutions. The company is committed to supporting the UN

Global Compact and its principles with respect to human rights, labour, the environment and anti-corruption. Wärtsilä's share is included in several sustainability indices.

Shares and shareholders

During 2012, the volume of trades on the Nasdaq OMX exchange was 159,852,645 shares, equivalent to a turnover of EUR 4,380 million. Wärtsilä's shares are also traded on alternative exchanges, such as Chi-X, Turquoise and BATS. The total trading volume on these alternative exchanges was 84,900,518 shares.

31.12.2012			Number of shares and votes	Number of shares traded 1-12/2012
WRT1V			197 241 130	159 852 645
1.1. - 31.12.2012	High	Low	Average ¹	Close
Share price	33.11	22.30	27.31	32.72
¹ Trade-weighted average price				
Market capitalisation			31.12.2012	31.12.2011
EUR million			6 454	4 402
Foreign shareholders			31.12.2012	31.12.2011
%			51.0	47.0

Flagging notifications

During the financial period January-December 2012, Wärtsilä was informed of the following changes in ownership:

On 24 April 2012, Wärtsilä was informed of Fiskars Group's and Investor AB's agreement to merge their ownership interest through a joint venture. Fiskars Group had, through its subsidiary Avlis AB, sold Wärtsilä shares on 23 April 2012 and owned less than 3/20 (15%) of the company's votes. Following the transaction, Avlis AB owned 25,641,347 shares or 13% of Wärtsilä's share capital and total votes. Investor AB had, through its subsidiary Aktiebolaget Navigare, purchased Wärtsilä shares on 23 April 2012 and owned more than 1/20 (5%) of the company's votes. Following the transaction, Aktiebolaget Navigare owned 12,701,821 shares or 6.44% of Wärtsilä's share capital and total votes. The joint ownership of Fiskars Group and Investor AB exceeded 3/20 (15%), and totalled 38,343,168 shares or 19.44% of Wärtsilä's share capital and votes.

On 26 April 2012, Investor AB increased its holding in Wärtsilä. Following the transaction, the joint ownership of Fiskars Group and Investor AB was 40,317,168 shares or 20.44% of Wärtsilä's share capital and votes.

On 29 June 2012, BlackRock Inc. increased its holding in Wärtsilä. Following the transaction BlackRock Inc. owned 9,945,554 shares or 5.04% of Wärtsilä's share capital and total votes.

On 13 December 2012, Investor AB's subsidiary Aktiebolaget Navigare transferred all of its Wärtsilä shares to Instoria Aktiebolaget, a total of 17,306,978 shares corresponding to 8.77% of the share capital and votes. Instoria Aktiebolaget is a wholly owned subsidiary of Investor AB. The joint ownership of Fiskars Group and Investor AB in Wärtsilä Corporation did not change or reach a flagging notification limit.

Decisions taken by the annual general meeting

Wärtsilä's Annual General Meeting held on 8 March 2012 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 2011. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 0.90 per share. The dividend was paid on 20 March 2012.

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

The firm of public auditors KPMG Oy Ab was appointed as the company's auditor for the year 2012.

Authorisation to repurchase and distribute the Company's own shares

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

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

Organisation of the Board of Directors

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

Audit Committee:

Chairman Markus Rauramo, Maarit Aarni-Sirviö, Alexander Ehrnrooth, Lars Josefsson

Nomination Committee:

Chairman Mikael Lilius, Kaj-Gustaf Bergh, Matti Vuoria

Remuneration Committee:

Chairman Mikael Lilius, Paul Ehrnrooth, Matti Vuoria

Risks and business uncertainties

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

The business environment for the shipping and shipbuilding industry is challenging and concerns over the global economy continue to cause uncertainty. The traditional merchant segments remain under pressure, as the industry waits to see how trade conditions develop in 2013.

Increasing risks in the financial markets may have a negative impact on Services' order intake. The challenging conditions in the marine merchant markets are also seen as a potential risk.

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

Market outlook

The general economic uncertainty and the slow global growth projections are expected to continue to impact power generation markets. It is expected that the overall market for natural gas and liquid fuel based power generation in 2013 will be similar to that of 2012. In 2013 ordering activity is expected to remain centered on the emerging markets, which continue to invest in new power generation capacity. In the OECD countries, there is still pent-up power sector demand, mainly driven by CO₂ neutral generation and the ramp down of older, mainly coal-based generation.

Our outlook for the shipping and shipbuilding market in 2013 is cautious, although slightly better than in 2012. The contracting outlook remains challenging for certain ship types, such as bulk carriers, due to the remaining overcapacity. Overall, the contracting mix is expected to be in line with that seen in 2012, favouring offshore and specialised vessel segments. Interesting opportunities can be seen in environmental solutions and fuel efficient designs.

The overall service market outlook remains stable. The outlook for the Middle East and Asia continues to be slightly more positive, while Southern Europe is likely to present more challenging conditions in line with overall economic development. An increase in the installed power plants base, compared to the marine sector, provides a better outlook for services to the power segment. The outlook for services to the marine sector remains, however, stable and is supported by the continued positive outlook for the offshore sector.

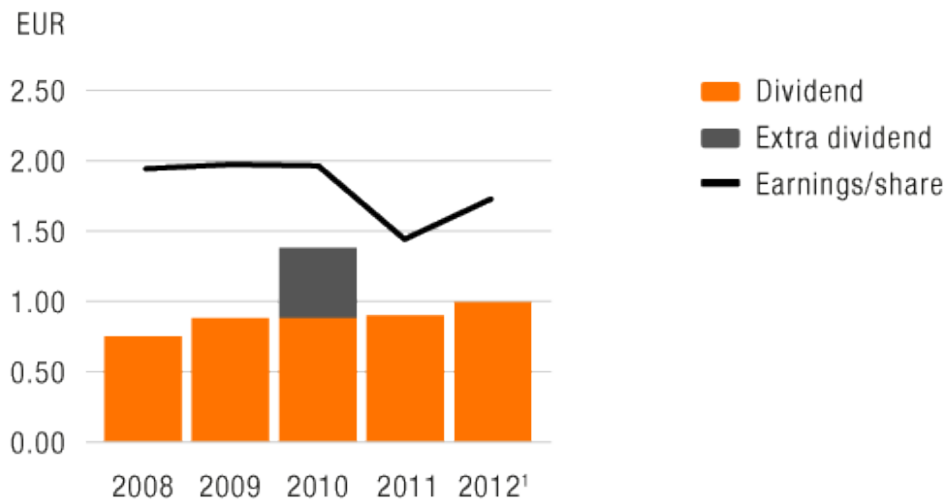
Wärtsilä's prospects for 2013

Wärtsilä expects its net sales for 2013 to grow by 0-10% and its operational profitability (EBIT% before non-recurring items) to be around 11%.

Board of directors' dividend proposal

The Board of Directors proposes that a dividend of 1.00 euro per share be paid for the financial year 2012. The parent company's distributable funds total 1,049,791,970.15 euro, which includes 252,563,755.88 euro in net profit for the year. There are 197,241,130 shares with dividend rights. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date, which is 12 March 2013. The dividend payment date proposed by the Board is 19 March 2013.

Earnings/share, dividend/share



¹ Proposal by the Board 2012.

Five years in figures

MEUR		2012	2011	2010	2009	2008
Net sales		4 725	4 209	4 553	5 260	4 612
of which outside Finland	%	98.8	99.3	99.4	99.3	98.1
Exports from Finland		2 349	2 458	2 584	3 114	2 574
Personnel on average		18 930	17 708	18 000	18 830	17 623
of which in Finland		3 599	3 421	3 326	3 506	3 378
Order book		4 492	4 007	3 795	4 491	6 883
From the consolidated statement of income						
Depreciation, amortisation and impairment		139	113	116	165	99
Share of result of associates and joint ventures		9	8	5	6	-
Operating result before non-recurring items		515	469	487	638	525
as a percentage of net sales	%	10.9	11.1	10.7	12.1	11.4
Operating result		481	445	412	592	525
as a percentage of net sales	%	10.2	10.6	9.1	11.2	11.4
EBITA		550	485	503	672	547
as a percentage of net sales	%	11.6	11.5	11.0	12.8	11.9
Financial income and expenses		-30	-16	-13	-34	-9
as a percentage of net sales	%	-0.6	-0.4	-0.3	-0.6	-0.2
Net income from available-for-sale financial assets		1	-	149	-	-
Profit before taxes		452	429	548	558	516
as a percentage of net sales	%	9.6	10.2	12.0	10.6	11.2
Profit for the financial period		344	293	397	396	389
as a percentage of net sales	%	7.3	7.0	8.7	7.5	8.4
From the consolidated statement of financial position						
Non-current assets		2 002	1 577	1 483	1 548	1 498
Current assets		3 036	3 023	3 213	3 108	3 245
Total equity attributable to equity holders of the parent company		1 799	1 636	1 638	1 496	1 184
Non-controlling interests		26	30	26	16	15
Interest-bearing debt		794	652	628	664	664
Non-interest-bearing liabilities		2 419	2 282	2 404	2 479	2 880
Total equity and liabilities		5 038	4 600	4 696	4 655	4 743
Gross capital expenditure		513	187	98	152	366
as a percentage of net sales	%	10.9	4.4	2.2	2.9	7.9
Research and development expenses		188	162	141	141	121
as a percentage of net sales	%	4.0	3.8	3.1	2.7	2.6

Dividends paid	197*	178	173	173	148
Extra dividend	-	-	99	-	-
Dividends total	197*	178	271	173	148

Financial ratios

Earnings per share, basic and diluted (EPS)**	EUR	1.72	1.44	1.96	1.97	1.94
Dividend per share**	EUR	1.00*	0.90	1.38	0.88	0.75
Dividend per earnings	%	58.1*	62.7	70.3	44.4	38.7
Interest coverage		13.9	14.6	18.9	16.4	14.0
Return on investment (ROI)	%	20.1	20.4	26.0	29.9	32.4
Return on equity (ROE)	%	19.7	17.5	25.0	29.2	30.8
Solvency ratio	%	42.0	41.3	40.8	40.0	34.3
Gearing		0.31	0.04	-0.09	0.28	0.39
Equity per share**	EUR	9.12	8.30	8.30	7.59	6.01
Working capital (WCAP)	EUR	509	235	118	486	267

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

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

Calculations of financial ratios

Return on investment (ROI)

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

Return on equity (ROE)

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

Interest coverage

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

Solvency ratio

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

Gearing

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

Earnings per share (EPS)

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

Equity per share

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

Dividend per share

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

Dividend per earnings

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

Effective dividend yield

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

Price/earnings (P/E)

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

Price/carrying amount per share (P/BV)

Adjusted share price at the end of the financial period

Equity per share

Working capital (WCAP)

(Inventories + trade receivables + income tax receivables + other non-interest-bearing receivables)

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

Non-recurring items

Non-recurring items are related to restructuring measures and one-time charges for events or activities, which are not part of the normal business operations

EBITA

Operating result – non-recurring items – intangible asset amortisation related to acquisitions

Consolidated statement of income

MEUR	Note	2012	%	2011	%
Net sales	<u>1</u> , <u>3</u>	4 725	100.0	4 209	100.0
Change in inventories of finished goods & work in progress		-30		39	
Work performed by the Group and capitalised		15		1	
Other operating income	<u>4</u>	68		47	
Material and services	<u>5</u>	-2 527		-2 285	
Employee benefit expenses	<u>6</u>	-1 096		-956	
Depreciation, amortisation and impairment	<u>7</u>	-139		-113	
Other operating expenses		-543		-506	
Share of result of associates and joint ventures	<u>14</u>	9		8	
Operating result		481	10.2	445	10.6
Dividend income	<u>8</u>	2		3	
Interest income	<u>8</u>	4		13	
Other financial income	<u>8</u>	9		10	
Interest expenses	<u>8</u>	-22		-18	
Other financial expenses	<u>8</u>	-24		-23	
Net income from available-for-sale financial assets	<u>15</u>	1			
Profit before taxes		452		429	
Income taxes	<u>9</u>	-109		-136	
Profit for the financial period		344	7.3	293	7.0
Attributable to:					
Equity holders of the parent company	<u>10</u>	339		283	
Non-controlling interests		5		10	
		344		293	
Earnings per share attributable to equity holders of the parent company:					
Earnings per share (basic and diluted), EUR		1.72		1.44	

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

Consolidated statement of other comprehensive income

MEUR	2012	2011
Profit for the financial period	344	293
Other comprehensive income, net of taxes:		
Exchange rate differences on translating foreign operations	-14	-4
Available-for-sale financial assets		
measured at fair value	2	16
transferred to the statement of income	-1	
Cash flow hedges	14	-23
Other comprehensive income	1	-12
Total comprehensive income for the financial period	345	281
Total comprehensive income attributable to:		
Equity holders of the parent company	340	270
Non-controlling interests	5	11
	345	281

Additional information on other comprehensive income in Note 11. Components of other comprehensive income.

