

ANNUAL REPORT 2011

CORPORATE GOVERNANCE

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Corporate governance

Wärtsilä Corporation complies with the guidelines and provisions of its Articles of Association, the Finnish Limited Liability Companies Act, and the rules and regulations of NASDAQ OMX Helsinki Stock Exchange. Wärtsilä also complies with the Corporate Governance Code 2010 issued by the Finnish Securities Market Association. The Code is publicly available on www.cgfinland.fi.

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

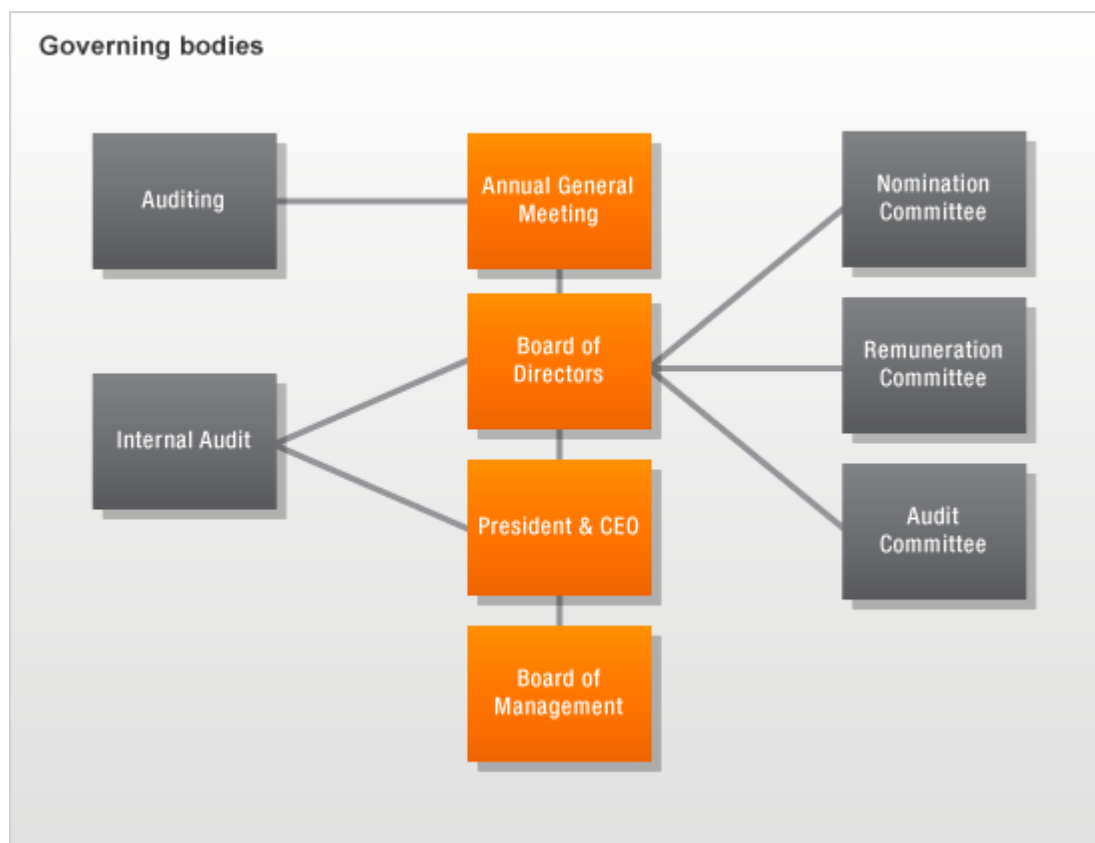
Wärtsilä's Corporate Governance Statement, prepared in accordance with recommendation 54 of the Finnish Corporate Governance Code, is also published as a separate statement on Wärtsilä's website as well as in this Annual Report.

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

Governing bodies

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

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



Annual General Meeting

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

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

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

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

All shareholders registered by the record date in the company's list of shareholders maintained by Euroclear Finland Ltd have the right to attend the Annual General Meeting. Each share entitles the holders to one vote. The General Meeting is organised in such a manner that shareholders can participate in the meeting as extensively as possible.

The Chairman of the Board of Directors, a sufficient number of members of the Board, the President & CEO, and members of the Board of Management attend the General Meeting. A person proposed for the first time as a member is to participate in the General Meeting that decides on his or her election unless there are well-founded reasons for absence.

Annual General Meeting 2011

Wärtsilä's Annual General Meeting was held on 3 March 2011. A total of 1,438 shareholders representing approximately 42,751,921 votes participated in person or by proxy. The Annual General Meeting approved the financial statements and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year 2010. The Annual General Meeting also approved the free share issue in accordance with the proposal of the Board of Directors. The free share issue was implemented by applying the pre-emptive right of the shareholders so that for each old share one new share was issued. Thereby a total of 98,620,565 new shares were issued. The new shares were registered in the trade register on 8 March 2011.

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

The Board of Directors

Responsibility for the management of the company and the proper organisation of its operations is invested in the company's Board of Directors, which is composed of five to ten members.

Board members serve for one year at a time and are elected by the General Meeting. According to the Corporate Governance Code's recommendation 14, the majority of board members shall be independent of the company and at least two of the members representing this majority shall be independent of significant shareholders of the company.

