Lifetime Performance

ANNUAL REPORT 2004

Financial Review

Contents

Five Years in Figures

Five Years in Figures

MEUR		2004	2003	2002	2001	2000
Net sales		2,478.2	2,357.5	2,519.0	2,358.7	2,706.8
of which outside Finland	%	96.2	97.1	96.6	96.5	96.5
Exports from Finland		1,292.0	1,240.6	1,363.7	1,153.7	1,337.2
Personnel on average		12,361	12,293	12,417	10,846	10,715
of which in Finland		3,246	3,463	3,510	3,511	3,352
Orderbook, Power Businesses		1,855.3	1,245.0	1,206.6	1,516.5	1,624.2
From the income statement						
Depreciation and writedowns		85.5	156.0	105.4	126.0	103.1
Share of profits/losses in associated companies		1.4	0.0	0.4	0.1	12.0
Operating income		239.8	-18.4	188.9	523.9	367.1
as a percentage of net sales	%	9.7	-0.8	7.5	22.2	13.6
Net financial items		-3.3	-15.9	-18.5	-15.2	-31.0
as a percentage of net sales	%	-0.1	-0.7	-0.7	-0.6	-1.1
Result before extraordinary items		236.5	-34.4	170.4	508.7	336.1
as a percentage of net sales	%	9.5	-1.5	6.8	21.6	12.4
Result before taxes		236.5	-34.4	170.4	502.7	315.7
as a percentage of net sales	%	9.5	-1.5	6.8	21.3	11.7
Result for the financial year		160.3	-39.3	121.9	305.7	213.2
as a percentage of net sales	%	6.5	-1.7	4.8	13.0	7.9
From the balance sheet						
Fixed assets		816.3	887.3	1018.7	721.4	978.7
Current assets						
Inventories		564.5	555.5	628.1	668.3	539.0
Receivables		777.3	790.1	852.3	830.7	828.7
Cash and bank balances		168.5	150.0	185.8	184.6	118.9
Shareholders' equity		853.0	804.6	953.0	1071.6	908.0
Minority interests		7.8	6.1	6.5	6.4	14.3
Provisions		190.3	235.1	238.2	267.5	180.2
Interest-bearing liabilities		319.5	496.8	624.3	168.3	485.0
Non interest-bearing liabilities		956.1	840.2	863.0	891.1	877.7
Balance sheet total		2,326.7	2,382.9	2,685.0	2,405.0	2,465.3
Gross capital expenditure		64.8	65.4	423.3	97.1	207.7
as a percentage of net sales	%	2.6	2.8	16.8	4.1	7.7
Research and development expenses		59.4	70.2	87.6	81.4	81.4
as a percentage of net sales	%	2.4	3.0	3.5	3.5	3.0
Dividends paid for the financial year [1]		41.6	44.7	14.9	29.7	35.2
Extra dividend		41.6	61.7	89.2	208.1	108.4
Dividends total		83.3	106.4	104.1	237.8	143.6
Financial ratios						
Earnings per share (EPS)	EUR	1.75	-0.44	1.37	3.69	2.80
Diluted EPS	EUR	1.75				
Dividend per share	EUR	0.90	1.17	1.17	2.67	1.77
Payout ratio	%	51.4	n/a	85.4	72.3	63.1
Interest coverage [2]		20.1	4.4	7.8	12.6	7.4
Return on investment (ROI)	%	20.4	0.1	14.9	43.0	25.4
Return on equity (ROE)	%	19.7	-4.5	12.4	33.7	27.6
Solvency ratio 1 [2]	%	40.3	35.0	36.9	47.3	35.1
Solvency ratio 2	%	40.3	36.2	38.0	48.6	40.2
Gearing 1 [2]		0.18	0.48	0.50	0.01	0.60
Gearing 2		0.18	0.43	0.46	-0.02	0.40
Equity per share	EUR	9.22	8.69	10.37	11.70	9.73

[1] Proposal of the Board of Directors. Financial ratios calculated from total amount of dividend.
[2] Please refer to the Calculation of Financial Ratios on page 4.

Calculation of Financial Ratios

Return on investment (ROI)

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

Return on equity (ROE)

$$\frac{\text{Result before extraordinary items - taxes for the financial year}}{\text{Shareholders' equity + minority interests, average over the year}} \times 100$$

Interest coverage

$$\frac{\text{Result before extraordinary items + depreciation + interest and other financial expenses}}{\text{Interest and other financial expenses}}$$

Solvency ratio

$$\frac{\text{Shareholders' equity + minority interests}}{\text{Balance sheet total - advances received}} \times 100$$

Gearing

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

Earnings per share (EPS)

$$\frac{\text{Result before extraordinary items - income taxes - minority interests}}{\text{Adjusted number of shares over the financial year}}$$

Equity per share

$$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the financial year}}$$

Dividend per share

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

Payout ratio

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

Effective dividend yield

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

Price/earnings (P/E)

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

Price/book value per share (P/BV)

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

Review by the Board of Directors 2004

Highlights of 2004

In 2004 Wärtsilä continued to pursue its strategy to develop and strengthen the Ship Power and Service businesses. In its Power Plants business, the company improved its capabilities as a supplier of decentralized power generation solutions.

Wärtsilä's response to the challenge posed by the growing shipbuilding market in Asia was to start propeller manufacturing in China. This activity has made a good start and the factory is operating at full capacity. In early 2005 Wärtsilä will start production of thrusters in China as well. The Service business was further developed both by broadening its portfolio of services and by expanding the Ciserv group, which specializes in total ship service. An agreement was signed at the beginning of 2005 under which the marine engine service business of Deutz AG will be transferred to Wärtsilä.

On the Power Plants side, the strategy to focus on Wärtsilä's areas of strength has proved successful and the order intake has been good. Sales of operation and maintenance services for power plants continued to grow favourably. The new flexible organization is able to respond to changing market needs.

Decisions were taken in 2004 to reduce engine production capacity and to increase flexibility. Manufacturing at the factory in Turku, Finland, ceased at the end of 2004 and the Wärtsilä 46 engines are now made in the factory in Trieste, Italy, which produces several engine types. Wärtsiläs decision to cease its own manufacturing of high-speed engines altogether will result in the closure of the factory in Mulhouse, France. The product rights to the high-speed engines manufactured at Mulhouse were sold and negotiations are still in progress on the sale of the manufacturing unit. When these are concluded, Wärtsilä will have two flexible engine factories: one in Vaasa and one in Trieste.

The order intake and order book for 2004 were at record high levels. The operating margin of the Power Businesses rose to 5.0%.

Net sales and result

Wärtsilä Group's consolidated net sales increased to EUR 2,478.2 million (2,357.5). Net sales of the Power Businesses totalled EUR 2,224.7 million (2,155.8). Imatra Steel's net sales increased by 25.5% to EUR 254.4 million (202.7).

The Group's operating income was EUR 239.8 million (-18.4), which included a gain of EUR 107.7 million on the sale of Assa Abloy shares. The Group's operational EBIT improved to EUR 132.0 million (100.0), giving an operating margin of 5.3% (4.2).

Net financial expenses amounted to EUR 3.3 million (15.9), or 0.1% (0.7) of net sales. Financial items included dividends totalling EUR 8.8 million (6.8), the largest being the dividend paid by Sampo plc and Assa Abloy AB (publ). Net interest payments decreased to EUR 9.0 million (18.8) due to the good liquidity. The Group recorded a pretax result of EUR 236.5 million (-34.4).

Taxes totalled EUR -74.9 million (-4.0) including EUR -62.4 million (-35.3) in income taxes for the financial year.

Wärtsilä's net result for the year was EUR 160.3 million (-39.3). The EUR 130 million restructuring provision and writedown entered in 2003 proved sufficient. Writedowns on fixed assets totalling EUR 14.5 million were reversed and income was recognized on the sale of the technology rights of the French unit. On the other hand, the costs and guarantee commitments arising from ending certain operations were higher than originally calculated. EUR 52.1 million of the provision is still in the balance sheet. This sum is expected to be sufficient to cover the company's commitments in the reporting year.

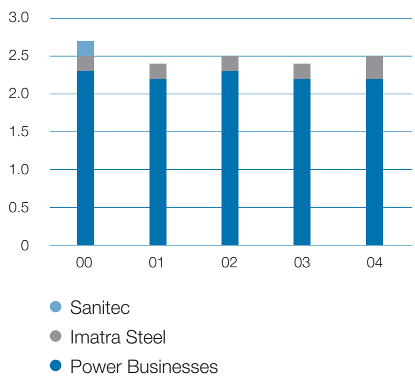
Earnings per share (EPS) improved to EUR 1.75 (-0.44). Excluding the capital gain on the sale of the Assa Abloy shares, EPS was EUR 0.92. The comparable EPS figure in the previous year, excluding non-recurring costs and gains on the sale of the Polar shares, was EUR 0.67. Return on investment (ROI)

Net sales

MEUR	2004	2003	Change-%
Ship Power	631.2	686.1	-8.0
Service	936.8	885.5	5.8
Power Plants	651.9	577.5	12.9
Imatra Steel	254.4	202.7	25.5
Other operations and intragroup sales	3.9	5.8	-31.9
Group	2,478.2	2,357.5	5.1

Development of net sales

EUR billion



was 20.4% (0.1). Operational ROI was 11.2% (7.9). Return on shareholders' equity (ROE) was 19.7% (-4.5).

Financing and capital expenditure

Wärtsilä's cash flow from operating activities was a strong EUR 207.3 million (192.1) and the financial position was good. Cash reserves at the close of the period totalled EUR million 168.5 (150.0). Net interest-bearing loan capital was EUR 142.2 million (353.2). The solvency ratio was 40.3% (35.0) and gearing was 0.18 (0.48).

Capital expenditure in 2004 amounted to EUR 64.8 million (65.4), which comprised EUR 56.9 million (62.8) in production and information technology investments and EUR 7.9 million (2.6) in investments in shares. Depreciation totalled EUR 85.5 million (156.0). This included amortization of goodwill on consolidation, EUR 26.7 million, as well as a EUR 14.5 million writedown related to restructuring measures and reversed in 2004.

Research and development in the Power Businesses totalled EUR 57.7 million (68.4), or 2.6% (3.2) of net sales. Imatra Steel's corresponding expenses amounted to EUR 1.6 million (1.7).

Changes in Group structure

The Ciserv group was further expanded and there are nine Ciserv companies in strategically important maritime locations. A new Ciserv company, Ciserv Korea Ltd, was established in Korea in May. In June Wärtsilä acquired two Dutch marine electrotechnical repair and service companies, which were renamed Ciserv Europoort BV.

Wärtsilä-CME Zhenjiang Propeller Co Ltd, the joint venture propeller manufacturing company set up in China by Wärtsilä and China State Shipbuilding Corporation (CSSC), started operating at the beginning of June. The company is majority owned by Wärtsilä.

Wärtsilä increased its holding in Japan Marine Technologies Co Ltd from 93.9% to 99.6%, paying altogether EUR 4.2 million for the new shares.

In June, Wärtsilä decided to outsource the global management and support for its information technology functions. The initiative supports the company's aim to raise its operational efficiency.

The Power Businesses

The full-year net sales of the Power Businesses grew 3.2% to EUR 2,224.7 million (2,155.8). Growth in the final quarter was 10.2%. Net sales of the Ship Power business for the full year fell, but growth was strong in the final quarter. The full-year net sales of both the Power Plants and Service businesses increased.

The operating income of the Power Businesses rose to EUR 111.6 million (-35.0). The previous year's figure included a EUR 130 million restructuring provision. The operating margin improved to 5.0% (-1.6). The previous year's operating margin excluding the restructuring provision was 4.4%.

The order intake was considerably higher than in the previous year, up 29.9%. Power Plants' order intake rose 59.5% and Ship Power 33.6%. The total order intake amounted to EUR 2,791.4 million (2,148.7). The order book at the end of 2004 stood at the record level of EUR 1,855.3 million (1,245.0), representing growth of 49.0%. In terms of power output, the volume of marine engines and power plants delivered to customers totalled 2,958 MW (2,935).

Ship Power Business

Market activity lively

For the shipbuilding industry 2004 was another record year. According to Clarkson Research Studies, orders had been placed for altogether 2,012 vessels (1,801) by the end of December. Most of these were for tankers and container vessels. The LNG market grew particularly strongly with 70 new such vessels ordered during the year compared with 15 in 2003. Despite the already high level of shipyard order books, order ac-

Operating income

	MEUR 2004	MEUR 2003	EBIT% 2004	EBIT% 2003	ROI% 2004	ROI% 2003
Power Businesses	111.6	95.0	5.0	4.4	10.9	8.4
Imatra Steel	20.4	5.1	8.0	2.5	16.8	4.0
Operational EBIT	132.0	100.0	5.3	4.2	11.2	7.9
Non-recurring expenses, Power Businesses		-130.0				
Non-recurring expenses, Imatra Steel		-4.4				
Capital gains [1]	107.7	15.9				
Group	239.8	-18.4	9,7	-0.8	20.4	0.1

[1] In 2004 Assa Abloy shares, in 2003 Polar shares

tivity in the tanker segment still remained lively at the end of the year. Demand for bulk carriers continued to be strong due to exceptionally high freight prices. The increase in container freight prices was reflected in a record number of orders for containerships.

Order activity was lively for passenger and RoPax vessels especially at the end of the year. A total of 14 orders were placed for cruise ships in 2004, compared with four in the previous year. This market is of crucial importance to Wärtsilä, which makes the engines for these ship types in its own factories.

Of new ship orders placed in 2004, 76% (91) went to shipyards in Korea, Japan and China. The European shipyards, which can build small vessels like containerships with short lead-times, saw an increase in their order books, gaining 24% of their orders due to the full capacity of the Asian shipyards and recovery in the passenger vessel segment.

Record-high order book

The strong pace of activity in the maritime and shipbuilding sector was clearly reflected in the number of orders gained by Wärtsilä; 33.6% more orders for new marine engines and propulsion systems in 2004 than one year earlier. The order book at the year end was at a record level, EUR 812.7 million (606.8).

Net sales of the Ship Power business for the full year decreased by 8.0% to EUR 631.2 million (686.1), which reflected the lower order intake in 2002–2003 than at present. However, in the final quarter of the year Ship Power's net sales rose 14.5% and its order intake doubled to EUR 276.5 million (138.7) compared to the same period in 2003.