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

Consolidated statement of financial position, assets

MEUR	Note	31.12.2012	%	31.12.2011	%
Non-current assets					
Goodwill	<u>12</u>	942		616	
Intangible assets	<u>12</u>	317		209	
Property, plant and equipment	<u>13</u>	456		463	
Investment properties	<u>13</u>	14		9	
Investments in associates and joint ventures	<u>14</u>	90		87	
Available-for-sale financial assets	<u>15, 17</u>	44		39	
Interest-bearing investments	<u>17</u>	1		1	
Deferred tax assets	<u>20</u>	104		119	
Other receivables	<u>18</u>	33		33	
		2 002	39.7	1 577	34.3
Current assets					
Inventories	<u>16</u>	1 322		1 222	
Interest-bearing receivables	<u>17</u>	1		1	
Trade receivables	<u>17</u>	1 128		877	
Income tax receivables		27		38	
Other receivables	<u>18</u>	334		294	
Cash and cash equivalents	<u>19</u>	225		592	
		3 036	60.3	3 023	65.7
Total assets		5 038	100.0	4 600	100.0

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

Consolidated statement of financial position, equity and liabilities

MEUR	Note	31.12.2012	%	31.12.2011	%
Equity					
Share capital	<u>22</u>	336		336	
Share premium	<u>22</u>	61		61	
Translation differences	<u>22</u>	-12		2	
Fair value reserve	<u>22</u>	21		5	
Retained earnings		1 392		1 233	
<hr/>					
Total equity attributable to equity holders of the parent company		1 799	35.7	1 636	35.6
<hr/>					
Non-controlling interests		26	0.5	30	0.7
<hr/>					
Total equity		1 824	36.2	1 666	36.2
<hr/>					
Liabilities					
Non-current liabilities					
Interest-bearing debt	<u>17, 24</u>	545		485	
Deferred tax liabilities	<u>20</u>	98		69	
Pension obligations	<u>21</u>	65		39	
Provisions	<u>23</u>	38		52	
Advances received		88		120	
Other liabilities	<u>25</u>	3			
<hr/>					
		837	16.6	765	16.6
<hr/>					
Current liabilities					
Interest-bearing debt	<u>17, 24</u>	249		167	
Provisions	<u>23</u>	228		215	
Advances received		607		443	
Trade payables	<u>17, 24</u>	385		348	
Income tax liabilities		40		55	
Other liabilities	<u>25</u>	868		941	
<hr/>					
		2 377	47.2	2 169	47.1
<hr/>					
Total liabilities		3 214	63.8	2 934	63.8
<hr/>					
Total equity and liabilities		5 038	100.0	4 600	100.0

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

Consolidated statement of cash flows

MEUR	Note	2012	2011
Cash flow from operating activities:			
Profit for the financial period		344	293
Adjustments for:			
Depreciation, amortisation and impairment	<u>7</u>	139	113
Financial income and expenses	<u>8</u>	30	16
Selling profit and loss of fixed assets and other changes		-16	-6
Share of result of associates and joint ventures	<u>14</u>	-9	-8
Income taxes	<u>9</u>	109	136
Cash flow before changes in working capital		596	544
Changes in working capital:			
Assets, non-interest-bearing, increase (-) / decrease (+)		-233	3
Inventories, increase (-) / decrease (+)	<u>16</u>	-6	33
Liabilities, non-interest-bearing, increase (+) / decrease (-)		-37	-125
Changes in working capital		-276	-88
Cash flow from operating activities before financial items and taxes		320	456
Financial items and taxes:			
Interest and other financial income		14	25
Interest and other financial expenses		-71	-49
Income taxes paid		-110	-199
Financial items and paid taxes		-167	-224
Cash flow from operating activities		153	232
Cash flow from investing activities:			
Acquisitions	<u>2</u>	-392	-75
Investments in associates and joint ventures	<u>14</u>	-7	-16
Investments in available-for-sale financial assets	<u>15</u>	-3	
Investments in property, plant and equipment and intangible assets	<u>12, 13</u>	-111	-90
Proceeds from sale of property, plant and equipment and intangible assets		12	9
Proceeds from sale of shares in associates and joint ventures	<u>14</u>	23	
Proceeds from sale of available-for-sale financial assets	<u>15</u>	3	3
Loan receivables, increase (-) / decrease (+) and other changes		2	
Dividends received		2	3
Cash flow from investing activities		-471	-166
Cash flow after investing activities		-318	66

Cash flow from financing activities:

Proceeds from non-current borrowings	<u>24</u>	158	
Repayments and other changes in non-current loans	<u>24</u>	-92	-50
Loan receivables, increase (-) / decrease (+)		4	2
Current loans, increase (+) / decrease (-)		69	79
Dividends paid		-186	-279
Cash flow from financing activities		-47	-247
Change in cash and cash equivalents, increase (+) / decrease (-)		-365	-181
Cash and cash equivalents at the beginning of the financial period		592	776
Exchange rate changes		-2	-3
Cash and cash equivalents at the end of the financial period		225	592

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

Consolidated statement of changes in equity

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

MEUR	Total equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Retained earnings	Total		
Equity at 1 January 2012	336	61	2	5	1 233	1 636	30	1 666
Translation differences			-14			-14		-14
Other changes					-1	-1		-1
Available-for-sale financial assets								
net change in fair value, net of taxes				3		3		3
transferred to the statement of income, net of taxes				-1		-1		-1
Cash flow hedges								
net change in fair value, net of taxes				7		7		7
transferred to the statement of income, net of taxes				7		7		7
Comprehensive income			-14	16	-1	1		1
Profit for the financial period					339	339	5	344
Total comprehensive income for the financial period			-14	16	337	340	5	345
Dividends paid					-178	-178	-9	-186
Equity at 31 December 2012	336	61	-12	21	1 392	1 799	26	1 824

Additional information on share capital, translation difference and fair value reserve is presented in Note 22. Equity.

Accounting Principles for the Consolidated Financial Statements

Basic information

Wärtsilä Corporation is a Finnish listed company organised under the laws of Finland and domiciled in Helsinki. The address of its registered office is John Stenbergin ranta 2, 00530 Helsinki. Wärtsilä Corporation is the parent company in Wärtsilä Group.

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

In 2012, Wärtsilä's net sales totalled EUR 4.7 billion with approximately 18,900 employees. The company has operations in nearly 170 locations in 70 countries around the world. Wärtsilä is listed on the NASDAQ OMX Helsinki, Finland.

These consolidated financial statements were authorised for release by the Board of Directors of Wärtsilä Corporation on 24 January 2013, after which, in accordance with the Finnish Corporate Act, the shareholders have a right to approve or reject the financial statements in the Annual General Meeting. The Annual General Meeting also has a possibility to decide upon changes in the financial statements.

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force as at 31 December 2012. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedures stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation.

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

Since 1 January 2012, the Group has applied the following standards, their amendments and interpretations. The changes had no significant impact on the information reported.

- Amendment to IFRS 7 *Financial Instruments*: Disclosures (effective for periods beginning or after 1 July 2011): The amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

Management judgement and use of estimates

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

Sales revenue is typically recognised when the product or service has been delivered, its value has been determined and it is probable that the trade receivable will be collected. These estimates affect the amount of sales revenue recognised. Revenue from long-term projects and long-term operations and maintenance agreements is recognised according to their percentage of completion when the profit on the project or agreement can be reliably determined. The percentage of completion and the profit are based on management's estimates as to the realisation of the project or agreement. These estimates are reviewed regularly. Recognised sales revenue and costs recorded are adjusted during the project when assumptions concerning the outcome of the entire project are updated. Changes in assumptions relate to changes in the project's or agreement's schedule, scope of supply, technology, costs and any other relevant factors.

Warranty provisions are recorded on the recognition of sales revenue. The provision is based on the accumulated experience of the level of warranty needed to manage future and current cost claims. Products can contain new and complex technology that can affect warranty estimates with the result that earlier recognised provisions are not always sufficient.

The Group is a defendant in several legal cases arising from its business operations. A provision for a court case is recorded when an unfavourable result is probable and the loss can be determined with reasonable certainty. The final result can differ from these estimates.

The recoverable amounts of goodwill are determined for all cash-generating units annually, or more often if there is an indication of an impairment, where its value in use is determined. The value in use is determined using estimates of future market development, such as growth and profitability as well as other significant factors. The most important factors underlying such estimates are the net sales growth in the market area, the operating margin, the useful life of the assets, future investment needs and the discount rate. Changes in these assumptions can significantly affect the expected future cash flows.

Estimates of pension obligations regarding defined benefit plans are based on actuarial estimates of factors including future salary increases, discount rates and return on plan assets. Changes in these assumptions can significantly affect the Group's pension obligations and pension costs.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the parent company Wäartsilä Corporation and all subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or in which Wäartsilä is otherwise in control on the reporting date. Being in control means the power to govern the financial and operating policies of the company to obtain benefits from its activities.

Acquired and established companies are accounted for using the purchase method of accounting. Accordingly, the purchase price and the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. In the acquisition of non-controlling interests, if the Group already has control, the non-controlling interest is measured either at fair value or at the non-controlling interests' proportionate share of the identifiable net assets. The difference between the purchase price, possible equity belonging to the non-controlling interests and the acquired company's net identifiable assets, liabilities and contingent liabilities measured at fair value is goodwill. Goodwill is tested for impairment at least annually. The purchase price includes the consideration paid, measured at fair value. The consideration does not include transaction costs, which are recognised in the statement of income. The transaction costs are expensed in the same reporting period in which they occur, except the costs resulting from issued debt or equity instruments.

Any contingent consideration (additional purchase price) related to the combination of businesses is measured at fair value on the date of acquisition. It is classified either as a liability or equity. Contingent consideration classified as a liability is measured at fair value on the last day of each reporting period, and the resulting loss or gain is recognised through profit or loss. Contingent consideration classified as equity is not remeasured.

For the acquisitions occurred before 1 January 2010, the accounting principles valid at the time of the acquisition have been applied.

The acquired subsidiaries are included in the consolidated financial statements from the day the Group has control, and disposed subsidiaries until the control ends. All intragroup transactions, dividend distributions, receivables and liabilities as well as unrealised margins are eliminated in the consolidated financial statements. In the consolidated statements of income and comprehensive income, non-controlling interests have been separated from the profit and the total comprehensive income for the financial period. In the consolidated statement of financial position, non-controlling interests are shown as a separate item under equity.

Associated companies and joint ventures

Companies, in which the Group usually holds voting rights of between 20% and 50% and on which the Group has a significant influence but no control over the financial and operating policies, are consolidated as associated companies. In joint ventures, the Group has joint control with another party, established by contractual agreement.

Associated companies and joint ventures are included in the consolidated financial statements using the equity method from the date the Group's significant influence or joint control commences until the date it ceases. The Group's share of the associated company's or joint venture's profit for the financial period are shown as a separate item before the Group's operating result, on line Share of result of associates and joint ventures. The Group's share of the associated company's or joint venture's changes recorded in other comprehensive income is recorded in the Group's other comprehensive income. Wäartsilä's proportion of the associated company's or joint venture's post-acquisition accumulated equity is included in the Group's equity. If the Group's share of the associated company's or joint venture's losses exceeds its interest in the company, the carrying amount is written down to zero. After this, losses are only recognised if the Group has incurred obligations from the associated company or joint venture.

Translating the transactions in foreign currencies

The items included in the financial statements are initially recognised in the functional currency, which is defined for each group company based on its primary economic environment. The presentation currency of the consolidated financial statements is the euro, which is also the functional and presentation currency of Wäartsilä Corporation.

Foreign subsidiaries

The income and expenses for statements of income and statements of comprehensive income of foreign subsidiaries are translated into euros at the quarterly average exchange rates. Statements of financial position are translated into euros at the exchange rates prevailing at the end of the reporting period. The translation of the profit for the financial period and other comprehensive income using different exchange rates in the statement of comprehensive income and the statement of financial position causes translation differences, which are recognised in equity and in other comprehensive income as change. Translation differences of foreign subsidiaries' acquisition cost eliminations and post-acquisition profits and losses are recognised in other comprehensive income and are presented as a separate item in equity. The goodwill generated in the acquisition of foreign entities and their fair value adjustments of assets and liabilities are considered as assets and liabilities of foreign entities, which are translated into euros using the exchange rates prevailing at the end of the reporting period.

Transactions in foreign currencies

Transactions denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Receivables and liabilities are translated at the exchange rate prevailing at the end of the reporting period. Exchange rate gains and losses related to trade receivables and liabilities are reported on the applicable line in the statement of income and are included in operating result. Exchange rate differences related to financial assets and financial liabilities are reported as financial items in the statement of income, except the exchange rate differences from loans which have been determined as effective hedging instruments for net investments made in foreign entities. These exchange rate differences are recognised in other comprehensive income.

Net sales and revenue recognition

Sales are presented net of indirect sales taxes and discounts. Sales are recognised when the significant risks and rewards connected with ownership have been transferred to the buyer. This typically means that revenue recognition occurs when a product or service is delivered to the customer in accordance with the terms of delivery.

Revenue from long-term construction contracts and long-term operating and maintenance agreements is recognised in accordance with the percentage of completion method when the outcome of the contract can be estimated reliably. The percentage of completion is based on the ratio of costs incurred to total estimated costs to date for long-term construction contracts, whereas for long-term operating and maintenance agreements it is calculated on the basis of the proportion of the contracted services performed. When the final outcome of a long-term project cannot be reliably determined, the costs arising from the project are expensed in the same reporting period in which they occur, but the revenue from the project is recorded only to the extent that the company will receive an amount corresponding to actual costs. Any losses due to projects are expensed immediately.

Employee benefits

Pension and other long-term employee benefits

Pension plans

Group companies in different countries have various pension plans in accordance with local conditions and practices. These pension plans are classified either as defined contribution or defined benefit plans.

The fixed contributions to the defined contribution plans are expensed in the year to which they relate. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay retirement benefits. All other plans are defined benefit plans.