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

The Board elects a chairman and a deputy chairman among its members. The Board steers and supervises the company's operations and decides on policies, goals and strategies of major importance. The principles applied by the Board to its regular work are set out in the Rules of Procedure approved by the Board. The Board has also approved the rules of procedure applied by the Board's committees setting out the main tasks of the committees and their working principles.

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

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

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

Board of Directors in 2011

As of 3 March 2011, the Board consisted of the following nine members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth, Mr Paul Ehrnrooth, Mr Lars Josefsson, Mr Bertel Langenskiöld, Mr Mikael Lilius (chairman), Mr Markus Rauramo and Mr Matti Vuoria (deputy chairman).

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

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

Independence of the Board of Directors

All nine Board members were determined to be independent of the company and six members were determined to be independent of significant shareholders. The three members determined to be dependent of significant shareholders are Mr Kaj-Gustaf Bergh, Mr Alexander Ehrnrooth and Mr Paul Ehrnrooth, due to their positions on the Board of Directors of Fiskars Corporation. Fiskars Corporation is a significant shareholder, owning directly or indirectly approximately 15% of Wärtsilä's shares.

Attendance of the Board of Directors

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

Board member meeting participation in 2011

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

Responsibilities of the Board of Directors

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

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

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

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

Board of Directors CVs

Mikael Lilius

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



Primary working experience:

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

Other positions of trust:

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

Matti Vuoria

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



Primary working experience:

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

Other positions of trust:

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

Relevant prior positions of trust:

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

Maarit Aarni-Sirviö

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



Primary working experience:

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

Other positions of trust:

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

Relevant prior positions of trust:

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

Kaj-Gustaf Bergh

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



Primary working experience:

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

Other positions of trust:

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

Relevant prior positions of trust:

Board chairmanships: Aktia Abp 2005-2009, Ellos Tili Oy 1999-2006.
Board membership: Sponda Oyj 2004-2006.

Alexander Ehrnrooth

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



Primary working experience: President & CEO of Virala Oy Ab 1995-.

Other positions of trust:

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

Relevant prior positions of trust:

Board chairmanship: Turvatiimi Oyj, 2008-2010

Paul Ehrnrooth

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



Primary working experience:

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

Other positions of trust:

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

Lars Josefsson

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



Primary working experience:

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

Other positions of trust:

International Council of Swedish Industry.

Bertel Langenskiöld

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



Primary working experience:

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

Other positions of trust:

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

Relevant prior position of trust:

Oy Tampella Ab.

Markus Rauramo

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



Primary working experience

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

Other positions of trust:

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

The Board's committees

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

The Audit Committee

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

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

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

Audit Committee in 2011

Chairman Markus Rauramo; members Maarit Aarni-Sirviö, Alexander Ehrnrooth, Bertel Langenskiöld. All members are independent of the company and three members are independent of significant shareholders. The Audit Committee met 5 times in 2011. The average attendance of all committee members was 100%.

The Nomination Committee

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

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

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

Nomination Committee in 2011

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

The Remuneration Committee

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

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

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

Remuneration Committee in 2011

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

The Board of Management

The company's Board of Management comprises the President and CEO, the Group Vice Presidents heading the Ship Power, Power Plants and Services businesses and Wärtsilä Industrial Operations, the Chief Financial Officer, the Group Vice President, Communications & Branding and the Group Vice President, Legal Affairs & Human Resources. As of 2012, Legal Affairs & Human Resources will be split into two areas of responsibility, the first being Corporate Relations and Legal and the second being Human Resources. Thereby the Board of Management will comprise 9 members. Board of Management members are appointed by the company's Board of Directors, which also approves their remuneration and other terms of employment.

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

The Chief Financial Officer's main areas of responsibility include group control, treasury (including project and customer financing), taxation and process development, corporate planning, corporate real estate and the information management support functions. The Group Vice Presidents heading the businesses are each responsible for the sales volumes and profitability of their respective global businesses, employing the services of the Group's worldwide subsidiaries. The main areas of responsibility of the Group Vice President, Legal Affairs and Human Resources are Legal, HR, Intellectual asset management, sustainability and corporate affairs. As of 2012, legal affairs and human resources will be divided into two separate areas of responsibility. The main areas of responsibility of the Group Vice President, Communications & Branding are external and internal communications, as well as branding.

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

The Board of Management in 2011

In 2011, the Board of Management met 14 times. The main issues addressed by the Board of Management included market development and business strategy, the growth and profitability of the company, as well as issues relating to developments regarding competitiveness and costs. The development of markets, the regulatory operating environment, order intake and production capacity, as well as supplier and other stakeholder relationships were also vital matters addressed by the Board of Management. Other important considerations for the Board of Management included the development of the company's personnel and management resources worldwide, as well as the development of internal global processes and working practices. During 2011, the Board of Management gave a considerable amount of attention to acquisitions, notably the recommended offer made for Hamworthy plc.