In terms of engine output, Wärtsilä delivered marine engines totalling 1,474 MW (1,665) during 2004 and Wärtsilä's licensed manufacturers supplied Sulzer low-speed marine engines totalling 3,053 MW (1,913).

Market shares

According Wärtsiläs' analysis, the total market for new orders for low-speed main engines was 24,863 MW (28,727).Wärtsilä's share of this was 4,503 MW (5,868), i.e. 18% (25). In medium-speed main engines the total market rose to 3,990 MW (3,462) and the company's share was 1,360 MW (1,018), i.e. 34% (28). The total market for auxiliary engines amounted to 3,544 MW (4,325). Wärtsilä's share was 319 MW (346), i.e. 9% (8).

Wärtsilä is no longer using the statistics compiled by Diesel & Gas Turbine Worldwide because it considers that these are not fully comparable. The last monitoring period was June 2003 to May 2004. During this period Wärtsilä's market share decreased in both medium-speed and low-speed main marine engines. In auxiliary engines, Wärtsilä's share grew slightly.

Wärtsilä strengthened its position in both controllable pitch propellers (CPPs) and reduction gears. Wärtsilä's market share in CPPs, its strongest area, has risen from 34% to roughly 50% after acquiring John Crane-Lips in 2002. The company's share of the fixed pitch propeller (FPP) market has increased from around 3% to approximately 9%.

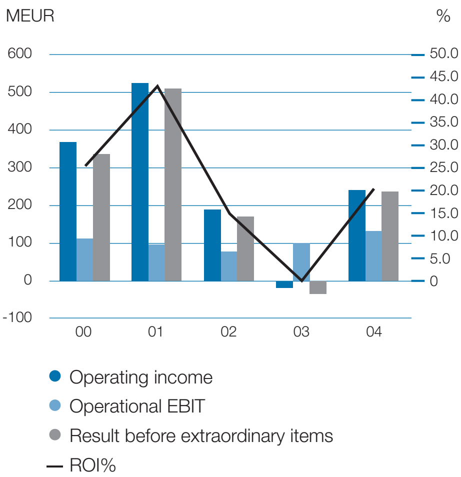
Strong activity at year end

Activity in Wärtsilä's traditional marine engine market grew livelier, which adds confidence in the belief that a turn for the better is visible in these market segments.

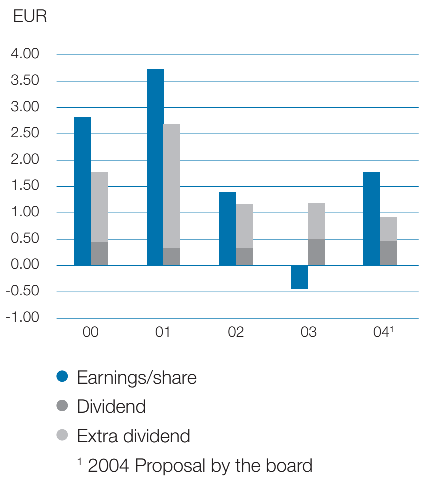
Wärtsilä's success in the LNG carrier segment continued during the final quarter with the third engine order for an LNG vessel received from Alstom Chantiers de l'Atlantique in late autumn. In November Wärtsilä gained orders for dual-fuel engines for four LNG vessels under construction in Korea.

Sales of two-stroke engines were buoyant although the order intake declined to 4,701 MW from the record level of 6,217 MW. Sulzer RT-flex engines equipped with common-rail technology were successful. These engines, which represent the most advanced technology, account for half of all low-speed

Result



Earnings/share Dividend/share



engines in service. The new Sulzer RT-flex50 was successfully launched and several new orders were received for this engine. The naval market was strong throughout the world as well.

Wärtsilä started propeller manufacture in China in co-operation with China State Shipbuilding Corporation at the beginning of June. The factory has made an outstanding start. A new Ship Power business centre was set up in Shanghai, China, to enhance customer service. Wärtsilä will also start producing thrusters in China during 2005.

Service Business

The Service business's net sales increased by 5.8% on 2003 to EUR 936.8 million (885.5). Growth during the fourth quarter was 9.1% compared to the same period in the previous year. Sales of spare parts and service for two-stroke engines continued to grow.

Several major service projects were started in 2004 including power plant relocations and the conversion of engines for operation on gas. New products were developed for gas conversions.

Long-term operation and maintenance (O&M) contracts cover more than 12,000 MW, or over 9% of Wärtsilä's active engine base, which totals 130,000 MW. The most important milestones during 2004 were new O&M agreements signed with marine customers, an 11-year agreement for a 152 MW power plant in Indonesia, and the first O&M contract for a coal-fired power plant.

Demand developed well for condition-based monitoring (CBM) and online services. More than 750 engines are now covered by Wärtsilä's CBM system and the popularity of online services continues to rise. Wärtsilä's e-service business has been successfully designed for the needs of customers.

Wärtsilä signed a co-operation agreement with Turku-based (Finland) AB Utbildning Sydväst covering maritime training courses. The training agreement with the Norwegian shipping company Odfjell ASA was extended for five years. This agreement provides Odfjell with a long-term solution for developing the professional skills of its crews.

The Ciserv group was expanded further and these companies are present in nine key locations along strategically important maritime routes. A new company was established in Korea at the beginning of May. The service companies acquired for the Ciserv group in June give Wärtsilä added capabilities in the repair and maintenance of electrotechnical and electronic ship systems.

Power Plants Business

The Power Plants business's order intake grew strongly on the previous year and at an annual level was higher than at any time in the past. The order intake during 2004 totalled EUR 1,019.5 million (639.3). The main factor behind the high figure was the order for two power plants from Iraq, the largest in Wärtsilä's history, with a total value of EUR 360 million. The order intake during the final quarter amounted to EUR 211.7 million (134.7), representing growth of 57.2% on the comparable period. Despite the high volume of deliveries the year-end order book, EUR 752.4 million (357.2), was more than twice as high as the figure one year earlier.

Net sales of the Power Plants business increased 12.9% to EUR 651.9 million (577.5). Net sales between October and December were 8.3% higher than in the previous year. In terms of output, the volume of power plants delivered by Wärtsilä in 2004 was 1,363 MW (1,160). This consisted of oil-fired power plants totalling 1,005 MW (847) and gas power plants totalling 358 MW (313).

Sharp rise in sales of gas plants

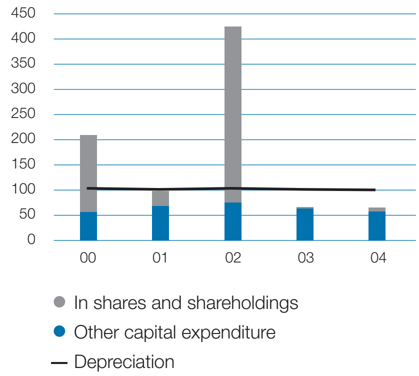
The volume of orders compared to 2003 rose clearly in oil-fired and especially in gas power plants; the intake of new orders for gas power plants was more than three times higher than in the previous year. The most important gas power plant order in the final quarter was

Gross capital expenditure

MEUR	2004	2003
Investments in securities and acquisitions		
Power Businesses	7.9	2.6
Total	7.9	2.6
Other investments		
Power Businesses	51.1	51.2
Imatra Steel	5.8	11.6
Total	56.9	62.8
Group	64.8	65.4

Gross capital expenditure

MEUR



placed in the USA. It will be the largest biofuelled power plant ever supplied by Wärtsilä for decentralized power generation. The order intake for biopower plants rose during the final quarter compared to the same period in 2003.

The organization's flexibility to adjust costs to changing market conditions was further increased. The outsourcing of the power plant engineering, started during 2003, was completed during the year.

Market shares up

The total market for small (1–60 MW output) power plants driven by reciprocating engines and gas turbines grew by approximately 14% between June 2003 and May 2004, according to Diesel & Gas Turbine Worldwide. Growth was especially strong in heavy fuel oil power plants, the market for which increased by 81%. In this market segment Wärtsilä reached the highest market share in its history, 70.8% (39.4). The total market for gas power plants (engine-driven and gas turbine) grew by 21.6%. Wärtsilä's market share in this segment increased from 3.5% to 4.8%.

Engine manufacture, R&D

Wärtsilä completed most of its programme of major restructuring measures last year. The flexibility this has created, along with new operating principles, provides a good framework for meeting changing market needs and responding to possible growth in the future. Today's order book is high enough to ensure complete capacity utilization.

Product development again focused on the further development of new engines and on applying common-rail technology to the existing engines. The largest common-rail engine, the Sulzer RT-flex96C, was successfully started up in May and is now in operation. Development of the Sulzer RT-flex50 continues and the first engine of this type will be started up in May 2005.

The Wärtsilä 46F, a new engine type, was launched in September. The prototype has been test-run since April. The purpose of this engine is to strengthen Wärtsilä's leading position in this output range. Development of gas engines continued and these were positively received by the market.

At the end of the year it was decided to convert the test power plant in Vaasa (WPPP) into the Wärtsilä Validation Centre, WVC. This supports Wärtsilä's strategy to increase the testing of new products and components before they are released on the market.

Imatra Steel

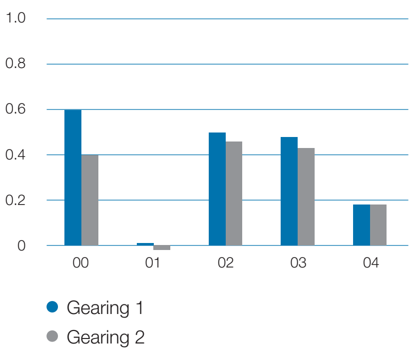
Demand for both forgings and steels grew strongly in the special engineering steels market in Europe during 2004. Steel production worldwide rose to new records. Growth in demand and production, especially outside Europe, raised raw material prices heavily and at times caused temporary shortages.

Truck production in Europe increased approximately 12% largely due to increased exports. The number of truck registrations in Europe rose by some 7%. Car production grew less and the number of car registrations increased about 2%. Demand for steel in the mechanical engineering industry also recovered well, mainly as a result of an increase in exports to markets outside Europe. Demand among wholesalers developed correspondingly.

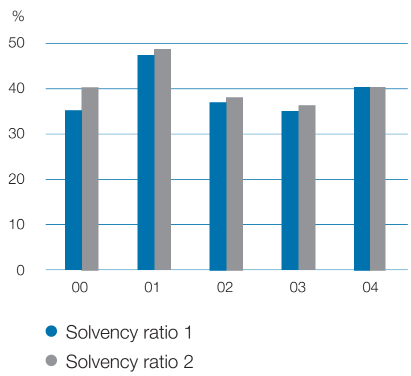
Imatra Steel's net sales totalled EUR 254.4 million (202.7), which was 25.5% more than in the previous year when the Billnäs Spring Works was still part of Imatra Steel Oy Ab. The growth in comparable net sales during the year was 29.5%. The growth was due to an increase in delivery volumes in a buoyant market and to the company's ability to transfer the increase in raw material costs to its prices. The volume of deliveries by the Imatra Steel Works rose to 243,000 tonnes (218,000) and the volume of deliveries by the forging business to 71,000 tonnes (61,000). Both Imatra Kilsta and Scottish Stampings increased their delivery volumes.

The operating income improved to EUR 20.4 million (0.7), giving an operating margin of 8.0% (0.3). The

Gearing



Solvency



previous year's operating income was depressed by a one-time writedown of fixed assets totalling EUR 4.4 million. The improvement in operating income was attributable to the effect of streamlining measures along with increased delivery volumes and price increases.

Investments during the year were mainly targeted at enhancing Imatra Steel's delivery reliability and service capabilities. A major maintenance investment was carried out at the Kilsta Forge. Streamlining programmes in various units were continued and at the same time measures were taken to increase the range of skills and flexibility of the employees. These measures have played a significant role in Imatra Steel's ability to react to changes in demand in the rapidly changing market conditions.

It was decided at the end of the year that Imatra Steel will begin producing special nuts and bolts from its steel as a shareholder in AA Fabricating Oy, a new company set up in Imatra.

Imatra's R&D activities focused on the development of more environmentally progressive products. The Imatra Steel Works received an updated environmental permit in December 2004. In the initial allocation of emission allowances announced by the Finnish government at the end of the year, Imatra Steel Works was granted the expected carbon dioxide emission allowances. These allowances almost exactly correspond with the planned production for 2005–2007 and therefore any purchases of emission allowances are not expected to form a major cost for business operations. It is not possible at this point to estimate the impact of any increase in electricity prices caused by emissions trading.

Holdings

During the first quarter Wärtsilä sold its entire holding of Assa Abloy AB (publ) Series A shares, i.e. 10,546,425 shares. The price was SEK 116.50 per share making a total of SEK 1,228.7 million (EUR 133.3). Wärtsilä recorded a capital gain of EUR 107.7 million on this sale.

Wärtsilä continues to own 17,270,350 Assa Abloy Series B shares, i.e. 4.7% of all the Assa Abloy shares. The value of the Assa Abloy B share at the end of 2004 was SEK 113.50. The market value of Wärtsiläs' holding at the close of the reporting period was EUR 217.3 million and the book value in the consolidated balance sheet was EUR 41.8 million.

Wärtsilä sold properties and shares in property companies totalling EUR 14.7 million (6.5) during 2004, generating a profit of EUR 9.8 million (4.4). At the end of the year the properties managed by Wärtsilä Real Estate, excluding the properties used by Wärtsilä itself, had a total book value of EUR 14.2 million (20.7).

Personnel

The Group had 12 361 employees (12 293) on average during the year and 12 475 (12 110) at the year end. The Power Businesses had 11 216 employees (10 897) at the year end. The number of employees in the Service business rose due to an increase in operations and maintenance and through acquisitions. The largest single increase, 260 employees, was in China where Wärtsilä started propeller manufacturing. Personnel reductions took place in Finland, France, Norway and Switzerland. The largest reductions, the result of terminating production operations, will take place Turku and in Mulhouse, France, during 2005.