Defined benefit plans are funded through contributions to pension funds or pension insurance companies. The present value of the obligation arising from the defined benefit plans is determined per each plan using the projected unit credit method, and the plan assets are measured at fair value as at the measurement date. Pension expenses are recognised as costs over the working lives of employees. The pension plan assets measured at fair value at the measurement date, the portion of unrecognised actuarial gains and losses and the non-vested past service costs are deducted from the present value of the pension obligation recorded in the statement of financial position. The Group's obligation with respect to a plan is calculated by identifying the extent to which the cumulative unrecognised actuarial gain or loss exceeds by more than 10% the greater of the present value of the defined benefit obligation and the fair value of the plan assets. The excess is recognised in the statement of income over the expected average remaining working lives of employees participating in the plan. The defined benefit plans are calculated by qualified actuaries.

Other long-term employee benefits

In addition to defined benefit plans, Wäartsilä has other long-term employee benefits. These employee benefits are dealt with in a similar manner as post-employment benefits, and they are presented separately from the defined benefit plans.

Share-based payments

The company's bonus programme, which is fixed to share value, is measured at the fair value of the share on the reporting date and reported in the statement of income for the term-to-maturity of the bonus programme.

Goodwill and other intangible assets

Goodwill

Goodwill is the difference between the aggregate of the acquisition-date fair value of the consideration transferred and the acquirer's share of the company's net identifiable assets and liabilities measured at fair value on the acquisition date. The consideration transferred is measured at fair value, including also the acquirer's previously held equity interest.

Research and development costs

Research costs are expensed in the reporting period during which they occur. Development costs are capitalised when it is probable that the development project will generate future economic benefits for

the Group and when the related criteria, including commercial and technological feasibility, have been met. These projects involve the development of new or significantly improved products or production processes. Earlier expensed development costs are not capitalised.

Capitalised development costs are measured at cost less accumulated amortisations and impairment. Capitalised development costs are amortised and the cost of buildings, machinery and facilities for development depreciated on a straight-line basis over their expected useful lives, 5-10 years. Amortisations are started when the asset is finished and can be taken into use. Before that, the asset is tested for impairment annually. Grants received for research and development are reported as other operating income.

Other intangible assets

Other intangible assets are recorded at cost if the cost is reliably measurable and the future economic benefits for the Group are probable. Wärtsilä's other intangible assets include patents, licenses, software, customer relations and other intellectual property rights that can be transferred to a third party. These are measured at cost, except for intangible assets identified in connection with acquisitions, which are measured at the fair value at the acquisition date. The cost of intangible assets comprises the purchase price and all costs that can be directly attributed to preparing an asset for its intended use.

Other intangible assets are amortised on a straight-line basis over their estimated useful lives. Intangible assets, for which the time limit for the right of use is agreed, are amortised over the life of the contract. Intangible assets identified in connection with acquisitions are amortised over their delivery times or estimated useful lives.

The general guidelines for scheduled amortisation are:

- Software 3–7 years
- Development expenses 5–10 years
- Other intangible assets 5–20 years

The estimated useful lives and the residual values are reviewed at least at the end of each financial year, and if they differ significantly from previous estimates, amortisation periods are adjusted accordingly.

A gain or loss arising from the sale of intangible assets is recognised in other operating income or other operating expenses in the statement of income.

Property, plant and equipment

Property, plant and equipment acquired by the Group are measured in the statement of financial position at cost less accumulated depreciation and impairment losses. The cost of an asset includes costs directly attributed to preparing an asset for its intended use. Grants received are reported as a reduction in costs. The property, plant and equipment of acquired subsidiaries are measured at their fair value at the acquisition date. The borrowing costs that are directly attributable to the asset acquisition, construction or production and to completion of the asset for its intended use or sale requiring necessarily a considerable length of time will be capitalised in the statement of financial position as part of the cost of the asset. Other than directly attributable borrowing costs are expensed in the period in which they are incurred.

Subsequent expenditure is included in the cost of an asset only if the future economic benefits for the Group are probable and the costs are reliably measurable. Expenditure related to regular, extensive inspections and maintenance is treated as an investment, capitalised and depreciated during the useful life. All other expenditure such as ordinary maintenance and repairs is recognised in the statement of income as an expense as incurred.

Depreciation is based on the following estimated useful lives:

- Buildings 10–40 years
- Machinery and equipment 5–20 years
- Other tangible assets 3–10 years

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated, as its useful life is considered as infinite. The estimated useful lives and the residual values are reviewed at least at the end of each financial year, and if they differ significantly from previous estimates, depreciation periods are adjusted accordingly.

A gain or loss arising from the sale of property, plant and equipment is recognised in other operating income or other operating expenses in the statement of income.

Impairment of intangible assets and property, plant and equipment

The carrying amounts of assets are reviewed regularly for signs of possible impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is estimated annually also for the goodwill whether or not there are signs of impairment. In order to define a possible impairment, the Group's assets are divided up into the smallest possible cash-generating units which are mainly independent of other units and the cash flows of which are separately identifiable and to a large extent independent of the cash flows of other similar units.

An impairment loss is recorded when the carrying amount of an asset is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is based on the expected discounted future net cash flows resulting from the asset or cash-generating unit. A pre-tax rate which reflects the markets' position on the time value of money and asset-specific risks is used as the discount rate.

An impairment loss is recognised immediately in the statement of income. In connection with the recognition of the impairment loss, the useful life of the amortisable / depreciable asset is reassessed. An earlier impairment loss recognised for an asset other than goodwill is reversed if the estimates used to determine the recoverable amount change. However, reversal of impairment shall not exceed the asset's carrying amount less impairment loss. An impairment loss recognised for goodwill is not reversed under any circumstances.

Determination of the fair value of assets acquired through business combinations

In significant business combinations, the Group has used external advisors when estimating the fair values of property, plant and equipment and intangible assets. For property, plant and equipment, comparisons have been made of the market prices of similar assets, and the depreciation of the acquired assets due to aging, wear and other similar factors has been estimated. The fair value measurement of intangible assets is based on estimates of the future cash flows associated with the assets.

Investment properties

Properties that are not used in the Group's operating activities or that are held to earn rental income or for capital appreciation, or both, are classified as investment properties. Investment properties are presented in the statement of financial position on a separate line in non-current assets and measured at cost less accumulated depreciations and impairment. A gain or loss arising from the sale of investment properties is recognised in other operating income or other operating expenses in the statement of income.

Leases

Leases related to property, plant and equipment in which all material rewards and risks of ownership have been transferred to the Group are classified as finance leases. Assets acquired under a finance lease are recognised as property, plant and equipment at the lower of the fair value of the leased asset and the estimated present value of the underlying lease payments. The corresponding rental obligation, net of finance charge, is included in interest-bearing debt with the interest element of the finance charge being recognised in the statement of income over the lease period. Assets acquired under a finance lease are depreciated over their estimated useful lives in accordance with the same principles that apply to Group's other similar property, plant and equipment. The shorter alternative of the following is selected: either the useful life of the leased asset or the lease term.

Leases in which the rewards and risks of ownership have not been transferred to the Group are classified as operating leases. Rental payments under operating leases are charged in the statement of income on a straight-line basis over the lease term.

Inventories

Inventories are carried at the lower of cost and net realisable value. Costs include allocated purchasing and manufacturing overhead costs in addition to direct manufacturing costs. Inventory valuation is primarily based on the weighted average cost.

Financial assets and liabilities

Financial assets

Financial assets are classified into the following categories: financial assets at fair value through the statement of income, investments held to maturity, loans and receivables and available-for-sale financial assets. Financial assets are classified on the basis of their purpose of use upon initial recognition.

At the end of the reporting period, the Group assesses whether objective indication exists of impairment of an individual financial asset other than those measured at fair value through the statement of income. There is impairment in a financial asset if objective indication exists thereof and if it has an effect on expected future cash flows from the financial asset that can be reliably evaluated. A significant decline in a counterparty's result, a debtor's breach of contract and, for equity instruments, a significant or persistent decline in value below its cost, for example, can be considered as objective indication of impairment.

Financial assets at fair value through the statement of income

The financial assets at fair value through the statement of income category includes derivatives that do not qualify for hedge accounting and are not financial guarantee agreements, cash and cash

equivalents as well as other financial assets recognised at fair value through the statement of income, which are financial assets held for trading. Derivatives are initially recognised at cost in the statement of financial position and are thereafter measured at their fair value at the end of each reporting period. Realised and unrealised gains and losses from changes in fair values are recognised in the statement of income in the period in which they have arisen. Derivatives held for trading, as well as financial assets maturing within 12 months after the end of the financial period, are included in current assets.

Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments that mature on a fixed date and which the Group has the positive intention and ability to hold until maturity. They are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and that are not quoted on active markets. They arise when the Group provides a loan or delivers products and services directly to a debtor. Loans and receivables are measured at amortised cost using the effective interest rate method. They are included in non-current receivables, unless they have a maturity of less than 12 months from the reporting date. Such items are classified as current receivables.

Trade receivables are recognised at their anticipated realisable value, which is the original invoiced amount less an estimated valuation allowance for impairment. Trade receivables are measured individually. Credit losses are expensed immediately when indication exists that the Group is not able to collect its trade receivables according to initial agreements. Examples of events giving rise to impairment include a debtor's serious financial problems, a debtor's probable bankruptcy or other financial arrangement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets allocated to this category. They are included in non-current assets unless the Group intends to dispose of the investment within 12 months from the reporting date.

Wärtsilä's investments in other companies are classified as available-for-sale financial assets, including investments in listed and unlisted shares. Listed shares are measured at fair value, based on their market value. Unlisted shares for which the fair value cannot be reliably measured are valued at cost less impairment. Changes in the fair value of shares measured at fair value are recognised in other comprehensive income and reported in fair value reserve in equity with the tax impact, until the shares are disposed of or written down, at which point the accumulated fair value changes are released from equity to the statement of income.

Gains and losses on disposal and impairments of shares that are attributable to operating activities are included in operating income, while gains and losses on disposal and impairments of other shares are included in financial income and expenses.

Cash and cash equivalents

Cash comprises cash in hand, deposits held at call with banks and similar investments. Cash equivalents comprise short-term highly liquid investments that are subject to only minor fluctuations in

value. Cash equivalents have a maturity of up to three months on the date of acquisition. Credit accounts related to Group cash pool accounts are included in current financial liabilities.

Financial liabilities

The Group's financial liabilities are classified either into financial liabilities recognised at amortised cost or financial liabilities recognised at fair value through the statement of income. Financial liabilities are classified as current unless the Group has the unconditional right to defer the payment of the debt to at least 12 months from the end of the reporting period. Financial liabilities (or parts thereof) are only derecognised once the debt has extinguished, i.e. once the contractually specified obligation is discharged or cancelled or expires.

Financial liabilities recognised at amortised cost

The loans raised by the Group are included in financial liabilities recognised at amortised cost. They are measured at their initial recognition at fair value using the effective interest rate method. After the initial recognition, loans are measured at amortised cost. Interests on loans are expensed through the statement of income over the maturity of the debt using the effective interest rate method.

Financial liabilities recognised at fair value through the statement of income

In the Wärtsilä Group, financial liabilities recognised at fair value through the statement of income include derivatives that are not eligible for hedge accounting. Realised and unrealised gains and losses from changes in fair values of derivatives are recognised in the statement of income in the period in which they have arisen.

Derivatives and hedge accounting

Derivatives are measured at fair value. Gains and losses from fair value measurement are treated as determined by the purpose of the derivatives. The effects on results of changes in the value of derivatives that are eligible for hedge accounting and that are effective hedging instruments are presented consistently with the hedged item.

For derivatives eligible for hedge accounting, the Group documents the relationship between each hedging instrument and the hedged asset upon entering into a hedging arrangement, along with the risk management objective and the strategy applied. Through this process, the hedging instrument is linked to the relevant assets and liabilities, projected business transactions or binding contracts. The Group also documents its ongoing assessment of the effectiveness of the hedge as regards the relationship between a change in the derivative's fair value and a change in the value of the hedged cash flows or transactions.

Hedging of sales and purchases

Wärtsilä hedges its sales and purchases in foreign currencies with foreign exchange derivatives or currency options. Certain foreign exchange derivatives are eligible for hedge accounting. Changes in the fair value of derivative contracts designated to hedge future cash flows are recognised in other comprehensive income and presented in the fair value reserve in equity, provided that the hedging is effective. The ineffective portion is immediately recognised in the statement of income in the reporting period. Changes in fair value due to interest rate differences are recognised in the statement of income. Any gain or loss in the fair value reserve accumulated through other comprehensive income is reported as an adjustment to net sales or material and services in the same period as any transactions relating to the hedged obligations or estimates. Currency forwards are measured at forward rates at

the end of the reporting period and currency options at their market value at the end of the reporting period.

Hedges of net investments in foreign operations (equity hedging)

Equity in foreign subsidiaries situated outside the euro zone and goodwill amounts in foreign currency may be hedged against exchange rate fluctuations, mainly through foreign exchange derivatives using the equity hedging method to reduce the effect of exchange rates on the Group's equity. Wärsilä decided to discontinue hedging the net assets in its foreign subsidiaries and joint ventures in June 2012. Until that, the changes in the fair values of instruments determined as equity hedging were recognised in other comprehensive income, provided that the hedging was effective, and the ineffective portion of the change in the fair value of the hedge and the interest rate difference were immediately recognised in the statement of income in the financial items. Currency forwards were valued at existing forward rates at the end of the reporting period and currency options at their market value at the end of the reporting period.