The President & CEO and the Executive Vice President

The Board of Directors appoints a President for the Group who is also its Chief Executive Officer. The President & CEO is in charge of the day-to-day management of the company and its administration, in accordance with the company's Articles of Association, the Finnish Companies Act, and the instructions of the Board of Directors. He is assisted in this work by the Board of Management. The President & CEO's service terms and conditions are specified in writing in the President & CEO's service contract. As of 1 September 2011, the President & CEO of the company is Mr Björn Rosengren. Mr Rosengren succeeded Mr Ole Johansson, who retired at that time. The Board of Directors appoints, if necessary, one or several Executive Vice Presidents. The company's Executive Vice President is its Chief Financial Officer Mr Raimo Lind. Mr Lind also acts as the deputy to President & CEO Mr Björn Rosengren.

Board of Management CVs

Björn Rosengren

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



Primary working experience:

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

Positions of trust:

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

Raimo Lind

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



Primary working experience:

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

Positions of trust:

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

Relevant prior positions of trust

Member of the board: Polar Kiinteistöt.

Jaakko Eskola

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



Primary working experience:

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

Relevant prior positions of trust:

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

Lars Hellberg

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



Primary working experience:

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

Kari Hietanen

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



Primary working experience:

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

Positions of trust:

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

Atte Palomäki

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



Primary working experience:

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

Positions of trust:

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

Vesa Riihimäki

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



Primary working experience:

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

Christoph Vitzthum

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



Primary working experience:

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

Positions of trust:

NCC Ab, Member of the Board.

Relevant prior positions of trust:

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

Board membership: Tamfelt Oyj Abp 2009.

Päivi Castrén

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

Primary working experience:

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

Positions of trust:

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

Corporate Management

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

Yngve Bårgård

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

Päivi Castrén

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

Per Hansson

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

Riitta Hovi

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

Anu Hämäläinen

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

Osmo Härkönen

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

Johan Jägerroos

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

Esa Kivineva

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

Markus Pietikäinen

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

Business Management teams

Each business head is supported by a Business Management Team.

Power Plants

Vesa Riihimäki

Group Vice President, Power Plants

Born 1966, M.Sc. (Eng.)

Tore Björkman

Vice President, Sales, Europe and Africa

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

Minna Blomqvist

Director, Human Resources

Born 1969, M.Sc. (Eng.)

Frank Donnelly

Vice President, Sales, America

Born 1953, B.Sc. (Math.)

Jussi Heikkinen

Vice President, Marketing & Business Development

Born 1955, M.Sc. (Energy and Power Plant Technology)

Thomas Hägglund

Vice President, Power Plant Technology

Born 1962, M.Sc. (Eng.)

Antti Kämi

Vice President, Project Management

Born 1964, M.Sc. (Civil Eng.)

Caj Malmsten

Vice President, Finance & Business Control

Born 1972, M.Sc. (Econ.)

Markus Pietikäinen

Vice President, Group Treasury & Financial Services

Born 1975, M.Sc. (Econ.)

Rakesh Sarin

Vice President, Sales, Middle East and Asia

Born 1955, B.Sc. (Chemical Eng.)

Laura Susi-Gamba

Director, Legal Affairs

Born 1963, LL.M.

Niklas Åberg

Director, Quality Management

Born 1967, M.Sc. (Eng.)

Ship Power**Jaakko Eskola**

Group Vice President, Ship Power

Born 1958, M.Sc. (Eng.)

Lars Anderson

Vice President, Merchant

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

Arne Birkeland

Vice President, Marine Lifecycle Solutions

Born 1966, M.Sc. (Business)

Aaron Bresnahan

Vice President, Specials

Born 1969, MBA. & MA (Strategic Studies)

Juhani Hupli

Vice President, Technology

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

Riku-Pekka Hägg

Vice President, Ship Design

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

Sinikka Ilveskoski

Director, Legal & Contract Management

Born 1967, LL.M.

Timo Koponen

Vice President, Finance & Control

Born 1969, M.Sc. (Econ.)

Magnus Miemois

Vice President, Offshore

Born 1970, M.Sc. (Eng.)

Helena Rähälä

Director, Human Resources

Born 1973, M.Sc. (Econ.)

Mikael Simelius

Vice President, Marketing

Born 1964, M.Sc. (Econ.)

Services**Christoph Vitzthum**

Group Vice President, Services

Born 1969, M.Sc. (Econ.)

Pierpaolo Barbone

Vice President, Area Middle East & Asia

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

Fred van Beers

Vice President, Area North Europe

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

Arne Birkeland

Vice President, Marine Lifecycle Solutions

Born 1966, M.Sc. (Business)

Stefan Fant

Vice President, Area South Europe & Africa

Born 1955, B.Sc. (Mech.)

Tomas Hakala

Vice President, Area Americas

Born 1968, B.Sc. (Mech.)

Roger Holm

Vice President, Seals & Bearings

Born 1972, M.Sc. (Econ.)

Christer Kantola

Vice President, Solutions Management

Born 1952, B.Sc. (Mech.)

Ralf Lindbäck

Director, Legal Affairs

Born 1958, LL.M.

Stefan Nysjö

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

Nelli Paasikivi

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

Eva-Stina Rönnholm

Vice President, Finance
Born 1967, M.Sc. (Econ.)

Sini Spets

Director, Human Resources
Born 1974, M.Sc. (Psychology)

Industrial Operations**Lars Hellberg**

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

Arjen Berends

Vice President, Finance & Control
Born 1968, M.B.A.