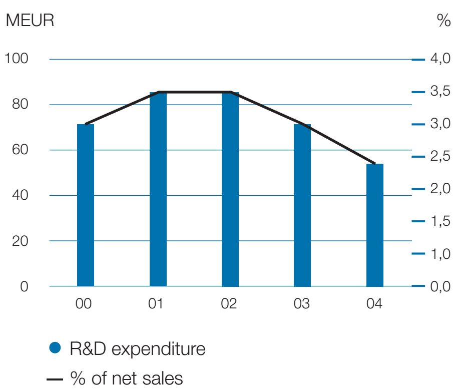
Sustainable development

The Group's latest Sustainable Report is part of this Annual Report. It describes the action taken by Wärtsilä to improve the environmental performance of its products and to reduce the environmental impacts of its production operations. Within the Wärtsilä Group, only the Imatra Steel Works is affected by carbon dioxide emissions trading.

Convertible subordinated debentures and option schemes

In March 1994 Wärtsilä floated two convertible capital notes issues, each of the same amount and together totalling EUR 117.7 million. EUR 27.5 million

R&D expenditure



Interest-bearing loan capital

MEUR	2004	2003
Long-term liabilities	271.0	288.2
Current liabilities	48.5	208.6
Convertible subordinated debentures		27.5
Loan receivables	-8.9	-21.2
Cash and bank balances	-168.5	-150.0
Net	142.2	353.2

of this loan was still outstanding at the end of 2003. Of this amount, EUR 1.0 million was converted into the company's Series A and Series B shares between January and December 2004 and EUR 23.6 million between 1–19 April 2004. The amount remaining unconverted, EUR 2.8 million, was repaid by the company on 3 May 2004. These conversions raised Wärtsilä Corporation's share capital by EUR 7,176,540.

Wärtsilä has two option schemes, 2001 and 2002, for key employees of the Group. On 4 February 2004 the Board of Directors decided to place the 2002 options in the book-entry securities system. Trading in the 2002 options began on the Main List of the HEX Helsinki Exchanges on 1 April 2004.

The extra dividend paid by Wärtsilä reduced the share subscription prices under the 2001 and 2002 options as stipulated in the terms and conditions of these schemes. As a result of the extra dividend, the share subscription price under the 2001 option scheme is now EUR 17.15 per share and under the 2002 option scheme EUR 9.95 per share.

Changes in ownership structure

Varma Mutual Pension Insurance Company's holding of Wärtsilä votes decreased below 5%. The change was the result of the conversion of the subordinated debentures and the aforementioned share capital increase recorded in the Trade Register on 24 May 2004.

In April Fiskars Corporation increased its holding in Wärtsilä Corporation to 20.5% of the shares and 28.1% of the votes.

General meetings

The Annual General Meeting held on 15 March 2004 voted to pay a dividend of EUR 0.75 per share.

The meeting decided that the Board of Directors would have seven members. Heikki Allonen, Göran J. Ehrnrooth, Risto Hautamäki, Jaakko Iloniemi, Antti Lagerroos, Bertel Langenskiöld and Paavo Pitkänen were elected to the Board.

The firm of authorized public accountants KPMG Oy Ab were appointed to be the company's auditors.

The extraordinary general meeting on 1 December 2004 decided to pay an extra dividend of EUR 1.00 per share. The meeting also decided to raise the share capital from EUR 215,951,442 to EUR 323,927,159.50 through a bonus issue in which one new A share was given for two existing A shares and one new B share for two existing B shares. This made a total of 7,859,862 new A shares of nominal value EUR 3.50 per share and 22,990,343 new B shares of nominal value EUR 3.50 per share. Following this increase the total number of shares now stands at 92,550,617 shares, consisting of 23,579,587 Series A shares and 68,971,030 Series B shares.

The articles of association were amended making the minimum share capital EUR 200,000,000 and maximum share capital EUR 800,000,000. Within these limits the share capital can be raised or lowered without amending the articles. The company's shares belong to two series, A and B. There are at most 100,000,000 A shares and at most 200,000,000 B shares.

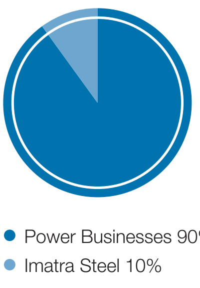
Authorization to repurchase and dispose of own shares

The Annual General Meeting on 15 March 2004 authorized the Board of Directors for one year to repurchase the company's own shares in public trading on the Helsinki Exchanges at the prevailing price, and other than in proportion to the holdings of the shareholders. At most 5% of all the shares and votes may be repurchased. The authorization also includes the right to dispose of the company's shares repurchased in this manner at a price at least equal to the share price prevailing on the Helsinki Exchanges at the time of surrender, disapplying shareholders' pre-emptive rights of subscription. These authorizations have not yet been exercised.

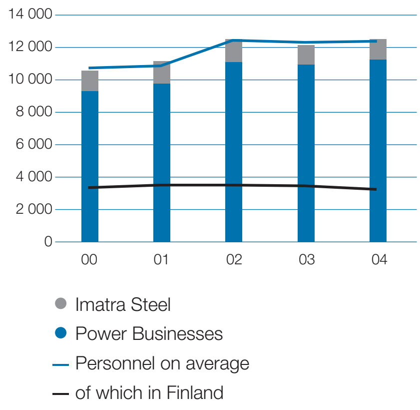
Board of Directors

The Board elected Antti Lagerroos as its chairman and Göran J. Ehrnrooth as

Personnel by businesses 2004



Personnel by businesses



the deputy chairman. The Board decided to establish two committees: an Audit Committee and a Nomination and Compensation Committee. The Board appointed Antti Lagerroos chairman of the Audit Committee and its other members Heikki Allonen, Risto Hautamäki and Paavo Pitkänen. The Board appointed Antti Lagerroos chairman of the Nomination and Compensation Committee and its other members Göran J. Ehrnrooth and Jaakko Iloniemi.

Management

Lars Hellberg, (45), BSc (Eng.) was appointed Group Vice President, Engine Division, and a member of the Board of Management on 1 June 2004.

Raimo Lind, MSc (Econ.), Group Vice President, CFO, and Mikael Mäkinen, MSc (Eng.), Naval Architect, Group Vice President, Ship Power, were appointed Executive Vice Presidents of Wärtsilä Corporation with effect from 1 January 2005. Mr Lind also acts as deputy to President and CEO Ole Johansson. The previous Executive Vice President, Sven Bertlin, who was also responsible for Wärtsilä's technology and engine division, retired on 31 December 2004.

Proposals to the 2005 Annual General Meeting

The Board proposes to the Annual General Meeting on 21 March 2005 that a dividend of EUR 0.45 per share and an extra dividend of EUR 0.45 per share be distributed on the financial year ended 31 December 2004.

The Board proposes that the AGM authorize the Board to repurchase and dispose of the company's own A and B shares in proportion to the number of shares in each series provided that the total nominal value of the purchased shares shall not exceed five per cent (5%) of the company's total share capital and voting rights. The company's own shares may be purchased using only distributable funds. The authorization is in force for one year from the resolution of the Annual General Meeting.

Events after the period

At the beginning of 2005 Wärtsilä signed an agreement under which it will acquire the medium and large marine engine service business of Deutz AG. The acquisition price is EUR 115 million. The business consists of original spare parts sales, repair and maintenance. The deal will increase the installed engine base for Wärtsilä Service by 9%. The parties aim to close the transaction in the first four months of 2005. The deal is subject to competition authority approvals.

Wärtsilä decided to start production of transverse thrusters in China at a new factory to be built in Wuxi, PR China. The factory will be wholly owned by Wärtsilä and it will start production in mid-2005. Called Wärtsilä Propulsion (Wuxi) Co. Ltd., the company will manufacture LIPS transverse thrusters, serving the global shipbuilding market. The value of the factory investment is EUR 6.6 million. The company will increase its number of employees in pace with demand, reaching an estimated level of 120 people.

Market outlook in 2005

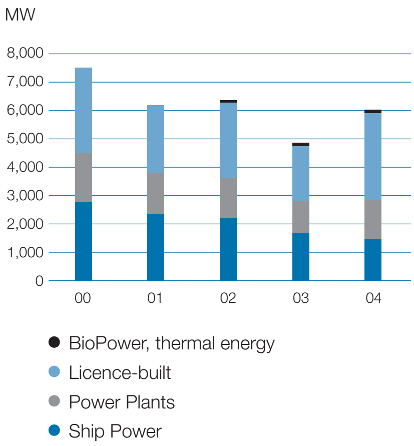
Demand for new ships will remain high due to the sharp rise in freight prices. Shipyards continue to operate at full capacity and have started selling deliveries scheduled for 2008. In Japan, domestic demand for ships is strong, according to Clarkson Research Studies, and shipbuilding capacity has been reserved right up to 2008 and also part of 2009. Driving the need for transport capacity are the continuous shift of the consumer industry to Asia, and increasing worldwide demand for metals, food and beverages, fuels and natural gas.

There are no signs at present of a decline in ship orders. A slight decrease in orders for new vessels can be expected in 2005–2006 because shipyards capacity utilization is high. Estimates by customers suggest that orders for new ships

Megawatts delivered

	2004	2003	Change %
Power Plants engines	1,363	1,160	17.5
Ship Power engines	1,474	1,665	-11.5
Wärtsilä total	2,837	2,825	0.4
By licensees	3,053	1,913	59.6
BioPower, thermal energy	121	110	10.0
Wärtsilä and Sulzer engines total	6,011	4,847	24.0

Megawatts delivered



will remain at last year's level during the first half of 2005.

Due to the high price of steel and the weak dollar shipyards are trying to pass on their costs to both the ship operators and to their subcontractors.

Wärtsilä's Service business continues to grow through new product launches and acquisitions. Wärtsilä provides a broad range of services, tailored solutions and comprehensive training through its global service network. The underlying aim is to ensure the longest possible service life of the customer's equipment, its high productivity and minimum lifecycle costs. The level of O&M agreements demonstrates the confidence placed by customers in Wärtsilä's ability to optimize the performance of the equipment it supplies.

The market for power plants, both HFO and gas, is expected to remain at a good level in the short term. Demand is becoming more balanced among the different segments of this business, which will reduce Wärtsilä's dependency on individual markets. Over a certain time span the power plant sector could be affected by the impact of the rather high oil prices on the global economy and exchange rate fluctuations.

Wärtsilä's traditional power plant markets have been islands, remote areas and countries with a weak power grid. Wärtsilä will continue to maintain its leadership in this HFO power plant sector with its current competitive product range and global sales network. The share of gas-fired power plants will grow further partly because new orders can be expected in Europe and especially in North America. A further factor in this respect is the increasingly strong foothold that gas is assuming all over the world.

Demand for Imatra Steel's products is expected to remain good in the special engineering steels and automotive markets throughout 2005.

Wärtsilä's prospects in 2005

Net sales of Wärtsilä's Power Businesses will rise 10–15% during 2005 based on the Group's strong order book. Profitability will vary sharply from quarter to quarter, the first quarter being the weakest in the year. The profitability target set for the Power Businesses will be reached by the end of the year. Wärtsilä adopted the new international reporting standards (IFRS) at the beginning of the current year. Under IFRS, the comparable profitability target (EBITA) is above 8%.
Imatra Steel's net sales are expected to continue growing and its profitability to improve compared to last year.

3 February 2005

Board of Directors

Group financial statements

Group, Income Statement

MEUR	Note	2004	%	2003	%
Net sales	1.2	2,478.2	100.0	2,357.5	100.0
Change in inventories of					
finished goods & work in progress		-21.5		-24.0	
Production for own use		0.8		1.6	
Other operating income	3	135.2		37.9	
Materials and services					
Materials and consumables					
Purchases during the financial year		-958.5		-809.4	
Change in inventories		29.2		-25.0	
External services		-511.5		-532.5	
		-1,440.8		-1,367.0	
Personnel expenses	4	-573.3		-554.4	
Depreciation and writedowns	5	-85.5		-156.0	
Other operating expenses		-254.7		-314.0	
Share of results of associated companies		1.4		0.0	
Operating income		239.8	9.7	-18.4	-0.8
Financial income and expenses	6				
Income from financial assets		8.8		6.8	
Other interest income and other financial income		5.2		12.6	
Exchange gains and losses		-0.3		-0.5	
Interest expenses and other financial expenses		-16.9		-34.8	
		-3.3		-15.9	
Result before taxes		236.5		-34.4	
Income taxes	8	-74.9		-4.0	
Minority interests		-1.3		-0.9	
Result for the financial period		160.3	6.5	-39.3	-1.7

Group, Financial Analysis

MEUR	2004	2003
Cash flow from operating activities		
Operating income	239.8	-18.4
Adjustments for:		
Share of profits/losses in associated companies	-1.4	0.0
Depreciation and write-downs	85.5	156.0
Selling profit and loss of fixed assets	-118.3	-24.2
Other changes		1.5
Cash flow before changes in working capital	205.5	114.9
Changes in working capital		
Current assets, non-interest-bearing, increase (-) / decrease (+)	-20.1	22.4
Investories, increase (-) / decrease (+)	-11.8	59.3
Current liabilities, non-interest-bearing, increase (+) / decrease (-)	54.3	14.4
	22.5	96.2
Cash flow from operating activities before financial items and taxes	228.0	211.1
Interest and other financial expenses	-29.1	-41.5
Received dividends from operating activities	0.4	0.7
Interest and other financial income from operating activities	31.5	38.7
Income taxes	-23.5	-16.9
	-20.6	-19.0
Cash flow from operating activities (A)	207.3	192.1
Cash flow from investing activities:		
Investments in subsidiary shares	-7.5	-1.3
Investments in shares	-0.5	-1.3
Investments in other tangible and intangible assets	-56.9	-62.8
Proceeds from sale of shares	137.5	10.8
Proceeds from sale of tangible and intangible assets	12.4	28.2
Loan receivables, increase (-), decrease (+)	3.1	0.9
Dividends received from investments	8.8	6.6
Paid taxes on sales of shares	-7.8	-3.3
Cash flow from investing activities (B)	89.1	-22.2
Cash flow after investing activities	296.4	169.9
Cash flow from financing activities:		
Issuance of share capital	24.6[1]	1.4
Loan receivables, increase (-) / decrease (+)	5.1	7.1
Current loans, increase (+) / decrease (-)	-157.8	-62.5
New long-term loans	30.0	303.0
Amortization and other changes to long-term loans	-36.7	-337.0
Paid dividends	-106.7	-104.6
Changes in convertible subordinated debentures	-27.5	-0.4
Other changes	-9.0	-12.7
Cash flow from financing activities (C)	-277.9	-205.8
Change in liquid funds (A)+(B)+(C), increase (+) / decrease (-)	18.5	-35.9
Liquid funds at beginning of period	150.0	185.8
Liquid funds at end of period	168.5	150.0