Derivatives not included in hedge accounting

For derivatives not included in hedge accounting, changes in fair value are immediately recognised in financial income or expenses in the statement of income. For example, interest rate swap hedges belong to this group. The fair value of interest rate swaps is calculated by discounting the future cash flows.

Fair value hierarchy

Financial instruments measured at fair value are classified according to the following fair value hierarchy: instruments measured using quoted prices in active markets (level 1), instruments measured using inputs other than quoted prices included in level 1 observable either directly or indirectly (level 2) and instruments measured using inputs that are not based on observable market data (level 3). Financial instruments measured at fair value include financial assets and liabilities at fair value through the statement of income and available-for-sale financial assets.

Provisions and contingent liabilities

Provisions are recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions can arise, for example, from warranties, environmental risks, litigation, foreseeable losses on projects and restructuring costs. The amount to be recognised as provisions corresponds to the management's best estimate of the expenses that will be necessary to meet the existing obligation at the end of the reporting period.

Estimated future warranty costs relating to products supplied are recorded as provisions. The amount of future warranty costs is based on accumulated experience.

Provisions for restructuring costs are made once the restructuring plan has been approved and the implementation started or the personnel concerned have been informed of the terms. The plan must indicate which activities and personnel will be affected and the timing and cost of implementation.

Contingent liabilities are possible obligations resulting from previous events, the existence of which will only be ascertained once the uncertain event that is beyond the Group's control materialises. Existing obligations that are not likely to require the fulfilment of a payment obligation or the amount of which

cannot be reliably determined are also considered contingent liabilities. Contingent liabilities are presented in the notes.

Income taxes

The statement of income includes taxes on the Group's consolidated taxable income for the reporting period in accordance with local tax regulations, tax adjustments for previous reporting periods and changes in deferred taxes. Tax effects related to transactions recognised through the statement of income and other events are recognised in the statement of income. Tax effects related to transactions or other events to be presented as components of other comprehensive income or directly in equity are also recognised, respectively, in other comprehensive income or directly in equity.

Deferred tax liabilities and assets are calculated on temporary differences arising from the difference between the tax basis of assets and liabilities and the carrying values using the enacted tax rates at the end of the reporting period. The statement of financial position includes deferred tax liabilities in their entirety and deferred tax assets at their estimated probable amount.

Dividends

The dividend proposed by the Board of Directors is deducted from distributable equity when approved by the company's Annual General Meeting.

Adoption of new and updated IFRS standards

In 2013, the Group will adopt the following new and amended standards issued by the IASB.

- Amendment to IAS 19 *Employee benefits* (effective for periods beginning or after 1 January 2013): In the future all actuarial gains and losses are recognised in the other comprehensive income as they occur. The amendment eliminates the corridor approach, and finance costs are calculated on a net funding basis. This will increase employee benefit and financial expenses in future consolidated financial statements of Wärtsilä. Additionally the cumulative unrecognised actuarial losses will be recognised in pension obligations as one-time adjustment, which will decrease Group's equity on 31 December 2012 with approximately EUR 45 million. The amendment has been approved for application in the EU.
- IFRS 13 *Fair value Measurement* (effective for periods beginning or after 1 January 2013): Standard defines fair value. It sets out in a single standard a framework for measuring fair value and requirement for disclosures about fair value measurements. Standard does not introduce any new requirements to measure at fair value. It provides guidance for fair value measurement when other standards require or permit that. The standard will have no significant impact on future consolidated financial statements of Wärtsilä. The standard has been approved for application in the EU.

In 2014, the Group will adopt the following new and amended standards and interpretations issued by the IASB.

- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* as well as the related amendments to IAS 27 and IAS 28 (effective for periods beginning or after 1 January 2014): The standards will have no significant impact on future consolidated financial statements of Wärtsilä. IFRS 12 will expand the information, which Wärtsilä discloses about interests in other entities. The standards have been approved for application in the EU.

1. Segment information

The business of Wärtsilä consists of one business area, the Power Business. The Power Business is subdivided into two mutually supportive market areas, Ship Power and Power Plants. These offer customers the same product concept modified for specific applications. The main products for both these markets are gas and diesel engines and related services. The market segments are highly dependent on each other.

In the Power Business, the design-related research and development and manufacturing required for the engines sold to both markets take place in the same R&D centres and factories. The manufacturing process is the same for each market. Similarly, the same Group companies are responsible for the distribution of these products and the services related to them. Capacity costs cannot be reliably allocated to the two different markets. These costs are significant and vary between the two units in different years. Customers in both markets are capital-intensive corporations with global operations. The development of the two market areas is strongly linked to global economic trends.

As geographical information, Wärtsilä reports the geographical areas Finland, other European countries, Asia, the Americas and other continents. In the geographical information net sales is split by the customer's destination and non-current assets by origin.

Geographical information

2012

MEUR	Finland	Other European countries	Asia	The Americas	Other	Total
Net sales	54	1 148	2 009	994	520	4 725
Non-current assets*	267	1 362	134	50	7	1 819

2011

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

* Non-current assets consist of goodwill, intangible assets, property, plant and equipment, investment properties and investments in associates and joint ventures.

Business area information

Internal management reporting is used to monitor the development of operations on the basis of market-based business areas. Reporting serves internal goal setting and budget control and is thus a management tool rather than an actual external economic indicator.

Wärtsilä's highest operative decision maker (CODM, Chief Operating Decision Maker according to IFRS 8) is the President and CEO with the support of the Board of Management and, in some cases, the Board of Directors. The President and CEO assesses the Group's financial position and its development as a whole, not based on the results of the business areas. As the Group's level of integration is high, the reported indicators from business areas do not give a true picture of the business areas' financial position and development. It is also considered that they are of limited value to an external reader due to poor comparability, for example.

Against this background, Wärtsilä's business cannot be divided into separate operating segments with individual reporting.

During the financial period 1 January–31 December 2012 and 1 January–31 December 2011, Wärtsilä did not have any individual significant customers or countries according to the definition of IFRS 8.

Net sales

MEUR	2012	2011
Power Plants	1 498	1 365
Ship Power	1 301	1 022
Services	1 908	1 816
Other	17	6
Total	4 725	4 209

2. Acquisitions

Acquisitions 2012

Overall impact on performance

MEUR	Recognised in the statement of income 2012	On full-year pro forma performance
Net sales	331	4 750
Operating result	38	482

Hamworthy plc

On 31 January 2012 Wärtsilä acquired all the shares of and obtained control of Hamworthy plc, listed on the London Stock Exchange-AIM, through a recommended cash offer.

The total consideration of the transaction was EUR 456 million, 825 pence in cash for each Hamworthy share.

Hamworthy is a global provider of specialist equipment and services to the marine, oil & gas and industrial sectors. The acquisition of Hamworthy will enable Wärtsilä to strengthen its position as a total solutions provider, and to be the most valued partner for its customers with a complete range of products, integrated solutions, and services to the marine and offshore industries. The combination of Wärtsilä's and Hamworthy's strengths will speed up and ease the means for customers to reduce operating costs and achieve compliance with environmental legislation.

The following tables summarise the consideration paid for Hamworthy, the cash flow from the acquisition and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	MEUR
Total consideration	
Cash	456
Total consideration transferred	456

	MEUR
Cash flow from the acquisition	
Consideration paid in cash	456
Cash and cash equivalents of the acquired companies	-67
Total cash flow from the acquisition	389

	MEUR
The assets and liabilities arising from the acquisition at fair value	
Intangible assets	118
Property, plant and equipment	19
Inventories	91
Trade and other receivables	81
Cash and cash equivalents	67
Total assets	376

Provisions	33
Trade payables and other liabilities	156
Deferred tax liabilities	35
Total liabilities	224
Total net assets	152
Goodwill	304

The fair values of acquired identifiable intangible assets at the date of acquisition (including technology, customer relationships and trademarks) amounted to EUR 116 million.

The fair value of current trade receivables and other receivables is approximately EUR 81 million and includes trade receivables with a fair value of approximately EUR 49 million. The fair value of trade receivables does not include any significant risk.

The goodwill of EUR 304 million reflects the value of know-how and expertise in marine, oil & gas and industrial sectors. The combined resource and competence base creates an exciting platform for long term growth in the offshore, marine gas and environmental solutions markets to the benefit of shareholders, customers and employees alike. The goodwill recognised for Hamworthy is not tax deductible.

The Group incurred during 2012 acquisition-related costs of EUR 3 million related to external legal fees and due diligence costs. The costs have been included in the other operating expenses in the consolidated statement of income. The total acquisition-related costs are EUR 3 million.

In the eleven months to 31 December 2012 Hamworthy contributed net sales of EUR 331 million and operating result of EUR 38 million to the Group's results. If the acquisition had occurred on 1 January 2012, management estimates that consolidated net sales would have been EUR 4,750 million, and consolidated operating result for the period would have been EUR 482 million. In determining these amounts, management has assumed that the fair value adjustments, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

Other acquisitions

On 1 April 2012 Wärtsilä acquired the business of MMI Boiler Management Pte Ltd., a Singapore based company specialising in the service and maintenance of boilers for marine and industrial applications. The purchase price is approximately EUR 3 million resulting in a goodwill of approximately EUR 1 million.

Acquisitions 2011

Overall impact on performance

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

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

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

Taking control of Cedervall will enable Wärtsilä to strengthen its leading position in the global marine service market, in line with

Wärtsilä's strategy. The combination of Wärtsilä's and Cedervall's businesses will create the market leader for oil and water lubricated seals and bearings, as well as for stern tubes.

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

The total final consideration of the transaction is EUR 84 million. The acquisition does not include any additional consideration.

The goodwill of EUR 44 million reflects the value of know-how and expertise in marine seal and bearing systems as well as Wärtsilä's widened propulsion line product portfolio, which strengthens Wärtsilä's total propulsion solutions offering. The goodwill recognised for Cedervall is not tax deductible.

The following tables summarise the consideration paid for Cedervall, the cash flow from the acquisition and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

Total consideration	MEUR
Cash	84
Total consideration transferred	84

Cash flow from the acquisition	MEUR
Consideration paid in cash	84
Cash and cash equivalents of the acquired companies	-6
Total cash flow from the acquisition	78

The assets and liabilities arising from the acquisition	MEUR
Intangible assets	23
Property, plant and equipment	15
Inventories	6
Trade and other receivables	6
Cash and cash equivalents	6
Total assets	55
Provisions	1
Interest-bearing liabilities	1
Trade payables and other liabilities	6
Deferred tax liabilities	8
Total liabilities	16
Total net assets	40
Goodwill	44

The fair value of the net assets (including technology, customer relations, trademarks and valuation of order book) amounted to EUR 40 million.

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

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

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

Net sales recognised for the financial period

MEUR	2012	2011
From long-term constructions contracts	782	720
From long-term operating and maintenance agreements	271	281

Long-term construction projects in progress

MEUR	2012	2011
Aggregated amount of costs incurred and recognised profits	1 776	1 633
Advances received at 31 December	1 581	1 533
Receivables from the revenue recognition netted with the advances received at 31 December	196	100

4. Other operating income

MEUR	2012	2011
Profit on sale of shares	8	
Profit on sale of property, plant and equipment and intangible assets	4	7
Government grants	7	9
Sale of by-products	1	2
Sale of scrapped material	4	3
Income related to cancelled orders*	26	18
Other	17	9
Total	68	47

* Expenses related to cancelled orders are recorded on respective expense accounts.

5. Material and services

MEUR	2012	2011
Purchases during the financial period	-1 447	-1 228
Change in inventories	57	-7
External services	-1 138	-1 050
Total	-2 527	-2 285

6. Employee benefit expenses

MEUR	2012	2011
Wages and salaries	887	770
Pension costs		
Defined benefit plans	22	11
Defined contribution plans	60	52
Other compulsory personnel costs	126	115
Total	1 096	956

Salaries paid to the management are specified in Note 28. Related party disclosures.

Wages and salaries include bonus salaries paid, based on the bonus scheme 2009 and a provision for expenses arising from bonus schemes 2010 and 2011, totalling EUR 6 million (14). These bonus schemes are tied to the price development of the company's share.

The 2009 bonus scheme comprised 1,584,000 bonus rights, the 2010 bonus scheme comprises 1,606,000 bonus rights and the 2011 bonus scheme 1,967,000 bonus rights. The bonus payments for the bonus scheme 2009 were based on the share price development during a two-year period on the basis of a share price of EUR 14.24 with the maximum bonus amount per bonus right being EUR 7.50. In the 2010 bonus scheme, the bonus payment is based on the share price development during a two-year period and in the 2011 bonus scheme, the bonus payment is based on the share price development during a three-year period. For the bonus scheme 2010 the basis of a share price is EUR 30.01 and for the bonus scheme 2011 EUR 23.34. Both bonus schemes 2010 and 2011 are taking into account a 50% dividend payout. The paid bonuses in bonus scheme 2010 cannot exceed EUR 7.50 per bonus right and in bonus scheme 2011 EUR 10.00 per bonus right.

The bonus rights in 2009 and 2010 bonus schemes have been adjusted to correspond the new amount of shares, which was approved in the Annual General Meeting of Wäertsilä Corporation on 3 March 2011.