Stefan Damlin

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

Juha Kytölä

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

Arto Lehtinen

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

Joséphine Mickwitz

Director, Human Resources
Born 1968, M.Sc. (Econ.)

Sergio Razeto

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

Trudy Schoolenberg

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

Paolo Tonon

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

Martin Wernli

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

Managing Directors of the subsidiaries

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

Insider management

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

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

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

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

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

Audit

Internal

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

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

External

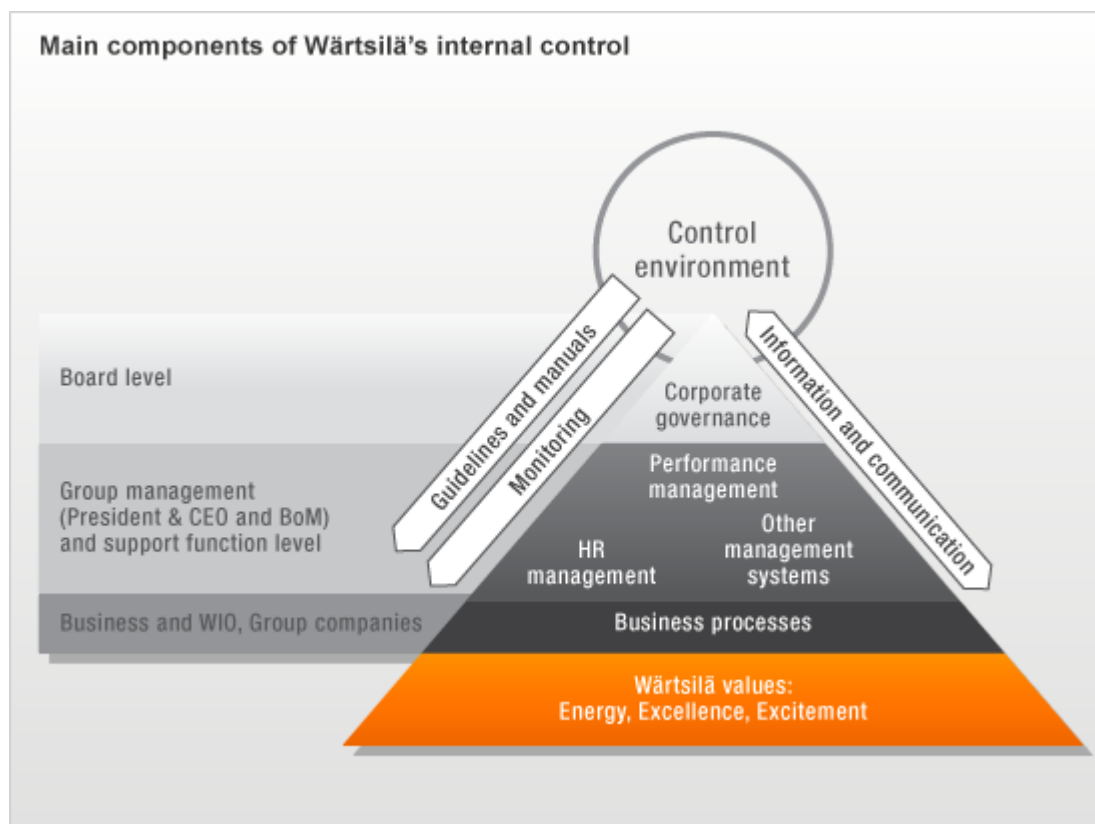
The company has one auditor, which shall be an auditing firm authorised by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting to audit the accounts for the ongoing financial year, and its duties cease at the close of the subsequent Annual General Meeting. The auditor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

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

Auditor in 2011

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

Internal control



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

Internal control covers all the policies, processes, procedures and organisational structures in Wärtsilä that help management and ultimately the Board to ensure that Wärtsilä is achieving its objectives, that the business conduct is ethical and in compliance with all applicable laws and regulations, that the company's assets, including its brand, are safeguarded, and that its financial reporting is correct. Internal control is not a separate process or set of activities, but it is embedded within the operations of Wärtsilä. The system of internal control operates at all levels of Wärtsilä. Wärtsilä maintains and develops its internal control system with the ultimate aim of improving its business performance and at the same time to comply with laws and regulations in countries where it operates.

Performance management

Planning and target setting, an integral part of performance management in Wärtsilä, are a regular management activity and not part of Wärtsilä's internal control system. The establishment of objectives, however, is an important prerequisite for internal control. Through the performance

management process, financial and non-financial targets are set for Wärtsilä annually at the Group level. These group level targets are then translated into targets for Businesses and WIO, Group Companies, and eventually individuals.

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

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

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

Legal and compliance management

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

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

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

HR management

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

Other management systems

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

Quality

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

Sustainability

Wärtsilä is strongly committed to sustainability. Wärtsilä's vision, mission and values, together with a solid financial performance, form the basis for sustainable development in Wärtsilä. Furthermore, significant attention is paid to the social and environmental sustainability of Wärtsilä's operations.