The impact of changes in exchange rates on consolidation has been eliminated

[1] Conversion of subordinated debentures

Group, Balance Sheet, Assets

MEUR	Note	31 Dec. 2004	%	31 Dec. 2003	%
Fixed assets	9				
Intangible assets					
Intangible rights		11.6		14.6	
Goodwill on consolidation		328.3		354.0	
Other long-term expenditure		45.2		22.7	
		385.1	16.5	391.3	16.4
Tangible assets					
Land and water		34.4		37.5	
Buildings and structures		113.1		116.7	
Machinery and equipment		175.3		177.5	
Other tangible assets		22.1		24.8	
Advance payments and construction in progress		10.9		32.8	
		355.7	15.3	389.3	16.3
Financial assets					
Shares in associated companies		2.8		2.7	
Receivables from associated companies		2.2		2.3	
Other shares and securities		68.7		96.8	
Other receivables		1.9		4.8	
		75.5	3.2	106.7	4.5
Total fixed assets		816.3	35.1	887.3	37.2
Current assets					
Inventories					
Materials and consumables		279.4		250.6	
Work in progress		230.9		261.2	
Finished products/goods		43.5		36.3	
Advance payments		10.7		7.4	
		564.5	24.3	555.5	23.3
Long-term receivables	10				
Trade receivables		5.2			
Loan receivables		7.2		7.2	
Deferred tax assets	11	47.9		66.6	
Other receivables		0.6		0.5	
Prepaid expenses and accrued income	13	1.0		0.3	
		61.9	2.7	74.6	3.1
Short-term receivables	12				
Trade receivables		574.3		547.1	
Receivables from associated companies		2.6		4.6	
Loan receivables		2.0		10.6	
Deferred tax assets	11	10.5		10.1	
Other receivables		50.1		63.2	
Prepaid expenses and accrued income	13	76.0		79.7	
		715.4	30.7	715.4	30.0
Financial assets					
Shares and securities		15.0		11.1	
Other securities		3.7		4.0	
		18.6	0.8	15.0	0.6
Cash and bank balances		149.8	6.4	134.9	5.7
Total current assets		1,510.3	64.9	1,495.6	62.8
Assets		2,326.7	100.0	2,382.9	100.0

Group, Balance Sheet, Shareholder's equity and liabilities

MEUR	Note	31 Dec. 2004	%	31 Dec. 2003	%
Shareholders' equity	14.15				
Share capital		323.9		208.8	
Share premium reserve		27.3		117.9	
Other reserves		60.0		62.4	
Retained earnings		281.4		427.5	
Result for the financial year		160.3		-39.3	
		853.0	36.7	777.1	32.6
Convertible subordinated debentures				27.5	1.2
Total shareholders' equity		853.0	36.7	804.6	33.8
Minority interests		7.8	0.3	6.1	0.3
Provisions	16				
Provisions for pensions		41.9		39.7	
Other provisions		148.4		195.5	
		190.3	8.2	235.1	9.9
Liabilities	17				
Long-term					
Loans from credit institutions		194.9		204.6	
Pension loans		70.9		77.7	
Deferred tax liability	18	31.5		38.1	
Other long-term liabilities		5.9		6.8	
		303.2	13.0	327.2	13.7
Current	20				
Loans from credit institutions		12.3		179.3	
Pension loans		31.8		25.7	
Advances received		191.8		142.8	
Trade payables		243.2		241.6	
Liabilities to associated companies		0.7		0.4	
Other current liabilities		36.8		33.8	
Accrued expenses and deferred income	19	455.8		386.4	
		972.4	41.8	1,009.9	42.4
Total liabilities		1,275.6	54.8	1,337.1	56.1
Shareholders' equity and liabilities		2,326.7	100.0	2,382.9	100.0

Parent company financial statements

Parent Company, Income Statement

MEUR	Note	2004	2003
Net sales	1	8.9	7.6
Other operating income	3	160.0	33.3
Personnel expenses	4	-22.4	-17.5
Depreciation and write-downs	5	-9.2	-6.7
Other operating expenses		-59.8	-31.4
Operating income		77.4	-14.7
Financial income and expenses	6		
Income from financial assets		10.4	5.7
Other interest and other financial income		22.3	32.4
Exchange gains and losses		8.4	22.1
Interest expenses and other financial expenses		-14.1	-27.0
		27.0	33.3
Result before extraordinary items		104.4	18.5
Extraordinary items	7		
Group contribution		-13.3	16.2
Result before appropriations and taxes		91.2	34.7
Appropriations			
Change in depreciation difference		1.9	-0.3
Result before taxes		93.0	34.4
Income taxes	8	-27.2	-6.1
Result for the financial period		65.8	28.2

Parent Company, Financial Analysis

MEUR	2004	2003
Cash flow from operating activities		
Operating income	77.4	-14.7
Adjustments for:		
Depreciation and write-downs	9.2	6.7
Selling profit and loss of fixed assets	-126.9	-18.4
Cash flow before changes in working capital	-40.3	-26.4
Changes in working capital		
Current assets, non-interest-bearing, increase (-) / decrease (+)	8.8	-3.0
Current liabilities, non-interest-bearing, increase (-) / decrease (+)	1.8	4.0
	10.6	1.0
Cash flow from operating activities before financial items and taxes	-29.6	-25.4
Interest and other financial expenses	-26.5	-41.0
Received dividends from operating activities	2.7	0.2
Interest and other financial income from operating activities	40.9	71.0
Income taxes	-6.0	-2.8
	11.1	27.4
Cash flow from operating activities (A)	-18.6	2.0
Cash flow from investing activities:		
Investments in shares	-0.3	-0.7
Investments in other tangible and intangible assets	-10.7	-11.9
Proceeds from sale of shares	134.8	19.8
Proceeds from sale of tangible and intangible assets	6.8	3.2
Loan receivables, increase (-), decrease (+)	3.7	1.5
Dividends received from investments	7.7	5.6
Paid taxes on sales of shares	-7.8	-3.3
Cash flow from investing activities (B)	134.3	14.1
Cash flow after investing activities	115.7	16.0
Cash flow from financing activities:		
Issuance of share capital	24.6 [1]	1.4
Loans receivable, increase (-) / decrease (+)	105.1	88.0
Current loans, increase (+) / decrease (-)	-112.8	-25.3
New long-term loans	30.0	301.8
Amortization and other changes to long-term loans	-26.8	-279.9
Group contributions	16.2	-20.0
Paid dividends	-106.4	-104.1
Changes in convertible subordinated debentures	-27.5	-0.4
Other changes	-0.4	0.4
Cash flow from financing activities (C)	-98.0	-38.1
Change in liquid funds (A)+(B)+(C), increase (+) / decrease (-)	17.7	-22.0
Liquid funds at beginning of period	75.6	97.6
Liquid funds at end of period	93.3	75.6

[1] Conversion of subordinated debentures

Parent Company, Assets

MEUR	Note	31 Dec. 2004	31 Dec. 2003
Fixed assets	9		
Intangible assets			
Intangible rights		0.4	1.1
Other long-term expenditure		33.3	16.7
		33.7	17.8
Tangible assets			
Land and water		14.3	16.5
Buildings and structures		5.2	6.6
Machinery and equipment		2.6	3.1
Other tangible assets		0.8	0.8
Advance payments and construction in progress		0.2	16.0
		23.1	43.0
Financial assets			
Shares in Group companies		528.5	528.8
Long-term loans receivable from Group companies		3.6	4.0
Shares in associated companies		0.0	0.0
Receivables from associated companies		2.2	2.3
Other shares and securities companies		36.3	53.1
Other receivables		0.0	3.2
		570.5	591.4
Fixed assets and other long-term financial assets		627.3	652.2
Long-term receivables	10		
Receivables from Group companies		12.9	1.2
Loan receivables		2.6	2.7
		15.5	3.9
Short-term receivables	12		
Trade receivables		8.8	7.2
Receivables from Group companies		661.0	791.7
Receivables from associated companies		0.1	3.3
Loan receivables		0.4	0.4
Other receivables		5.4	5.4
Prepaid expenses and accrued income	13	9.2	11.8
		684.9	819.7
Financial assets			
Other securities		3.7	4.0
		3.7	4.0
Cash and bank balances		89.7	71.6
Total current assets		793.8	899.3
Assets		1,421.1	1,551.5

Shareholder's equity and liabilities

MEUR	Note	31 Dec. 2004	31 Dec. 2003
Shareholders' equity	14.15		
Share capital		323.9	208.8
Share premium reserve		27.3	117.9
Retained earnings		464.9	544.6
Result for the financial year		65.8	28.2
		882.0	899.5
Convertible subordinated debentures			27.5
Total shareholders' equity		882.0	927.0
Accumulated appropriations			
Depreciation difference		2.9	4.8
Provisions	16	2.5	2.5
Liabilities	17		
Long-term			
Loans from credit institutions		148.4	148.4
Pension loans		53.7	57.2
		202.1	205.5
Current	20		
Loans from credit institutions			164.5
Pension loans		28.4	21.8
Trade payables		0.7	6.9
Liabilities to Group companies		264.6	196.2
Other current liabilities		2.7	1.8
Accrued expenses and deferred income	19	35.2	20.5
		331.6	411.7
Total liabilities		533.7	617.2
Shareholders' equity and liabilities		1,421.1	1,551.5

Accounting principles

Wärtsilä Group's financial statements have been prepared in accordance with the laws and regulations in force in Finland and in compliance with the company's Group-wide accounting principles.

No changes have been made to the accounting principles since the previous year.

The financial statements are presented in euros. The preparation of the financial statements in conformity with applicable regulations and generally accepted accounting principles requires management to make estimates and assumptions that affect the valuation and allocation of the reported figures. Actual results may differ from such estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the parent company and the accounts of its directly or indirectly owned subsidiaries (over 50% of the voting rights) and associated companies. Acquired or established subsidiaries and associated companies are consolidated from the date of acquisition or establishment until the end of the period of ownership. Certain real estate and housing companies and the Group's reinsurance company are not consolidated since they have a negligible effect on the Group's result and distributable equity.

All intra-group transactions as well as distribution of profit, receivables and liabilities, and unrealized margins on intragroup transactions are eliminated in the consolidation. Minority interests are presented in the income statement as a separate item after taxes. The share of minority interests in shareholders' equity is also shown separately in the consolidated balance sheet.

Mutual shareholdings are eliminated using the purchase method. The goodwill in the subsidiaries is calculated on the basis of their acquisition cost by eliminating the Group's share of the equity of the acquired subsidiaries, including reserves less deferred tax liability. Of the difference between the cost of the acquisition and the equity of the subsidiaries at the date of acquisition, that amount by which the value of fixed assets can be considered to exceed the subsidiary's balance sheet value has been entered under fixed assets. The remainder of the difference is recorded as goodwill. Goodwill is amortized over the useful life of the asset, nevertheless over a period not exceeding twenty years. The depreciation periods are determined by the Group's strategic plans and long-term profit expectations owing to the nature of its business.

Investments in associated companies (voting rights between 20% and 50% and ownership more than 20%) are included in the consolidated accounts using the equity method. The consolidated income statement includes the Group's share of results in associated companies taking into account goodwill write-offs and dividends received. The Group's share of the post-acquisition increase of the net assets of these companies is added to the acquisition cost and to shareholders' equity. The book values of the shares of associated companies are listed in the notes to the financial statements as recorded by the shareholding subsidiaries. Investments in other companies are listed in the balance sheet at acquisition cost and the book values of these shares are written down, if required, to correspond with their market value.

Foreign subsidiaries

In the consolidated accounts all items in the income statements of foreign subsidiaries are translated into euros at the average exchange rates for the financial year. The balance sheet items of subsidiaries are translated into euros at the rates of exchange ruling on the balance sheet date. Translation differences arising from the application of the purchase method are treated as an adjustment affecting consolidated shareholders' equity; the translation difference applying to shareholders' equity at the time of acquisition is allocated to distributable and non-distributable equity. Those differences which arise from the translation of income statement items and balance sheet items at different rates are recorded under consolidated distributable equity.

The Group applies the equity hedging method to hedge most of the shareholders' equities of subsidiaries outside the euro area using currency loans or forward contracts, to reduce the effects of exchange rate fluctuations on the Group's shareholders' equity. Exchange gains and losses resulting from the hedging transactions are netted against the translation differences recorded in the shareholders' equity of the consolidated balance sheet.

Transactions denominated in foreign currencies

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the exchange rates prevailing on that date. Open hedging instruments of foreign currency based items, including interest components, are valued at the balance sheet date. Exchange gains and losses related to business operations are treated as adjustments to net sales and operating expenses. Exchange gains and losses related to financing operations are entered at their net values under financial income and expenses.

Revenue recognition
Net sales is calculated by deducting items including indirect sales taxes and discounts from gross sales revenues. Revenue is recognized at the date of delivery except for large, long-term projects, which are recognized using the percentage-of-completion method.

Research and development
Research and development costs are expensed in the financial period in which they occurred, with the exception of investments in buildings, machinery and equipment, which are capitalized and depreciated. In the Netherlands, where R&D is supported by conditional state development credits, R&D costs are charged to earnings after deducting the amount of these credits. Repayments are entered as expenses in the income statement. The principal of such development credits on the balance sheet date is shown under contingent liabilities in the notes to the financial statements.

Pension arrangements
Statutory and supplementary pension obligations in Finland are covered through payments to pension insurance institutions and recorded as determined by periodical actuarial calculations prepared by those institutions. In the Group companies outside Finland, the pension obligations are arranged and pension liabilities recorded in accordance with local legislation and practice. Changes in uncovered pension obligations are entered in the income statement and the pension liability is included in provisions in the balance sheet.

Warranty costs
The estimated warranty costs of goods delivered to customers are included under provisions in the balance sheet. Actual warranty costs, including changes in warranty liability, are charged against earnings for the period.