	2012	2011
Personnel on average	18 930	17 708
Personnel at the end of the period	18 887	17 913

7. Depreciation, amortisation and impairment

MEUR	2012	2011
Intangible rights	5	5
Other intangible assets	56	38
Buildings and structures	14	14
Machinery and equipment	56	52
Other tangible assets	4	3
Impairments	4	
Total	139	113

8. Financial income and expenses

MEUR	2012	2011
Dividend income on available-for-sale financial assets	2	3
Interest income on loans and receivables		1
Interest income on financial assets at fair value through the statement of income	3	16
Interest income on investments held to maturity	4	
Changes in fair values of financial assets/liabilities at fair value through the statement of income	6	
Other financial income		6
Total financial income	16	25
Interest expenses on financial liabilities recognised at amortised cost	-22	-18
Interest expenses on financial liabilities at fair value through the statement of income	-7	-4
Changes in fair values of financial assets/liabilities at fair value through the statement of income		-2
Write-down of loan receivables	-2	
Exchange rate differences*	-9	
Other financial expenses	-5	-18
Total financial expenses	-46	-41
Total financial income and expenses	-30	-16

* In 2012, the result from the ineffective portion of cash flow hedges was not significant. In 2011, the result from the ineffective portion of cash flow hedges, EUR -2 million was included in other financial expenses in the consolidated statement of income.

9. Income taxes

MEUR	2012	2011
Income taxes		
for the financial period	-101	-129
for prior financial periods	1	-10
Change in deferred tax	-8	3
Total	-109	-136
Profit before taxes	452	429
Tax calculated at the domestic corporate tax rate 24.5% (26%)	-111	-112
Effect of changed tax rates	-2	-1
Effect of different tax rates in foreign subsidiaries	2	-2
Effect of income not subject to tax and non-deductible expenses	5	-7
Utilisation of previously unrecognised tax losses carried forward	7	5
Unrecognised taxes on losses carried forward	-5	-9
Other taxes*	-15	-12
Other temporary differences	9	12
Income taxes for prior financial periods	1	-10
Tax charge in the consolidated statement of income	-109	-136
Effective tax rate (%)	24.1	31.7

* Other taxes consist mainly of withholding taxes not utilised and taxes not related to income.

Income taxes related to other comprehensive income are presented in Note 11. Components of other comprehensive income. Changes in deferred tax assets and liabilities are presented in Note 20. Deferred taxes.

10. Earnings per share

Earnings per share is calculated by dividing the profit for the financial period attributable to equity holders of the parent company by the adjusted number of shares, average over the financial period. During the reporting periods there were no programmes with dilutive effect.

MEUR	2012	2011
Profit for the financial period attributable to equity holders of the parent company	339	283
Thousands of shares		
Adjusted number of shares, average over the financial period*	197 241	197 241
Earnings per share (basic and diluted), EUR	1.72	1.44

* Additional information on the number of shares is presented in Note 22. Equity.

11. Components of other comprehensive income

MEUR		2012	2011
Exchange rate differences on translating foreign operations		-14	-4
Available-for-sale financial assets			
Net change in fair value	3	21	
Transferred to the statement of income	-1	2	21
Cash flow hedges			
Net change in fair value	9	-15	
Transferred to the statement of income	9	18	-31
Income tax relating to components of other comprehensive income		-4	2
Other comprehensive income		1	-12

Tax effects relating to other comprehensive income

MEUR	2012			2011		
	Before tax amount	Tax	Net of taxes	Before tax amount	Tax	Net of taxes
Exchange rate differences on translating foreign operations	-14		-14	-4		-4
Available-for-sale financial assets	2		1	21	-5	16
Cash flow hedges	18	-4	14	-31	7	-23
Other comprehensive income	6	-4	1	-14	2	-12

12. Intangible assets

Impairment testing of goodwill

Goodwill from acquisitions is allocated to the Group's cash-generating units (CGUs). CGUs are the lowest level of assets for which there are separately identifiable cash flows. Currently Wärtsilä identifies 2 (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 financial period has been subject to impairment testing. These companies have been integrated into the Power Business operations.

Cash-Generating Units

MEUR	Goodwill	
	2012	2011
Ship design		114
Cedervall		40
Hamworthy	311	
Power Business, other	631	462
Total	942	616

The recoverable amounts from the CGUs are determined based on value-in-use calculations. The calculations are on a discounted cash flow method basis, derived from the order book and 5-year cash flow projections from management approved strategic plans. The estimated performances of the CGUs are based on utilisation of the existing property, plant and equipment in their current condition with normal maintenance capital expenditure, excluding any potential future acquisitions. Cash flows beyond the five-year period are calculated using the terminal value method. The terminal growth rate used in projections is based on management's assessment on conservative long term growth. The terminal growth rate used is 2%.

The key driver for the valuation is the growth in the global economy and in particular the development of the global power market, the global shipbuilding industry and the demand for related services. The projected development of total costs in the market affects the profitability, whereas no single cost item is considered to have a material impact. The valuation driver for the new equipment sales is the growth in the global economy, whereas for after sales the drivers are also the demand for related services and the projected development in labour cost.

The applied discount rate is the weighted average pre-tax cost of capital (WACC) as defined by Wärtsilä. The components of the WACC are risk-free rate, market risk premium, industry specific beta, cost of debt and debt equity ratio. When defining the WACC for 2012, it has been considered that the general interest rate is currently on a lower level. Wärtsilä has used a WACC of 8.8% (9.1) in the calculations.

As a result of the impairment test, no impairment loss for any of the CGUs was recognized for the financial periods ended 31 December, 2012 and 2011 respectively. The recoverable amounts from all CGUs exceeded their carrying values remarkably.

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 4%*
- Terminal growth rate lowered by 50%, effect 14% (15)
- Profitability (EBIT) lowered by 10%, effect 9%*
- WACC increased by 2 percentage units, effect 27% (29).

* In 2011, sales growth and EBIT profitability were lowered based on scenario analysis in each business. The effect was 24%.

According to the performed sensitivity analyses, none of the downside scenarios would change the long term key assumptions on which Wärttilä's recoverable amounts are based and none would cause their respective values to fall short of their carrying amounts. As a result of performed impairment tests, there is no need for write-downs of the goodwill in a particular cash generating unit.

In management's opinion, the changes in the basic assumptions provided in these theoretical downside scenarios shall not be seen as an indication that these factors are likely to materialise. The sensitivity analyses are hypothetical and should therefore be treated with caution.

2012

MEUR	Intangible rights	Construction in progress and advances paid	Other intangible assets	Goodwill	Total
Cost at 1 January 2012	80	25	452	621	1 177
Changes in exchange rates			7	18	26
Acquisitions	1		118	307	426
Additions		22	18	1	41
Disposals and reclassifications	11	-14	7		3
Cost at 31 December 2012	92	33	601	947	1 673
Accumulated amortisation and impairment at 1 January 2012	-51		-298	-4	-352
Changes in exchange rates			-2		-3
Accumulated amortisation on disposals and other changes			2		2
Amortisation during the financial period	-5		-56		-61
Accumulated amortisation and impairment at 31 December 2012	-56		-352	-4	-414
Carrying amount at 31 December 2012	35	33	249	942	1 259

Development costs for internally generated assets amounting to EUR 24 million (14) were capitalised during the financial period, and the carrying amount was EUR 66 million (47).

Amortisations related to the purchase price allocations from acquisitions were EUR 35 million (16) and the carrying amount of them was EUR 190 million (108).

2011

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

13. Property, plant & equipment

2012

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Investment properties	Total
Cost at 1 January 2012	30	294	745	38	70	9	1 186
Changes in exchange rates		2	2				3
Acquisitions		13	6				19
Additions		4	26	34	1	6	70
Disposals	-1		-19		-1	-1	-22
Reclassification		7	24	-26	-8		-3
Cost at 31 December 2012	29	319	782	46	62	14	1 250
Accumulated depreciation and impairment at 1 January 2012		-134	-530		-51		-714
Changes in exchange rates		-1	-2				-2
Accumulated depreciation on disposals			14		1		15
Depreciation during the financial period		-14	-56		-4		-74
Reclassification			-9		7		-1
Impairments		-1	-3				-4
Accumulated depreciation and impairment at 31 December 2012		-149	-586		-46		-780
Carrying amount at 31 December 2012	29	171	196	45	17	14	470
Value of finance-leased assets included in carrying amount		1					1

Investment properties include land areas not used by the Group. Their estimated fair value is around EUR 29 million (33). During the period, investment properties were sold totalling EUR 4 million (7) generating a gain of EUR 2 million (3).

2011

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

14. Investments in associates and joint ventures

MEUR	2012	2011
Carrying amount at 1 January	87	65
Investments	7	16
Share of result	9	8
Dividends		-2
Translation differences	2	1
Disposal of shares	-15	
Carrying amount at 31 December	90	87

In 2012, EUR 8 million gain was recognised in the consolidated statement of income related to the sale of the associated company MW Power Oy's shares. In 2011, no shares were sold.

Summary of financial information (100%):

2012

MEUR		Holding %	Assets	Equity	Liabilities	sales	Profit for the Net financial period
Joint ventures							
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	38	26	11	43	4
Wärtsilä Hyundai Engine Co Ltd.	Korea	50.0	280	83	197	176	18
Wärtsilä TMH Diesel Engine Company LLC	Russia	50.0	23	22	1		
Repropel Sociedade de Reparacao de Helices Lda.	Portugal	50.0	1	1	1	1	
Associated companies							
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		-2	2	1	
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	5	2	2	5	
Neptun Maritime AS	Norway	40.0	2	1		2	
Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co Ltd.	China	33.8	223	61	162	86	-8
WD Power Investment Ky	Finland	21.7	2	2			

2011

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

15. Available-for-sale financial assets

Available-for-sale financial assets includes listed and unlisted shares. The listed shares are measured at fair value, and the valuation is included in fair value reserve. For the unlisted shares the fair value cannot be measured reliably, in which case the investment is carried at cost.

MEUR	2012	2011
Carrying amount at 1 January	39	18
Acquired shares	3	
Fair value adjustments*	3	21
Disposal of shares	-1	
Carrying amount at 31 December	44	39

MEUR	2012		2011	
	Cost	Market value	Cost	Market value
Listed shares (level 1)				
Lyxor ETF MSCI Emerging Markets	2	2	2	2
Unlisted shares (level 3)				
Sato Oyj	2	26	2	23
Other shares	16	16	14	14
Total shares	20	44	18	39

In 2012, EUR 1 million gain was recognised in the consolidated statement of income related to the sale of Ekokem Oy Ab shares. In 2011, no shares were sold.

* Additional information on fair value adjustments is presented in Note 22. Equity.

16. Inventories

MEUR	2012	2011
Materials and consumables	532	463
Work in progress	685	640
Finished products	48	47
Advances paid	57	72
Total	1 322	1 222

In 2012, EUR 23 million (20) impairment for obsolete stock has been recognised in the consolidated statement of income. Acquisition-related increase in inventories is EUR 91 million.

17. Financial assets and liabilities by measurement category

2012

MEUR	Cash flow and net investment hedges	Financial assets/ liabilities at fair value through the statement of income	Loans and receivables	Available- for-sale financial assets	Financial liabilities measured at amortised cost	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets							
Available-for-sale financial assets				44		44	44
Interest-bearing investments			1			1	1
Other receivables			22			22	22
Current financial assets							
Interest-bearing receivables			1			1	1
Trade receivables			1 128			1 128	1 128
Derivatives	16					16	16
Other receivables		12				12	12
Cash and cash equivalents		225				225	225
Carrying amount by category	16	237	1 152	44		1 449	1 449
Non-current financial liabilities							
Interest-bearing debt					545	545	555
Current financial liabilities							
Interest-bearing debt					249	249	249
Trade payables					385	385	385
Derivatives	9					9	9
Other liabilities					11	11	11
Carrying amount by category	9				1 190	1 199	1 209

2011

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

Additional information on financial liabilities is presented in Note 24. Financial liabilities.

18. Other receivables

MEUR	2012	2011
Derivatives	16	5
Interest and other financial items	12	11
Insurance receivables	5	26
Rental accruals	4	4
Project accruals	16	13
Accruals from long-term contracts	142	99
Other accruals	29	37
Loan receivables	22	20
Defined benefit plan	12	14
VAT receivables	61	54
Other	48	44
Total	367	327
Non-current	33	33
Current	334	294

19. Cash and cash equivalents

MEUR	2012	2011
Cash and bank balances	217	585
Current deposits	8	7
Total	225	592

20. Deferred taxes

Change in deferred taxes during 2012

MEUR	1 January 2012	Recognised in the consolidated statement of income	Other comprehensive income	Changes in exchange rates	Acquisitions	31 December 2012
Deferred tax assets						
Tax loss carry- forwards	45	-17				28
Pension obligations	4			4	1	9
Provisions	19					20
Intragroup margin in stock	7					6
Other temporary differences	43	-1	-1	-4	4	42
Total	119	-18	-2		5	104
Deferred tax liabilities						
Intangible assets and property, plant and equipment	31	-10			31	53
Fair value reserve	11		3			15
Other temporary differences	27	-1		1	4	30
Total	69	-10	3	1	35	98
Net deferred tax assets/ liabilities	50	-8	-4	-1	-30	6

Change in deferred taxes during 2011

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

At 31 December 2012, the Group had temporary differences on which no deferred tax assets were booked totalling EUR 35 million (21), as it is uncertain if they will be realised. Most of them were related to cumulative losses.