Risk management

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

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

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

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

Information Management

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

Values and control environment

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

Business processes

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

Guidelines and communication

Guidelines and manuals

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

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

Information and communication

An effective internal control system needs sufficient, timely and reliable information to enable the management to follow up the achievement of the company's objectives. Both financial and non-financial information is needed, relating to both internal and external events and activities. Informal ways for employees to give feedback to management and to communicate suspected misconducts (for example directly to the Legal Affairs or Internal Audit function) are used. All external communications are carried out in accordance with the Group Communications Policy.

Monitoring

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

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

Salary and remuneration report 2011

Remuneration of the Board of Directors

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

The Annual General Meeting approved the following fees to the members of the Board of Directors for 2011:

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

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

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

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

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

Fees paid in Wärtsilä shares in 2011

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

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

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

Remuneration of the President & CEO and the Board of Management

The remuneration paid to the President & CEO and other members of the Board of Management, and the principles underlying it, are determined by the Board of Directors. The remuneration paid to the President & CEO and the other members of the Board of Management consists of a monthly salary and a bonus. The Board of Directors determines on a yearly basis the terms for the bonus payment. The bonus payments for the President & CEO and the Board of Management are

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

The base salary of the President & CEO is EUR 600,000 p.a. (as of 1 September 2011). He is entitled to participate in the short- and long-term incentives schemes according to the terms and conditions described above. The President & CEO is eligible to take retirement on reaching the age of sixty. His pension scheme is determined according to a defined contribution based system. The retirement pension contribution is a relative part of his annual salary. Remuneration paid to the President & CEO if dismissed by the company corresponds to 18 months' salary plus six months' period of notice salary.

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

Financial benefits of President & CEO Björn Rosengren:

- Salary 2011: EUR 290 thousand
- Bonuses 2011: EUR -
- Bonus schemes based on share price development: - *)
- Optional retirement age: 60
- Period of notice: 6 months
- Compensation paid if dismissed by the company: 18 months' salary + 6 months' period of notice salary.

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

Financial benefits of former President & CEO Ole Johansson:

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

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

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

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

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

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

Incentive schemes

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

Short-term management incentive schemes

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

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

Long-term incentive scheme

The Board of Directors has decided on a long-term bonus scheme for senior management tied to the stock development of the company's share. The yearly bonus scheme applies to approximately 80 directors. The size of the bonus is based on the share price development during a pre-determined timeframe, and an upper limit is set for the bonus. The bonus scheme takes into account 50% of the dividends paid.

The 2008 bonus scheme came to a close at the end of 2010 and was paid in November 2011.

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

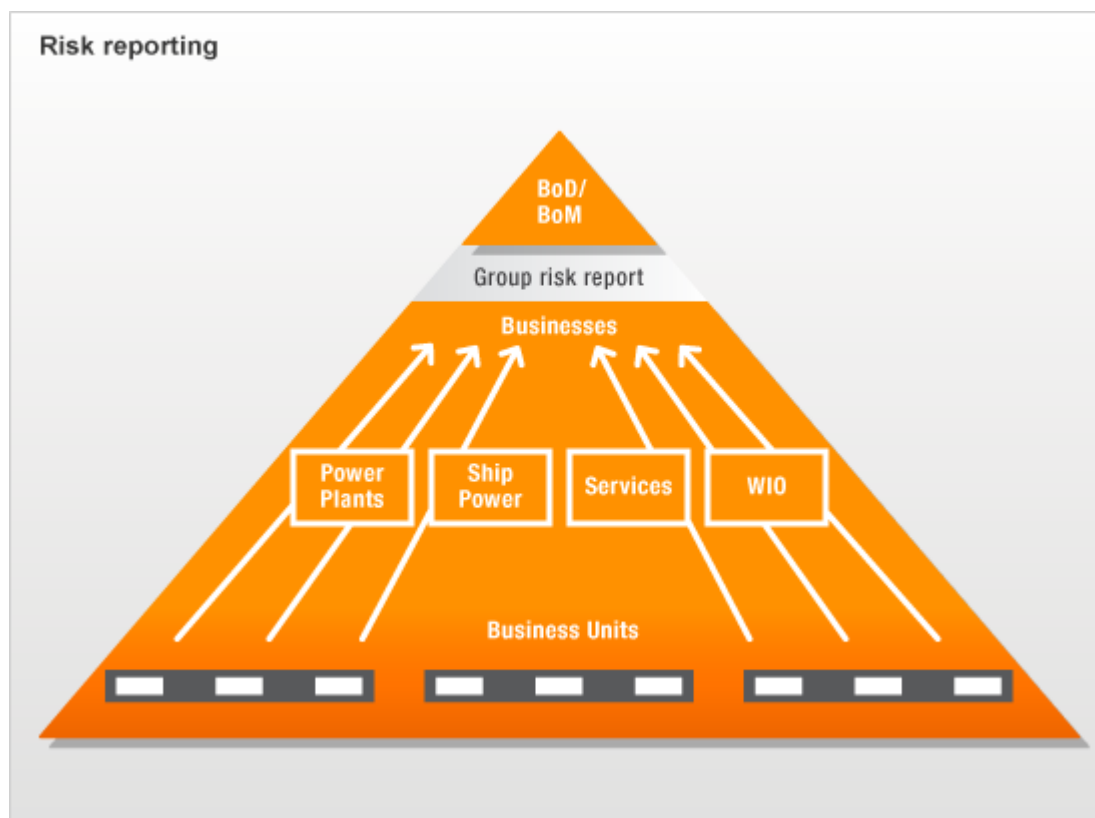
The 2010 bonus scheme comprises 1,672,000 bonus rights. The bonus payment is based on the share price development during a two-year period on the basis of a share price of EUR 30.01. The bonus cannot exceed EUR 7.50 per bonus right and takes into account 50% of dividends paid. The 2010 bonus scheme will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