Valuation of inventories
Inventories are valued at their direct acquisition cost, which includes direct manufacturing costs and an appropriate proportion of indirect production overheads and acquisition costs. The upper value used in the valuation of inventories is their net realizable value.

Fixed assets and depreciation
Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation. Certain land and buildings also include revaluations; these are stated in the notes to the financial statements.

The following indicative useful lives are used:

Other long-term expenditure	3–10 years
Buildings	10–40 years
Machinery and equipment	5–20 years

Leasing
Operating leasing payments are treated as rentals. Significant financial leasing items are capitalized as fixed assets.

Extraordinary income and expenses
Extraordinary income and expenses include items which fall outside the ordinary activities of the company.

Appropriations
Appropriations comprise voluntary provisions and the depreciation difference. In the consolidated accounts accumulated appropriations are divided into tax liability and shareholders' equity. The change in appropriations, net of tax liability, is included in the result for the year. The amount of appropriations entered under shareholders' equity is not regarded as distributable funds.

Provisions
Provisions in the balance sheet comprise those items which the Company is committed to covering either through agreements or otherwise, but which are not yet realized. These include uncovered pension liabilities, warranty provisions, forecast losses on projects in progress and restructuring expenses. Changes to provisions are included in the income statement.

Income taxes
Income taxes in the income statement include taxes of subsidiaries for the financial period, calculated in accordance with local regulations, as well as adjustments to prior year taxes and deferred taxes. Taxes allocated to extraordinary items are presented in the notes to the financial statements.

Deferred tax liabilities or assets are calculated as the temporary differences between the tax and financial periods using the tax rate for subsequent years confirmed on the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and the probable realizable amount of deferred tax assets.

Dividends
Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

Notes to the Financial Statements

MEUR	Group				Power Businesses			
	2004	%	2003	%	2004	%	2003	%
1. Net sales by country								
Italy	162.5	6.6	154.9	6.6	149.6	6.7	143.1	6.6
France	128.3	5.2	132.0	5.6	104.3	4.7	113.9	5.3
Germany	120.2	4.8	126.1	5.3	84.9	3.8	97.4	4.5
Sweden	112.1	4.5	101.0	4.3	24.3	1.1	30.4	1.4
Great Britain	95.7	3.9	93.0	3.9	61.6	2.8	67.4	3.1
Finland	94.8	3.8	68.4	2.9	53.8	2.4	38.7	1.8
The Netherlands	88.8	3.6	89.6	3.8	88.6	4.0	88.9	4.1
Norway	65.3	2.6	83.7	3.6	60.2	2.7	79.4	3.7
Spain	51.6	2.1	92.6	3.9	50.9	2.3	91.8	4.3
Denmark	34.1	1.4	47.1	2.0	31.3	1.4	45.7	2.1
Portugal	23.0	0.9	31.7	1.3	23.0	1.0	31.7	1.5
Other European countries	164.1	6.6	156.9	6.7	159.9	7.2	150.7	7.0
Europe	1,140.5	46.0	1,177.1	49.9	892.3	40.1	979.0	45.4
Middle East	175.8	7.1	116.5	4.9	174.1	7.8	115.8	5.4
China and Hong Kong	110.6	4.5	101.7	4.3	110.6	5.0	101.7	4.7
India	101.0	4.1	100.3	4.3	101.0	4.5	100.3	4.7
Indonesia	82.2	3.3	42.2	1.8	82.2	3.7	42.2	2.0
Korea	68.3	2.8	49.7	2.1	68.3	3.1	49.7	2.3
Singapore	67.4	2.7	41.3	1.8	67.4	3.0	40.7	1.9
Japan	50.9	2.1	72.5	3.1	50.9	2.3	72.5	3.4
Pakistan	24.7	1.0	14.8	0.6	24.7	1.1	14.8	0.7
Other Asian countries	116.9	4.7	89.8	3.8	115.9	5.2	89.8	4.2
Asia	797.8	32.2	628.7	26.7	795.2	35.7	627.5	29.1
Central America	174.9	7.1	123.1	5.2	174.9	7.9	123.1	5.7
USA and Canada	141.3	5.7	140.8	6.0	139.2	6.3	138.8	6.4
South America	52.2	2.1	114.8	4.9	52.2	2.3	114.8	5.3
The Americas	368.4	14.9	378.8	16.1	366.3	16.5	376.7	17.5
African countries	148.6	6.0	137.1	5.8	148.6	6.7	137.1	6.4
Other countries	22.9	0.9	35.9	1.5	22.3	1.0	35.5	1.6
Total	2,478.2	100.0	2,357.5	100.0	2,224.7	100.0	2,155.8	100.0

	Group		Parent Company	
	2004	2003	2004	2003
2. Projects for which percentage-of-completion method is applied				
Recognized accumulated income				
Uncompleted projects	714.8	764.3		
Unrecognized part of income	271.4	271.7		
Recognized accumulated contribution	24.6	14.8		
3. Other operating income				
Rental income	2.4	3.3	1.9	2.8
Profit on sales of fixed assets	119.4	24.2	127.1	18.4
Other operating income	13.4	10.4	30.9	12.1
Total	135.2	37.9	160.0	33.3
4. Personnel expenses				
Wages and salaries	456.6	447.7	14.4	13.7
Pension costs	32.9	22.5	6.3	2.7
Other compulsory personnel costs	83.8	84.2	1.8	1.2
Total	573.3	554.4	22.4	17.5

Pension costs contain only those of Finnish companies.
Pension costs of foreign companies are included in other compulsory personnel costs.

Salaries and emoluments to senior management				
Presidents and members of the Board of Directors	16.2	16.0	0.9	0.9

The CEO, the presidents of some Group Companies and 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 his immediate subordinates.

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Personnel on average				
Power Businesses	11,133	10,976	219	198
Imatra Steel	1,228	1,317		
Total	12,361	12,293	219	198

5. Depreciation and write-downs

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Depreciation according to plan				
Intangible assets	2.2	3.4	0.1	0.1
Goodwill on consolidation	26.7	27.0		
Other long-term expenditure	9.8	7.3	7.4	4.9
Buildings and structures	9.4	10.8	0.6	0.6
Machinery and equipment	43.3	46.7	1.2	1.2
Other tangible assets	5.2	5.8	0.0	0.0
Construction in progress	0.1	0.1		
Total depreciation according to plan	96.8	101.0	9.2	6.7
Total book depreciation			5.4	7.0
Depreciation difference			1.9	-0.3
Adjustment of depreciation difference on sold fixed assets			1.9	-0.1
Write-down of fixed assets	-11.3	55.0		
Depreciation difference on January 1			4.8	4.4
Change in the depreciation difference			-1.9	0.3
Depreciation difference on December 31			2.9	4.8

6. Financial income and expenses

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Dividend income				
from Group companies			2.7	
from associated companies		0.2		0.2
from other companies	8.8	6.6	7.7	5.6
Total	8.8	6.8	10.4	5.7
Other interest income				
from Group companies			19.4	25.2
from other companies	4.2	10.7	2.1	6.0
Total	4.2	10.7	21.5	31.2
Other financial income				
from Group companies			0.8	0.0
from other companies	1.0	1.9		1.2
Total	1.0	1.9	0.8	1.2
Exchange gains and losses	-0.3	-0.5	8.4	22.1
Write-downs of financial assets	-0.4	0.0		
Interest expenses				
to Group companies			-3.7	-3.2
to other companies	-13.1	-29.5	-8.2	-21.2
Total	-13.1	-29.5	-12.0	-24.4
Other financial expenses				
to other companies	-3.4	-5.3	-2.2	-2.6
Financial income and expenses, total	-3.3	-15.9	27.0	33.3

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Extraordinary income and expenses				
Group contributions			-13.3	16.2

8. Income taxes

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Income taxes on operations				
for the financial year	-62.4	-35.3	-27.2	-8.0
for prior years	-0.5	19.7	0.0	1.9
Change in deferred tax	-12.1	11.5		
Total	-74.9	-4.0	-27.2	-6.1
Income taxes on extraordinary items			3.9	-4.7

9. Fixed assets

	Acquisition cost 1 Jan.	Increases	Decreases	Accumulated depreciation, 1 Jan.	Accumulated depreciation in decreases	Depreciation for the period	Write-downs and their reversals	Residual value 31 Dec.
Group								
Intangible assets								
Intangible rights	24.9	0.5	-0.8	-10.9	0.2	-2.2		11.6
Goodwill on consolidation	447.4	4.1	-1.5	-95.1		-26.7		328.3
Other long-term expenditure	95.9	9.8	-22.8	-50.2	22.0	-9.8	0.3	45.2
Group 2004	568.3	14.4	-25.1	-156.3	22.1	-38.7	0.3	385.1
Group 2003	571.3	10.7	-2.6	-141.7		-37.6	-8.7	391.3
Tangible assets								
Land and water	36.6	0.1	-2.3	-0.1	0.1			34.4
Buildings and structures	223.3	8.9	-14.9	-105.9	8.3	-9.4	2.7	113.1
Machinery and equipment	643.6	28.2	-23.7	-461.8	23.0	-43.3	9.2	175.3
Construction in progress	4.1	7.3		-0.4		-0.1		10.8
Other tangible assets	64.0	3.6	-1.9	-38.8	1.2	-5.2	-0.9	22.1
Advances paid	0.2	0.1	-0.1					0.1
Group 2004	971.8	48.2	-42.9	-606.9	32.6	-58.1	11.0	355.7
Group 2003	985.1	57.2	-23.3	-536.6	16.6	-63.4	-46.3	389.3
Financial assets								
Shares in associated companies	3.7	0.1	-1.0					2.8
Receivables from associated companies	2.3	0.3	-0.5					2.2
Shares in other companies	87.3	0.3	-17.9	-0.7			-0.4	68.7
Receivables from other companies	5.1		-3.2					1.9
Group 2004	98.4	0.8	-22.6	-0.7			-0.4	75.5
Group 2003	113.5	1.3	-7.4	-0.7				106.7

9. Fixed assets

	Acquisition cost 1 Jan.	Increases	Decreases	Accumulaled depreciation, 1 Jan.	Accumulated depreciation in decreases	Depreciation for the period	Write-downs and their reversals	Residual value 31 Dec.
Parent company								
Intangible assets								
Intangible rights	1.5		-0.7	-0.4		-0.1		0.4
Other long-term expenditure	55.7	8.5	-0.8	-23.1	0.5	-7.4		33.3
Parent Company 2004	57.2	8.5	-1.5	-23.5	0.5	-7.4		33.7
Parent Company 2003	34.7	7.1		-19.1		-4.9		17.8
Tangible assets								
Land and water	16.5	0.1	-2.3					14.3
Buildings and structures	25.5	1.2	-4.0	-18.9	1.9	-0.6		5.2
Machinery and equipment	12.4	0.8	-1.2	-9.4	1.3	-1.2		2.6
Construction in progress	0.2							0.2
Other tangible assets	1.8		-0.2	-1.0	0.2			0.8
Parent Company 2004	56.3	2.2	-7.8	-29.3	3.4	-1.8		23.1
Parent Company 2003	68.7	4.8	-2.9	-27.5	1.7	-1.8		43.0
Financial assets								
Shares in Group companies	528.8		-0.4					528.5
Receivables from Group companies	4.0		-0.5					3.6
Shares in associated companies	0,0							0,0
Receivables from associated companies	2.6		-0.5					2.2
Shares in other companies	53.1	0.3	-17.1					36.3
Receivables from other companies	3.2		-3.2					0.0
Parent Company 2004	588.6	0.3	-18.4					570.5
Parent Company 2003	596.2	0.7	-5.5					591.4

	Group		Parent Company	
	2004	2003	2004	2003
10. Specification of long-term receivables				
Receivables from Group companies				
Long-term investments			3.6	4.0
Loan receivables			12.9	1.2
Total			16.5	5.2
Receivables from associated companies				
Long-term investments	2.2	2.3	2.2	2.3
11. Specification of deferred tax assets				
Tax loss carryforward	32.4	32.8		
Temporary differences	12.7	31.2		
Group eliminations	13.3	12.8		
Total	58.4	76.7		
12. Specification of short-term receivables				
Receivables from Group companies				
Trade receivables			6.7	5.2
Loan receivables			653.1	782.4
Prepaid expenses and accrued income			1.3	4.1
Total			661.0	791.8
Receivables from associated companies				
Trade receivables	2.6	1.3	0.1	
Prepaid expenses and accrued income		3.3		3.3
Total	2.6	4.6	0.1	3.3

	Group		Parent Company	
	2004	2003	2004	2003
13. Main items in prepaid expenses and accrued income				
Interest	3.9	3.8	3.2	3.1
Other financial items	5.8	9.0	3.7	8.1
Income and other taxes	12.5	16.6		
Other items	54.9	50.7	2.3	0.5
Total	77.1	80.1	9.3	11.8
14. Shareholder's equity				
Share capital				
Share capital on January 1				
Series A	54.0	54.0	54.0	54.0
Series B	154.8	154.2	154.8	154.2
Total	208.8	208.1	208.8	208.1
Subscription based on warrants		0.5		0.5
Conversion of debentures	7.2	0.1	7.2	0.1
Share issue	108.0		108.0	
Total	115.2	0.6	115.2	0.6
Share capital on December 31				
Series A	82.5	54.0	82.5	54.0
Series B	241.4	154.8	241.4	154.8
Total	323.9	208.8	323.9	208.8
Share premium reserve				
Share premium reserve on January 1	117.9	117.1	117.9	117.1
Issue premium	17.5	0.7	17.5	0.7
Share issue	-108.0		-108.0	
Share premium reserve on December 31	27.3	117.9	27.3	117.9
Other reserves				
Other reserves on January 1	62.4	51.1		
Transfers from retained earnings	0.7	0.5		
Translation difference and other changes	-3.0	10.7		
Other reserves on December 31	60.0	62.4		
Retained earnings				
Retained earnings on January 1	388.1	548.8	572.9	649.3
Transfer to other reserves	-0.7	-0.5		
Ordinary dividend distribution	-44.7	-14.9	-44.7	-14.9
Extra dividend distribution	-61.7	-89.2	-61.7	-89.2
Reversal of revaluation	-1.5	-0.6	-1.5	-0.6
Change in deferred tax liability on revaluation	0.4	0.2		
Net change in translation differences	1.4	-16.3		
Result for the year	160.3	-39.3	65.8	28.2
Retained earnings on December 31	441.7	388.1	530.8	572.9
Distributable equity				
Retained earnings on December 31	441.7	388.1	530.8	572.9
Voluntary provisions and depreciation difference	-31.7	-29.4		
Deferred tax liability	8.5	9.0		
Non-distributable share issue gains	-3.8	-6.1		
Distributable equity	441.6	361.6	530.8	572.9

	Group		Parent Company	
	2004	2003	2004	2003
15. Convertible subordinated debentures		27.5		27.5

Main terms:
* Two issues of convertible subordinated debentures, each carrying principal of EUR 58.9 million at the date of issue.
* Should Wärtsilä Corporation be put into liquidation or become bankrupt, the principal of the loan shall rank junior to Wärtsilä Corporation's other obligations (and equal to the Company's other equivalent loans raised to strengthen shareholders' equity).
* The loans are dated on 24 March 1994. The notes are not collaterilized and are perpetual.
* Of the loans EUR 24.6 million was converted into the company's series A and series B shares between 1 Jan. – 19 Apr. 2004. The remaining amount EUR 2.8 million was repaid by the company on 3 May 2004.
* As a result of the conversions the share capital was raised by EUR 7,176,540.