21. Pension obligations

MEUR	2012	2011
Recognised asset for defined benefit plan at 31 December	12	14
Recognised liability for defined benefit obligations	43	22
Long-service leave and other past service obligations	22	35
Total past service obligations at 31 December	65	57

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

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

Movement in defined benefit obligations	2012	2011
Defined benefit obligations at 1 January	318	315
Changes in exchange rates	4	7
Current service costs	22	12
Interest cost	9	10
Benefits paid	-17	-28
Curtailments and settlements		-1
Changes in actuarial gains and losses	13	
Plan members and insurer contribution	3	3
Effect changes on actuarial assumptions	2	
Impact of acquired and disposed companies and other changes	28	
Defined benefit obligations at 31 December	382	318
Movement in plan assets	2012	2011
Fair value of plan assets at 1 January	269	275
Changes in exchange rates	3	6
Contribution paid to the fund	19	15
Benefits paid by the plan	-16	-26
Expected return on plan assets	8	12
Actuarial gains and losses	13	-13
Impact of acquired and disposed companies	9	
Recognised fair value of plan assets at 31 December	306	269

Unrecognised actuarial gains and losses

Unrecognised actuarial gains and losses at the beginning of the year	-43	-32
Changes in exchange rates	-1	-1
Curtailments and settlements		1
Actuarial gains and losses for year - obligations	-16	
Actuarial gains and losses for year - plan assets	13	-13
Total	-47	-44
Actuarial gains and losses recognised	2	1
Unrecognised actuarial gains and losses at the year end	-45	-43

Recognised net liability for defined benefit obligations 31 7

Expenses recognised in the statement of income 2012 2011

Current service costs	20	12
Interest on obligation	9	10
Expected return on plan assets	-8	-12
Actuarial gains and losses	1	1
Gains and losses on curtailments and settlements		-1
Defined benefit expenses	22	11

Actual return on plan assets 1 -1

Historical information 2012 2011 2010 2009 2008

Present value of the defined benefit obligation	382	319	315	254	229
Fair value of plan assets	-306	-269	-275	-227	-198
Deficit in the plan	76	50	40	28	31

Plan assets invested in: 2012 2011

Equity instruments (%)	26	24
Bonds and other financial instruments (%)	46	45
Properties (%)	18	21
Other assets (%)	10	10

Actuarial assumptions 2012 Europe Other

Discount rate (%)	2.2–4.5	1.5–11.0
Expected return on plan assets (%)	2.0–3.6	1.8–12.5
Future salary increases (%)	1.0–3.8	3.0–15.0

Actuarial assumptions 2011 Europe Other

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

22. Equity

Equity consists of share capital, share premium, translation difference, fair value reserve and retained earnings. In addition, the accumulated depreciation difference net of taxes is included.

Share capital and number of shares

MEUR

Share capital	Number of shares and votes	Share capital	Share premium	Total
1 January 2011	98 620 565	336	61	397
Free share issue	98 620 565			
31 December 2011	197 241 130	336	61	397
31 December 2012	197 241 130	336	61	397

Free share issue approved by Wäertsilä Corporation's Annual General Meeting on 3 March 2011 increased the total number of Wäertsilä shares to 197,241,130.

Translation difference

Translating foreign subsidiaries' financial statements by using different exchange rates in the statement of comprehensive income and in the statement of financial position causes translation differences, which are recognised in equity. Translation differences of foreign subsidiaries' acquisition cost eliminations and post acquisition profits and losses are also presented in equity. The change in translation differences is recognised in other comprehensive income.

Fair value reserve

Fair value reserve includes the change in the fair value of available-for-sale financial assets. Also the change in fair value in derivative financial instruments is included in fair value reserve, if the hedging is effective and eligible for hedge accounting. The change in items included in fair value reserve are recognised in other comprehensive income.

MEUR	Cash flow hedges	Available-for-sale financial assets	Total
Difference between fair value and carrying amount at 1 January 2011	17		17
Deferred tax liabilities/assets	-5		-5
Fair value reserve at 1 January 2011	12		12
Transferred to the statement of income, net of taxes	-11		-11
Fair value adjustments	-15	21	6
Deferred tax liabilities/assets	3	-5	-2
Fair value reserve at 31 December 2011	-11	16	5
Transferred to the statement of income, net of taxes	7	-1	6
Fair value adjustments	9	4	13
Deferred tax liabilities/assets	-2	-1	-3
Fair value reserve at 31 December 2012	3	18	21

Dividends

After the balance sheet date, the Board of Directors proposed that a dividend of 1.00 euro per share be paid for the financial year 2012, total dividend payable being EUR 197 million. The remaining part of the retained profits will be carried further in the

unrestricted equity. For the financial year 2011, a dividend of EUR 0.90 per share was distributed, totalling EUR 178 million and the rest of the retained profits were carried further in the unrestricted equity.

Additional information on equity is presented in notes to the parent company financial statements, Note 11. Shareholders' equity.

23. Provisions

2012

MEUR	Litigation	Warranty liabilities	Onerous contracts	Restructuring	Other provisions	Total
Provisions at 1 January 2012	11	167	22	18	49	267
Changes in exchange rates			1			1
Acquisitions	6	11	10	1		28
Additions	3	49	10	8	18	89
Used provisions	-3	-47	-16	-13	-30	-109
Released provisions	-1		-3		-5	-10
Provisions at 31 December 2012	17	180	24	14	31	266
Non-current						38
Current						228

2011

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

The Group is a defendant in a number of legal cases, which arise out of, or are incidental to, the ordinary course of its business. These lawsuits concern 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.

24. Financial liabilities

2012

MEUR	Current	Non-current		Total
	< 1 year	1–5 years	> 5 years	
Loans from pension insurance companies*	61	148	22	231
Loans from other financial institutions*	37	239	133	408
Finance lease liabilities*		1		2
Other interest-bearing loans*	152	2		154
Trade payables	385			385
Derivatives	9			9
Other liabilities	11			11
Total	655	390	155	1 199
* Estimated interest expenses, total	16	34	8	58
Estimated contractual cash flows	671	424	163	1 257

2011

MEUR	Current	Non-current		Total
	< 1 year	1–5 years	> 5 years	
Loans from pension insurance companies*	58	189	42	289
Loans from other financial institutions*	33	156	95	284
Finance lease liabilities*	1	2	1	4
Other interest-bearing loans*	76			76
Trade payables	348			348
Derivatives	26			26
Other liabilities	10			10
Total	552	347	138	1 036
* Estimated interest expenses, total	15	32	7	54
Estimated contractual cash flows	567	379	145	1 090

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

25. Other liabilities

MEUR	2012	2011
Project costs	558	628
Personnel costs	157	144
Derivatives	9	26
Interest and other financial items	11	10
Other accruals	53	64
VAT liabilities	14	4
Other	68	65
Total	871	941
Non-current	3	
Current	868	941

26. Derivative financial instruments

The Group applies hedge accounting to significant foreign currency forward contracts. Detailed financial information is presented in Note 32. Financial risks.

MEUR	2012	of which closed	2011	of which closed
Nominal values of derivative financial instruments (level 2)				
Interest rate swaps	20		20	
Currency forwards				
Transaction risk	1 182	341	841	291
Translation risk*			465	
Currency options, written	82		108	18
Currency options, purchased	223		96	18
Total	1 507	341	1 530	327
Fair values of derivative financial instruments (level 2)				
Interest rate swaps			-1	
Currency forwards				
Transaction risk	4		-13	
Translation risk*			-4	
Currency options, written			-3	
Currency options, purchased	3			
Total	7		-21	

* Wärtsilä decided to discontinue hedging the net assets in its foreign subsidiaries and joint ventures in June 2012. Additional information in Note 32. Financial risks.

Foreign currency forward contracts fall due during the following 12 months. Interest rate swaps are denominated in euros and their average interest-bearing period is 20 months.

Currency distribution of currency forwards and currency options

MEUR	Order book	Net loans
Currency forwards		
USD	540	1
NOK	187	62
CHF		48
SGD		28
JPY	46	4
GBP	24	20
SEK	26	2
Other**	27	49
Currency options		
USD	305	
Total	1 155	214

** Other does not include any material single currencies.

27. Collateral, contingent liabilities and other commitments

MEUR	2012		2011	
	Debt in the statement of financial position	Collateral	Debt in the statement of financial position	Collateral
Mortgages given as collateral for liabilities and commitments				
Loans from pension institutions	11	15	22	43
Other commitments	15	13	16	14
Total	26	28	38	57
Chattel mortgages and other pledges given as collateral for liabilities and commitments				
Loans from credit institutions	29	18	25	46
Other commitments		15		16
Total	29	34	25	62
MEUR				
		2012	2011	
Guarantees and contingent liabilities				
on behalf of Group companies		433		903
on behalf of associates and joint ventures		9		10
Total		442		912
Nominal amounts of rents according to leasing contracts				
Payable within one year		23		18
Payable between one and five years		44		34
Payable later		10		11
Total		76		64

28. Related party disclosures

Related parties comprise the Board of Directors, the President and CEO, the Board of Management as well as the associated companies and the joint ventures.

Salaries and bonuses paid to management

TEUR	2012	2011
President and CEO and his deputy		
Salaries and other short-term benefits	1 211	1 082
Bonuses	183	590
Share based bonuses*	375	1 125
	1 769	2 797
Other members of the Board of Management		
Salaries and other short-term benefits	2 748	1 752
Bonuses	1 219	719
Share based bonuses*	2 438	2 250
	6 404	4 721
Board of Directors at 31 December 2012		
Mikael Lilius, chairman	138	135
Matti Vuoria, deputy chairman	98	100
Maarit Aarni-Sirviö, member	71	68
Kaj-Gustaf Bergh, member	68	70
Alexander Ehrnrooth, member	71	68
Paul Ehrnrooth, member	68	67
Lars Josefsson, member	70	65
Gunilla Nordström, member	62	
Markus Rauramo, member	77	68
Board of Directors, until 8 March 2012		
Bertel Langenskiöld, member	4	71
Board of Directors, until 3 March 2011		
Antti Lagerroos, chairman		11
Ole Johansson, member		
	729	722
Salaries and bonuses paid to management, total	8 902	8 240

* In addition, EUR 2,088 thousand (3,188) has been accrued for the share based bonus schemes tied to the price development of the company's share for President and CEO and his deputy and the other members of the Board of Management.

The holdings of Wärtsilä shares of the President and CEO, and some of the members of the Board of Directors and Board of Management were 793,089 shares (792,167) at the year end.

The President and CEO and some of the members of the Board of Management are entitled to retire on reaching 60 years of age. The Group has no loan receivables from the executive management or the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

Business transactions with the associated companies and joint ventures

MEUR	2012	2011
Net sales to the associates and joint ventures	62	10
Purchases from the associates and joint ventures	54	94
Receivables from the associates and joint ventures	16	20
Advances paid to the associates and joint ventures	8	18
Payables to the associates and joint ventures	9	13

Detailed financial information on the associated companies and joint ventures is presented in Note 14. Investments in associates and joint ventures.

29. 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 2012, the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditor.

Auditors' fees

MEUR	KPMG		Others	
	2012	2011	2012	2011
Audit	2.2	2.2	0.2	0.2
Tax advisory	1.2	0.8	0.1	0.1
Other services	0.2	0.8	0.1	0.1
Total	3.9	3.9	0.3	0.4

30. Exchange rates

In the consolidated financial statements there are nearly 60 currencies consolidated. The most essential currencies are presented here.

	Closing rates		Average rates	
	31 December 2012	31 December 2011	2012	2011
BRL Brazil Real	2.70360	2.41590	2.50970	2.32591
CHF Switzerland Franc	1.20720	1.21560	1.20530	1.23398
CNY China Yuan Renminbi	8.22070	8.15880	8.10942	8.99606
GBP United Kingdom Pound	0.81610	0.83530	0.81110	0.86777
INR India Rupee	72.56000	68.71300	68.62947	64.86687
JPY Japan Yen	113.61000	100.20000	102.62121	111.02107
NOK Norway Krone	7.34830	7.75400	7.47547	7.79304
SEK Sweden Krona	8.58200	8.91200	8.70672	9.02759
SGD Singapore Dollar	1.61110	1.68190	1.60617	1.74907
USD United States Dollar	1.31940	1.29390	1.28560	1.39171

31. Subsidiaries

Geographical area	Company name	Location	Share %	
Europe	Wärtsilä Technology Oy Ab	Finland	100.0	
	Wärtsilä Finland Oy	Finland	100.0	
	Wärtsilä Projects Oy	Finland	100.0	
	Wärtsilä Solutions Oy	Finland	100.0	
	Wärtsilä Sweden AB	Sweden	100.0	
	Cedervall Söner AB	Sweden	100.0	
	Wärtsilä Norway AS	Norway	100.0	
	Wärtsilä Ship Design Norway AS	Norway	100.0	
	Wärtsilä Moss AS	Norway	100.0	
	Wärtsilä Oil & Gas Systems AS	Norway	100.0	
	Wärtsilä Danmark A/S	Denmark	100.0	
	Wärtsilä Svanebjerg A/S	Denmark	100.0	
	Wärtsilä Italia S.p.A.	Italy	100.0	
	Wärtsilä France S.A.S.	France	100.0	
	Wärtsilä Switzerland Ltd.	Switzerland	100.0	
	Wärtsilä Netherlands B.V.	The Netherlands	100.0	
	Wärtsilä Ibérica S.A.	Spain	100.0	
	Cedervall Espana S.A.	Spain	100.0	
	Wärtsilä Portugal Lda.	Portugal	100.0	
	Wärtsilä Deutschland GmbH	Germany	100.0	
	Wärtsilä Ship Design Germany GmbH	Germany	100.0	
	Wärtsilä Serck Como GmbH	Germany	100.0	
	Wärtsilä UK Ltd	Great Britain	100.0	
	Vulcan Insurance Ltd.	Great Britain	100.0	
	Wärtsilä Hamworthy Ltd	Great Britain	100.0	
	Wärtsilä Valves Ltd	Great Britain	100.0	
	Wärtsilä Water Systems Ltd	Great Britain	100.0	
	Wärtsilä Greece S.A.	Greece	100.0	
	Wärtsilä Ireland Ltd.	Ireland	100.0	
	Wärtsilä Polska Sp.z.o.o.	Poland	100.0	
	Wärtsilä Ship Design Poland Sp.z.o.o.	Poland	100.0	
	Wärtsilä Baltic Design Centre Sp.z.o.o.	Poland	100.0	
	Wärtsilä-Enpa A.S.	Turkey	51.0	
	Wärtsilä BLRT Estonia Oü	Estonia	51.8	
	Wärtsilä Vostok, LLC	Russia	100.0	
	Wärtsilä Ship Design Russia CJSC	Russia	75.0	
	Wärtsilä Hungary Kft	Hungary	100.0	
	Wärtsilä Ukraine LLC	Ukraine	100.0	
	The Americas	Wärtsilä North America, Inc.	USA	100.0
		Wärtsilä Defence Inc.	USA	100.0
Wärtsilä Development & Financial Services Inc.		USA	100.0	