Risk management principles

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

The Board of Directors and the Board of Management decide and give guidelines on strategic matters. The Businesses are responsible for achieving their set strategic goals and for mitigating and managing their risks. The risk management function is part of Group Treasury, which reports to the CFO. It reviews the business risk profile, prepares the risk management policy, co-operates with the businesses in the implementation of risk mitigation work, and develops global and local insurance schemes with insurance companies and brokers. The Audit Committee reviews and assesses the adequacy of this risk management. The risk management policy is approved by the Board of Directors.

Risk reporting



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

either internal or external, they are quantified in euro, and their probabilities are estimated. The results of this work are summarised in Wäertsilä's Risk radar. The Group risk report is then prepared and presented to the Board of Directors.

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

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

Risk categories

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



Strategic risks

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

Business environment risks

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

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

Market and customer risks

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

The uneven development between various Ship Power segments has continued throughout the year 2011. The merchant shipping sector continues to suffer from overcapacity, whereas various areas of specialised tonnage, and especially the offshore industry, are continuing to make investments at a relatively steady pace. The shipbuilding market is dominated by Asian yards in South Korea, China and Japan. Wärtsilä is well represented in all the major shipbuilding areas and is active in all the main vessel segments. This mitigates both single customer related and geography related risks.

The Ship Power market continues to bear some consequences of the recent financial crisis, and overcapacity in the shipping markets is currently one of the major obstacles to a full recovery. The ongoing turbulence in the European economies has not had a significant impact on Wärtsilä's Ship Power business.

The Services business remained stable, and its long-term business is still expected to grow in line with the development of the existing installed base, as well as with general economic development. Wärtsilä has more than 14,000 customers and an active engine base of approximately 180,000 MW, which means that its dependency on any single customer or customer segment is minor.

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

Competitive situation and price risk

In the liquid fuels based power plant market, Wärtsilä's main competitors are the MAN Diesel, Caterpillar (MAK), and Rolls-Royce. In natural gas based power generation, the main competitors are gas turbine manufacturers, such as GE and Siemens. In 2011, Wärtsilä's overall market share was reduced due to very large dedicated baseload power plant orders in selected markets, such as China, Saudi-Arabia and Japan. However, Wärtsilä maintained its position in the markets focusing on flexible power generation.

For Ship Power, price competition has continued to be intense throughout the year. For main engines, the most significant competitors are MAN Diesel, Caterpillar (MAK), and Hyundai Heavy Industries (HiMSEN). No significant changes to the competitive situation or market shares occurred during 2011. In propulsion equipment, the competition is more fragmented and varies by product category. One of the main competitors in these products is Rolls-Royce. The concept of selling packaged solutions rather than only single products reduces price volatility. The strategic move to becoming a systems integrator with automation and ship design capability has proven to be very important in the competition for new projects.

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

Political and legislative risks

Wärtsilä is present in nearly 170 locations in more than 70 countries and has delivered power plants to more than 165 countries. Political developments and changes in legislation can have a significant impact on Wärtsilä's business. Wärtsilä actively monitors political and legal developments in its markets and engages in dialogue with various official bodies on projects of importance to Wärtsilä's operations. Much of this engagement takes place through interest groups and trade organisations. The company monitors political and legislative changes at both corporate and subsidiary levels.

Climate change and sustainability risks

Wärtsilä has assessed its sustainability risks, including climate change risks, in both strategic and operative risk assessments. However, these were not found to be significant. The potential business risks related to sustainability, climate change and Wärtsilä's products are in the areas of regulatory emission restrictions and changes in customer attitudes to using combustion engines and fossil fuels. The risks in environmental legislation changes are related to the complexity of the overall field of different emissions, the balance between commercially available fuels and resulting emissions, available abatement technologies, the impact on overall energy efficiency, and the resulting financial feasibility. Being at the forefront of technological developments gives Wärtsilä many opportunities arising from tightening environmental regulations. Over the years, Wärtsilä has worked continuously to improve the efficiency of its products while at the same time seeking ways to reduce emissions. The fuel flexibility of Wärtsilä's products enables the utilisation of various fuels, including those from renewable sources, while their operational flexibility enables the installation of large capacity based wind and solar energy systems without hampering the reliability of the electricity grid. Wärtsilä's technology also enables energy to be generated with a minimum use of water. The lack of fresh water is expected to be one of the major challenges facing the world in the future.