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
16. Provisions				
Provision for pension	41.9	39.7		
Provision for warranty liabilities	70.8	60.5		
Foreseeable losses	22.0	13.4		
Litigation	9.7	13.1		
Other	45.8	108.4	2.5	2.5
Other provisions total	148.4	195.5	2.5	2.5
Provisions total	190.3	235.1	2.5	2.5
Change in provisions	-44.9	-3.1		-1.4
17. Liabilities				
Long-term				
Non-interest-bearing	32.3	39.0		
Interest-bearing	271.0	288.2	202.1	205.5
Total	303.2	327.2	202.1	205.5
Current				
Non-interest-bearing	923.8	801.3	58.4	31.4
Interest-bearing	48.5	208.6	273.2	380.2
Total	972.4	1 009.9	331.6	411.7

Long-term debt with maturity profile

	Bank loans	Pension loans	Other loans	Total	Maturing credit facilities
2005	9.7	31.8	0.8	42.2	81.5
2006	11.0	28.0	0.8	39.8	43.0
2007	11.2	19.7	0.3	31.2	125.5
2008	9.3	11.6	0.3	21.2	55.0
2009	8.6	7.4	0.2	16.2	25.0
2010->	154.8	4.2	3.6	162.6	
31 Dec. 2004	204.6	102.7	5.9	313.2	330.0
31 Dec. 2003	215.3	103.4	7.1	325.8	311.3

Division of long-term loans by currency	31 Dec. 2004	31 Dec. 2003
EUR	87 %	91 %
GBP	9 %	6 %
Other currencies	4 %	3 %

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
18. Specification of deferred tax liabilities				
Untaxed reserves	12.9	16.4		
Revaluation	3.3	4.4		
Temporary differences	10.0	10.7		
Group eliminations	5.4	6.6		
Total	31.5	38.1		

19. Main items in accrued expenses and deferred income

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Project costs	214.0	196.0 [1]		
Income and other taxes	48.6	21.1	16.3	2.9
Personnel costs	81.7	70.3	3.6	2.7
Interest and other financial items	42.2	27.2	11.5	12.9
Other	69.4	71.8	3.8	2.0
Total	455.8	386.4	35.2	20.5

[1] Due to a change in booking practices EUR 112.3 million has been transferred from trade payable to accruals.

20. Specification of current liabilities

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Liabilities to Group companies				
Trade payables			5.5	1.8
Other current liabilities			258.9	194.3
Total			264.4	196.2
Liabilities to associated companies				
Trade payables	0.0	0.3		
Accrued expenses and deferred income	0.7	0.1		
Total	0.7	0.4		

21. Collateral, contingent liabilities and other commitments

	2004 Balance sheet debt	2004 Collateral	2003 Balance sheet debt	2003 Collateral
Group				
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	3.4	4.5	3.8	8.0
Pension loans	16.5	29.8	19.4	38.3
Off-balance-sheet commitments		9.8		5.4
Total	19.9	44.1	23.2	51.7
Chattel mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	5.0	11.8	5.3	13.7
Off-balance-sheet commitments	8.8	18.2	6.9	18.8
Total	13.8	30.0	12.2	32.5
Parent company				
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	1.1	1.1	1.8	9.6
Off-balance-sheet commitments		9.8		5.4
Total	1.1	10.9	1.8	15.0

	Group		Parent Company	
	2004	2003	2004	2003
Guarantees and contingent liabilities				
on behalf of Group companies	228.4	258.9	315.0	371.0
Nominal amounts of rents according to leasing contracts				
Payable within one year	9.8	12.1	2.0	2.3
Payable after one year	27.7	39.2	8.4	9.7
Total	37.5	51.3	10.4	12.0

22. Inner circle loans and other commitments

There are no loans from senior management and the members of the Board of Directors.
No pledges or other commitments were given on behalf of senior management or shareholders.

23. Nominal values of derivative instruments on 31 Dec. 2004	Total amount	of which closed contracts
Interest rate swaps	260.0	160.0
Foreign exchange forward contracts	950.0	40.4
Currency options; purchased	37.8	
Total	1,247.8	200.4

If all the above instruments would had been reversed (sold) at the market prices at the year end, the net effect would had been EUR 29.7 million.

24. Exchange rates	Closing rates		Average rates	
	31 Dec. 2004	31 Dec. 2003	2004	2003
USD	1.36210	1.26300	1.24333	1.13090
GBP	0.70505	0.70480	0.67858	0.69190
SEK	9.02063	9.08000	9.12500	9.12436
NOK	8.23649	8.41410	8,37190	7.99946
DKK	7.43882	7.44500	7.43999	7.43069
CHF	1.54290	1.55790	1.54412	1.52073
JPY	139.64531	135.05000	134.39917	130.96500
SGD	2.22620	2.14500	2.10080	1.96990
INR	59.21014	57.54900	56.25850	53.03592

Currency distribution 2004

	Invoiced sales	Operating costs
EUR	54.9 %	66.4 %
USD	21.8 %	11.1 %
SEK	3.4 %	3.0 %
NOK	2.2 %	2.3 %
Other EU	4.8 %	4.2 %
Other	12.9 %	12.9 %
	100 %	100 %

The distribution of the Group´s sales and operating expenses by currency provides a view of the Group´s long-term currency sensitivity.

25. Shares and securities

Company name and location		Share %	Share of votes %	Currency	Directly owned by parent company	Indirectly owned through a subsidiary
Subsidiaries						
Wärtsilä Technology Oy Ab	Finland	100.0	100.0	EUR	449,064	
Wärtsilä Finland Oy	Finland	100.0	100.0	EUR		109,027
Wärtsilä Operations & Maintenance Ltd Oy	Finland	100.0	100.0	EUR		84
Wärtsilä Nederland B.V.	The Netherlands	100.0	100.0	EUR		141,400
Ciserv Netherlands B.V.	The Netherlands	100.0	100.0	EUR		956
Ciserv Europoort Netherlands B.V.	The Netherlands	100.0	100.0	EUR		3,045
Wärtsilä Italia S.p.A.	Italy	100.0	100.0	EUR		83,447
Wärtsilä Switzerland Ltd.	Switzerland	100.0	100.0	EUR		6,950
Wärtsilä France S.A.S.	France	100.0	100.0	EUR		20,000
Wärtsilä Lips Defence S.A.	France	100.0	100.0	EUR		3,097
Wärtsilä Propulsion Netherlands B.V.	The Netherlands	100.0	100.0	EUR		151,989
Wärtsilä Propulsion Singapore Pte Ltd	Singapore	100.0	100.0	EUR		28
Wärtsilä-CME Zhenjiang Propeller Co. Ltd	China	55.0	55.0	EUR		3,826
Wärtsilä Danmark A/S	Denmark	100.0	100.0	EUR		9,631
Ciserv Denmark A/S	Denmark	100.0	100.0	DKK		41,237
Wärtsilä Sweden AB	Sweden	100.0	100.0	DKK		150,407
Ciserv AB	Sweden	100.0	100.0	SEK		41,318
Wärtsilä Norway A/S	Norway	100.0	100.0	EUR		10,079
Wärtsilä Propulsion Norway A/S	Norway	100.0	100.0	NOK		110,345
Wärtsilä Ibérica S.A.	Spain	100.0	100.0	EUR		3,874
Wärtsilä Portugal Lda.	Portugal	100.0	100.0	EUR		222
Wärtsilä Deutschland GmbH	Germany	100.0	100.0	EUR		507
Deep Sea Seals Ltd	Great Britain	100.0	100.0	EUR		81,745
Wärtsilä UK Ltd.	Great Britain	100.0	100.0	EUR		5,392
Wärtsilä Ireland Ltd.	Ireland	100.0	100.0	GBP		10
Wärtsilä Polska Sp.z.o.o.	Poland	100.0	100.0	EUR		547
Wärtsilä Greece S.A.	Greece	100.0	100.0	EUR		369
Wärtsilä-Enpa A.S.	Turkey	51.0	51.0	EUR		69
Wärtsilä Arab Mediterranean Power Ltd	Egypt	100.0	100.0	EUR		37
Wärtsilä Lips Inc.	USA	100.0	100.0	USD		42,336
Wärtsilä North America. Inc.	USA	100.0	100.0	USD		81,477
Ciserv USA Inc.	USA	100.0	100.0	USD		800
Wärtsilä Development & Financial Services Inc.	USA	100.0	100.0	USD		10,216
Wärtsilä Canada Inc.	Canada	100.0	100.0	USD		2,439
Ciserv CGL Industries Ltd.	Canada	100.0	100.0	CAD		512
Wärtsilä de Mexico SA	Mexico	100.0	100.0	USD		9,709
Wärtsilä Caribbean. Inc.	Puerto Rico	100.0	100.0	USD		0
Wärtsilä Dominicana. Inc.	Dominican Republic	100.0	100.0	USD		20
Wärtsilä Guatemala S.A.	Guatemala	100.0	100.0	USD		1
Wartsila Operations. Inc.	USA	100.0	100.0	USD		10
Wärtsilä Latin America Ltd.	Bermuda	100.0	100.0	EUR		5,800
Wärtsilä Chile Ltda.	Chile	100.0	100.0	USD		2,798
Wärtsilä Ecuador S.A.	Ecuador	100.0	100.0	USD		1,991
Wärtsilä do Brasil Ltda.	Brazil	100.0	100.0	USD		8,807
Wärtsilä Colombia S.A.	Colombia	100.0	100.0	USD		35
Wärtsilä Peru S.A.	Peru	100.0	100.0	USD		1,307
Wärtsilä Argentina S.A.	Argentina	100.0	100.0	USD		896
Wärtsilä Venezuela. C.A.	Venezuela	100.0	100.0	USD		1,771
Wärtsilä Bolivia S.A.	Bolivia	100.0	100.0	USD		0
Wärtsilä Development & Financial Services Oy	Finland	100.0	100.0	EUR		18,800
Wärtsilä Singapore Pte Ltd.	Singapore	100.0	100.0	EUR		3,150
Ciserv Singapore Pte Ltd.	Singapore	100.0	100.0	SGD		5,000
Wärtsilä China Ltd.	Hong Kong	100.0	100.0	EUR		9,010
Wärtsilä Korea Ltd.	South Korea	100.0	100.0	EUR		894
Ciserv Korea Ltd	South Korea	100.0	100.0	EUR		37
Wärtsilä Taiwan Ltd.	Taiwan	96.7	96.7	EUR		401
Wärtsilä Philippines Inc.	Philippines	100.0	100.0	EUR		645
PT. Wärtsilä Indonesia	Indonesia	100.0	100.0	EUR		10,289

Company name and location		Share %	Share of votes %	Currency	Directly owned by parent company	Indirectly owned through a subsidiary
Wärtsilä Australia Pty Ltd.	Australia	100.0	100.0	EUR		1,689
Wärtsilä India Ltd.	India	89.6	89.6	EUR		25,661
Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0	100.0	EUR		3,712
Wärtsilä Bangladesh Ltd.	Bangladesh	100.0	100.0	EUR		96
Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia	60.0	60.0	EUR		716
Wärtsilä Gulf FZE	United Arab Emirates	100.0	100.0	EUR		213
Ciserv UAE LLC	United Arab Emirates	49.0	100.0	AED		147
Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0	100.0	EUR		316
Wärtsilä Eastern Africa Ltd	Kenya	100.0	100.0	EUR		15
Wärtsilä West Africa S.A.	Senegal	100.0	100.0	EUR		15
Wärtsilä Japan Company Ltd	Japan	100.0	100.0	EUR		2,260
Japan Marine Technologies Ltd	Japan	99.6	99.6	EUR		60,768
Chuwac Engineering Pte Ltd	Singapore	99.6	99.6	JPY		39,113
Wärtsilä CIS Ltd.	Russia	100.0	100.0	EUR		858
Imatra Steel Oy Ab	Finland	100.0	100.0	EUR	46,611	
Imatra Kilsta AB	Sweden	100.0	100.0	EUR		3,315
Scottish Stampings Ltd	Great Britain	100.0	100.0	SEK		46,080
Imatra Stahl GmbH	Germany	100.0	100.0	EUR		46
Imatra Steel Ltd.	Great Britain	100.0	100.0	EUR		65
Imatra Steel S.A.R.L.	France	100.0	100.0	EUR		34
Imatra Steel Components Oy	Finland	100.0	100.0	EUR		4,446
Metra Finance Oy Ab	Finland	100.0	100.0	EUR	32,124	
Vulcan Insurance Ltd.[1]	Great Britain	100.0	100.0	EUR	336	
Wärtsilä Corporation other subsidiaries (4)					16	
Wärtsilä Corporation housing and property companies (4)					301	
Total					528,453	
Associated companies						
AWEK Industrial Patents Ltd. Oy	Finland	25.0	25.0	EUR		17
Wartsila Navim Diesel S.r.l.	Italy	40.0	40.0	EUR		13
Navalips SA	Spain	50.0	50.0	EUR		879
Repropel Sociedad de reparacao de helices LDA	Portugal	50.0	50.0	EUR		80
Wärtsilä Corporation Other	Finland				15	
Total					15	
Other companies						
Assa Abloy AB (publ.)	Sweden	4.6	3.2	EUR	27,649	
Rautaruukki Oyj	Finland	0.0		EUR	59	
Sampo Oyj	Finland	0.3		EUR	3,797	
Sato Yhtymä Oyj	Finland			EUR	1,853	135
Power Partners Oy	Finland	19.5	19.5	EUR		435
Wärtsilä Corporation (25)					2,963	
Total					36,322	
Wärtsilä Corporation, shares and securities total					564,790	

A complete list of shares and securities in accordance with the Finnish Companies Act is included in the official financial statements.
The result and shareholders' equity are not reported for those housing companies that were not consolidated in the Group.
[1] Vulcan Insurance Ltd. not consolidated as a subsidiary; profit EUR 0.1 million and shareholders' equity EUR 0.5 million for the financial year 2003.