	Wärtsilä Hamworthy Inc	USA	100.0
	Wärtsilä Canada Inc.	Canada	100.0
	Wärtsilä de Mexico SA	Mexico	100.0
	Wärtsilä Caribbean, Inc.	Puerto Rico	100.0
	Wärtsilä Dominicana Inc.	Dominican Republic	100.0
	Wärtsilä Guatemala S.A.	Guatemala	100.0
	Wärtsilä Chile Ltda.	Chile	100.0
	Wärtsilä Ecuador S.A.	Ecuador	100.0
	Wärtsilä Brasil Ltda.	Brazil	100.0
	Wärtsilä Colombia S.A.	Colombia	100.0
	Wärtsilä Peru S.A.C.	Peru	100.0
	Wärtsilä Argentina S.A.	Argentina	100.0
	Wärtsilä Venezuela, C.A.	Venezuela	100.0
	Wärtsilä Panama S.A.	Panama	100.0
Asia	Wärtsilä China Ltd.	Hong Kong	100.0
	Wärtsilä-CME Zhenjiang Propeller Co. Ltd.	China	55.0
	Wärtsilä Engine (Shanghai) Co. Ltd.	China	100.0
	Wärtsilä Shangai Services Ltd.	China	100.0
	Wärtsilä Propulsion (Wuxi) Co. Ltd.	China	100.0
	Cedervall Zhangjiagang Marine Products Co. Ltd.	China	100.0
	Wärtsilä Suzhou Ltd.	China	100.0
	Wärtsilä Singapore Pte Ltd	Singapore	100.0
	Wärtsilä Ship Design Singapore Pte Ltd	Singapore	100.0
	Cedervall Singapore Pte. Ltd.	Singapore	100.0
	Wärtsilä Pumps Pte. Ltd.	Singapore	100.0
	Wärtsilä Japan Ltd.	Japan	99.7
	Wärtsilä India Ltd.	India	100.0
	Wärtsilä Vietnam Co Ltd.	Vietnam	100.0
	Wärtsilä Korea Ltd.	South Korea	100.0
	Wärtsilä Hamworthy Korea Ltd.	South Korea	100.0
	Wärtsilä Taiwan Ltd.	Taiwan	100.0
	Wärtsilä Philippines Inc.	Philippines	100.0
	PT. Wärtsilä Indonesia	Indonesia	100.0
	Wärtsilä Lanka Ltd.	Sri Lanka	100.0
	Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0
	Wärtsilä Bangladesh Ltd.	Bangladesh	100.0
	Wärtsilä Azerbaijan LLC	Azerbaijan	100.0
	Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia	60.0
	Wärtsilä Gulf FZE	United Arab Emirates	100.0
	Wärtsilä Ships Repairing & Maintenance LLC	United Arab Emirates	100.0
	Wärtsilä Hamworthy Middle East FZC	United Arab Emirates	100.0
Other	Wärtsilä Australia Pty Ltd.	Australia	100.0
	Wärtsilä New Zealand Ltd	New Zealand	100.0
	Wärtsilä PNG Ltd	Papua New Guinea	100.0
	Wärtsilä Egypt Power S.A.E	Egypt	100.0

Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0
Wärtsilä Eastern Africa S.A.	Kenya	100.0
Wärtsilä Uganda Ltd.	Uganda	100.0
Wärtsilä West Africa S.A.	Senegal	100.0
Wärtsilä Central Africa Ltd.	Cameroon	100.0
Wärtsilä Tanzania Ltd	Tanzania	100.0

A complete list of shares and securities in accordance with the Finnish Accounting Ordinance is included in the official financial statements of the parent company prepared with the Finnish Accounting Standards (FAS).

32. Financial risks

General

Wärtsilä has a centralised Group Treasury with two main objectives: 1) to arrange adequate funding for the Group's underlying operations on competitive terms and 2) to identify and evaluate the financial risks within the Group and implement the hedges for the Group companies.

The objective is to hedge against unfavorable changes in the financial markets and to minimise the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and equity.

The Financial Risk Policy is approved by the Board of Directors. The Treasury employs only such instruments whose market value and risk profile can be reliably monitored.

Foreign exchange risk

Foreign exchange exposures are monitored at the Business level and then netted and hedged at Group level. All fixed sales and purchase contracts are hedged. The estimated future commercial exposures are evaluated by the Businesses, and the level of hedging is decided by the Board of Management. Hedge accounting in accordance with IFRS is applied to most of the hedges of these exposures. The hedges cover such time periods that both the prices and costs can be adjusted to new exchange rates. These periods vary among Group companies from one month to two years. The Group also hedges its position of the statement of financial position, which includes receivables and payables denominated in foreign currencies. The Group does not expect significant losses from foreign exchange rate changes in 2013. The cancellation of orders could lead to ineffective currency hedge. Approximately 59% of sales and 56% of operating costs in 2012 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 26. Derivative financial instruments.

Some Group companies in countries whose currencies are not fully convertible like Brazil and China have unhedged, intercompany loans nominated either in EUR or USD. Total amount of the loans is EUR 49 million (48).

Since Wärtsilä has subsidiaries and joint ventures outside the euro zone, the Group's equity, goodwill and purchase price allocations are sensitive to exchange rate fluctuations. At the end of 2012, the net assets of Wärtsilä's foreign subsidiaries and joint ventures outside the euro zone totalled EUR 769 million (472). In addition, goodwill and purchase price allocations from acquisitions nominated in foreign currencies amounted to EUR 596 million (178). Wärtsilä decided to discontinue hedging the net assets in its foreign subsidiaries and joint ventures in June 2012. Until that, the changes in the fair values of instruments determined as equity hedging were recognised in other comprehensive income, provided that the hedging was effective, and the ineffective portion of the change in the fair value of the hedge and the interest rate difference were immediately recognised in the statement of income in the financial items.

IFRS hedge accounting has been applied to EUR 733 million (1,111) currency forwards. 10% change in the exchange rates would cause from these currency forwards an approximately EUR 55 million (82) net of tax impact on the equity. In 2012, EUR 7 million (-12) fair value adjustments related to cash flow hedges were recognised in equity. EUR -7 million (11) of the fair value adjustments were transferred from equity to the statement of income as net sales or operating expenses during 2012. In 2012, the result from ineffective portion of the cash flow hedges was not significant. In 2011, EUR -2 million was recognised in financial items.

Currency distribution 2012

%	Net sales	Operating costs	Trade receivables	Trade payables
EUR	59	56	71	74
USD	21	6	14	4
NOK	3	10	3	4
GBP	2	2	3	4
CHF	1	2	2	3
Other EU currencies	1	3		2
SGD	2	3	1	1
SAR	2	2		
BRL	1	1		1
INR	1	1	2	1
CNY	1	3	1	1
JPY		1		2
Other currencies	6	9	3	3
Total	100	100	100	100

Interest rate risk

Wärtsilä is exposed to interest rate risk primarily through market value changes to the net debt portfolio (price risk) and also through changes in interest rates (re-fixing on rollovers). Wärtsilä hedges interest rate exposure by using derivative instruments such as interest rate swaps, futures and options. Changes in the market value of these derivatives are recognised directly in the statement of income. Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis.

Interest-bearing loan capital at the end of 2012 totalled EUR 794 million (652). The average interest rate was 2.0% (2.7) and the average re-fixing time 21 months (16). At the end of 2012, a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 14 million (8) 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 2012 the floating rate portion of total loans was 49% (44) after adjustment for interest rate derivatives. A one percentage point change in the interest level would cause a EUR 4 million (3) change in the following year's interest expenses of the debt portfolio, including derivatives.

Additional information related to loans can be found in Note 17. Financial assets and liabilities by measurement category and Note 24. Financial liabilities.

Liquidity and refinancing risk

Wärtsilä ensures sufficient liquidity 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 554 million (494).
- Finnish Commercial Paper programmes totalling EUR 700 million (700).

The average maturity of the long-term debt is 44 months (40) and the average maturity of the confirmed credit lines is 29 months (34). Additional information in Note 24. Financial liabilities.

Wärtsilä Group had cash and cash equivalents totalling EUR 225 million (592) at the year end as well as EUR 554 million (494) non-utilised committed credit facilities. Commercial Paper programme utilisation amounted to EUR 141 million (70). Wärtsilä minimises its refinancing risk by having a balanced and sufficiently long loan portfolio.

Revolving credit facilities

MEUR

Year	Maturing	Available (end of period)
2012		554
2013	165	389
2014	30	359
2015	160	199
2016	99	100
2017	100	

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 2012. No losses were recorded on suppliers' credits.

The credit risks related to the placement of liquid funds and to trading in financial instruments are minimised by setting explicit limits for the counterparties and by making agreements only with the most reputable domestic and international banks and financial institutions.

The Group companies deposit the maximum amount of their liquid financial assets with the centralised treasury (Wärtsilä Group Treasury) when local laws and central bank regulations allow it. The Group's funds are placed in instruments with sufficient liquidity (short-term bank deposits or Finnish Commercial Papers) and rating (at least single-A rated instruments or other instruments approved by the Group's CFO). These placements are constantly monitored by Wärtsilä Group Treasury and Wärtsilä does not expect any future defaults from the placements.

Aging of trade receivables

MEUR	2012		2011	
	Trade receivables	of which impaired	Trade receivables	of which impaired
Not past due	746		560	
Past due 1–30 days	135		125	
Past due 31–180 days	165	2	115	1
Past due 181–360 days	73	5	44	5
Past due 1 year	70	53	91	52
Total	1 189	60	935	58

In 2012, EUR 8 million (18) provisions for doubtful receivables have been recognised in the consolidated statement of income.

The Group sells trade receivables in an amount that is currently not significant compared to the total trade receivables. Sold receivables have been de-recognised in the consolidated statement of financial position.

Equity price risk

Wärtsilä has investments in publicly quoted shares, see Note 15. Available-for-sale financial assets. The market value of these shares at the end of 2012 was EUR 2 million (2). A 10% strengthening or weakening in share price does not have any significant impact on the Group's equity net of taxes.

Wärtsilä has also equity investments totalling EUR 11 million (12) in power plant companies, most of which are located in developing countries and performing well according to expectations.

Capital risk management

Wärtsilä's policy is to secure a strong capital base to keep the confidence of investors and creditors and for the future development of the business. The capital is defined as total equity including non-controlling interests and net interest-bearing debt. The target for Wärtsilä is to maintain gearing below 0.50 and to pay a dividend equivalent to 50% of operational earnings per share.