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

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

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

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

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

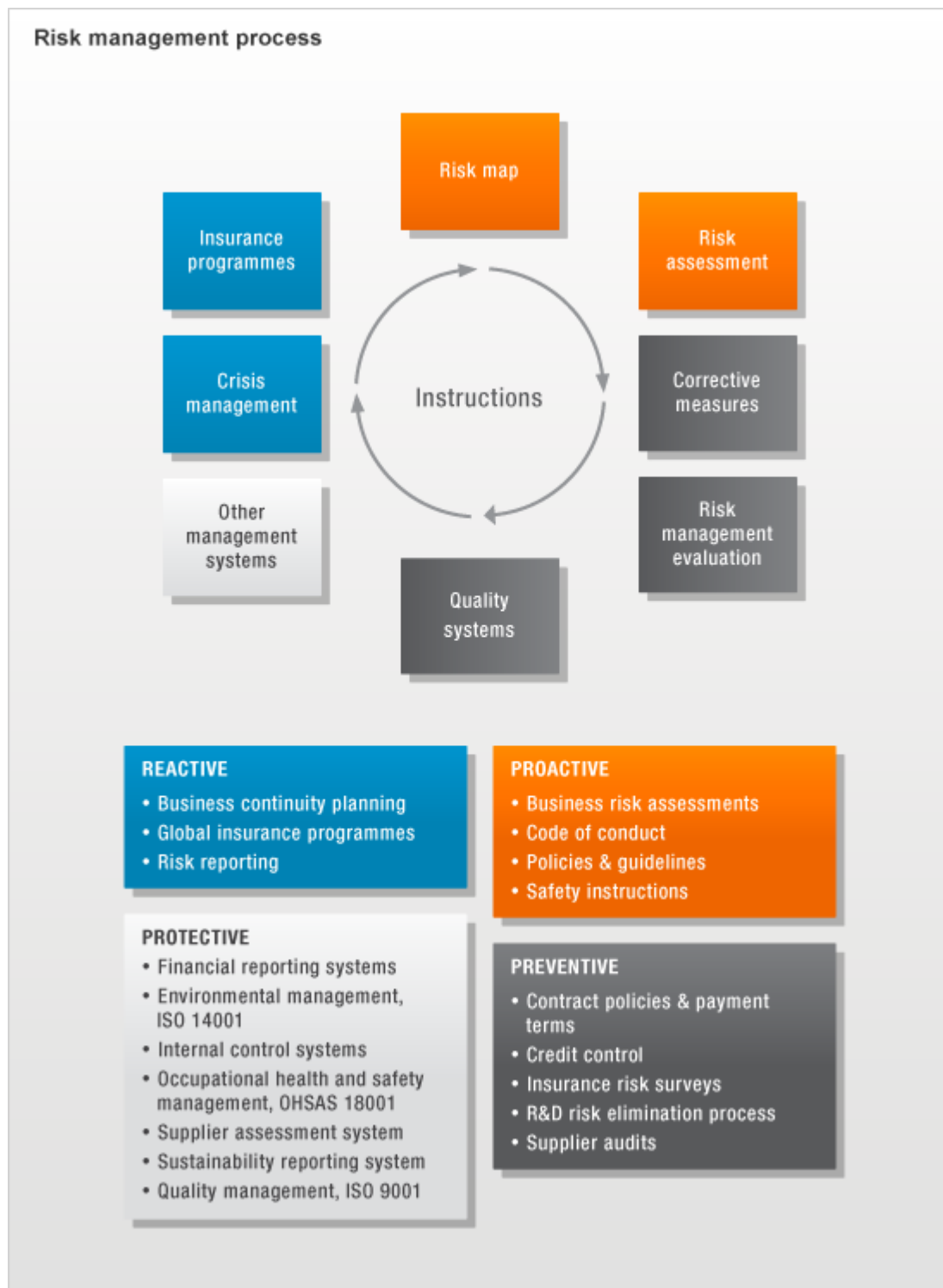
Technology risks

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



Operational risks

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



Manufacturing risk

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

Supplier and subcontractor risk

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

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

Lifecycle quality of products and product liability risk

Launching new products always involves risks. In the R&D process, several risk management techniques are applied, including FMEA (Failure Modes and Effects Analysis), a risk elimination tool, and in-house validation testing. Furthermore, Wärtsilä seeks to control quality risks by monitoring the incoming quality from the supply chain and by designing and manufacturing products with all due care. Wärtsilä applies a GATE model in order to control the product development process. First, only a limited release of new products is allowed, and via the gate approach, only after testing and further validation has been completed, is full release authority given to the sales organisations. The 5S (meaning sort, shine, set, standardise and sustain) philosophy is being implemented in all production sites to increase quality and to support lean operations. Services is responsible for all warranty issues, and it offers a feedback loop from the field to production and R&D while taking care of customers' installations throughout their lifecycle. The company makes warranty provisions to cover any warranty costs that may arise after product delivery. The product liability insurance covers unexpected damages.