26. Adoption of IFRS

Wärtsilä adopted IFRS reporting principles from the beginning of 2005. The first IFRS interim report will be published for the period 1 January – 31 March 2005. The main differences compared to the principles (Finnish GAAP) used to prepare the 2004 financial statements relate to the treatment of acquisitions and goodwill, the calculation of financial derivative instruments, hedge accounting, the valuation of shares, the treatment of defined benefit pension plans, the capitalization of research and development costs, and the timing of provisions. Wärtsilä publishes its IFRS opening balance sheet and the comparison data for 2004 on Friday 18 March 2005.

Proposal of the Board

On 31 December 2004 the consolidated retained earnings of the Group amounted to EUR 441,650,000 and included distributable funds totalling EUR 414,633,000. The Parent Company's net profit for the financial year amounted to EUR 65,789,487.91 and the retained earnings to EUR 464,942,671.17. The distributable funds of the Parent Company on 31 December 2004 amounted to EUR 530,732,159.08. The number of shares entitled to a dividend is 92,550,617. The Board of Directors proposes, that a dividend of EUR 0.45 per share be paid i.e. totally EUR 41,647,777.65 and in addition an extra dividend having the value of EUR 0.45 per share, totalling EUR 41,647,777.65. After this the undistributed retained earnings in the Parent Company will be EUR 447,436,603.78.

Helsinki, 3 February 2005

Antti Lagerroos Göran J. Ehrnrooth
Heikki Allonen Risto Hautamäki
Jaakko Iloniemi Bertel Langenskiöld
Paavo Pitkänen

Ole Johansson
President and CEO

Auditors' Report

To the shareholders of
Wärtsilä Corporation

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the President and CEO of Wärtsilä Corporation for the year ended 31 December 2004. The annual accounts prepared by the Board of Directors and the President and CEO include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and the parent company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Board of Directors and the President and CEO have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

Helsinki, 7 February 2005

KPMG OY AB

Mauri Palvi
KHT

Shares and shareholders

Wärtsilä Corporation's shares are listed on the Main List of the Helsinki Exchanges. The shares are also traded on the SEAQ International (Stock Exchange Automatic Quotation system) on the London Stock Exchange.

Wärtsilä Corporation's share capital is minimum EUR 200 million and maximum EUR 800 million. Within these limits the share capital may be raised or lowered without amending the Articles of Association. The company's paid-up and registered share capital is EUR 323,927,159.50. Series A shares carry ten (10) votes and Series B shares one (1) vote at general shareholders' meetings. The nominal value of the shares is EUR 3.50. All shares carry equal dividend rights. There are 23,579,587 Series A shares and 68,971,030 Series B shares making 92,550,617 shares in all.

Bonus issue

An Extraordinary General Meeting held on 1 December 2004 decided to raise the share capital through a bonus issue from EUR 215,951,442 to EUR 323,927,159.50.

In the bonus issue one (1) new A share was issued for two (2) existing A shares and one (1) new B share for two (2) existing B shares. The new shares carry dividend rights for the financial period starting on 1 January 2004.

Convertible subordinate debentures

In March 1994 the Board floated two convertible capital notes issues, each of the same amount and together totalling EUR 117.7 million. One was convertible into Series A and Series B shares, and the other into Series B shares. Wärtsilä repaid the loan principal of these notes that remained unconverted, EUR 2,842,365.27 on 3 May 2004.

During 2004, of the notes convertible into both A and B shares EUR 7,225,356.48 was converted into 300,720 Series A shares and 300,720 Series B shares between 2 January and 19 April 2004. Of the notes convertible into B shares only, EUR 17,407,457.92 was converted into 1,449,000 B shares. The calculated share conversion price in 2004 was EUR 12.01.

The new shares carry full shareholder rights and they were admitted for trading on the Helsinki Exchanges together with the existing A and B shares on 25 May 2004.

Options rights for management

Following the decision of the AGM on 20 March 2001, a total of 1,500,000 options were issued to key persons in the Wärtsilä Group, entitling them to subscribe Wärtsilä B shares. The share subscription period began on 1 April 2003 and ends on 31 March 2007. Any extra dividends distributed after 25 May 2001 and before the subscription of shares will be deducted from the subscription price. The share option scheme covers 78 individuals.

The AGM on 12 March 2002 approved a new option scheme for key persons in the Wärtsilä Group. The number of options is 800,000 and they may be exercised to subscribe Wärtsilä B shares. The subscription of shares began on 1 April 2004 and ends on 31 March 2008. Any extra dividends distributed after 17 May 2002 and before the subscription of shares will be deducted from the subscription price. Trading in the 2002 options began on the Helsinki Exchanges on 1 April 2004.

The company had no other share-linked personnel incentive schemes in force during 2004.

Under the terms and conditions of Wärtsiläs 2001 and 2002 option schemes, should the company increase its share capital with a bonus issue before the subscription of shares, the share subscription ratio shall be amended so that the ratio to the share capital of shares to be subscribed for by virtue of the options remains unchanged. Accordingly, the share subscription price as determined under the terms and conditions of the option schemes will be divided by 1.5 and two (2) options shall entitle their hold-

Ownership structure according to shares 31 Dec. 2004

- Private corporations 25.0% (28.3)
- Banks and insurance companies 7.5% (8.3)
- Public sector entities 9.1% (9.4)
- Non-profit organizations 15.8% (15.7)
- Households 26.8% (29.9)
- Outside Finland or nominee registered 15.7% (8.4)

Ownership structure according to votes 31 Dec. 2004

- Private corporations 31.3% (34.0)
- Banks and insurance companies 11.3% (10.8)
- Public sector entities 8.5% (8.6)
- Non-profit organizations 21.3% (20.3)
- Households 22.3% (23.0)
- Outside Finland or nominee registered 5.4% (3.3)

er to subscribe for three (3) Wärtsilä Corporation B shares. The effect of the extra dividend, decided at the extra Annual General Meeting on 1 December 2004, on the share subscription price of the 2001 options will be EUR 17.15 and on the share subscription price of the 2002 options EUR 9.95.

Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether 54,672 Wärtsilä Corporation shares, which represent 0.06% of the stock and 0.04% of the voting rights.

Under the 2001 option scheme issue the CEO and his deputy hold 126,000 options, entitling them to subscribe for altogether 189,000 shares, or 0.2% of the current total number of shares and 0.06% of the voting rights.

Under the 2002 option scheme issue the CEO and his deputy hold altogether 190,000 options, entitling them to subscribe for at most 285,000 shares, or 0.3% of the current total number of shares and 0.1% of the voting rights.

Board's proposals to the Annual General Meeting

The Board proposes to the Annual General Meeting on 21 March 2005 that a dividend of EUR 0.45 per share and an extra dividend of EUR 0.45 per share be distributed on the financial year ended 31 December 2004.

The Board proposes that the AGM authorize the Board to repurchase and dispose of the company's own A and B shares in proportion to the number of shares in each series provided that the total nominal value of the purchased shares shall not exceed five percent (5%) of the company's total share capital and voting rights. The company's own shares may be purchased using only distributable funds.

The shares may be purchased only in public trading at the prevailing price. The purchased shares may be used as consideration in future mergers and acquisitions or industrial reorganizations or for the development of the capital structure of the company or as part of its management incentive system. The shares may be purchased or disposed of for other consideration than cash.

The Board is authorized to determine to whom and in what order the company's own shares shall be disposed of. The Board may decide on the disposal of the shares otherwise than in proportion to shareholders' pre-emptive subscription rights. The Board shall decide on the disposal price of the shares and on the other terms related to their disposal, and the shares may be disposed of for other consideration than cash. The authorization includes the right to set the principles used to determine the disposal price. The shares may be disposed of as consideration in future mergers and acquisitions or industrial reorganizations or for the development of the capital structure of the company or as part of its management incentive system.

This authorization is in force for one year from the resolution of the Annual General Meeting.

Dilution effect of the option schemes

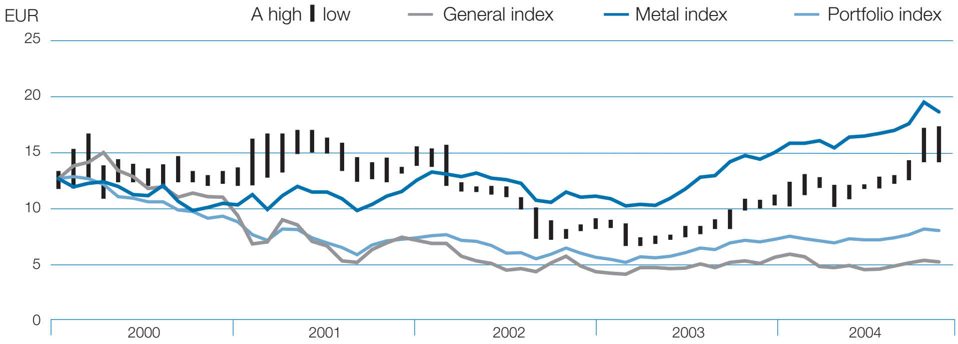
	Number of shares		Share capital	Votes		
	Series B	%	EUR	%	Price, EUR	Subscription period
Share option scheme (2001)	2,250,000	2.4	7,875,000	0.7	17.15	1 April 2003-31 March 2007[1]
Share option scheme (2002)	1,200,000	1.3	4,200,000	0.4	9.95	1 April 2003-31 March 2008[1]
Total	3,450,000	3.7	12,075,000	1.1		

Number of Wärtsilä shares 96,000,617 and number of votes 308,216,900, if subscription rights are exercised
[1]Subscription period annually between 2 Jan.-30 Nov.

Change in share capital

	Serie A				Serie B				Total	
	Shares	%	Votes	%	Shares	%	Votes	%	Shares	Votes
Shares/votes 31 Dec. 2003	15,419,005	25.8	154,190,050	77.7	44,230,967	74.2	44,230,967	22.3	59,649,972	198,421,017
Debentures converted 25 May 2004	300,720		3,007,200		1,749,720		1,749,720		2,050,440	4,756,920
Bonds with options subscribed	-		-		-		-			
Bonus issue 7 Dec. 2004	7,859,862		78,598,620		22,990,343		22,990,343		30,850,205	101,588,963
Total 31 Dec. 2004	23,579,587	25.5	235,795,870	77.4	68,971,030	74.5	68,971,030	22.6	92,550,617	304,766,900

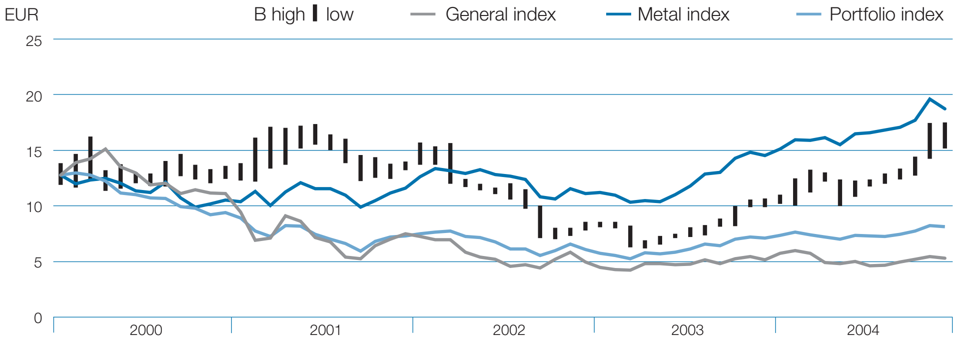
Series A quotations



The adjacent diagrams describe share price trends from 3 Jan. 2000 to 31 Dec. 2004. The graphs have been adjusted for the 2004 bonus issue.

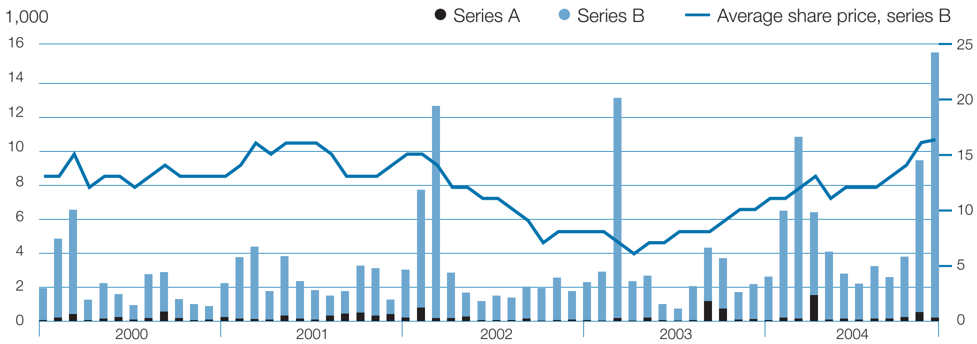
The OMH general index, portfolio index and metal index have been indexed to the Wärtsilä share price.