MEUR	31.12.2012	31.12.2011
Interest-bearing liabilities, non-current	545	485
Interest-bearing liabilities, current	249	167
Cash and cash equivalents	-225	-592
	569	60
Loan receivables	-2	-2
Net interest-bearing loan capital	567	58
Total equity	1 824	1 666
Gearing	0.31	0.04

In the capital management Wärtsilä also follows the solvency development:

Equity and liabilities	5 038	4 600
Advances received	-695	-563
	4 343	4 037
Solvency ratio, %	42.0	41.3

Parent company income statement (FAS)

MEUR	Note	2012	2011
Other operating income	<u>1</u>	71	86
Personnel expenses	<u>2</u>	-38	-37
Depreciation, amortisation and impairments	<u>3</u>	-11	-16
Other operating expenses		-88	-84
Operating result		-66	-51
Financial income and expenses	<u>4</u>		
Income from financial assets		197	188
Interest income and other financial income		41	41
Exchange gains and losses		-27	-11
Interest expenses and other financial expenses		-31	-42
		180	176
Result before extraordinary items		113	125
Group contribution	<u>5</u>	160	273
Result before appropriations and taxes		273	398
Change in depreciation difference		-2	2
Result before taxes		271	400
Income taxes	<u>6</u>	-19	-55
Result for the financial period		253	345

Parent company balance sheet (FAS)

MEUR	Note	31.12.2012	31.12.2011
ASSETS			
Fixed assets	7		
Intangible assets			
Other long-term expenditure		20	24
Construction in progress		3	7
		23	32
Tangible assets			
Land and water		7	7
Buildings and structures		1	1
Machinery, equipment and other tangible assets		1	1
Construction in progress		4	2
		13	10
Financial assets			
Shares in Group companies		450	450
Loan receivables from Group companies			1
Other shares and securities		6	6
		456	456
Fixed assets and other non-current financial assets		492	498

Non-current receivables

Receivables from Group companies	<u>8</u>	320	287
Loan receivables		15	16
		<u>335</u>	<u>303</u>

Current receivables

Receivables from Group companies	<u>9</u>	1 929	1 523
Other receivables		2	2
Prepaid expenses and accrued income	<u>10</u>	43	22
		<u>1 974</u>	<u>1 546</u>

Cash and bank balances 103 474

Total current assets 2 411 2 323

Assets 2 903 2 822

MEUR	Note	31.12.2012	31.12.2011
EQUITY AND LIABILITIES			
Equity	<u>11</u>		
Share capital		336	336
Share premium reserve		61	61
Retained earnings		797	630
Result for the financial period		253	345
Total equity		1 447	1 371
Accumulated appropriations			
Depreciation difference		10	8
Provisions		15	16
Liabilities	<u>12</u>		
Non-current			
Loans from credit institutions		346	228
Loans from pension insurance companies		117	168
Liabilities to Group companies	<u>14</u>	53	63
		517	459
Current			
Loans from credit institutions		28	21
Loans from pension insurance companies		51	48
Trade payables		6	7
Liabilities to Group companies	<u>14</u>	649	765
Other current liabilities		141	71
Accrued expenses and deferred income	<u>13</u>	39	55
		915	967
Total liabilities		1 431	1 426
Equity and liabilities		2 903	2 822

Parent company cash flow statement (FAS)

MEUR	2012	2011
Cash flow from operating activities:		
Operating result	-65	-51
Adjustments for:		
Depreciation and amortisation	11	16
Gains and losses on sale of intangible and tangible assets	-1	-3
Cash flow before changes in working capital	-55	-38
Changes in working capital:		
Assets, non-interest-bearing, increase (-) / decrease (+)	-34	-126
Liabilities, non-interest-bearing, increase (+) / decrease (-)	-14	5
	-48	-121
Cash flow from operating activities before financial items and taxes	-103	-159
Interest and other financial expenses	-68	-59
Dividends received from operating activities	195	188
Interest and other financial income from operating activities	48	47
Income taxes paid	-29	-124
	146	51
Cash flow from operating activities	43	-108
Cash flow from investing activities:		
Investments in tangible and intangible assets	-14	-9
Proceeds from sale of investments	1	
Proceeds from sale of tangible and intangible assets	9	5
Loan receivables, increase (-) / decrease (+) and other changes	2	
Dividends received	1	1
Cash flow from investing activities	-1	-3
Cash flow after investing activities	42	-111

Cash flow from financing activities:

Loans receivables, increase (-) / decrease (+)	-527	-197
Current loans, increase (+) / decrease (-)	-49	80
Proceeds from non-current borrowing	150	
Repayments and other changes of non-current loans	-83	-53
Group contributions	273	360
Dividends paid	-178	-271
Cash flow from financing activities	-413	-80

Change in cash and bank balances, increase (+) / decrease (-)	-371	-191
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Cash and bank at beginning of period	474	665
Cash and bank at end of period	103	474

Accounting Principles for the Parent Company

The financial statements of the parent company, Wärtsilä Corporation, have been prepared in accordance with the provisions of the Finnish Accounting Standards (FAS).

The preparation of the financial statements requires management, in compliance with the regulations in force and good accounting practice, to make estimates and assumptions that affect the measurement and timing of the reported information. Actual results may differ from these estimates.

Transactions denominated in foreign currencies

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the exchange rates prevailing on that date. Open hedging instruments of foreign currency based items, including interest components, are valued at the balance sheet date. Exchange gains and losses related to business operations are treated as adjustments to other operating income and operating expenses. Exchange gains and losses related to financing operations are entered under financial income and expenses.

Research and development costs

Research and development costs are expensed in the financial period in which they occur.

Receivables

Receivables are valued to acquisition cost or to a lower probable value.

Fixed assets and depreciation

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation. Certain land areas also include revaluations.

Depreciation is based on the following useful lives:

Other long-term expenditure 3-10 years

Buildings 20-40 years

Machinery and equipment 5-20 years

Leasing

Lease payments are treated as rentals.

Extraordinary income and expenses

Extraordinary income and expenses consist of items, such as Group contributions, that fall outside the ordinary activities of the company.

Provisions

Provisions in the balance sheet comprise those items which the company is committed to covering either through agreements or otherwise, but which are not yet realised. Changes to provisions are included in the income statement.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, as well as adjustments to taxes in prior years. Taxes allocated to extraordinary items are shown in the notes to the financial statements.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

1. Other operating income

MEUR	2012	2011
Rental income	1	2
Profit on sales of fixed assets		4
Services to Group companies	69	78
Other operating income	2	1
Total	71	86

2. Personnel expenses

MEUR	2012	2011
Wages and salaries	32	30
Pension costs	5	5
Other compulsory personnel costs	1	1
Total	38	37

Salaries and remunerations to senior management

The President and CEO and his deputy and members of the Board of Directors	2	4
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The President and CEO and some of the members of the Board of Management have the right to retire at the age of 60 years.

The Company's Board of Directors decides the remunerations of the President and CEO and his immediate subordinates.

Personnel on average during the year	311	303
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3. Depreciation and amortisation

MEUR	2012	2011
Depreciation according to plan		
Other long-term expenditure	11	15
Other depreciations		1
Total depreciation according to plan	11	16
Tax depreciations	14	14
Depreciation difference	-2	2
Depreciation difference		
Depreciation difference on 1 January	8	10
Change in the depreciation difference	2	-2
Depreciation difference on 31 December	10	8

4. Financial income and expenses

MEUR	2012	2011
Dividend income		
From Group companies	195	188
From other companies	1	1
Total	196	188
Other interest income		
From Group companies	35	30
From other companies	1	7
Total	36	37
Other financial income		
From Group companies	3	3
From other companies	8	7
Total	11	10
Exchange gains and losses	-27	-11
Interest expenses		
To Group companies	-9	-11
To other companies	-15	-14
Total	-24	-25
Other financial expenses		
To Group companies	-4	-5
To other companies	-9	-18
Total	-13	-23
Net income from financial assets available for sale	1	
Financial income and expenses, total	180	176

5. Extraordinary income and expenses

MEUR	2012	2011
Group contributions received	160	273

6. Income taxes

MEUR	2012	2011
Income taxes		
for the financial period	-19	-55
Total	-19	-55
Income taxes on extraordinary items	39	71

7. Fixed assets

Intangible assets

MEUR	Other long-term expenditures	Construction in progress	Total 2012	Total 2011
Acquisition cost at January 1	132	7	140	132
Additions	9	2	11	8
Disposals	-12		-12	
Reclassifications	6	-6		1
Acquisition cost at December 31	135	3		140
Accumulated amortisation at January 1	-107		-107	-93
Amortisation during the financial period	-8		-8	-15
Accumulated amortisation at December 31	-115		-116	-107
Carrying amount at 31 December 2012	20	3	23	
Carrying amount at 31 December 2011	24	7		32

Tangible assets

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress	Other tangible assets	Total 2012	Total 2011
Acquisition cost at January 1	7	11	11	2	2	33	35
Additions				3		3	1
Disposals							-2
Reclassifications				-1		-1	-1
Acquisition cost at December 31	7	11	11	4	2	35	33
Accumulated amortisation at January 1		-10	-11		-1	-23	-22
Amortisation during the financial period							-1
Accumulated amortisation at December 31		-10	-11		-1	-23	-23
Carrying amount at 31 December 2012	7	1		4	1	13	
Carrying amount at 31 December 2011	7	1		2	1		10

Shares and securities

MEUR	Shares in Group companies	Receivables from Group companies	Shares in other companies	Total 2012	Total 2011
Acquisition cost at January 1	450	1	6	457	456
Additions					
Disposals		-1		-1	
Acquisition cost at December 31	450		6	456	456
Carrying amount at 31 December 2012	450		6	456	
Carrying amount at 31 December 2011	450	1	6		456

8. Non-current receivables

MEUR	2012	2011
Receivables from Group companies		
Loan receivables	320	287
Total	320	287

9. Current receivables from Group companies

MEUR	2012	2011
Trade receivables	4	4
Loan receivables	1 911	1 498
Prepaid expenses and accrued income	13	22
Total	1 929	1 523

10. Prepaid expenses and accrued income

MEUR	2012	2011
Derivatives	16	10
Other financial items	9	1
Income and other taxes	15	6
Other	2	5
Total	43	22

11. Shareholders' equity

MEUR	2012	2011
Share capital		
Share capital on January 1	336	336
Share capital on December 31	336	336
Share premium reserve		
Share premium reserve on January 1	61	61
Share premium reserve on December 31	61	61
Retained earnings		
Retained earnings on January 1	974	901
Dividends paid	-178	-272
Result for the financial period	253	345
Retained earnings on December 31	1 050	974
Total shareholders' equity	1 447	1 371
Distributable equity	1 050	974

Free share issue approved by Wärtsilä Corporation's Annual General Meeting on 3 March 2011 increased the total number of Wärtsilä shares to 197 241 130.

12. Liabilities

MEUR	2012	2011
Non-current		
Interest-bearing	517	459
Total	517	459
Current		
Non-interest-bearing	65	79
Interest-bearing	849	889
Total	915	967

Debt with maturity profile

2012 MEUR	Current < 1 year	Long-term 1-5 years	> 5 years	Total
Loans from financial institutions	28	225	121	375
Loans from pension institutions	51	110	8	168
Total	79	335	129	543

2011 MEUR	Current < 1 year	Long-term 1-5 years	> 5 years	Total
Loans from financial institutions	21	144	84	249
Loans from pension institutions	48	150	18	217
Total	69	294	102	466

13. Accrued expenses and deferred income

MEUR	2012	2011
Income and other taxes		1
Derivatives	13	30
Personnel costs	13	14
Interest and other financial items	9	4
Other	4	6
Total	39	55

14. Liabilities to Group companies

MEUR	2012	2011
Other long-term liabilities	53	63
Trade payables	6	5
Other current liabilities	630	749
Accrued expenses and deferred income	14	10
Total	702	827

15. Collateral, contingent liabilities and other commitments

MEUR	2012 Debt in balance sheet	2011 Debt in balance sheet
Guarantees and contingent liabilities		
On behalf of Group companies	433	903
On behalf of associated companies	9	10
Total	442	913
Nominal amounts of rents according to leasing contracts		
Payable within one year	3	2
Payable after one year	1	3
Total	4	5

16. Related party loans and other commitments

There are no loans from senior management and the members of the Board of Directors. No pledges or other commitments were given on behalf of senior management or shareholders. In note 28 in Consolidated Financial Statements, related party disclosures are specified. Related parties comprise the Board of Directors, the President and CEO, the Board of Management as well as the associated companies and joint ventures. In notes 9 and 14 in Parent Company Financial Statement, receivables and liabilities from Group Companies are specified.

17. Auditor's fees and services

The following fees were paid to auditors and accounting firms for audits and other services.

In 2012, the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditor.

Auditor's fees

TEUR	2012	2011
Audit	178	159
Tax advisory	281	140
Other services	107	644
Total	566	943

Proposal of the board

The parent company's distributable funds total 1,049,791,970.15 euro, which includes 252,563,755.88 euro in net profit for the year. There are 197,241,130 shares with dividend rights.

The Board of Directors proposes to the Annual General Meeting that the company's distributable earnings be disposed of in the following way:

EUR

A dividend of EUR 1.00 per share be paid, making a total of	197 241 130.00
That the following sum be retained in shareholders' equity	852 550 840.15
Totalling	1 049 791 970.15

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, 24 January 2013

Mikael Lilius
Maarit Aarni-Sirviö
Alexander Ehrnrooth
Lars Josefsson
Markus Rauramo

Matti Vuoria
Kaj-Gustaf Bergh
Paul Ehrnrooth
Gunilla Nordström

Björn Rosengren, President and CEO

Auditor's report

To the Annual General Meeting of Wärtsilä Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Wärtsilä Corporation for the year ended December 31, 2012. The financial statements comprise the consolidated statement of financial position, consolidated statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the President and CEO be discharged from liability for the financial period audited by us.

Helsinki, January 24, 2013

KPMG OY AB

Virpi Halonen

Authorized Public Accountant

Quarterly figures 2011–2012

Condensed Statement of Income

MEUR	Q4/2012	Q3/2012	Q2/2012	Q1/2012	Q4/2011	Q3/2011	Q2/2011	Q1/2011
Net sales	1 533	1 087	1 099	1 005	1 238	851	1 036	1 083
Other operating income	12	11	35	10	13	20	4	10
Expenses	-1 344	-958	-990	-889	-1 086	-758	-906	-956
Depreciation, amortisation and impairment	-38	-33	-35	-33	-29	-27	-28	-29
Share of result of associates and joint ventures	7	3	-1	1	2	2	1	3
Operating result	169	110	108	94	138	88	108	111
Financial income and expenses	-8	-11	-11	-1	-6	-5		-4
Net income from available-for-sale financial assets			1					
Profit before taxes	161	99	98	93	131	83	108	107
Income taxes	-37	-23	-22	-27	-39	-30	-35	-31
Profit for the financial period	124	77	77	66	92	53	73	76
Earnings per share, EUR	0.62	0.38	0.38	0.33	0.45	0.26	0.35	0.38
Order intake	1 357	1 275	1 198	1 109	1 250	1 118	1 170	979
Order book, at the end of the period	4 492	4 724	4 515	4 409	4 007	4 042	3 779	3 669
Number of personnel, at the end of the period	18 887	18 961	19 161	19 073	17 913	17 875	17 654	17 526