Contractual risks

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

Commodity price risk

Oil

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

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

Metals

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

Electricity

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

Hazard risks

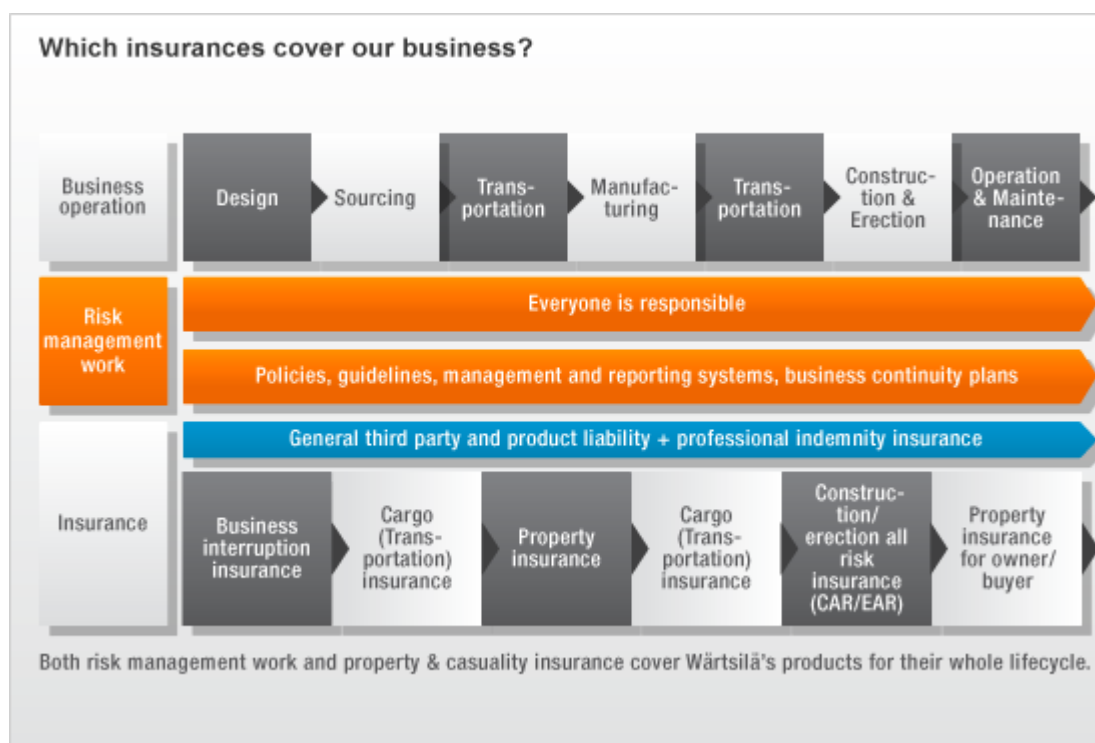
Occupational health and safety systems, travel safety instructions, and crises management guidelines are aimed at protecting Wärtsilä employees. Appropriate insurances are in place for the personnel, and to emphasise the importance of employee safety, Wärtsilä’s Board of Management has decided on a corporate level target for zero lost time injuries. A specific project has been established for this purpose, and the target is a part of the company’s sustainability programme.

Environmental management systems are in place to mitigate environmental hazard risks. Wärtsilä’s Real Estate unit maintains a register of all properties used and gives guidelines for the purchase, sale, rental and security of premises and uses external advisors for environmental audits.

None of Wärtsilä’s major production plants are situated in natural disaster areas. Catastrophic peril related scenarios are identified, and where necessary, exposures are mitigated by, for example, elevating sites above the flood risk level or by constructing flood dikes.

For Wärtsilä’s main production sites, business impact analyses have been conducted and continuity plans created to cover both property and business interruption risks.

The risks that Wärtsilä is unable to influence through its own efforts are transferred when possible to insurance companies. Wärtsilä uses appropriate insurance policies to cover indemnity risks related to its personnel, assets, business interruption, and third-party and product liability. Wärtsilä has established its own captive insurance company, Vulcan Insurance PCC Ltd, as a risk management tool.



Financial risks

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

Wärtsilä's risk profiles & responsibilities

Risks	Risk profile	Policy or other guideline	Responsible body
Strategic risks		Wärtsilä's strategy and business plan	Wärtsilä Board of Directors (BoD), Board of Management (BoM) and Wärtsilä's Businesses (Businesses)
Business environment risk		Wärtsilä's strategy and business plan	BoM and Businesses
Market and customer risk		Wärtsilä's strategy and business plan	BoM and Businesses
Competitive situation and price risk		Wärtsilä's strategy and business plan	BoM and Businesses
Political and legislative risk		Various guidelines and risk management policy	Businesses, R&D, Risk management (RM) and Legal functions
Climate change and sustainability risk		QHSE policy, Code of conduct, management systems (ISO 14001 & OHSAS 18001)	Businesses, R&D and Sustainability management function
Technology risk		Patents and industrial rights, product guarantees	Businesses and R&D function
Operational risks		Wärtsilä's strategy and business plans	BoM and Businesses
Manufacturing risk		Production systems, Business Continuity Plan (BCP)	Wärtsilä Industrial Operations (WIO) and Businesses
Supplier and subcontractor risk		Supplier requirement and supplier management system, Business Continuity Plan (BCP)	Businesses and Corporate Supply Management (CSM)
Lifecycle quality of products and product liability risk		Management systems (ISO 9001), safety instruction and manuals, risk management policy, R&D risk elimination instructions	WIO, R&D function, Businesses and RM and Legal functions
Contractual risks		Standard contracts	Legal function and Businesses

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

Low ■ ■ ■ ■ ■ High