Series B quotations

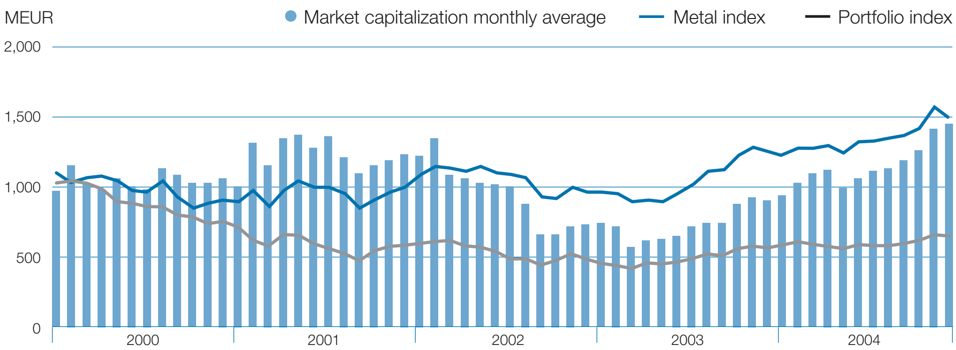


Wärtsilä's company and share codes	
Helsinki Exchange	WRT
Series A	WRTAV
Series B	WRTBV
Reuters' RIC	
Series A	WRTAV.HE
Series B	WRTAB.HE
Bloomberg	
Series A	WRTAV.FH
Series B	WRTBV.HF

Traded shares/month



Market capitalization



Approximately 7.9% of all Wärtsilä shares were traded on the SEAQ system in London during 2004.

Share information	Series A	Series B
Share lot	100	100
Shares/votes	10	1
Taxation 2004 EUR/share	10.61	10.85

The adjacent tables are based on the book-entry accounts at 31 December 2004.

Wärtsilä has about 25,000 registered shareholders.

Major shareholders

		Number of shares x 1,000			
		Series A	Series B	% of votes	% of shares
1	Fiskars Corporation	7,392	11,619	28.07	20.54
2	Sampo Life Insurance Company Ltd.	2,584	0	8.48	2.79
3	Varma Mutual Pension Insurance Company	1,395	1,188	4.97	2.79
4	Svenska litteratursällskapet i Finland r.f.	1,449	22	4.76	1.59
5	Brita Maria Renlund Foundation	394	450	1.44	0.91
6	Sigrid Juselius Foundation	387	173	1.33	0.61
7	The Signe & Ane Gyllenberg Foundation	360	75	1.21	0.47
8	The Social Insurance Institution of Finland	284	652	1.15	1.01
9	Technology Industries of Finland	324	262	1.14	0.62
10	Pension Fund Polaris	236	343	0.89	0.63
11	Magnus Ehrnroot Foundation	245	44	0.82	0.31
12	Relander Gustav	244	0	0.80	0.26
13	Ehrnrooth Robert G.	234	98	0.80	0.36
14	Åbo Akademi Foundation	196	63	0.67	0.28
15	Livränteanstalten Hereditas	155	464	0.66	0.67
16	Jenny and Antti Wihuri Foundation	144	471	0.63	0.67
17	Samfundet folkhälsan i Svenska Finland	141	456	0.61	0.65
18	Ella and Georg Ehrnrooths Foundation	142	263	0.55	0.44
19	Kaleva Mutual Insurance Company	166	0	0.55	0.18
20	William Thurings Stiftelse	157	64	0.54	0.24
	20 largest total	16,629	16,707	60.07	36.02

Division of shares

	Series A				Series B			
Number of shares	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1-100	4,365	41.7	187,088	0.8	3,521	15.1	180,046	0.3
101-1,000	4,978	47.6	1,676,302	7.1	14,495	62.1	5,619,816	8.2
1,001-10,000	1,010	9.7	2,404,901	10.2	4,842	20.8	12,391,569	18.0
10,001-100,000	84	0.8	2,410,338	10.2	412	1.8	10,774,991	15.6
100,001-1,000,000	19	0.2	4,078,779	17.3	44	0.2	12,648,350	18.3
1,000,001-	4	0.0	12,822,179	54.4	5	0.0	27,320,734	39.6
Non-transferred	-	-	-	-	-	-	35,524	0.0
Total	10,460	100.0	23,579,587	100.0	23,319	100.0	68,971,030	100.0

Ownership structure

	Series A		Series B		Total	
%	Shareholders	Shares	Shareholders	Shares	Votes	Shares
Private corporations	2.0	8.7	3.8	16.4	31.3	25.0
Banks and insurance companies	0.2	3.3	0.3	4.2	11.3	7.5
Public sector entities	0.2	2.1	0.3	7.0	8.5	9.1
Non-profit organizations	3.5	6.0	3.1	9.8	21.3	15.8
Households	92.8	5.2	91.5	21.7	22.3	26.8
Outside Finland and nominee-registered	1.3	0.2	1.0	15.5	5.4	15.7
Total	100.0	25.5	100.0	74.5	100.0	100.0

The present company name Wärtsilä Corporation, domicile Helsinki, was entered in the Trade Register on 22 September 2000.

Formulas for calculating the financial ratios are given on page 4.

The Wärtsilä share on the Helsinki Exchange

		2004	2003	2002	2001	2000
Trading volume	EUR mill.					
Series A		41.6	21.0	24.5	39.8	27.4
Series B		860.0	275.9	457.7	392.6	332.9
Total		901.6	296.9	482.2	432.4	360.3
Number traded	1,000					
Series A		2,180	2,508	1,890	2,853	2,038
Series B		45,527	35,001	36,805	26,868	24,954
Totalt		47,707	37,509	38,695	29,721	26,992
Stock turnover	%					
Series A		9.2	10.8	8.2	13.2	9.8
Series B		66.0	52.8	55.7	43.1	41.3
Total		51.5	41.9	43.4	35.4	33.2
Average share price	EUR					
Series A		13.03	8.37	12.95	13.96	13.43
Series B		13.60	7.89	12.43	14.61	13.34
Trading low/high	EUR					
Series A	low	10.17	6.67	7.21	12.02	10.87
	high	17.32	10.87	15.67	17.00	16.67
Series B	low	9.97	6.13	6.97	12.17	11.33
	high	17.48	10.63	15.67	17.33	16.20
Share price at the year end	EUR					
Series A		15.24	10.17	8.52	13.73	13.00
Series B		15.68	10.13	8.01	13.87	13.13
Year-end market capitalization	EUR mill.	1,440.8	907.0	727.0	1,234	1,065

Key figures for Wärtsilä shares

		2004	2003	2002	2001	2000
Earnings per share (EPS)	EUR	1.75	-0.44	1.37	3.69	2.80
Book value of equity per share	EUR	9.22	8.69	10.37	11.70	9.73
Dividend per share	EUR	0.90[1]	1.17	1.17	2.67	1.77
Dividend per earnings	%	51.4[1]	n/a	85.4	72.3	63.1
Dividend yield	%					
Series A		5.91[1]	4.92	13.69	19.42	13.61
Series B		5.74[1]	4.93	14.56	19.23	13.55
Price per earnings (P/E)						
Series A		8.7	n/a	6.2	3.7	4.6
Series B		9.0	n/a	5.9	3.8	4.7
Price to book value (P/BV)						
Series A		1.7	1.2	0.8	1.2	1.3
Series B		1.7	1.2	0.8	1.2	1.3
Adjusted number of shares	1,000					
end of financial year		91,341	89,475	89,204	89,181	81,304
on average		92,551	89,341	89,181	84,146	81,300

[1]Proposal of the Board of Directors

Board of Directors and Board of Management

Board of Directors

Antti Lagerroos. Chairman of the Board. Born 1945, LL.Lic, President & CEO and member of the Board of Finnlines Plc. Member of the Board of Wärtsilä Corporation since 2002. Member of the Board of Fortum Corporation and member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company. Owns 11,643 B shares in Wärtsilä.

Göran J. Ehrnrooth. Deputy chairman of the Board. Born 1934, MSc (Econ.). Chairman of the Board of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 1992. Owns 4,222 A shares and 7,669 B shares in Wärtsilä.

Heikki Allonen. member of the Board of Wärtsilä Corporation since 2004. Born 1954, MSc (Eng.). President & CEO of Fiskars Corporation. Member of the Supervisory Board of Rautaruukki Corporation. Owns 946 B shares in Wärtsilä.

Risto Hautamäki. member of the Board of Wärtsilä Corporation since 2003. Born 1945, MSc (Eng.). President & CEO of Tamfelt Corporation. Member of the Board of Metso Corporation. Owns 3,750 B shares in Wärtsilä.

Jaakko Iloniemi. member of the Board of Wärtsilä Corporation since 1994. Born 1932, MSc (Pol. Sc.). Owns 3,342 B shares in Wärtsilä.

Bertel Langenskiöld. member of the Board of Wärtsilä Corporation since 2002. Born 1950, MSc (Eng.). President and CEO of Metso Minerals Inc. Owns 3,168 B shares in Wärtsilä.

Paavo Pitkänen. member of the Board of Wärtsilä Corporation since 1995. Born 1942, MA. Member of the Board of Stora Enso Oyj. Owns 3,342 B shares in Wärtsilä.

Board of Management

Ole Johansson. President & CEO. Born 1951, BSc (Econ.). Worked for the company 1975 – 79 and rejoined in 1981. Owns 2,250 Wärtsilä A shares and 11,700 Wärtsilä B shares. Option 2001 allows subscription of 126,000 Wärtsilä B shares and option 2002 allows subscription of 225,000 Wärtsilä B shares.

Raimo Lind. Executive Vice President from 1 January 2005. Group Vice President, CFO. Born 1953, MSc (Econ). Deputy to President and CEO. Employed by the company 1976 – 89 and rejoined in 1998. Owns 795 Wärtsilä A shares and 1,545 Wärtsilä B shares. Option 2001 allows subscription of 63,000 Wärtsilä B shares and option 2002 allows subscription of 60,000 Wärtsilä B shares.

Mikael Mäkinen. Executive Vice President from 1 January 2005. Group Vice President, Ship Power. Born 1956, MSc (Eng.), Naval Architect. Joined the company in 1982. Option 2001 allows subscription of 63,000 Wärtsilä B shares and option 2002 allows subscription of 60,000 Wärtsilä B shares.

Pekka Ahlqvist. Group Vice President, Power Plants. Born 1946, MSc (Eng.). Joined the company in 1999. Owns 2,250 Wärtsilä B Shares. Option 2001 allows subscription of 63,000 Wärtsilä B shares and option 2002 allows subscription of 60,000 Wärtsilä B shares.

Tage Blomberg. Group Vice President, Service. Born 1949, BSc (Eng.). Joined the company in 1975. Owns 2,025 Wärtsilä A shares. Option 2001 allows subscription of 63,000 Wärtsilä B shares and option 2002 allows subscription of 60,000 Wärtsilä B shares.

Lars Hellberg. Group Vice President, Engine division. Born 1959, BSc (Eng.). Joined the company 1 June 2004. No ownership of Wärtsilä shares.

Kari Hietanen. Group Vice President, Legal Affairs and HR. Company Secretary and secretary to the Board of Management. Born 1963, LLM. Joined the company in 1989. Owns 72 Wärtsilä B shares. Option 2001 allows subscription of 63,000 Wärtsilä B shares and option 2002 allows subscription of 60,000 Wärtsilä B shares.

Matti Kleimola. Group Vice President CTO. Born 1946, Lic.Sc (Tech.) Prof. Employed by the company 1974 – 84 and rejoined in 2000. Owns 750 Wärtsilä A shares and 750 Wärtsilä B shares. Option 2001 allows subscription of 63,000 Wärtsilä B shares and option 2002 allows subscription of 60,000 Wärtsilä B shares.

Sven Bertlin. Executive Vice President until retirement on 31 December 2004. Group Vice President, Engine division. Born 1944, BSc (Econ.). Joined the company in 1970. Owns 177 Wärtsilä A shares and 15,531 Wärtsilä B shares. Option 2001 allows subscription of 63,000 Wärtsilä B shares and option 2002 allows subscription of 60,000 Wärtsilä B shares.

Analysts

To our knowledge at least the following brokers and analysts have followed Wärtsilä's development during the last 12 months on their own initiative. They have analysed Wärtsilä Corporation and drawn up reports and comments and they are able to evaluate the company as an investment target. Wärtsilä takes no responsibility for their opinions .

Alfred Berg ABN AMRO	Jan Brännback	+358 9 2283 2732	jan.brannback@alfredberg.fi
Carnegie Investment Bank AB	Miikka Kinnunen	+358 9 618 711	miikka.kinnunen@carnegie.fi
CA Cheuvreux	Sasu Ristimäki	+44 20 7621 5173	sristimaki@cheuvreux.com
Deutsche Bank. Helsinki	Timo Pirskanen	+358 9 2525 2553	timo.pirskanen@db.com
Enskilda Securities	Kaisa Ojainmaa	+358 9 6162 8900	kaisa.ojainmaa@enskilda.fi
eQ Pankki Oy	Juha Iso-Herttua	+358 9 2312 3326	juha.iso-herttua@eqonline.fi
Evli Pankki Oyj	Derek Silva	+358 9 4766 9204	derek.silva@evli.com
FIM Pankkiiriliike Oy	Mikko Linnanvuori	+358 9 6134 600	mikko.linnanvuori@fim.com
Handelsbanken Capital Markets	Tom Skogman	+358 10 4442 752	tom.skogman@handelsbanken.fi
Kaupthing Bank	Johan Lindh	+358 9 4784 0268	johan.lindh@kaupthing.fi
Mandatum Pankkiiriliike Oy	Antti Suttelin	+358 10 2364 707	antti.suttelin@mandatum.fi
Opstock Oy	Pekka Spolander	+358 10 2524 351	pekka.spolander@oko.fi

Investor Relations

In conjunction with the publication of its annual and interim results Wärtsilä holds events for investors, analysts and the media. The company's top management regularly meets investors in Europe and the USA. Wärtsilä arranges Capital Markets Days for analysts and fund managers. The company also meets investors at investor fairs and at local evening meetings arranged by the Finnish Foundation for Share Promotion for example. As a general rule the material presented at events is also published on the company's website.

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

The releases are published in Finnish, Swedish and English except those to the trade press, which are produced only in English. The stock exchange releases and press releases are available on the company's website immediately after they are published.

Investor Relations Manager Sophie Jolly is responsible for Wärtsilä's investor and analyst relations.

Contact information:
Ms Sophie Jolly
Investor Relations Manager
Tel +358 10 7095 216
Mobile +358 40 828 7317
Fax +358 10 7095 219
sophie.jolly@wartsila.com

Wärtsilä Corporation
John Stenbergin ranta 2
P.O. Box 196
FI-00531 Helsinki, Finland
Tel. +358 10 709 0000
Fax +358 10 709 5700
www.wartsila.com